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Submitted Electronically (to pubcom@finra.org)

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, D.C. 20006

Re: Request for Comment on a Proposed Pilot Program to Study Recommended Changes to Corporate Bond Block Trade Dissemination (Regulatory Notice 19-12)

Dear Ms. Asquith:

MarketAxess Holdings Inc.[1] ("MarketAxess") appreciates the opportunity to provide FINRA with its comments regarding the above-referenced proposed pilot program (the "Pilot Program" or "Proposal"). We are supportive of FINRA's efforts to put the Fixed Income Market Structure Advisory Committee's ("FIMSAC") recommendation to conduct a pilot program into effect, but we have concerns regarding the structure of the Pilot Program in its proposed format.

I. Introduction

It is not a coincidence that the growth of electronic trading in the U.S. corporate bond markets largely parallels the development of TRACE and the greater transparency and efficiency that TRACE has brought to the U.S. corporate bond market. Electronic trading tends to flourish in market structures that have abundant trading data. Price transparency also leads to greater market participation. For this reason, MarketAxess has always supported greater transparency in fixed income markets, provided that such increased transparency is itself not harmful to liquidity in the market.

TRACE data was initially disseminated in 2002 during a market structure that differs significantly from the one we live in today. Between 2002 and the financial crisis in 2007-2008, traditional bank-owned dealers were able to make markets in corporate bonds with significant balance sheet and capital at risk, leading to a perception among investors that the market had ample liquidity. Following the financial crisis and bank regulatory reform, investors broadly felt that liquidity in the market was materially reduced. MarketAxess, among others, was able to expand the liquidity pool by bringing new types of liquidity providers and Open Trading™ protocols to its electronic trading platform. These efforts to improve liquidity have helped counteract the reduction in traditional dealer capacity brought

[1] MarketAxess operates the leading, institutional electronic trading platform for corporate bonds. More than 1,500 firms - comprising the world's leading asset managers and institutional broker-dealers - traded a record $1.7 trillion of U.S. investment-grade bonds, U.S. high yield bonds, emerging market debt, Eurobonds and other fixed income securities through MarketAxess' patented trading technology in 2018. MarketAxess' award-winning Open Trading™ marketplace is regarded as the preferred all-to-all trading solution in the global credit markets, creating a unique liquidity pool for the broad range of credit market participants.

on by the increased bank regulatory and capital requirements. Importantly, both the traditional bank-owned dealers, as well as the new liquidity providers in the corporate bond market, rely heavily on the real- time price transparency provided by TRACE.

The advancements in transparency and technology during the last twenty years have significantly improved liquidity in the U.S. corporate bond market. As a result, secondary volumes reported to TRACE continue to grow to new record levels and the liquidity in the U.S. corporate bond market is the best in the world. As a result, we strongly believe that any changes to TRACE in the pilot program or otherwise should be modest to protect the interests of both investors and issuers in the U.S. corporate bond market. Preserving the integrity and benefits of TRACE throughout any pilot program should be the paramount concern.

II. The Pilot Program should be Simplified

Our initial observation on the Proposal is that it is too complicated and, on that basis alone, it risks undermining market participants' confidence in TRACE for the duration of the Pilot Program. The Proposal calls for three pilot study groups and one control group covering the universe of TRACE-reportable bonds. Bonds would rotate amongst the groups halfway through the Pilot Program.

MarketAxess believes that having four groups, with randomized selection, will overly-complicate the trading process, particularly for firms that use algorithms that rely on last-traded price as a key input. In order to properly analyze each transaction, both FINRA and market participants will need to go to great expense to accurately identify which set of rules apply to each of the approximately 66,000 daily trade reports from TRACE. This runs the clear risk of eroding market confidence in TRACE reporting. In addition, for bonds that are assigned to test group one (48-hour dissemination delay), pricing models will have less certainty on last-traded price. The complexities of the Pilot Program will have a similar impact on evaluated or predictive pricing models, which play an important role in real-time portfolio valuations and Net Asset Values (NAVs). Firms will therefore need the list specifying each bond's group assignment to be machine-readable so that pricing models and algorithms can incorporate the list of CUSIPs assigned to each group.[2]

In order to reduce the complexity of the Proposal, we suggest reducing the number of groups to no more than two: one control group and one study group that implements the aggregate package of increased block thresholds and any delayed dissemination periods (subject to our comment below in relation to newly issued and liquid benchmark bonds). The FIMSAC recommendation, while containing no specifics regarding the structure of a pilot program, contemplated a trade-off between greater transparency below the increased block thresholds and reduced visibility above the dissemination thresholds. We believe that any Pilot Program should test the total effects of the combined reporting trade-off for purposes of simplicity, even at the risk of having a less academically accurate study.

Alternatively, if FINRA believes it is vital to be able to test each element of the Proposal, we would suggest that each component be tested sequentially so that there are never more than two sets of reporting rules in TRACE at one time. For example, the Pilot Program could begin with the proposed block trading delays and, after six months, test the benefits of the higher uncapped trade size

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[2] The Proposal states that the list of CUSIPs assigned to each group will be publicly posted and updated throughout the term of the Pilot Program. Although it is unclear from the Proposal how the list will be posted, MarketAxess believes that this list should be machine-readable if the Proposal is implemented in its current structure.

thresholds. We think this would be less harmful to the marketplace, even if it extended the Pilot Program over a longer period of time.

III. Newly Issued and Liquid Benchmark Bonds should be Excluded from the Pilot Program

The premise of FIMSAC's recommendation to delay dissemination of block trade information is that dealers need more than the current 15-minute TRACE reporting period to trade out of, or hedge, a block position without being impacted by the adverse actions of informed market participants. The 48-hour dissemination delay is designed to provide a longer period of anonymity to a dealer, which in theory should permit dealers to more readily commit capital to larger sized trades. MarketAxess believes this proposed delay is most relevant for bonds that trade infrequently and do not have readily available buyers and sellers. Reporting delays on liquid bonds, on the other hand, would actually increase risk for both market makers and investors. For this reason, we suggest that newly issued bonds and liquid benchmark bonds be excluded from any TRACE dissemination delay included in the Pilot Program[3]. The first month of trading following issuance is typically the most liquid period for any bond and is not the source of concern on TRACE block reporting among investors or dealers. By eliminating the proposed block reporting delay for new issues and liquid benchmark bonds, the number of daily bond trades subject to a reporting delay would be reduced substantially, and the majority of the delayed reports would be for less liquid bonds.

IV. Conclusion

MarketAxess believes a pilot program can be an effective means to measure the tradeoff between transparency and liquidity that was at the heart of the FIMSAC recommendation. However, as discussed above, we believe the current proposal would do far more damage to the sanctity of TRACE than it would in providing any net benefit in liquidity for block trades. We hope our suggestions help FINRA get to a data-driven result that has the potential to improve block trading liquidity while preserving the substantial benefits of enhanced transparency that has been a hallmark of the U.S. bond market for almost twenty years.

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MarketAxess appreciates the opportunity to provide feedback to FINRA on the Regulatory Notice. We would be pleased to provide any further information and respond to any questions you may have.

Sincerely,

Scott Pintoff
General Counsel

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[3] MarketAxess also believes newly issued and liquid benchmark bonds should be excluded from any final rule change proposed by FINRA.