March 11, 2022

Via Electronic Mail

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Re: Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements (FR 2956; OMB No. 7100-0383)

To Whom it May Concern:

The Bank Policy Institute, the Securities Industry and Financial Markets Association, and the Financial Services Forum (collectively, the Associations)[1] are writing to respectfully request that the Federal Reserve take immediate action to provide additional time for full compliance with the Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements (FR 2956).

The Associations are supportive of the Federal Reserve's goal surrounding the development of the FR 2956, which, as indicated in the procedural record, was undertaken to "allow the U.S. official sector a more complete view of Treasury securities trading in the secondary market."[2] However, in light of the expansive scope of the final FR 2956, which was finalized largely as proposed and did not accept the recommendation for more tailored reporting requirements in the earlier BPI/SIFMA comment letter (BPI/SIFMA Comment Letter),[3] the Associations have significant concerns around the September 1, 2022 effective date for the full scope of required FR 2956 reporting. Therefore, for the reasons addressed herein, we strongly encourage the Federal Reserve to adopt a phased-in approach for implementation of FR 2956 reporting, beginning with the reporting of transactions conducted by an institution under its government securities dealer (GSD) or government securities broker (GSB) authority, i.e., dealing activity, that are not otherwise currently reported to TRACE by a FINRA-registered broker-dealer as of

1 Please refer to Annex 1 for descriptions of the Associations.

2 Federal Reserve, *Press Release: Federal Reserve Board announces plans to enter negotiations with FINRA to potentially act as collection agent of U.S. Treasury securities secondary market transactions data* (October 21, 2016), *available at* https://www.federalreserve.gov/newsevents/pressreleases/other20161021a.htm.

3 BPI and SIFMA Letter re: Proposal to implement the Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements (FR 2956; OMB No. 7100-NEW) (March 22, 2021).

September 1, 2022 and provide respondents with an additional nine months to comply with FR 2956 reporting for the remaining transactions outside of the dealer market (e.g., buy-side transactions).

Operational Complexity

The Federal Reserve's Announcement of Board Approval of the FR 2956 makes clear that the FR 2956 includes all transactions that applicable respondents are party to "regardless of whether the institution is acting in a dealer capacity or whether activity was with clients inside or outside the United States" (i.e., both buy-side and sell-side transactions) once the bank meets the GSD requirements and thresholds.[4] The operational lift associated with implementation of FR 2956 reporting, which entails implementing TRACE reporting, is significant and the inclusion of data that goes beyond activity done in reliance on a GSD or GSB license exponentially increases this burden, particularly for banks and business lines which have not been subject to TRACE reporting requirements to date.

Firms have multiple units that transact out of the bank that do not necessarily have systems currently in place to handle the FR 2956 reporting requirements. These units also operate separately and, in many cases, use different systems within the same bank that are not connected for purposes of reporting. Although some of the respondent banks may have affiliated broker-dealers subject to TRACE reporting, the technology and systems related to trading are often separate for individual legal entities such as a bank and a broker-dealer. For example, banks' Corporate Investment Group and Treasury functions are deliberately segregated from dealer functions and as a result, the information walls between private- and public-side functions, or other conflict of interest controls within institutions, intentionally prevent systems from "speaking" with one another. As a result, both banks as well as individual units within banks that are not currently subject to TRACE reporting, will need to implement this requirement from the ground up. In many cases, banks utilize third-party vendors to assist with the build-out of these systems and such vendors will need sufficient time and scoping preparation in order to make any changes necessary to effectively comply with the FR 2956.

As with any new reporting requirement, firms need ample time to source the required data, build systems or implement systems changes, and apply reporting controls, testing, and data governance procedures. The burden associated with these aspects of implementation is exacerbated for the FR 2956, as its scope of required data includes both buy-side and sell-side activity, increasing the time needed for compliance.

Need for Additional Guidance

The FR 2956 Notice refers banks to FINRA specifications and guidance for reporting,[5] but those materials were not developed to accommodate reporting by banks. The existing guidance is difficult for banks to analogize to the FR 2956 requirements, as they are geared towards broker-dealers and in some cases registered investment advisers. Many of the various businesses within banks that would now be subject to the FR 2956 based on their broader non-dealer activity, are predominantly buy-side, hedging, investing type activities, such as wealth management units of banks. These business units vary greatly from the entities for which this reporting has existed to date and for which this guidance for reporting was developed. As firms work to fully implement FR 2956 reporting, absent additional guidance geared

4 86 Fed. Reg. 59716 (October 28, 2021) (the FR 2956 Notice) at 59717.

5 *See* Id at 59716.

towards banks under FR 2956 reporting, respondents will need to make certain assumptions on aspects of reporting that are not clear under the existing guidance.

One specific example is that firms require confirmation that FR 2956 reporting to FINRA's TRACE system will be limited to trades with the broker or dealer (i.e., often block-level trades) and will not also require reporting at a client allocation level. Absent further clarity from the Federal Reserve, banks will make the assumption that the scope of FR 2956 reporting to FINRA's TRACE system will be for the trade activity by banks with the respective broker or dealer. When facilitating trades for client accounts pursuant to these services, as the bank is neither a broker nor a dealer, the bank is considered the client for purposes of the trade order with the broker or dealer and the orders to buy and sell securities are for the end benefit of the bank's actual clients. When the broker or dealer executes the order, the securities are settled by the bank in the bank's client accounts utilizing operational processes. As a result, we believe that the orders placed by the bank with the broker or dealer would be subject to reporting under FR 2956. Conversely, we believe the allocation to client accounts are not subject to FR 2956 reporting. FINRA TRACE guidance for broker-dealers requires a broader scope of reporting only for reporting firms that are SEC or state-registered investment advisers. Reporting trades at the transaction level between the bank and the broker or dealer will provide the Federal Reserve and FINRA with further transparency into the treasury market consistent with the overall purpose of FR 2956.

Need for Additional Time

As a result of the substantial operational complexity associated with FR 2956 reporting, it is not feasible for banks to properly comply with the FR 2956 requirements by September 1, 2022, including appropriate testing and an assessment of data and controls, given the scope of reporting required. The BPI/SIFMA Comment Letter suggested an effective date of 12 to 18 months following the finalization of FINRA's enhancements to TRACE (which are still pending)[6] and following the release of final technical specifications.[7] This estimated timeline was based on firms having time to work on implementation while the relevant TRACE enhancements, which include significantly shortening the trade reporting timeframe, were finalized.[8]

Additionally, FINRA recently launched its Federal Reserve Depository Institution Reporting to TRACE Page, its web page dedicated to the FR 2956 reporting initiative, on February 16, 2022, four months into the implementation timeline.[9] With the launch of the web page, which communicates important details to respondent firms, such as the FINRA onboarding checklist and "FINRA FAQS for Covered Depository institutions," firms have effectively been afforded far less time following the necessary guidance to make their systems changes and will likely have to make substantial additional

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6 Financial Industry Regulatory Authority Regulatory Notice 20-43, FINRA Requests Comment on Enhancements to TRACE Reporting for U.S. Treasury Securities, *available at* https://www.finra.org/sites/default/files/2020-12/Regulatory-Notice-20-43.pdf.

7 *See* BPI/SIFMA Comment Letter.

8 As noted in the BPI/SIFMA Comment Letter, implementation of FR 2956 reporting ahead of the TRACE changes, requires firms to undertake burden to implement one system to initiate the operationally complex TRACE reporting and then to make fundamental changes to it shortly thereafter.

9 Federal Reserve Depository Institution Reporting to TRACE Page https://www.finra.org/filing-reporting/trace/federal-reserve-depository-institution-reporting?utm_source=MM&utm_medium=email&utm_campaign=O%5FTRACE%5FComm%5FBank%5F021622%5FFINAL.

changes to these systems following the finalization of FINRA's enhancements to TRACE. We would note that in 2016, when the rule change to require FINRA member firms to report transactions in U.S. Treasury Securities to FINRA via TRACE was approved, firms were given until July 2017 for implementation following the publication of technical specifications, which were released concurrently.[10] These FINRA member firms, who had already developed and established the necessary systems and technology for TRACE reporting, were afforded nine months following the release of finalize technical specifications to comply with a change in TRACE reporting requirements. Whereas the September 1, 2022 effective date for FR 2956 reporting provides banks, including those individual units within banks that are not currently subject to TRACE reporting, with only ten months in total for implementation. Thus, the current effective date affords banks who must develop new reporting systems for a new regulatory requirement only one additional month compared to the previous timeline for established TRACE reporters to implement modifications to TRACE reporting.

We therefore respectfully request that the Federal Reserve take immediate action to allow for a staggered approach to implementation of FR 2956 reporting where firms will comply with the new requirements for those transactions conducted by an institution under its GSD or GSB authority, i.e., dealing activity, that are not otherwise currently reported to TRACE by a FINRA-registered broker-dealer as of September 1, 2022 and nine months following that date will implement the reporting requirements for all other applicable transactions (i.e., buy-side and non-dealing transactions).

This phased-in approach would allow the Federal Reserve to gain a more complete view of dealing activity in the market even during the initial period of reporting by banks acting as dealers, as it would capture Treasury securities and Agency mortgage-backed securities transactions executed in reliance on a GSD or GSB license, which we expect will represent the substantial majority of depository institution covered activity. Moreover, even during this extension period, the Federal Reserve would still have visibility into the non-GSD/non-GSB transactions to which the extension would apply, as buy-side transactions typically face another dealer, whether a bank-affiliated dealer or a third-party dealer, and therefore the transactions would already be captured through existing reporting requirements to TRACE from FINRA-registered broker-dealers.[11]

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[10] See FINRA, *Regulatory Notice 16-39SEC Approves Rule Change to Require Reporting of Transactions in U.S. Treasury Securities to the Trade Reporting and Compliance Engine (TRACE)*(October 19, 2016), *available at* https://www.finra.org/sites/default/files/notice_doc_file_ref/Regulatory-Notice-16-39.pdf.

[11] As noted in the BPI/SIFMA Comment Letter, FR 2956 reporting scoping in all transactions will result in significant duplicative reporting. This would go beyond the duplicative reporting through TRACE that currently exists and is managed using identifiers by broker-dealer counterparties, as the FR 2956 would establish duplicative reporting on the same side of a trade. For example, if an asset management function at a bank engages broker-dealer A to complete a trade with broker-dealer B, an expansive reading of the FR 2956 would require all three parties involved to report the trade through TRACE.

The Associations appreciate the Federal Reserve's consideration of the comments contained herein. If you have any questions, please contact the undersigned at alix.roberts@bpi.com, ckillian@sifma.org, and scampbell@fsforum.com.

Respectfully submitted,

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Board of Governors of the Federal Reserve System

Annex 1

The Bank Policy Institute
The Bank Policy Institute is a nonpartisan public policy, research and advocacy group, representing the nation’s leading banks and their customers. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ almost 2 million Americans, make nearly half of the nation’s small business loans, and are an engine for financial innovation and economic growth.

The Securities Industry and Financial Markets Association
SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development.
SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

The Financial Services Forum
The Financial Services Forum is an economic policy and advocacy organization whose members are the chief executive officers of the eight largest and most diversified financial institutions headquartered in the United States. Forum member institutions are a leading source of lending and investment in the United States and serve millions of consumers, businesses, investors, and communities throughout the country. The Forum promotes policies that support savings and investment, deep and liquid capital markets, a competitive global marketplace, and a sound financial system.