



March 22, 2021

*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: Proposal to implement the Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements (FR 2956; OMB No. 7100-NEW)

To Whom it May Concern:

The Bank Policy Institute<sup>1</sup> and the Securities Industry and Financial Markets Association<sup>2</sup> appreciate the opportunity to comment on the Board of Governors of the Federal Reserve System's proposal to implement the Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements (FR 2956).<sup>3</sup> The Associations recognize the need to collect Treasury trading data to "help identify and address potential anomalies in the market for Treasury securities" and to "understand frictions and disruptions in the market that would affect the implementation of monetary

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<sup>1</sup> 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.

<sup>2</sup> 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 nearly 1 million employees, we advocate for 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).

<sup>3</sup> 86 Fed. Reg. 6329 (January 21, 2021).

policy.”<sup>4</sup> However, firms have significant concerns around the potential scope of this new data collection as well as the implementation timeline, the latter of which are largely due to the nuance and complexities of implementing new Trade Reporting and Compliance Engine (TRACE) reporting, as well as proposed modifications to the TRACE system that are currently pending.<sup>5,6</sup>

**I. Clarification is needed with respect to the scope of FR 2956 reporting requirements.**

The proposal would require depository institutions that file a Notice by Financial Institutions of Government Securities Broker or Government Securities Dealer Activities Form (Form G-FIN) with average daily transaction volumes of over \$100 million, for U.S. Treasury debt, or over \$50 million, for agency-issued debt and mortgage-backed securities (MBS) to report detailed data on a daily basis on the FR 2956. In describing the data collection, the proposal and supporting statement note that the report would collect data on “daily transactions trading of marketable U.S. Treasury securities and transactions trading of the debt and mortgage-backed securities (MBS) issued by U.S. federal government agencies including government-sponsored enterprises (agencies).”<sup>7</sup>

The use of the term “trading” suggests that the FR 2956 is intended to capture activity where the depository institution is acting as a dealer in reliance on their government securities dealer (GSD) license and hence would exclude all transactions not related to market making, including, but not limited to so called “buy-side” activity. Examples of buy-side activity would include transactions in asset liability management (ALM), mortgage servicing rights (MSR) hedging or mortgage pipeline hedging. In some, but not all cases, such activity is related to purchases and sales of available-for-sale (AFS), held-to-maturity (HTM), and trading securities when held, specifically those reported in Schedule B (Securities) and Schedule D (Trading Account Asset and Liabilities) of the FR Y-9C.

The final FR 2956 should clarify that respondents’ activity that is not done in reliance on its GSD license, including buy-side activity, is not within scope for reporting on FR 2956. For example, if firms were required to report buy-side activity in the FR 2956, there would be a number of negative knock-on implications. First, institutions reporting buy-side activity on the FR 2956 would lead to duplicate reporting of TRACE data, as such activity would be reported by both the bank and dealer counterpart to the transaction. Second, publication of buy-side activity for agency MBS or any future transparency of Treasuries, could have detrimental impacts on banks’ ability to hedge ALM, MSR and mortgage pipeline risk efficiently. Finally, the FR 2956 requirements would only apply to depository institutions that file the Form G-FIN, which seems to be an attempt to exclude institutions performing non-dealer activity from the data collection. However, there may be instances where depository institutions have filed the Form

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<sup>4</sup> Board of Governors of the Federal Reserve System, Supporting Statement for the Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements (FR 2956; OMB No. 7100-NEW) at page 2, available at [https://www.federalreserve.gov/reportforms/formsreview/FR\\_2956\\_OMB\\_SS.pdf](https://www.federalreserve.gov/reportforms/formsreview/FR_2956_OMB_SS.pdf).

<sup>5</sup> 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>.

<sup>6</sup> The comments provided herein are based on the current disclosure standards pertaining to TRACE reporting. Modifications related to the disclosure of TRACE data could impact certain recommendations made in this letter.

<sup>7</sup> Board of Governors of the Federal Reserve System, Supporting Statement for the Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements (FR 2956; OMB No. 7100-NEW) at page 1, available at [https://www.federalreserve.gov/reportforms/formsreview/FR\\_2956\\_OMB\\_SS.pdf](https://www.federalreserve.gov/reportforms/formsreview/FR_2956_OMB_SS.pdf) (emphasis added).

G-FIN solely to cover the institution's very limited and/or irregular dealer activity and not as a result of conducting regular or high-volume dealing activity. We therefore request that the Federal Reserve confirm that all transactions not related to market making, including buy-side activity, are out-of-scope for FR 2956 reporting and revise the reporting instructions accordingly.

**II. Clarification is needed with respect to supervision and enforcement of TRACE reporting for those firms subject to FR 2956 requirements.**

The supporting statement notes that “[e]ach reporting depository institution would need to comply with the TRACE technical specifications and requirements necessary for reporting the required transactions;”<sup>8</sup> however, it does not provide details on the enforcement regime for FR 2956 reporting done through TRACE with respect to depository institutions. For Financial Industry Regulatory Authority (FINRA) member broker-dealers, FINRA enforces compliance with TRACE rules and requirements, and produces a suite of “scorecards” which provide firm-level status reports on reporting quality, including peer group comparisons and other information.<sup>9</sup> It is not clear in the proposal or supporting statement whether this regime will apply to depository institutions subject to the new reporting requirements under FR 2956. We therefore recommend that the Federal Reserve provide additional clarity with respect to supervision and enforcement requirements of FR 2956 reporting. Specifically, the final requirements should address the supervision and enforcement procedures, noting whether (i) FINRA has any supervisory role; (ii) depositories will receive inquiries from FINRA or only the Federal Reserve; and (iii) report cards will be produced and in the event that that are, would they be sent directly to depositories or rather to the Federal Reserve. Additional clarity around these processes would be helpful and would ensure that firms are aware of supervisory and enforcement expectations.

**III. Implementation of FR 2956 reporting should be significantly delayed until after FINRA's recent enhancements to TRACE are finalized, such that respondents should have 12 to 18 months to begin reporting following finalization and release of the technical specifications.**

As noted in Section I, the proposal would limit FR 2956 reporting to those depository institutions that file the Form G-FIN and have transacted in excess of certain average daily thresholds, with proposed implementation in 2021. Those institutions subject to the FR 2956 would be required to report through FINRA, as the Federal Reserve's data vendor, using TRACE.

Initial implementation of the TRACE reporting system can be complex and would be a significant undertaking for depository institutions. As outlined in the supporting statement, FR 2956 reporting would entail respondent firms reporting US Treasury security transactions on a daily basis within TRACE system hours and reporting agency debt securities and agency MBS transactions executed within standard system hours within 15 minutes of the time of execution.<sup>10</sup> In order for firms to properly implement the FR 2956, as with any new reporting requirement, they must undergo the necessary IT

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<sup>8</sup> Board of Governors of the Federal Reserve System, Supporting Statement for the Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements (FR 2956; OMB No. 7100-NEW) at page 3, available at [https://www.federalreserve.gov/reportforms/formsreview/FR\\_2956\\_OMB\\_SS.pdf](https://www.federalreserve.gov/reportforms/formsreview/FR_2956_OMB_SS.pdf).

<sup>9</sup> See Financial Industry Regulatory Authority, Trade Reporting and Compliance Engine (TRACE) Report Cards, available at <https://www.finra.org/compliance-tools/report-center/trace>.

<sup>10</sup> See Board of Governors of the Federal Reserve System, Supporting Statement for the Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements (FR 2956; OMB No. 7100-NEW) at page 4-5, available at [https://www.federalreserve.gov/reportforms/formsreview/FR\\_2956\\_OMB\\_SS.pdf](https://www.federalreserve.gov/reportforms/formsreview/FR_2956_OMB_SS.pdf).

builds, perform the appropriate testing, and subject the reporting to control and review processes. For those firms that currently use TRACE reporting for their broker-dealer, implementing TRACE for the depository institution will still require a significant implementation process, despite the existing underlying infrastructure. In implementing revisions to TRACE outlined in Regulatory Notice 16-39, that were finalized in October 2016, FINRA afforded firms approximately nine months, until July 2017, for initial reporting.<sup>11</sup> However, in light of the complexities of TRACE reporting and the potential of near-term changes to the TRACE system (described below), as well as the additional reporting requirements resulting from the COVID-19 pandemic, firms anticipate needing 12 to 18 months, and at a minimum nine months,<sup>12</sup> after the FR 2956 is finalized and the final technical specifications are available to make the necessary systems changes to implement the FR 2956. The uncertainty around the scope of FR 2956 reporting, as discussed in Section I above, further contributes to this estimated implementation timing.

Further, in December 2020, FINRA released Regulatory Notice 20-43, where it proposed and requested comment on a number of revisions to TRACE Reporting for U.S. Treasury Securities.<sup>13</sup> These proposed enhancements to TRACE are substantial, with significant implications for respondent firms. For example, one of the many proposed revisions would significantly shorten the trade reporting timeframe for most trades made during the regular trading day to 60-minutes. In addition to this reduced timeframe, the Notice also includes revisions that would require more granular timestamps, new modifiers to identify additional multi-leg transactions and whether a transaction is priced at the current market, standardized price reporting, and separate reporting of per-transaction ATS fees. The industry has previously expressed significant concerns with respect to these proposed revisions, specifically regarding the magnitude of the enhancements and the timing of implementation of such changes.<sup>14</sup> It is stated in the preamble to Notice 20-43, that “[t]o the extent that the Federal Reserve requires banks to report [secondary market transactions in U.S. Treasury securities] transactions to TRACE, any expanded data collection described in this Notice, subject to filing with and approval by the SEC, potentially also would apply to banks.” Thus, those institutions that would be subject to FR 2956 reporting, could be required to incorporate these substantial changes in TRACE reporting into their reporting processes for their Treasury trading data. If the FR 2956 reporting is implemented in 2021 and prior to finalization of these recent enhancements, respondent institutions would have to establish brand new systems and controls to start reporting through TRACE, and then shortly after implementation may have to overhaul such systems and go through the build out process again shortly after the revisions proposed in Notice 20-43 are finalized. This would thus require firms to devote significant resources and undertake great burden to implement one system to initiate TRACE reporting, just to make fundamental changes to it shortly thereafter. We therefore recommend that implementation of FR 2956 reporting be delayed until

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<sup>11</sup> Financial Industry Regulatory Authority Regulatory Notice 16-39, Reporting Transactions in U.S. Treasury Securities SEC Approves Rule Change to Require Reporting of Transactions in U.S. Treasury Securities to the Trade Reporting and Compliance Engine (TRACE), *available at* [https://www.finra.org/sites/default/files/notice\\_doc\\_file\\_ref/Regulatory-Notice-16-39.pdf](https://www.finra.org/sites/default/files/notice_doc_file_ref/Regulatory-Notice-16-39.pdf).

<sup>12</sup> This is a preliminary estimate of the timing that firms believe will be required and in practice implementation could ultimately require additional time.

<sup>13</sup> 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>.

<sup>14</sup> See SIFMA Letter re: Regulatory Notice 20-43; FINRA Requests Comment on Enhancements to TRACE Reporting for U.S. Treasury Securities (February 22, 2021), *available at* <https://www.sifma.org/wp-content/uploads/2021/02/SIFMA-Response-to-FINRA-Regulatory-Notice-20-43.pdf>.

12 to 18 months after the extensive enhancements to TRACE proposed in Notice 20-43 have been finalized.

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The Associations appreciate the opportunity to comment on the proposal. If you have any questions, please contact the undersigned at [Alix.Roberts@bpi.com](mailto:Alix.Roberts@bpi.com) and [Rtoomey@sifma.org](mailto:Rtoomey@sifma.org).

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