

U.S. Securities and Exchange Commission
Fixed Income Market Structure Advisory Committee

**Recommendation for a Pilot Program to Study the Market Implications of
Changing the Reporting Regime for Block-Size Trades in Corporate Bonds**

April 9, 2018

Overview

The Transparency Subcommittee (Subcommittee) of the Fixed Income Market Structure Advisory Committee (FIMSAC) was formed to consider the impacts of transparency, both pre-trade and post-trade, on the corporate and municipal bond markets. The Subcommittee is charged with reviewing the current transparency regimes for these markets and identifying methods for analyzing whether they are optimally serving the markets. With respect to post-trade transparency, topics that may be considered include a review of the current reporting and dissemination framework, its impact on market liquidity and any adjustments that may be advisable, as well as potential enhancements that may improve the quality and usefulness of the reported information.

The Subcommittee has met five times since the inaugural FIMSAC meeting. Minutes of the Subcommittee's meetings are available on the SEC website. One of the first issues the Subcommittee identified was the potential impact of current dissemination protocols for block trades in corporate bonds. Accordingly, the Subcommittee developed the concept for a pilot to study an alternative approach that would raise the dissemination caps and modify the dissemination time frames for trades above the caps. The recommended pilot design supported by a majority of the FIMSAC is outlined below, followed by discussion of additional considerations.

The Subcommittee is not making a recommendation at this time for a pilot program for the reporting and dissemination of block-size trades in municipal securities, but continues to carefully analyze and discuss the issue.

Recommended Pilot Design

1. Length of Pilot: One year, with an early termination mechanism linked to market quality indicators.
2. Scope: All trades in TRACE-eligible corporate bonds are eligible for participation in the pilot.
3. Modifications to Reporting and Dissemination Regime:
 - A. Dissemination Caps

- i. “10MM+” for trades in investment grade corporate bonds over a 10 million dollar par value. Presently, the dissemination cap for investment grade corporate bonds is “5MM+”.
- ii. “5MM+” for trades in non-investment grade corporate bonds over a 5 million dollar par value. Presently, the dissemination cap for non-investment grade corporate bonds is “1MM+”.

B. Dissemination Time Frames

- i. All trades in sizes at or below their respective dissemination cap will continue to be disseminated immediately upon receipt, and such transactions must be reported as soon as practicable, but no later than within 15 minutes of the time of execution.
- ii. All trades above their respective dissemination cap will continue to be required to be reported as soon as practicable, but no later than within 15 minutes of the time of execution, but they will be disseminated 48 hours after execution time, or later depending on the time of receipt of the trade report (i.e., trades reported after hours will be disseminated more than 48 hours after execution time).

C. Dissemination of Uncapped Volumes

For capped transactions, the actual trade size will be made available three months after the end of the calendar quarter in which they are reported. Presently, the actual trade sizes of capped trades are made available six months after the end of the calendar quarter in which they are reported.

4. Proposed measurement criteria

- A. Average daily trading volume of capped and uncapped trades during the pilot period and compared to the year prior to the pilot, using 1) the prior cap size; 2) the pilot cap size; and 3) capped and uncapped trades.¹
- B. Average daily number of trades of capped and uncapped trades during the pilot period and compared to the year prior to the pilot, using 1) the prior cap size; 2) the pilot cap size; and 3) capped and uncapped trades.

¹ For the prior cap size this means capturing and comparing the average daily trading volume of 5MM+ trades in investment grade bonds during the pilot and the year before; for pilot cap size this means capturing and comparing the average daily trading volume of 10MM+ trades during the pilot and the year before; and for capped and uncapped trades means capturing and comparing the average daily trading volume of 10MM+ trades during the pilot year and the number of 5MM+ trades during the year before the pilot. The same would be true for high yield bonds using the pilot cap size and the prior cap size and for the other measurement criteria as modified accordingly based on the criteria.

- C. Average trade size of capped and uncapped trades during the pilot period and compared to the year prior to the pilot, using 1) the prior cap size; 2) the pilot cap size; and 3) capped and uncapped trades.
- D. Number of capped and uncapped trades during the pilot period and compared to the year prior to the pilot, using 1) the prior cap size; 2) the pilot cap size; and 3) capped and uncapped trades.
- E. Proportion of volume in block trades during the pilot period and compared to the year prior to the pilot, using 1) the prior cap size; 2) the pilot cap size; and 3) capped and uncapped trades.
- F. Price impact of block trades during the pilot period and compared to the year prior to the pilot, using 1) the prior cap size; 2) the pilot cap size; and 3) capped and uncapped trades.
- G. Transaction cost analysis using bid offer spreads, price impact studies and price dispersion studies. Analysis for capped compared to uncapped trades.
- H. Changes in dealer capital / inventory.
- I. Dealer behavior — proportion of matching trades compared to committing capital.
- J. All of the above to be compared in normal and stressful conditions.

Additional Considerations

1. Alternatives Considered
 - a. Rather than apply the new dissemination cap sizes and changes to all corporate bonds, divide bonds into a control group with no change and a test group with the changes applied.
 - b. Changing the dissemination cap for non-investment grade corporate bonds to “5MM+” rather than “3MM+”.
 - c. Below are select trade data concerning corporate bond trades averaged over the last 5 years:

IG	
Total Trades	2013-2017
<5mm	7,205,284
5mm-10mm	164,246
10mm+	88,218
Total	7,457,748
Average Daily Trades	2013-2017
<5mm	28,620
5mm-10mm	652
10mm+	350
Total	29,623
% of Total Trades	2013-2017
<5mm	96.6%
5mm-10mm	2.2%
10mm+	1.2%
Par Value Traded	2013-2017
<5mm	1,871,807,666,977
5mm-10mm	986,214,365,547
10mm+	1,385,308,695,159
Total	4,243,330,727,683
Average Daily Par Value	2013-2017
<5mm	7,434,368,626
5mm-10mm	3,916,974,936
10mm+	5,502,482,043
Total	16,853,825,604
% of Total Par Value	2013-2017
<5mm	44.1%
5mm-10mm	23.2%
10mm+	32.6%

HY	
Total Trades	2013-2017
<1mm	3,476,419.80
1mm-3mm	519,729.00
3mm-5mm	127,218.40
5mm+	137,298.20
Total	4,260,665.40
Average Daily Trades	2013-2017
<1mm	13,807.94
1mm-3mm	2,064.08
3mm-5mm	505.26
5mm+	545.29
Total	16,922.57
% of Total Trades	2013-2017
<1mm	81.6%
1mm-3mm	12.2%
3mm-5mm	3.0%
5mm+	3.2%
Par Value Traded	2013-2017
<1mm	425,231,444,073.10
1mm-3mm	804,418,543,505.10
3mm-5mm	437,951,572,850.94
5mm+	1,147,912,092,060.32
Total	2,815,513,652,489.47
Average Daily Par Value	2013-2017
<1mm	1,688,926,255.24
1mm-3mm	3,194,729,656.03
3mm-5mm	1,739,382,059.13
5mm+	4,558,976,506.53
Total	11,182,014,476.94
% of Total Par Value	2013-2017
<1mm	15.1%
1mm-3mm	28.6%
3mm-5mm	15.6%
5mm+	40.8%