

October 3, 2022

Submitted via email to pubcom@finra.org and electronically to the MSRB website

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1300 I Street NW, Suite 1000
Washington, DC 20005

Re: FINRA / MSRB request for Comments on Proposals to Shorten the Trade Reporting Timeframe for Transactions in Certain Fixed Income Securities From 15 Minutes to One Minute

Dear Ms. Mitchell & Mr. Smith:

BetaNXT¹ appreciates the opportunity to respond to the related Financial Industry Regulatory Authority (FINRA) and Municipal Securities Rulemaking Board (MSRB) requests for comment regarding a proposed shortening of the required trade reporting timeframe for transactions in certain fixed income securities from no greater than 15 minutes to no greater than one minute (the “Proposals”).² BetaNXT generally supports the broader Securities Industry and Financial Markets Association and Financial Industry Forum comments regarding the Proposal. In this letter, and detailed below, BetaNXT limits its comments to the infeasibility of Trade Reporting under one minute in instances where a security detail is not available in the reporting firm’s security master due to significant process and technology limitations. As outlined below, to the extent FINRA and MSRB move forward with the Proposals, BetaNXT recommends the exclusion of instances where security master data is not automatically available to a reporting firm from the shortened transaction reporting requirements.

Background

BetaNXT acts as a service bureau on behalf of many of its broker dealer customers (BetaNXT Firms). In this role, BetaNXT performs essential clearance, settlement, and data management functions, including the reporting of fixed income transactions to the FINRA Trade Reporting and Compliance Engine (TRACE), MSRB Real-time Transaction Reporting System (RTRS), and the Deposit Trust and Clearing Corporation Real Time Trade Matching (RTTM) system, where appropriate. Following the consummation of a fixed income transaction between a BetaNXT Firm and a counterparty, the data necessary to process and report a fixed income transaction on behalf of a customer may not be present within the reporting systems (e.g., complete security master data within the system reporting the trade) that would permit the immediate and automated processing and reporting of that transaction in less than one minute.

¹ BetaNXT is a full-service technology solutions provider for the wealth management industry with a 40+ year operating history. We support our customers as they service approximately six trillion dollars of assets, including the investments of over 50 million retail accounts. BetaNXT is comprised of the securities processing and enrichment backbone BETA, the tax solutions of Maxit, and the personalized investor experience offerings of Digital Investor. For more information, visit <https://betanxt.com/>.

² FINRA Regulatory Notice 22-17 (August 2, 2022); MSRB Notice 2022-07 (August 2, 2022).

Specifically, where necessary details of a fixed income security are not present in BetaNXT's systems, and not available through automated inquiries to available data sources, the manual intervention required to obtain the necessary data makes the proposed one-minute trade reporting infeasible.

Illustrative Example

The below example outlines how, following the execution of a transaction in a municipal fixed income security in the market, BetaNXT processes and reports an ordinary municipal fixed income transaction where a BetaNXT Firm (BDA) purchases a municipal fixed income security on behalf of an underlying customer (Isaiah Investor) from a selling broker dealer (BDB) through an electronic Alternative Trading System (ATS).³ The issues discussed below apply equally to the processing and reporting of TRACE eligible securities.

Scenario | BDA buys \$5000 par value lot of Allegheny County Maryland Refunding Bonds of 2020⁴ on behalf of its customer Isaiah Investor from BDB after matching on an ATS:

A. Execution of Transaction in the Market

- 1) A BDA representative (Alice Adviser) has a discussion with her customer Isaiah Investor in which Isaiah Investor directs Alice Adviser to purchase \$5000 par value of Maryland Municipal bonds with specific attributes (e.g., maturity, price, call provisions).
- 2) Alice Adviser enters the relevant criteria into an ATS, seeking counterparties offering to sell Maryland Municipal bonds with the attributes Isaiah Investor is seeking.
- 3) The ATS presents Alice Adviser with counterparties offering Maryland Municipal bonds, and sorts the offers based on the additional criteria Alice selects (e.g., from highest to lowest yield)
- 4) Alice selects an offer that best suits Isaiah Investor's needs, in this example \$5000 par value of Allegheny County Maryland Refunding Bonds of 2020 from BDB.
- 5) The ATS generates an electronic message – specifically a FIX message – with BDA as a buyer and BDB as a seller of \$5000 par value of Allegheny County Maryland Refunding Bonds of 2020 and sends the message to BDA and BDB for trade processing and required reporting.

B. Post-Execution Trade Processing and Reporting | BDA only

As BDA's trade processing and transaction reporting service provider, BetaNXT receives the FIX message from the ATS reflecting certain details of BDA's purchase of \$5000 par value of Allegheny County Maryland Refunding Bonds of 2020 from BDB.

- 1) Trade Processing | BetaNXT must build a trade that records (i) BDA's purchase of bonds from BDB; and (ii) BDA's sale of those bonds to its customer Isaiah Investor.
 - i. BetaNXT searches its security master for fixed income securities to find the necessary data to enrich the basic information contained on the fix message from the ATS. Enrichment detail includes information on a security's maturity date and coupon rate, among other things.

³ An ATS is a trading system that meets the definition of "exchange" under federal securities laws but is not required to register as a national securities exchange if the ATS operates under the exemption provided under Exchange Act Rule 3a1-1(a). See 17 CFR § 242.300(a) (Defining an alternative trading system).

⁴ Security information available at <https://emma.msrb.org/Security/Details/A5CA0993AC5179BE21B3487A7536CFA27>.

- ii. BetaNXT uses the detail from a complete security master record to perform necessary trade processing tasks, including calculating the yield and enriching the trade record with the metadata information necessary for MSRB and RTTM reporting, as well as customer confirm disclosure.⁵
 - iii. Once the trade is built in BetaNXT, and recorded on the relevant internal ledgers, BetaNXT directs relevant details regarding the trade to the RTRS system for transaction reporting and eventual submission to RTTM for comparison, where appropriate.
- 2) Transaction Reporting | Comparison and Regulatory Reporting
- o BetaNXT transmits two transaction reports to the MSRB via the RTRS system with appropriately formatted electronic (SWIFT)⁶ messaging that contains information required for reporting (e.g., quantity, settlement date, special condition indicators) on behalf of BDA:
 - BDA's purchase from BDB
 - BDA's sale to its customer Isaiah Investor
 - o The RTRS system directs the trade between BDA and BDB to RTTM for matching/comparison, in preparation for settlement.

Security Master Issues

A security master is a repository of current and accurate reference data about a security. It is maintained in a data structure that permits systematic interrogation for the purpose of processing and reporting on events in that security (e.g., trades, corporate actions). Each entity that processes an event in a security must maintain its own security master within its systems. Significant effort is required to maintain a current and accurate security master. Further, security master data is often considered proprietary and not freely available in a central location.

In the process outlined in the example above, the details necessary to build the trade within BetaNXT were already available within BetaNXT's security master. In such a circumstance, the entire process is automated, and generally proceeds from step to step within fractions of a second. However, there are frequent instances where, while the information about a security exists, it is not yet within BetaNXT's security master. In such instances, outlined in detail below, manual intervention may be required to assemble the necessary detail within BetaNXT's security master to permit the processing of a trade. As the processing of a trade must occur prior to reporting a trade, manual intervention generally prohibits the reporting of a transaction within one minute of its execution. This is not a BetaNXT specific issue.

Generally, the need to manually enrich BetaNXT's security master to process a trade in a fixed income security occurs when a BetaNXT Firm has never purchased or sold the security and the details regarding the security are not readily available in the sources BetaNXT automatically interrogates for security master data. The lack of data in these circumstances generally relates to how different the fixed income market is from the equities market, particularly as it relates to the enormous number of fixed income securities issued when compared to equities and the relative infrequency of trading in fixed income securities when compared to equities.

⁵ SEC Rule 10b-10 – Confirmation of transactions, 17 CFR § 240.10b-10.

⁶ Municipal Securities Rulemaking Board, "Specifications for Real-Time Reporting of Municipal Securities Transactions", Version 4.0 (October 2019), available at <https://www.msrb.org/sites/default/files/RTRS-Specifications.pdf> ("MSRB RTRS Specifications")(requiring SWIFT format for reporting to RTRS). See also, Society for Worldwide Interbank Financial Telecommunications, available at <https://www.swift.com/>.

Where a BetaNXT Firm executes a trade in a security that is not set up in BetaNXT’s security master, BetaNXT performs an automated inquiry to available data repositories to attempt to automatically setup the security. If this process cannot automatically set up a security, it will result in a manual process to obtain the data necessary to set up the security. The manual process may require outreach to other data locations (particularly for new issues), which may include communication with the counterparty to the trade for reportable data points.

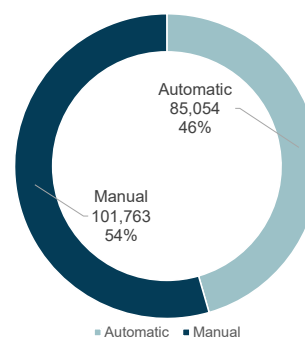
Specifically, a BetaNXT employee is alerted when BetaNXT has received a transaction in a fixed income security and that the automated process to obtain security master data from available sources has failed. The BetaNXT employee must then evaluate what information is present regarding the security within BetaNXT’s security master, and what information the BetaNXT employee must seek out from non-automated sources. Seeking out and obtaining the necessary information on a security may take several minutes in the best of scenarios and may take significantly longer.

BetaNXT Reportable Fixed Income Securities

(Jan. 1, 2021 – Sept. 1, 2022)

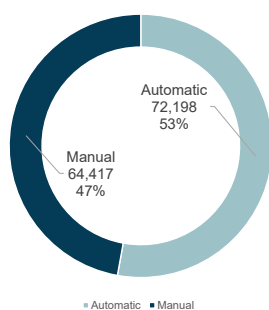
	Automatic	Manual	Total
<i>MSRB</i>	72,198	64,417	136,615
<i>TRACE</i>	12,856	37,346	50,202
Total	85,054	101,763	186,817

Reportable Fixed Income Securities
Security Master Setup Style
1/1/21 - 9/1/22 | 186,817 Securities



Based on BetaNXT’s analysis, of the 186,817 reportable fixed income securities BetaNXT added to its security master during the period of January 1, 2021, up to and including September 1, 2022 (the Relevant Period), approximately 46% (85,054) were added without the need for manual intervention. However, approximately 54% (101,763) of reportable fixed income securities required manual intervention prior to BetaNXT’s processing of the first trade in that security. This is not a one for one map to the number of trades the manual process impacts but is a helpful and relevant indication of the scope of the impact.

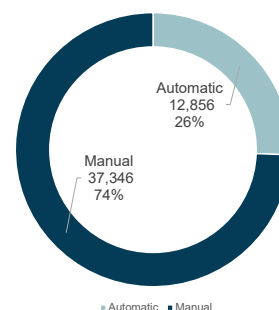
MSRB Securities
Security Master Setup Style
1/1/21 - 9/1/22 | 136,615 Securities



Also, BetaNXT has information regarding the breakdown of TRACE reportable and RTRS reportable securities based on securities type. For the relevant period, BetaNXT added 136,615 RTRS reportable securities to its security master. Of this number, approximately 53% (72,198) were automatically added to the BetaNXT security master, and approximately 47% (64,417) required manual intervention.

As it relates to TRACE reportable securities, during the Relevant Period BetaNXT added 50,202 TRACE reportable securities to BetaNXT’s security master. Of this number, approximately 26% (12,856) were automatically added to the

Trace Eligible Securities
Security Master Setup Style
1/1/21 - 9/1/22 | 50,202 Securities



BetaNXT security master, and approximately 74% (37,346) required manual intervention.

Separately, BetaNXT has experienced instances where a newly issued security is not available on the TRACE security master, causing BetaNXT to wait for FINRA to add the relevant security to report to TRACE or. It is unreasonable to hold reporting firms to a one minute reporting standard in where the delay in reporting is due to processing delays within FINRA.

Recommendation

Foremost, BetaNXT asks FINRA and the MSRB to consider the comments of SIFMA and FIF challenging the wisdom and necessity of the Proposals, especially in weighing the herculean challenges balanced against undefined benefits. Should FINRA and the MSRB decide to move forward with the Proposals, BetaNXT respectfully requests a mechanism for reporters to indicate that necessary detail regarding a security was not available with the reporting entity when the trade executed. Such a mechanism could take the form of a flag or modifier that indicates to FINRA or MSRB that, due to processing necessity, the timeliness of a specific report should not be measured against the Proposals' "no later than one minute" reporting timeframe.⁷ BetaNXT believes that such a flag or modifier is necessary, as FINRA and the MSRB should not include such transactions in compliance or other statistics regarding the timeliness of trade reporting.

Other Processing Issues – Example: Allocation of Block Trades

BetaNXT notes that while this letter focuses on security master issues, other significant processing challenges prevent the reporting of fixed income transactions in under one minute in many scenarios. One important scenario relates to challenges in allocation processing. As an illustrative example, an BetaNXT Firm customer places order for 1,000,000 bonds and asks the BetaNXT Firm to allocate of 100 lots of 10,000 bonds to 100 subaccounts. Under the proposals, both the 1,000,000 bond purchase in the market (the block trade), and the 100 sub-account allocations of 10,000 bonds each (the allocations) must be reported in under one minute. Even in a fully automated workflow with all data necessary to process and report the block and allocation trades, transition between automated systems and processing takes time, and the reporting of allocation trades late in the processing queue will likely exceed one minute in certain scenarios.

Notwithstanding issues with the automated processes, if there is any need for manual intervention, the trade reporting of allocation trades will almost certainly be well over one minute from the block trade. Should FINRA and the MSRB move forward with the Proposals, BetaNXT recommends that the MSRB and FINRA include in any final rules and specifications exclusions from the trade reporting threshold of one minute for reasonable processing issues, including the allocation example outlined above.

Implementation Timelines Recommendation

Should FINRA and the MSRB move forward with the Proposal, incorporating the recommendations regarding a flags or modifiers for processing issues outlined above, BetaNXT recommends at least 18 months from the publication of the final rules to permit the necessary system changes and testing required to meet the new rules and associated technical specifications. To the extent FINRA and MSRB move forward with the Proposals without a BetaNXT's recommendation, it is currently impossible for BetaNXT to determine the feasibility of sourcing real-time complete security master information necessary to ensure compliance with the Proposals.

⁷ Both TRACE and RTRS specifications include modifiers and other indicators that provide information to FINRA and the MSRB respectively regarding the processing details of the trade. See e.g., FIX Specifications for the Trade Reporting and Compliance Engine system: TradeModifier1, 2, 4 (available at <https://www.finra.org/sites/default/files/CA-trace-fix-specs-v1.4.pdf> page 21), and MSRB RTRS Specifications: Special Condition Indicator page 113 Appendix B.2.

Conclusion

As outlined above, BetaNXT requests FINRA and the MSRB examine, among other processing issues, challenges related to obtaining fulsome security master data within a reporting firm necessary to perform trade processing tasks preceding transaction reporting. Specifically, to the extent FINRA and the MSRB move forward with the Proposals, BetaNXT recommends that FINRA and the MSRB adopt rules and technical functionality that permits reporting firms to indicate on transaction reports that due to a processing issue a transaction should be excluded from the Proposals' one minute reporting timeframe.

* * *

BetaNXT appreciates the opportunity to comment on the Proposals and would be happy to discuss any of these comments in greater detail, or to provide any other assistance that would be helpful. If you have any questions, please do not hesitate to contact the undersigned at will.leahey@betanxt.com / 201.351.6680.

Sincerely,

- /s/ -

Will Leahey
Head of Regulatory Compliance
BetaNXT