Securities and Exchange Commission
Fixed Income Market Structure Advisory Committee
Attn. Mr. Brent J. Fields, Federal Advisory Committee Management Officer and Secretary
100 F Street, NE
Washington, DC 20549-1090

New York, July 5, 2018

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

Dear Mr. Fields,

We thank the Fixed Income Market Structure Advisory Committee for the Recommendation for a Pilot Program to Study the Market Implications of Changing the Reporting Regime for Block-Size Trades in Corporate Bonds dated April 9th 2018 (the "**Recommendation**"). We are pleased to discuss market structure with any stakeholder and greatly appreciate the efforts of the committee to address the fixed income market structure. Please see below our initial observations in respect of the Recommendation.

About Flow Traders

Flow Traders is a publicly listed, global ETF market maker. We provide liquidity both on-exchange and off-exchange (OTC). In the OTC ETF market, we provide two-sided markets to our institutional counterparties. Making markets in Fixed Income ETFs is a significant part of our business and our institutional counterparties rely on us for consistent and competitive pricing in these ETFs. As a Fixed Income ETF liquidity provider, we also trade the underlying bond constituents of the ETFs and trade in the fixed income markets to hedge our exposures and act in the primary ETF markets.

Summary of the proposed Pilot Program

The Fixed Income Market Structure Advisory Committee has proposed a Pilot Program to Study the Market Implications of Changing the Reporting Regime for Block-Size Trades in Corporate Bonds. The proposal mainly consists of two elements:

1. Increase reporting thresholds for transactions to TRACE (i) from USD 5 million to USD 10 million for investment grade bonds and from USD 1 million to USD 5 million for high yield bonds
2. Implement a 48 hour delay for reporting trades that exceed the size threshold set out under 1.

Our observations

Immediate reporting should be the norm in any market and we see no objective rationale for delayed reporting in bond markets. The proposed reporting delay makes the market for block-sized trades in corporate bonds less transparent, while this market is already fragmented and opaque, even before implementing the proposal.

We expect that any delay in reporting will harm transparency, price discovery and liquidity in respect of corporate bonds. In addition, such impact has an amplified effect on indices. Any delayed information in respect of corporate bonds affects the price formation of many derivative instruments, translating into ineffective pricing of index-based products such as Exchange-Traded Products ("ETPs"), as well as derivatives like total return swaps ("TRSs") and credit default swaps ("CDSs").

In order to promote a more transparent and efficient market structure and a level playing field for all market participants, we believe that all trades, regardless of size, must be reported to TRACE as soon as practicable, analogous to the reporting practices in options- and equities markets. Immediate reporting makes these markets highly transparent. Immediate reporting would benefit transparency, price discovery, liquidity and market quality for investors at large.

Background

The proposal, among other things, proposes to permit delayed reporting for trades in (i) investment grade bonds over a USD 10 million par value and (ii) non-investment grade bonds over a USD 5 million par value. As we understand it, the goal of the proposal is to incentivize bond dealers to offer better liquidity for transaction sizes that exceed these thresholds. By not requiring immediate dissemination of transaction information to the TRACE tape, market impact of large trades is envisaged to be reduced, which would allow market participants to provide better liquidity (tighter quoted spread for more size) in respect of such larger blocks.

Flow Traders promotes fair, transparent and simple market structures for all asset classes. Consequently, reporting without any undue delay aligns with our principles. This is how we would envisage a market structure for fixed income trading, as well as any other asset class. Therefore, we believe that the proposal has a number of potentially unintended consequences which will hurt liquidity for smaller trades as well as liquidity in other markets.

Discussion

Parties involved in a trade that exceeds the size threshold will have a very substantial information advantage over parties that are not involved in that transaction. At the same time, a sizeable trade conveys relevant information for price discovery and market liquidity. Such information should be disclosed to the wider market as soon as possible. Delaying this will cause a very large information asymmetry between market participants at large, which advantages a subset of bond dealers (that happen to trade large transactions) while there is no objective rationale for such advantage - or the need to delay information in order to promote liquidity. Quite the contrary.

Nowadays, the trading infrastructure operated by any reasonably sophisticated trader supports the quick, efficient and prudent execution and hedging for any size of transaction. Although operational considerations could permit for a small delay in reporting, reporting should be completed as close to real-time as possible. This is common for most other asset classes, also when trading in larger sizes. Otherwise, any information asymmetry could cause losses to other parties in the ecosystem or force them to maintain wider spreads than necessary if they would have been aware of all relevant information. In turn, this deteriorates liquidity and market quality, affecting any end-investor, large and small.

By way of example, please consider the following scenario:

- Bond dealer ABC buys a USD 15 million block of investment grade bond XYZ for USD 101. The previous USD 1 million trade in bond XYZ was done at USD 102 and reported to TRACE
- Now bond dealer ABC requests a quote on an RFQ platform for USD 2 million
- Small bond dealer DEF submits a bid of USD 101.75 to buy
- Large bond dealer ABC sells 2 million at USD 101.75
- 48 hours after the trade, the price of the USD 15 million block is disseminated. Now small bond dealer DEF has to mark down its position by 75 cents for a loss of USD 15,000 on the trade of 2 days ago.
- The next time Bond Dealer ABC requests a quote from bond dealer DEF, bond dealer widens out its quote because of the trade as described above.
- If this happens more often, this will create a ripple effect and fixed income markets in total will become more illiquid.

In more volatile markets, e.g. during sell-offs, the expected impact of this effect will be magnified.

Unintended consequences affecting index-based products

In addition to the above, more specifically, impact on indices could be large. Any delayed information affects the price formation relevant for indices, which translates into pricing of index-based products such as Exchange-Traded Products ("**ETPs**"), as well as derivatives like total return swaps ("**TRSs**") credit default swaps ("**CDSs**") and Credit Default Index Swaps ("**CDXs**").

Assume that, on a given day, multiple large blocks were traded in multiple bonds that are included in indices. If such trades have not been reported yet, it is practically impossible for market parties that are not involved in such trade(s) to price the bonds, indices and derived ETPs properly.

This will have an impact on:

- **Price discovery and liquidity in bonds from the same bond issuer:** the bond dealer who traded a block exceeding the threshold can not only trade the same bond from that issuer but also other bonds of the same issuer (or even correlated bonds from other issuers) with a large information advantage.

- **ETFs containing the bond will become more difficult to properly price:** market participants that are not involved in the large trade will lack information relevant for quoting and will typically increase their spreads to account for additional market risk due to 'not knowing'. This will have an impact on the pricing quality, liquidity and transaction costs for such ETPs and the tracking error of the ETPs.

- **Other derivatives, based on these indices, (think TRSs and CDXs) will become more difficult to price:** The large bond dealers are the only ones with this information available, which gives them a large pricing advantage in the derivative markets, which are magnitudes larger than the bond trades. It could be that a block trade of USD 15 million in a single bond can have a ripple effect for multiples of that nominal value in respect of derivatives contracts, which is a very undesirable situation. A "large" bond trade is very small compared to the potential exponential influence it has on the derivative contracts. This effect will be amplified in volatile markets.

- Operational and accounting impact: as it becomes difficult to mark-to-market the relevant securities in the absence of correct and complete pricing information, market participants that are unaware of the latest information will use an incorrect price for operational and accounting purposes. This includes the determination of Net Asset Value for ETFs and mutual funds. In addition, this affects risk management and accounting systems, precluding to base investment or trading decisions on the most current and accurate information, while effectively deteriorating reporting quality. A market participant that is aware of a certain transaction, can subsequently trade, and report, more efficiently and effectively.

Comparison with cash equities and options markets

In options and cash equities markets, all trades need to be reported to the tape immediately after the trade is concluded, without any exemptions for large trades. This promotes transparency and a level playing field for all market participants, while improving price discovery, liquidity and market quality, benefiting large and small investors alike. Size doesn't necessarily matter: very large OTC options and cash equities transactions are reported to the tape immediately and this informs all market participants in full, and in nearly real-time.

Sincerely,
Flow Traders U.S. LLC

Wouter Buitenhuis

About Flow Traders

Flow Traders was founded in Amsterdam (the Netherlands) in 2004 and our trading desks in Europe, the Americas and Asia provide liquidity across all major exchanges, globally, 24 hours a day. We use our proprietary technology platform to quote bid and ask prices in thousands of listings in Exchange-Traded Products, as well as similar financial products. We also provide liquidity to institutional counterparties off-exchange across all regions.

As a principal trading firm, we trade for our own account and own risk only. We do not provide any investment services or ancillary services to others. Our strategies are designed to use information that is publicly available and we use fairly simple, non-controversial and transparent order types. We are a strong supporter of fair, transparent and orderly markets. Flow Traders is regulated in the Netherlands (DNB and AFM), the US (SEC and FINRA) and Hong Kong (SFC) and has been listed on Euronext Amsterdam since 2015.