

September 24, 2018

Mr. Brent J. Fields, Secretary  
Federal Advisory Committee Management Officer and Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington DC 20459

Mr. Robert Cook, President & CEO  
FINRA  
1735 K Street, NW  
Washington, D.C. 20549

RE: Preliminary Recommendation for a Pilot Program to Study the Market Implications of Changing the Reporting Regime for Block-Size Trades in Corporate Bonds (the “Recommendation”)

Dear Sirs:

Eaton Vance Management (“EVM”) respectfully submits the below comments on the U.S. Securities and Exchange Commission’s (“SEC”) Fixed Income Market Structure Advisory Committee’s (“FIMSAC”) Recommendation that was published April 9, 2018. EVM believes this Recommendation should move forward with an additional recommendation.

### **EVM’s Additional Recommendation**

In addition to the Recommendation, EVM strongly believes that the FIMSAC should recommend that FINRA remove the “Reporting Party Side”, “Reporting Party Type” and “Contra Party Type” fields (“Institution Type Fields”) from Trade Reporting and Compliance Engine (“TRACE”). These fields primarily serve to identify whether the buyer and seller in any over-the-counter secondary market transactions in eligible fixed income securities are either a “Dealer” or a “Client”. EVM is unaware of any other trading market that publicly identifies the type of institution on each side of a trade. EVM believes that this information is irrelevant, does not provide beneficial transparency and does not promote market liquidity.

These Institution Type Fields are unnecessary and are relics of an old fixed income market structure. In the old structure, a Dealer (typically a bank) provided risk transfer prices as a “Price Maker” and the Client (typically an asset manager) accepted or declined these prices as “Price Taker”. The market was also segmented into a Dealer-to-Dealer market and a Dealer-to-Client market. Today Price Makers can be banks or asset managers and Price Takers can be banks or asset managers. Moving away from the use of Institution Type Fields and a segmented market will promote multiple sources of liquidity. These Institution Type Fields may have been relevant at one point, but EVM believes that they are now hampering liquidity in the market.

EVM believes that the use of Institution Type Fields discourages broader market participation, functionality and integrity of the market. When two counterparties enter a TRACE eligible transaction they are immediately shown the institution type either as a Dealer or Client. EVM believes that this information discourages certain market participants with legacy trading models from engaging in new trading protocols. EVM believes that certain market participants will not trade with other counterparties if they see Client as the Price Maker in TRACE where they would expect to see a Dealer. EVM believes that removing the Institution Type Fields would incentivize all market participants to compete on price, which would benefit the liquidity, functionality and integrity of the market.

## **EVM Supports the Recommendation**

EVM supports the Recommendation and EVM believes that the removal of the Institution Type Fields would further benefit its anticipated positive effect on the corporate fixed income market. The Recommendation represents a compromise between dissemination time frames and dissemination caps to provide more immediate transparency on a large number of trades. This compromise is an appropriate balance between the needs for transparency and liquidity.

### *Dissemination Time Frames*

EVM supports increasing the delay in dissemination of trades above the caps to forty-eight hours after execution. Finding block trade size liquidity in the market is often difficult. The quick publication of all post-trade prices is a significant cause of this difficulty. Unlike in listed markets, the corporate fixed income market does not have an open access central limit order book to provide pre-trade executable bids and offers to all market participants. This price discovery function is important because it provides a pre-trade executable market protocol. This protocol reduces transaction costs by eliminating potential asymmetric price information disadvantages. Further, the post-trade transparency in a central limit order book also lowers transaction costs by providing a data point for future trades. TRACE currently replicates the post-trade transparency of a block trade by publishing the execution price, but not the pre-trade transparency. The TRACE post-trade transparency lowers transaction costs for market participants, but imposes costs on the Market Makers who give up valuable information on trade details without having received any pre-trade benefit. This results in the larger trades incurring the greater costs. As a result, there is little incentive for Market Makers to provide liquidity in block trades. The Recommendation will address this issue by reducing the costs to Market Makers to provide block trade liquidity.

### *Dissemination Caps*

EVM supports moving the cap for secondary trades in investment grade corporate bonds from “5MM+” to “10MM+”. As stated in the Recommendation under Additional Considerations, EVM would support moving the cap for secondary market trades in non-investment grade corporate bonds from “1MM+” to “5MM+”. This will encourage market participants to target larger trade sizes in order to take advantage of the forty-eight hour dissemination delay. These higher caps may produce more liquidity in block size trades. Another possible benefit is that the higher caps may indirectly contribute to trading innovations. Market participants will see price and size information on trades between \$1 million and \$5 million for non-investment grade corporate bonds and between \$1 million and \$10 million for investment grade corporate bonds; whereas, currently only price information is available on trades over \$1 million. The increase in data on trades in these broader ranges will give market participants more confidence to use alternative methods of trading.

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EVM appreciates the opportunity to comment on the Recommendation. If you have any questions or wish to discuss the above comments further, please feel free to contact me at [REDACTED].

Sincerely,



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Michael O'Brien  
Head of Global Income Trading