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MANAGEMENT

4 February 2019
Mr. Brent J. Fields
Federal Advisory Committee Management Officer and Secretary
United States 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: **Recommendation for a Pilot Program to Study the Market Implications of Changing the Reporting Regime for Block-Size Trades in Corporate Bonds (the "Recommendation") (SEC File No. 265-30)**

Dear Sirs:

Wellington Management Company LLP ("**Wellington Management**")[1] appreciates the work of the Security and Exchange Commission's Fixed Income Market Advisory Committee in recommending a pilot program to study the impact of the trade reporting regime on the market liquidity of corporate bonds. Wellington Management is a large institutional asset manager and, as of 31 December 2018, managed approximately $389 billion of assets under management invested in fixed income strategies.

As a large institutional asset manager, Wellington Management strongly supports the Recommendation to adopt a pilot program. As noted in more detail below, we believe that delaying the dissemination of market transaction information, while also expanding the coverage of transactions to be reported could result in improved liquidity and pricing in the corporate and high yield bond markets.

Under the current rules, broker-dealers are required to post trade information to TRACE within 15 minutes of execution, and these trades are immediately disseminated to the market. Our experience in trading both investment grade and high yield bonds suggests that the immediate dissemination could result in broker-dealers preferring smaller trade sizes. The reason for this relates to the structure of fixed income markets: specifically, the principal model of transactions and the large number of unique securities per issuer (as compared to equity markets). Under the current principal model of fixed income markets, liquidity is often dependent on broker-dealers' willingness to take principal positions (i.e., purchase securities for themselves) on the assumption they will be able to resell them later (or at least hedge the position). The large number of unique securities in the fixed income market make finding buyers more complicated than in the equity space. By way of example, Verizon has only one equity security traded on the NASDAQ, while

1 Wellington Management is a private partnership registered as an investment adviser with over $1 trillion in assets under management as of 31 December 2018. Tracing our roots back to 1928 with the establishment of the first balanced mutual fund, the Wellington Fund, Wellington Management has managed mutual funds for 90 years.

it has 43 different fixed income issuances. This means that while an investor who wants to invest in equity issued by Verizon has a single option, a fixed income investor can select among the 43 different issuances – and the investment exposure of each of these issuances is different depending on factors such as the coupon, remaining maturity, amount outstanding, etc.

In this vein, we have observed that bids to purchase fixed income securities tend to decrease in response to the dissemination (via TRACE) of a broker-dealer's purchase of a large block of securities (currently disseminated as a purchase of either 5MM+ for investment grade or 1MM+ for high yield bonds), unless there is an immediate dissemination of a corresponding sale. We believe that this decrease occurs because the TRACE prints are serving as a signal to other market participants that there is an eager seller, and therefore they lower their published bids. Indeed, we have often seen situations where some market participants, anticipating this price decline, will short a security in response to multiple TRACE dissemination indicating broker-dealer purchases. The practical result is that immediate publication of large blocks on TRACE leads to artificially depressed bids and therefore serves as a disincentive to brokers to purchase securities in large blocks.

Under the pilot program, investment grade trades larger than $10 million and high-yield trades larger than $5 million will be reported within 15 minutes, but will be subject to a 48 hour delay before dissemination to the market. We expect that this 48 hour delay will allow for improved market liquidity, as broker-dealers will have 48 hours to find purchasers who are willing to purchase the subject securities at prices that are not artificially reduced by the expectation of an eager seller. We also anticipate that brokers will be more willing and able to move larger blocks of fixed income securities with less concern of negative price impact (and/or fewer hedging costs). We believe that these effects will, in the aggregate, show increased liquidity versus the current dissemination requirements

We appreciate the opportunity to comment on the Recommendation. If you have any questions about our comments or would like any additional information, please contact Lance C. Dial or me at [redacted]

Very truly yours,

Jed Stevenson
Senior Managing Director
Wellington Management Company LLP

CC:

The Honorable Jay Clayton, Chairman
The Honorable Kara M. Stein, Commissioner
The Honorable Robert J. Jackson, Jr., Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner

Brett Redfearn, Director, Division of Trading and Markets