



FALCON  
SQUARE  
CAPITAL

February 15, 2024

**UPLOADED ELECTRONICALLY**

Vanessa Countryman  
Office of the Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

**Re: Comment on SR-FINRA-2024-004**

Dear Ms. Countryman,

Falcon Square Capital, LLC appreciates the opportunity to provide comments to SR-FINRA-2024-004,<sup>1</sup> which addresses the proposed alteration of FINRA Rule 6730 to require the reporting of requisite trade information through TRACE within one minute of execution, with exceptions for member firms with *de minimis* reporting activity and for manual trades (the “Filing”).

Falcon Square is a fixed-income broker-dealer serving institutional investors, corporations, and municipalities. We trade the full spectrum of fixed income securities, including corporates, municipals, treasuries, agencies, RMBS, CMBS, commercial paper, certificates of deposit, and structured products on an agency and riskless principal basis. We are certified Women Owned by the Women’s Business Enterprise National Council (“WBENC”).

FINRA has acknowledged that “[s]mall firms represent a critical portion of FINRA’s membership and often face regulatory challenges that are unique from their large firm counterparts.”<sup>2</sup> As discussed below, we believe the Filing does not provide evidence to support how the reporting change would result in a material improvement of the fixed-income securities markets. Further, the Filing does not provide sufficient justification for the construction of the *de minimis* and manual trading exceptions. Given the limits of said exceptions, smaller broker-dealers like us risk being driven out of the fixed-income markets due to prohibitive costs. For these reasons, Falcon Square strongly urges that the SEC require FINRA to revisit its proposal, especially as it relates to smaller firms and specialized fixed-income trading activity for manual trades.

In general, it is unclear why there needs to be a reduction in reporting time for TRACE-eligible securities to increase transparency and improve access to transaction data based on the data used to support the Filing. The Filing states that, “as a result of the proposed rule

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<sup>1</sup> SEC Release No. 34-99404, File No. SR-FINRA-2024-004, *Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 6730 (Transaction Reporting) To Reduce the 15-Minute TRACE Reporting Timeframe to One Minute* (Jan. 19, 2024), 89 Fed. Reg. 5034 (Jan. 25, 2024).

<sup>2</sup> [Small Firm Report \(PR\) | FINRA.org](#).

change...up to 16.4 percent of current annual trading volume, or 6.1 million trades and 20 trillion dollars in par value, might potentially be reported faster”<sup>3</sup> from the 82.9% of trades that were already reported within one minute in 2022.<sup>4</sup> It is difficult to discern the significance of this value, however, as the Filing does not provide empirical evidence or statistical examples of the benefits of “potentially” capturing the remaining 16.4% of trade reports within one minute, and does not measure any purported benefit against either the cost of removing smaller brokers from the market or the costs to comply with the revised reporting requirement. It is also unclear how implementing a one-minute (or 10-minute or five-minute) reporting time will reduce trading costs for investors, as the Filing provides no research or evidence to support that price discovery in the general market would improve with a reduced reporting timeframe.

The Filing also does not acknowledge or address any costs that broker-dealers would have to bear to either implement the automated reporting systems required by the rule or narrow the time incurred for reporting manual trades (if seeking to utilize the manual trades exception). In fact, the only acknowledgement of costs is for firms which would fall under the *de minimis* exception, specifically that the proposed exception “would provide relief for those members for which the technological changes required may be more significant relative to their level of activity in this space.”<sup>5</sup> Outside of this, the Filing does not address costs that smaller firms who do not qualify for the *de minimis* exception will be forced to bear to implement more sophisticated and expensive automated reporting systems, nor the anti-competitive results that would consequently follow if such firms were forced from the market because of such costs. A smaller firm like ours would have to spend at least approximately half a million dollars more each year to establish and maintain an automated electronic system in order to meet the one-minute reporting deadline as proposed or to be able to report all manual trades within five minutes of execution, and FINRA provides no analysis whatsoever as to the costs associated with reducing reporting times for manual trading processes like those we use to conduct trades.

While we support the logic behind a “limited trading activity” or *de minimis* exception,<sup>6</sup> the proposed 4,000-trade report threshold is far too low. FINRA does not provide any support or analysis for why it determined to limit the *de minimis* exception threshold to 4,000 trades, other than referring to the par value of securities trades represented by members reporting between 4,000 and 10,000 trades.<sup>7</sup> This reference does not sufficiently indicate what effect the trade reporting by these members has on the total market or its relevance to pricing or price discovery issues, nor does it explain the relevance of the chosen size of the *de minimis* exception to the data collected by FINRA on fixed income trade reporting by firms of different sizes.<sup>8</sup> We request that FINRA significantly expand the threshold for the *de minimis* exception or, at a minimum,

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<sup>3</sup> Filing at 17 and 29, 89 Fed. Reg. 5038, 5042.

<sup>4</sup> Filing at 29, 89 Fed. Reg. 5042.

<sup>5</sup> Filing at 33, 89 Fed. Reg. 5043.

<sup>6</sup> Filing at 9, 89 Fed. Reg. 5036.

<sup>7</sup> Filing at 36, 89 Fed. Reg. 5044.

<sup>8</sup> Filing at 22, 89 Fed. Reg. 5039.

conduct further analysis and provide data to support its proposal to limit the *de minimis* trading threshold to 4,000 trades.

If, after sufficient analysis is conducted to support any change to the current fixed income trade reporting requirements, a determination is made to amend the current rule, we support the concept of including an exception for “manual trades.” As a broker-dealer servicing institutional customers as an agent/riskless principal that provides customized high-touch execution services, the proposed exception<sup>9</sup> addresses some of our concerns about the feasibility of executing and reporting trades that involve manual, human intervention within a shortened reporting timeframe. However, the manual exception proposed by FINRA does not address all of our concerns. In this regard, we note that the examples provided by FINRA of the types of situations which would qualify for the manual trades exception cloud the water by appearing to apply conditions to the types of manual intervention which would trigger the exception. For example, a contemplated situation in the Filing that would meet the parameters of the manual trades exception is “where allocations to individual accounts must be manually input in connection with a trade by a dually-registered broker-dealer/investment adviser”;<sup>10</sup> however, broker-dealers that are not dual-registrants also may make manual allocations. While FINRA acknowledges that the list of qualifying situations it provides to illustrate the exception’s specified criteria is not exhaustive, the reference to allocations “in connection with a trade by a dually-registered broker-dealer/investment adviser” could be read to establish a very precise condition to meet the exception. Because it would be difficult or impossible to address all of the potential trading and reporting situations that may involve manual intervention, Falcon Square strongly urges that, rather than attempting to identify certain scenarios that qualify for the exception, FINRA should clarify that any manual intervention in the trade execution or reporting process qualifies for the manual trades exception.

A more pressing concern is the proposed “phase-in” of increasingly shorter trade reporting times for trades which qualify for the manual trades exception. As currently proposed in the Filing, the manual trades exception would only delay the inevitable reduction or elimination of smaller brokerage firms like ours from the fixed-income securities market. The Filing provides no rationale for the manual trades exception’s phased-in time reduction for reporting from 15 minutes to 10 minutes to, ultimately, five minutes. In proposing the exception, FINRA has recognized that fixed income securities transactions that involve manual intervention take longer than automated trades to complete the trade executing or reporting process;<sup>11</sup> however, FINRA does not provide any support for its proposal to reduce reporting time for manual trades from 15 minutes to five minutes, nor does FINRA analyze how it would be possible for “manual components” of the execution and trade reporting process to be speeded up by firms to meet a five-minute reporting requirement. The only recommendation FINRA provides in the Filing is that firms “should consider the types of transactions in which they regularly engage and whether they can reasonably reduce the time between a trade’s Time of

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<sup>9</sup> Filing at 11, 89 Fed. Reg. 5036.

<sup>10</sup> Filing at 12, 89 Fed. Reg. 5036.

<sup>11</sup> See *generally* Filing at 12 – 13, 89 Fed. Reg. 5036.

Execution and its reporting,”<sup>12</sup> which is not actionable advice that firms could follow to facilitate faster manual reporting.

Falcon Square is already reporting its trades as soon as practicable; however, confirming both the buy and sell sides of a transaction (which can involve multiple buyers or sellers for a single trade), the CUSIP number, size, price, yield, trade and settle dates, the name, the firm, and accrued interest (often with multiple parties); capturing execution data obtained either electronically or manually; performing risk management and regulatory compliance reviews; sending the trade data to our clearing firm for its own trade information matching and data reporting processes; receiving confirmation the data was received; and addressing any issues if counterparties are not matched appropriately are time consuming processes. We have been able to meet the 15-minute reporting requirement of the current rule on a consistent basis, but have little ability to further whittle down the time required to conduct the “manual components” of the aforementioned processes for all manual trades.

If FINRA’s own estimate for the median time for web entry into the TRACE system is four to five minutes,<sup>13</sup> it is unclear how firms with additional manual trade processes would realistically have any ability to comply with a five-minute reporting time requirement. As firms are already prevented from intentionally delaying trades that can be reported earlier than 15 minutes pursuant to Rule 6730 (i.e., all trades are required to be reported “as soon as practicable”)<sup>14</sup>, there is little justification for a phased-in reduction of reporting time to ostensibly enhance information transparency. Additionally, FINRA acknowledges in the Filing that it does not have data to support a reduction in reporting time to five minutes (or 10 minutes, for that matter), and that it will have to collect data to determine whether the five-minute trade reporting timeframe is constructed appropriately.<sup>15</sup>

We respectfully submit that FINRA must be required to collect data to support a reduction from the 15-minute reporting period for manual trades before it proposes a phase-in period. Instead, the Filing merely offers an empty promise to do so later, combined with a reduction in reporting time for manual trades which will take effect automatically if FINRA does not act. As such, our fear is that the Filing will, over time, eliminate smaller fixed-income brokers like Falcon Square and harm the small and medium-size institutional clients that we serve due to an inability to realistically further reduce the time it takes to conduct these manual trade processes. If smaller brokerage firms like Falcon Square are forced out of the fixed income business, the overall market will also be negatively impacted from a pricing and liquidity perspective. We strongly urge the SEC to require FINRA to reconsider the actual time spent to

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<sup>12</sup> Filing at 13, 89 Fed. Reg. 5036.

<sup>13</sup> Filing at FN 35, 89 Fed. Reg. 5042 at FN 36.

<sup>14</sup> FINRA Rule 6730(a) and Supplementary Material .03.

<sup>15</sup> Filing at 13, 89 Fed. Reg. 5036 (“FINRA also will assess members’ trade reporting in connection with manual trades to determine whether the five-minute trade reporting timeframe (to become applicable after two years) is appropriate, and will be prepared to make adjustments, as necessary.”).

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perform the processes associated with manual trades to determine whether a reduction from 15 minutes is necessary or even feasible.

As outlined above, the new rule would be cost prohibitive to smaller firms, be incredibly difficult to meet with more complex or involved manual fixed income trades as the “phase-in” period kicks in, and thus curtail customer access to the fixed income securities market. We strongly encourage the SEC to require FINRA to revisit this proposal and consider the economic challenges of smaller firms before modifying the current rule.

Sincerely,

/S/

Melissa P. Hoots, CEO/CCO