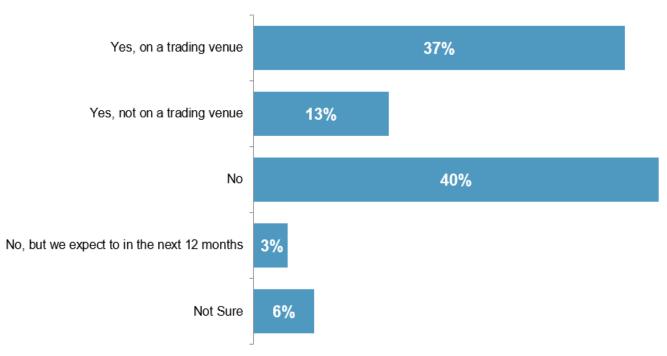


Transparency is Coming for Portfolio Trading

March 17, 2022

The days of corporate bond portfolio trading estimates are coming to an end. FINRA has proposed and the SEC has approved a new rule (proposed FINRA Rule 6730(d)(4)(H)) that will require corporate bonds traded via a portfolio trade be reported to TRACE with a "designated modifier"—or put more simply, a portfolio trading flag. The new rule comes about two years after the SEC's Fixed Income Market Structure Advisory Committee (FIMSAC) recommended the change and grows in importance with half of the 30 buy-side firms Coalition Greenwich spoke to in Q4 2022 having executed a portfolio trade in the past 12 months.

Have you executed a portfolio trade in the past year?



Source: 2021 Coalition Greenwich Market Structure & Trading Technology Study. Based on 30 buy side respondents.

A New Reporting Flag

While the new reporting flag will help market participants and analysts like us gain deeper insight into the size of the corporate bond portfolio trading market (which, for the record, is roughly 5% of the total market, depending on the month), the true purpose of the change is to provide improved post-trade price transparency to the market as a whole. Here is how the proposal explains it (emphasis ours):

FINRA rules do not allow for reporting of a single portfolio trade with an aggregated price. Instead, a member firm must report to TRACE a trade for each individual bond in the portfolio with an attributed dollar price for each bond. FINRA believes that, in many cases, the reported price for each bond in a portfolio trade is in line with the bond's current market price, while in other cases the attributed price reported for an individual bond might deviate from its current market price.

Basically, bonds traded on their own can often trade at prices different than the same bond traded as part of portfolio. It's not that this shouldn't happen but, instead, that the market needs to know the price reported was a "portfolio price," so they understand why their dealer might quote them a different price when trying to buy or sell the same bond.

Portfolio trades must be reported with the new flag when they meet the following criteria:

- i) is executed between only two parties
- (ii) involves a basket of corporate bonds of at least ten unique issue
- (iii) has a single agreed price for the entire basket

This is largely in line with the industry's view and matches our definition per the research we published examining the benefits of portfolio trading in 2021.

Industry Support for Transparency

This new rule is also one of the few that is coming to market with few if any dissenters. The fact that only three comment letters were submitted—most of which were positive—demonstrates the industry's support for this new level of transparency.

FINRA has about three months to define exactly how the flag will work in practice, and then another year within which to implement the rule. A go-live in 2023 seems the most likely outcome. Until then, we expect that the race to capture portfolio trading activity by the trading venues will continue in earnest, while corporate bond dealers focus on improving their ability to quote portfolio trade prices quickly as buy-side demand continues to grow.

www.greenwich.com | ContactUs@greenwich.com

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue

performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Coalition Greenwich, which is a part of CRISIL Ltd, an S&P Global company. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Coalition Greenwich as on the date of the Document and Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data in this Document may reflect the views reported to Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES COALITION GREENWICH BELIEVES TO BE RELIABLE. COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO

THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Coalition Greenwich is a part of CRISIL Ltd, an S&P Global company. ©2024 CRISIL Ltd. All rights reserved.