

## Trade Reporting and Compliance Engine (TRACE)

### SEC Approves Amendments to TRACE Rules and Dissemination Protocols to Disseminate Specified Pool Transactions and SBA-Backed ABS Transactions and to Reduce the Time to Report Such Transactions

Effective Date: July 22, 2013

#### Executive Summary

The SEC approved amendments to FINRA Rule 6700 Series and TRACE dissemination protocols that provide for the dissemination of transactions that are agency pass-through mortgage-backed securities traded in specified pool transactions and asset-backed securities<sup>1</sup> backed by loans guaranteed as to principal and interest by the Small Business Administration (SBA-backed ABS) and traded in specified pool transactions or to be announced (TBA), and reduce the time to report such transactions.<sup>2</sup> The effective date is July 22, 2013.

The amended rule text is available at [www.finra.org/notices/12-56](http://www.finra.org/notices/12-56).

Questions regarding this *Notice* may be directed to:

- ▶ Elliot Levine, Associate Vice President and Counsel, Transparency Services, at (202) 728-8405; or
- ▶ Sharon Zackula, Associate Vice President and Associate General Counsel, Office of General Counsel, at (202) 728-8985.

#### Background and Discussion

FINRA amended the TRACE rules and dissemination protocols to provide for the dissemination of agency pass-through mortgage-backed securities that are traded in specified pool transactions (MBS specified pool transactions) and SBA-backed ABS that are traded either in specified pool transactions or TBA (collectively, SBA-backed ABS transactions). FINRA also reduced the reporting periods for MBS specified pool and SBA-backed ABS transactions to improve

#### December 2012

##### Notice Type

- ▶ Rule Amendment

##### Suggested Routing

- ▶ Compliance
- ▶ Fixed Income
- ▶ Legal
- ▶ Operations
- ▶ Systems
- ▶ Trading
- ▶ Training

##### Key Topics

- ▶ Agency Pass-Through Mortgage-Backed Securities
- ▶ Asset-Backed Securities
- ▶ Dissemination
- ▶ SBA-Backed ABS
- ▶ Specified Pool Transactions
- ▶ To Be Announced (TBA)
- ▶ Transaction Reporting

##### Referenced Rules & Notices

- ▶ FINRA Rule 6710
- ▶ FINRA Rule 6730
- ▶ FINRA Rule 6750

the timeliness of the transaction information to be disseminated, and incorporated certain other amendments. The substantive amendments to the FINRA rules are as follows:

- ▶ **Dissemination.** FINRA amended Rule 6750(b)(4) to provide for the dissemination of MBS specified pool and SBA-backed ABS specified pool transactions and SBA-backed ABS transactions traded TBA immediately upon receipt of a transaction report.
  - ▶ FINRA modified the dissemination protocols for MBS and SBA-backed ABS specified pool transactions. In lieu of disseminating the CUSIP, FINRA will disseminate transaction information using reference data elements, in ranges (after truncating and rounding), that describe the characteristics of the traded pool. For example, for MBS specified pool transactions, FINRA will disseminate the coupon and weighted average coupon (WAC), the original maturity and weighted average maturity (WAM), the original loan-to-value (original LTV) and the average loan size (ALS), and the weighted average loan age (WALA), subject to display ranges. In addition, to identify the type of security traded, FINRA will disseminate the agency or government-sponsored-enterprise (GSE), product type and amortization type. Additional details regarding the information that will be disseminated initially, including sample values and display ranges, is set forth on Attachment A.
  - ▶ SBA-backed ABS transactions traded TBA will be subject to the same dissemination protocols established for MBS transactions traded TBA (*e.g.*, the CUSIP will be disseminated).<sup>3</sup>
  - ▶ The dissemination cap for MBS specified pool transactions and SBA-backed ABS transactions will be \$10 million.
- ▶ **Reporting Time Periods.** FINRA amended Rule 6730 to establish requirements for reporting MBS specified pool and SBA-backed ABS transactions.
  - ▶ FINRA Rule 6730(a)(3)(F)(i) and FINRA Rule 6730(a)(3)(G)(i) provide that for a pilot program that will expire on January 24, 2014, MBS specified pool transactions and SBA-backed ABS transactions, respectively, must be reported no later than 120 minutes from the time of execution, subject to minor exceptions to the general requirement for transactions executed shortly before the TRACE system closes and when the TRACE system is closed.<sup>4</sup>
  - ▶ After January 24, 2014, FINRA Rule 6730(a)(3)(F)(ii) and FINRA Rule 6730(a)(3)(G)(ii) provide that MBS specified pool transactions and SBA-backed ABS transactions, respectively, must be reported no later than 60 minutes from the time of execution, subject again to exceptions to the reporting time frames for transactions executed shortly before the TRACE system closes and when the TRACE system is closed.<sup>5</sup>
- ▶ **Definitions.** FINRA adopted a definition of SBA-backed ABS in FINRA Rule 6710(bb). FINRA amended Rule 6710(u), the definition of “TBA,” and FINRA Rule 6710(x), the definition of “specified pool transaction,” to include references to transactions in SBA-backed ABS. FINRA incorporated minor, technical changes to the definition of “agency pass-through mortgage-backed security” in FINRA Rule 6710(v).

## Attachment A

### Dissemination of MBS Specified Pool Transactions and SBA-Backed ABS Specified Pool Transactions

Information regarding the data elements and display details, including sample values and display ranges (after truncating and rounding), that FINRA will disseminate initially for MBS specified pool transactions and SBA-backed ABS specified pool transactions is set forth below.

Data Element to be Disseminated	MBS Specified Pool Transaction Dissemination	SBA-Backed ABS Specified Pool Transaction Dissemination	Sample Values <sup>6</sup>
<b>Product Type</b>	The type of properties (or real-estate projects) subject to the mortgage underlying the MBS. For example, single family residential dwelling mortgage loans, multi-family residential dwelling mortgage loans or project loans.	Not Applicable.	Single Family Multi-Family Project
<b>Amortization Type</b>	Identification of the underlying mortgage types. For example, level payment, adjustable rate mortgages (ARM) or balloon payment.	Identification of the underlying loan type. For example, level payment or variable interest rate.	Level Payment ARM Balloon
<b>Issuing Agency</b>	The agency or GSE that issues the certificate and guaranteed the payment of principal and interest of the MBS: Fannie Mae, Freddie Mac or Ginnie Mae.	Small Business Administration.	Fannie Mae Freddie Mac Ginnie Mae Small Business Administration
<b>Coupon</b>	The stated annual percentage rate of interest.	The stated annual percentage rate of interest.	Coupon will be disseminated after rounding down to the nearest quarter percentage point. For example, an interest rate of 5.12 percent will be disseminated as 5 percent.

Data Element to be Disseminated	MBS Specified Pool Transaction Dissemination	SBA-Backed ABS Specified Pool Transaction Dissemination	Sample Values <sup>6</sup>
<b>Original Maturity</b>	The original stated term after which the principal amount of the security is due to be repaid in full, or the end of the life of the MBS.	The original stated term after which the principal amount of the security is due to be repaid in full, or the end of the life of the SBA-backed ABS.	Original maturity is expressed in months and rounded up to the nearest 10. For example, an original maturity of 358 months will be disseminated as 360 months.
<b>Weighted Average Coupon (WAC)</b>	WAC is the weighted average interest rate of the underlying mortgage loans or pools that serve as collateral for a mortgage security, weighted by the size of the principal loan balances. It is calculated by weighting the interest rate of each mortgage loan in the pool by the amount of the mortgage outstanding.	WAC is the weighted average interest rate of the underlying SBA loans or pools that serve as collateral for the security, weighted by the size of the principal loan balances. It is calculated by weighting the interest rate of each SBA loan in the pool by the amount of the loan outstanding.	WAC will be disseminated after truncating to a single decimal. For example, a WAC of 7.13 percent will be disseminated as 7.1 percent.
<b>Weighted Average Maturity (WAM)</b>	WAM is the weighted average number of months to the final payment of each loan backing an MBS, weighted by the size of the principal loan balances. WAM is calculated by weighting the remaining number of months to maturity for each mortgage loan in the pool by the amount of the mortgage outstanding.	WAM is the weighted average number of months to the final payment of each loan backing an SBA-backed ABS, weighted by the size of the principal loan balances. WAM is calculated by weighting the remaining number of months to maturity for each loan in the pool by the amount of the loan outstanding.	WAM will be disseminated rounded down to the nearest 10. For example, a WAM of 87 months will be disseminated as 80 months.
<b>Weighted Average Loan Age (WALA)</b>	WALA is the weighted average number of months since the date of the loan origination of the mortgages ( <i>i.e.</i> , the age of the loans) backing an MBS, weighted by the size of the principal loan balances.	WALA is the weighted average number of months since the date of the loan origination of the loans ( <i>i.e.</i> , the age of the loans) backing an SBA-backed ABS, weighted by the size of the principal loan balances.	WALA will be disseminated rounded up to the nearest 10. For example, a WALA of 163 months will be disseminated as 170 months.

Data Element to be Disseminated	MBS Specified Pool Transaction Dissemination	SBA-Backed ABS Specified Pool Transaction Dissemination	Sample Values <sup>6</sup>
<b>Average Loan Size (ALS)</b>	Current ALS is calculated by dividing the current mortgage loan outstanding principal balance by the number of loans that remain outstanding.	Not Applicable.	ALS will be rounded down to the nearest 25. For example, an ALS of 113 ( <i>i.e.</i> , \$113,000 average loan size) will be disseminated as 100.
<b>Original Loan-to-Value (original LTV)</b>	Original LTV ratio expresses the amount of a first mortgage lien as a percentage of the total appraised value of the real property for which the mortgage was made.	Not Applicable.	Original LTV will be rounded down to the nearest 25. For example, an original LTV of 92 percent will be disseminated as 75 percent.

## Endnotes

1. The terms agency pass-through mortgage-backed security, specified pool transaction and asset-backed security are defined in FINRA Rule 6710(v), FINRA Rule 6710(x) and FINRA Rule 6710(m), respectively.
2. See Securities Exchange Act Release No. 68084 (October 23, 2012), 77 FR 65436 (October 26, 2012) (SEC Approval Order of File No. SR-FINRA-2012-042).
3. In addition to CUSIP, other standard data elements disseminated for such transactions include the price, time of transaction, size (subject to dissemination caps), counterparty type (customer or dealer) and buy/sell indicator.
4. See FINRA Rule 6730(a)(3)(F)(i) and FINRA Rule 6730(a)(3)(G)(i), each of which incorporates by reference FINRA Rule 6730(a)(3)(E)(i)a. through d.
5. See FINRA Rule 6730(a)(3)(F)(ii) and FINRA Rule 6730(a)(3)(G)(ii), each of which incorporates by reference FINRA Rule 6730(a)(3)(E)(ii)a. through d.
6. The sample values are for illustration purposes only. TRACE technical specifications will include more specific descriptions of the fields and the values to be disseminated.

© 2012 FINRA. All rights reserved. FINRA and other trademarks of the Financial Industry Regulatory Authority, Inc. may not be used without permission. *Regulatory Notices* attempt to present information to readers in a format that is easily understandable. However, please be aware that, in case of any misunderstanding, the rule language prevails.