



Financial Industry Regulatory Authority

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January 11, 2013

Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. SR-FINRA-2012-052 – Response to Comments

Dear Ms. Murphy:

On November 29, 2012, FINRA filed with the Securities and Exchange Commission (“SEC” or “Commission”) SR-FINRA-2012-052, a proposed rule change to amend FINRA Rule 6730(d)(2) to require a member to report to Trade Reporting and Compliance Engine (“TRACE”) the Factor¹ used to determine the size (volume) for each transaction in an Asset-Backed Security (“ABS”) (except an ABS traded To Be Announced (“TBA”)),² in the limited instances when members effect such transactions as agent and charge a commission. The Commission published the proposed rule change for comment in the *Federal Register* on December 18, 2012.³ The Commission received one comment letter in response to the proposed rule change.⁴ The issues raised by the commenter relating to the proposed rule change are summarized and responded to below.

The commenter noted that if the government has an interest in the securities, then he agrees with the regulation. He stated that, otherwise, it is simply adding another administrative burden to the industry.

¹ The term Factor is defined in FINRA Rule 6710(w) to mean “the decimal value representing the proportion of the outstanding principal value or remaining face amount of a pool of assets underlying a security to the original principal value or original face amount of such assets.”

² See FINRA Rule 6710(m) and FINRA Rule 6710 (u), respectively, for the definitions of Asset-Backed Security and To Be Announced.

³ See Securities Exchange Act Release No. 68414 (December 12, 2012), 77 FR 74896 (December 18, 2012) (Notice of Filing of SR-FINRA-2012-052).

⁴ See Letter from Mark Sokolow, Attorney at Law, dated December 18, 2012.

FINRA believes that the proposed rule change to require members to report the Factor for ABS transactions (except ABS traded TBA) in the limited instances when members effect such transactions as agent and charge a commission is necessary and appropriate. The proposed rule change is necessary to ensure the accuracy of the disseminated price of an ABS transaction, which, if traded on an agency basis and subject to a commission charge, is calculated using the Factor, the price and other information reported by a member that is a party to the transaction.⁵ The proposed amendments to FINRA Rule 6730(d)(2) would ensure the accuracy of the disseminated price by relying exclusively upon information, including the Factor, that would be reported by the members that are parties to an ABS transaction (except an ABS traded TBA) executed in an agency capacity and subject to a commission charge. In addition, the proposed requirement to report a Factor is narrowly tailored to apply to the very limited number of ABS transactions that are traded in an agency capacity and subject to a commission charge.⁶ FINRA believes that ensuring the accuracy of the price transparency provided by TRACE assists all market participants in determining the quality of their executions and firms in complying with their regulatory obligations. In addition, accurate price transparency may have a positive impact on the quality of pricing for valuation purposes.⁷

⁵ The SEC approved SR-FINRA-2012-042, FINRA's proposal to disseminate transactions that are Agency Pass-Through Mortgage-Backed Securities traded in Specified Pool Transactions and ABS backed by loans guaranteed as to principal and interest by the Small Business Administration ("SBA-Backed ABS") traded in Specified Pool Transactions or TBA, which will begin on July 22, 2013. See Securities Exchange Act Release No. 68084 (October 23, 2012), 77 FR 65436 (October 26, 2012) (SEC Order Approving File No. SR-FINRA-2012-042) and Regulatory Notice 12-56 (December 2012). In addition, if FINRA Rule 6750 is amended in the future to provide for the dissemination of additional ABS market segments, the proposed amendments to FINRA Rule 6730(d)(2) will be necessary to ensure the accuracy of the disseminated prices of such ABS transactions, if executed in an agency capacity and subject to a commission charge.

⁶ From May 2011, when TRACE began receiving reports on ABS, to the present, whether measured by par value or number of transactions, transactions in ABS that are executed in an agency capacity and subject to a commission represent only approximately one percent of all ABS transactions.

⁷ With respect to the commenter's question of whether "the government has an interest in the securities" FINRA notes that it is not a governmental entity.

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FINRA believes that the foregoing responds to the material issues raised by the commenter to this rule filing. If you have any questions, please contact me at (202) 974-2974.

Sincerely,



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