

FINANCIAL INFORMATION FORUM

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New York, New York 10004

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Via Electronic Delivery

February 20, 2015

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K St. NW
Washington, DC 20006-1506

Re: Regulatory Notice 14-46 – Proposal to Identify OTC Equity Trades Reported More Than Two Seconds After Execution as "Out of Sequence" and Not Last Sale Eligible

Dear Ms. Asquith,

The Financial Information Forum (FIF)¹ would like to take this opportunity to comment on Regulatory Notice 14-46 - Proposal to Identify OTC Equity Trades Reported More Than Two Seconds After Execution as "Out of Sequence" and Not Last Sale Eligible (the "proposal"). The FIF Front Office Committee ("FIF") has spent extensive time reviewing the proposal and appreciates the extension of the comment period to allow for a more thorough review. Additionally, FIF has met with FINRA staff on multiple occasions to better understand the requirements associated with the proposal.

Proposed Supplementary Material

The proposal, in addition to discussing "out of sequence" trades, also discusses proposed Supplementary Material. Specifically, the proposal states:

FINRA also is proposing to amend the current Supplementary Material that provides guidance on the "as soon as practicable" requirement under the trade reporting rules. Specifically, consistent with the SEC's application of Rule 603 of Regulation NMS,¹⁰ FINRA interprets the "as soon as practicable" requirement to also require that firms not disseminate executed trade information sooner than the trade is reported to FINRA. Thus, for example, an ATS cannot commence the process of disseminating trade information to its subscribers any faster than it commences the process of reporting the trade to FINRA for dissemination purposes. This also would prohibit an ATS from reporting back execution information to the subscriber on whose behalf the trade was executed sooner than it reports the information to FINRA.

¹ FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the financial technology industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

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FIF recommends that FINRA not adopt amendments to the Supplementary Material beyond the current “as soon as practicable” requirement. Trade reporting and execution reporting are performed by separate systems with associated processes that are not linked to each other. The process for trade reporting is more complex than for execution reporting in that data from matching engines is enriched with reference data and subject to a rules engine in order to ensure accurate reporting based on FINRA trade reporting rules including a determination of whether a trade should be reported to FINRA’s ORF (OTC Equity Reporting Facility) platform or a TRF (Trade Reporting Facility). As part of this process, trade reporting systems perform additional validations to ensure that correct modifiers are appended to a trade report. Additionally, trade reporting systems are not necessarily co-located with matching engines.

The implementation involved in ensuring that the delivery of execution reports is not sooner than trade reports to FINRA would be significant. In conversations with FINRA, we understand that their focus was on the commencement of trade reporting and execution reporting. While we agree that firms should not intentionally delay their trade reporting, we believe the current “as soon as practicable” standard addresses this issue. We are not aware of firms intentionally introducing delays in trade reporting and question the benefit of adding Supplementary Material, even if clarified to focus on the commencement of trade reporting and execution reporting. The introduction of new Supplementary Material will result in additional review and possible modifications to supervisory procedures. Additional supervision on the part of both FINRA and member firms will incur costs without any corresponding benefit.

If FINRA determines additional language is required, FIF recommends using the term “contemporaneously” as opposed to the “not sooner than” standard. We note that as time stamps become more granular it may not be possible to always meet a “not sooner than” standard even when there is no intentional delay introduced. Additionally, the filing should identify that prohibiting intentional delay of trade reporting is the intent of the Supplementary Material as opposed to a requirement to achieve an exact alignment of trade reporting and execution reporting processes.

Identifying Trades as Out of Sequence After Two Seconds

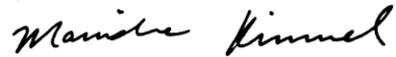
FIF also reviewed the proposal as it relates to identifying trades as out of sequence after two seconds. Before adopting the proposal, FIF recommends the following:

- Address throttling/capacity issues at the TRFs prior to the implementation of this proposal.
- Perform additional analysis of trades currently reported between 2 – 10 seconds to determine the impact of this proposal on less actively traded issues.

We appreciate the opportunity to comment on this proposal and are happy to discuss our recommendations in further detail.

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Regards,



Manisha Kimmel
Managing Director
Financial Information Forum

cc: Richard G. Ketchum, Chairman and Chief Executive Officer
Stephanie Dumont, Senior Vice President and Director of Capital Markets Policy
Dave Chapman, Director, Market Regulation
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Stephen Luparello, Director, Division of Trading and Markets, Securities and Exchange Commission

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