

*Required fields are shown with yellow backgrounds and asterisks.*

Page 1 of \* 25 SECURITIES AND EXCHANGE COMMISSION File No.\* SR - 2017 - \* 021  
WASHINGTON, D.C. 20549  
Form 19b-4 Amendment No. (req. for Amendments \*)

Filing by Financial Industry Regulatory Authority  
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

<b>Initial *</b>	<b>Amendment *</b>	<b>Withdrawal</b>	<b>Section 19(b)(2) *</b>	<b>Section 19(b)(3)(A) *</b>	<b>Section 19(b)(3)(B) *</b>
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
			Rule		
<b>Pilot</b>	<b>Extension of Time Period for Commission Action *</b>	<b>Date Expires *</b>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

<b>Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010</b>	<b>Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934</b>
<b>Section 806(e)(1) *</b>	<b>Section 806(e)(2) *</b>
<input type="checkbox"/>	<input type="checkbox"/>
	<b>Section 3C(b)(2) *</b>
	<input type="checkbox"/>

<b>Exhibit 2 Sent As Paper Document</b>	<b>Exhibit 3 Sent As Paper Document</b>
<input type="checkbox"/>	<input type="checkbox"/>

**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Proposed Rule Change to Amend FINRA Rule 7730 to Make Available a New TRACE Security Activity Report

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \*  Last Name \*   
 Title \*   
 E-mail \*   
 Telephone \*  Fax

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date    
 By    
 (Name \*)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**1. Text of the Proposed Rule Change**

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> Financial Industry Regulatory Authority, Inc. (“FINRA”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend FINRA Rule 7730 to make available a new TRACE Security Activity Report.

The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

**2. Procedures of the Self-Regulatory Organization**

At its meeting on March 8, 2017, the FINRA Board of Governors authorized the filing of the proposed rule change with the SEC. No other action by FINRA is necessary for the filing of the proposed rule change.

If the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice. The effective date will be no later than 365 days following Commission approval.

**3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) Purpose

Rule 7730 (Trade Reporting and Compliance Engine (TRACE)), among other things, sets forth the TRACE data products offered by FINRA in connection with

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

TRACE-Eligible Securities.<sup>2</sup> FINRA is proposing to amend Rule 7730 to make available a new TRACE Security Activity Report, which would provide aggregated statistics by security for TRACE-Eligible Securities that are corporate or agency bonds (collectively “CA Bonds”).<sup>3</sup>

The proposed TRACE Security Activity Report would contain basic descriptive security elements for each CA Bond (such as the issuer’s name and the security’s coupon and maturity date). In addition, the proposed report would provide subscribers with transaction totals, a measure of market concentration to indicate the extent to which activity in the security is concentrated within a few market participant identifiers (MPIDs),<sup>4</sup> and more detailed aggregate par value volume information in a particular CA Bond than would be available in Real-Time TRACE transaction data. Today, the actual par value traded is available in the short-term only for transactions with sizes up to the

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<sup>2</sup> Rule 6710 (Definitions) provides that a “TRACE-Eligible Security” is a debt security that is United States (“U.S.”) dollar-denominated and issued by a U.S. or foreign private issuer, and, if a “restricted security” as defined in Securities Act Rule 144(a)(3), sold pursuant to Securities Act Rule 144A; or is a debt security that is U.S. dollar-denominated and issued or guaranteed by an Agency as defined in paragraph (k) or a Government-Sponsored Enterprise as defined in paragraph (n); or a U.S. Treasury Security as defined in paragraph (p). “TRACE-Eligible Security” does not include a debt security that is issued by a foreign sovereign or a Money Market Instrument as defined in paragraph (o).

<sup>3</sup> FINRA intends to establish a fee for the TRACE Security Activity Report prior to the effective date of the instant proposed rule change. The fee will be established pursuant to a separate rule filing.

<sup>4</sup> One member may use multiple MPIDs.

applicable dissemination cap.<sup>5</sup> Transactions with sizes over the capped amount become available only after 18 months as part of the Historic TRACE Data product.

The proposed TRACE Security Activity Report would provide insight into the level of activity in CA Bonds during a given month. Specifically, in addition to overall aggregate par value volume, the proposed TRACE Security Activity Report would provide information on the par value volume of customer buys, the par value volume of customer sells and the par value volume of inter-dealer transactions. The proposed TRACE Security Activity Report would reflect par value volume information using either capped amounts or actual par value volume, as follows. For uncapped transactions, the proposed TRACE Security Activity Report would reflect the actual trade size of each transaction (i.e., the transaction size disseminated in Real-Time TRACE transaction data). If there are six or more capped transactions disseminated during the calendar month, the aggregate par value volume would reflect the actual trade size of each transaction, as well as the par value traded that falls within specified size categories (e.g., the aggregate par value traded for transactions with a size greater than the dissemination cap up to \$10 million and the aggregate par value traded for transactions with a size greater than \$10 million).<sup>6</sup>

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<sup>5</sup> Due to transaction confidentiality concerns, FINRA has applied “dissemination caps” for purposes of dissemination. Specifically, for transactions in investment grade corporate bonds and in agency bonds over a 5 million dollar par value, TRACE disseminates the size as “5MM+.” For transactions in non-investment grade corporate bonds over a 1 million dollar par value, TRACE disseminates the size as “1MM+.”

<sup>6</sup> If the SEC approves this proposal, the size categories will be announced in the Regulatory Notice announcing the effective date of the new TRACE Security Activity Report. The size category thresholds will be based on a multiple of the dissemination cap, e.g., up to or over \$10 million, which would be two times the

However, if there are fewer than six disseminated capped transactions during the calendar month, the TRACE Security Activity Report would reflect the capped volumes disseminated in Real-Time TRACE transaction data. Accordingly, the report would only reflect the actual par value traded (i.e., the amount reported by the member to TRACE) where there have been at least six capped transactions during the calendar month. As a measure to further address possible confidentiality concerns, FINRA proposes that the TRACE Security Activity Report be provided on a 90-day delay.

The proposed TRACE Security Activity Report also would provide the total number of transactions disseminated for each CA Bond as well as the number of customer buy transactions, the number of customer sell transactions and the number of inter-dealer transactions. In addition, the proposed TRACE Security Activity Report would provide incremental ranges (e.g., fewer than or equal to 5, between 6 and 10, etc.) for the number of transactions with a par value volume within specified size categories (e.g., the number of trades with a size greater than the dissemination cap up to \$10 million, and the number of trades with a size of \$10 million or greater).

The proposed TRACE Security Activity Report also would provide information regarding the number of unique reporting MPIDs and statistics for the aggregate activity of the five most active MPIDs in each CA Bond. Specifically, the proposed TRACE Security Activity Report would provide the number of unique reporting MPIDs for disseminated uncapped and capped transactions. The number of unique reporting MPIDs would be provided by displaying the actual number of unique MPIDs where there are six

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investment grade dissemination cap. The number of size categories also may be adjusted (e.g., up to \$10 million; over \$10 million up to \$20 million; over \$20 million) based on FINRA's experience with the data product.

or more unique MPIDs, or “1 to 5,” as applicable, where there are five or fewer reporting MPIDs. For capped transactions, the number of unique reporting MPIDs would be provided by displaying the actual number of unique MPIDs where there are six or more unique MPIDs, or “0” or “1 to 5,” as applicable, where there are five or fewer reporting MPIDs.

The market participants that engaged in the transactions will not be identified in the proposed TRACE Security Activity Report. The TRACE Security Activity Report also would provide the percentage of the total number of transactions traded by the top five MPIDs for each CUSIP and the percentage of total par value traded by the top five MPIDs for each CUSIP. The percentage of the total number of transactions and total par value traded for the top 5 MPIDs will be provided irrespective of the number of capped transactions (e.g., where there is only one MPID, the number of unique MPIDs will be displayed as “1 to 5” and both the number of transactions and par value percentages will be displayed as 100%).

FINRA believes that the proposed TRACE Security Activity Report may be useful to interested parties for business as well as regulatory purposes. For example, members may use the information provided in the TRACE Security Activity Report to better ascertain their relative level of trading activity in particular CA Bonds. Interested parties also may use the information in the proposed report in connection with regulatory obligations – e.g., in assessing, classifying and reviewing the liquidity risk of individual securities pursuant to Rule 22e-4 under the Investment Company Act.<sup>7</sup>

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<sup>7</sup> See SEC Press Release 2016-215 (October 13, 2016) (SEC Adopts Rules to Modernize Information Reported by Funds, Require Liquidity Risk Management Programs, and Permit Swing Pricing). See also 17 CFR 270.22e-4.

As noted in Item 2 of this filing, if the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice. The effective date will be no later than 365 days following SEC approval.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>8</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest.

Pursuant to the proposal, FINRA would make available to subscribers an optional data product to provide aggregated statistics by security for CA Bonds. FINRA believes that the TRACE Security Activity Report could benefit market participants and others interested in corporate and agency bond transaction data, including information on actual transaction volume that currently would not be ascertainable for 18 months after the date of the transaction (as part of the Historic TRACE Data product). FINRA believes that the measures proposed to mitigate any potential confidentiality concerns — e.g., aggregate volume would reflect actual volume only where there were six or more total disseminated capped transactions during the calendar month — strikes an appropriate balance in providing additional transparency on the overall trading activity in a particular CA Bond, while remaining sensitive to confidentiality concerns. Thus, FINRA believes that the proposed rule change is in the public interest and consistent with the Act.

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<sup>8</sup> 15 U.S.C. 78q-3(b)(6).

**4. Self-Regulatory Organization's Statement on Burden on Competition**

FINRA does not believe that the proposed rule change would result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

Economic Impact Analysis

FINRA's existing Real-Time TRACE data product provides transaction data for the following Data Sets: Corporate Bond Data, Agency Data Set, SP Data Set, and Rule 144A Data Set. As detailed above, FINRA is proposing to create a TRACE Security Activity Report to provide additional aggregated statistics by security for CA Bonds, as an alternative or in addition to the transaction data contained in the Real-Time TRACE product. The TRACE Security Activity Report would be available on an optional basis to subscribers. The proposed rule change would expand the benefits of FINRA's TRACE initiatives by providing additional transparency on CA Bonds, as the product would provide subscribers with more detailed volume information on the overall trading activity in a particular CA Bond.

The proposal to create a new TRACE Security Activity Report would not impose any additional reporting requirements or costs on firms, and the purchase of TRACE data products would continue to be optional for market participants and others and, as a result, would have no direct impact on firms. However, FINRA also considered the potential for indirect costs regarding possible information leakage due to the inclusion of the number of unique reporting MPIDs. FINRA believes that information contained in the TRACE Security Activity Report alone is not sufficient to discover the true identity of other MPIDs by market participants, where the only information used in the analysis is the

information to be contained in this product. However, there may exist other publicly available datasets that can be used in conjunction with the proposed TRACE Security Activity Report.<sup>9</sup> FINRA acknowledges the potential for reverse engineering of the information contained in the TRACE Security Activity Report, in particular for bonds that are traded by a few market participants in a given month, to determine the true identities of other market participants, and FINRA has taken a number of measures, such as displaying information in buckets as discussed above, to reduce this risk and mitigate any potential impacts.

The proposed TRACE Security Activity Report would include a “top 5” snapshot for each CA Bond showing the percentage of the total number of transactions that is represented by the activity of the top five MPIDs, and the percentage of the total par value traded by the top five MPIDs. To the extent that market participants extract non-reported information from this report about concentration and competition in a specific bond, they may alter their demand, supply and pricing accordingly. Customers may potentially find it easier or harder to trade some bonds, and may see a change in the costs of trading, including search costs. Such changes may eventually express themselves as an indirect impact on the liquidity of these bonds.

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<sup>9</sup> One such dataset is sold by the National Association of Insurance Commissioners (NAIC) and contains detailed information about insurance company bond transactions, including the CUSIP of the bond traded along with identities of insurance companies and the dealers with whom each trade is completed, the date of the transaction, the amount traded and the price of the transaction. See Maureen O'Hara, Yihui Wang, and Xing (Alex) Zhou, The Execution Quality of Corporate Bonds (June 1, 2016), [http://papers.ssrn.com/sol3/Papers.cfm?abstract\\_id=2680480](http://papers.ssrn.com/sol3/Papers.cfm?abstract_id=2680480).

**5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

Written comments were neither solicited nor received.

**6. Extension of Time Period for Commission Action**

FINRA does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.<sup>10</sup>

**7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)**

Not applicable.

**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

Not applicable.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**11. Exhibits**

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 5. Text of the proposed rule change.

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<sup>10</sup> 15 U.S.C. 78s(b)(2).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-FINRA-2017-021)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 7730 to Make Available a New TRACE Security Activity Report

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on , Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to amend FINRA Rule 7730 to make available a new TRACE Security Activity Report.

The text of the proposed rule change is available on FINRA’s website at <http://www.finra.org>, at the principal office of FINRA and at the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Rule 7730 (Trade Reporting and Compliance Engine (TRACE)), among other things, sets forth the TRACE data products offered by FINRA in connection with TRACE-Eligible Securities.<sup>3</sup> FINRA is proposing to amend Rule 7730 to make available a new TRACE Security Activity Report, which would provide aggregated statistics by security for TRACE-Eligible Securities that are corporate or agency bonds (collectively “CA Bonds”).<sup>4</sup>

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<sup>3</sup> Rule 6710 (Definitions) provides that a “TRACE-Eligible Security” is a debt security that is United States (“U.S.”) dollar-denominated and issued by a U.S. or foreign private issuer, and, if a “restricted security” as defined in Securities Act Rule 144(a)(3), sold pursuant to Securities Act Rule 144A; or is a debt security that is U.S. dollar-denominated and issued or guaranteed by an Agency as defined in paragraph (k) or a Government-Sponsored Enterprise as defined in paragraph (n); or a U.S. Treasury Security as defined in paragraph (p). “TRACE-Eligible Security” does not include a debt security that is issued by a foreign sovereign or a Money Market Instrument as defined in paragraph (o).

<sup>4</sup> FINRA intends to establish a fee for the TRACE Security Activity Report prior to the effective date of the instant proposed rule change. The fee will be established pursuant to a separate rule filing.

The proposed TRACE Security Activity Report would contain basic descriptive security elements for each CA Bond (such as the issuer's name and the security's coupon and maturity date). In addition, the proposed report would provide subscribers with transaction totals, a measure of market concentration to indicate the extent to which activity in the security is concentrated within a few market participant identifiers (MPIDs),<sup>5</sup> and more detailed aggregate par value volume information in a particular CA Bond than would be available in Real-Time TRACE transaction data. Today, the actual par value traded is available in the short-term only for transactions with sizes up to the applicable dissemination cap.<sup>6</sup> Transactions with sizes over the capped amount become available only after 18 months as part of the Historic TRACE Data product.

The proposed TRACE Security Activity Report would provide insight into the level of activity in CA Bonds during a given month. Specifically, in addition to overall aggregate par value volume, the proposed TRACE Security Activity Report would provide information on the par value volume of customer buys, the par value volume of customer sells and the par value volume of inter-dealer transactions. The proposed TRACE Security Activity Report would reflect par value volume information using either capped amounts or actual par value volume, as follows. For uncapped transactions, the proposed TRACE Security Activity Report would reflect the actual trade size of each transaction (i.e., the transaction size disseminated in Real-Time TRACE transaction

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<sup>5</sup> One member may use multiple MPIDs.

<sup>6</sup> Due to transaction confidentiality concerns, FINRA has applied "dissemination caps" for purposes of dissemination. Specifically, for transactions in investment grade corporate bonds and in agency bonds over a 5 million dollar par value, TRACE disseminates the size as "5MM+." For transactions in non-investment grade corporate bonds over a 1 million dollar par value, TRACE disseminates the size as "1MM+."

data). If there are six or more capped transactions disseminated during the calendar month, the aggregate par value volume would reflect the actual trade size of each transaction, as well as the par value traded that falls within specified size categories (e.g., the aggregate par value traded for transactions with a size greater than the dissemination cap up to \$10 million and the aggregate par value traded for transactions with a size greater than \$10 million).<sup>7</sup>

However, if there are fewer than six disseminated capped transactions during the calendar month, the TRACE Security Activity Report would reflect the capped volumes disseminated in Real-Time TRACE transaction data. Accordingly, the report would only reflect the actual par value traded (i.e., the amount reported by the member to TRACE) where there have been at least six capped transactions during the calendar month. As a measure to further address possible confidentiality concerns, FINRA proposes that the TRACE Security Activity Report be provided on a 90-day delay.

The proposed TRACE Security Activity Report also would provide the total number of transactions disseminated for each CA Bond as well as the number of customer buy transactions, the number of customer sell transactions and the number of inter-dealer transactions. In addition, the proposed TRACE Security Activity Report would provide incremental ranges (e.g., fewer than or equal to 5, between 6 and 10, etc.) for the number of transactions with a par value volume within specified size categories

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<sup>7</sup> If the SEC approves this proposal, the size categories will be announced in the Regulatory Notice announcing the effective date of the new TRACE Security Activity Report. The size category thresholds will be based on a multiple of the dissemination cap, e.g., up to or over \$10 million, which would be two times the investment grade dissemination cap. The number of size categories also may be adjusted (e.g., up to \$10 million; over \$10 million up to \$20 million; over \$20 million) based on FINRA's experience with the data product.

(e.g., the number of trades with a size greater than the dissemination cap up to \$10 million, and the number of trades with a size of \$10 million or greater).

The proposed TRACE Security Activity Report also would provide information regarding the number of unique reporting MPIDs and statistics for the aggregate activity of the five most active MPIDs in each CA Bond. Specifically, the proposed TRACE Security Activity Report would provide the number of unique reporting MPIDs for disseminated uncapped and capped transactions. The number of unique reporting MPIDs would be provided by displaying the actual number of unique MPIDs where there are six or more unique MPIDs, or “1 to 5,” as applicable, where there are five or fewer reporting MPIDs. For capped transactions, the number of unique reporting MPIDs would be provided by displaying the actual number of unique MPIDs where there are six or more unique MPIDs, or “0” or “1 to 5,” as applicable, where there are five or fewer reporting MPIDs.

The market participants that engaged in the transactions will not be identified in the proposed TRACE Security Activity Report. The TRACE Security Activity Report also would provide the percentage of the total number of transactions traded by the top five MPIDs for each CUSIP and the percentage of total par value traded by the top five MPIDs for each CUSIP. The percentage of the total number of transactions and total par value traded for the top 5 MPIDs will be provided irrespective of the number of capped transactions (e.g., where there is only one MPID, the number of unique MPIDs will be displayed as “1 to 5” and both the number of transactions and par value percentages will be displayed as 100%).

FINRA believes that the proposed TRACE Security Activity Report may be useful to interested parties for business as well as regulatory purposes. For example, members may use the information provided in the TRACE Security Activity Report to better ascertain their relative level of trading activity in particular CA Bonds. Interested parties also may use the information in the proposed report in connection with regulatory obligations – e.g., in assessing, classifying and reviewing the liquidity risk of individual securities pursuant to Rule 22e-4 under the Investment Company Act.<sup>8</sup>

If the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice. The effective date will be no later than 365 days following SEC approval.

## 2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>9</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest.

Pursuant to the proposal, FINRA would make available to subscribers an optional data product to provide aggregated statistics by security for CA Bonds. FINRA believes that the TRACE Security Activity Report could benefit market participants and others interested in corporate and agency bond transaction data, including information on actual

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<sup>8</sup> See SEC Press Release 2016-215 (October 13, 2016) (SEC Adopts Rules to Modernize Information Reported by Funds, Require Liquidity Risk Management Programs, and Permit Swing Pricing). See also 17 CFR 270.22e-4.

<sup>9</sup> 15 U.S.C. 78q-3(b)(6).

transaction volume that currently would not be ascertainable for 18 months after the date of the transaction (as part of the Historic TRACE Data product). FINRA believes that the measures proposed to mitigate any potential confidentiality concerns — e.g., aggregate volume would reflect actual volume only where there were six or more total disseminated capped transactions during the calendar month — strikes an appropriate balance in providing additional transparency on the overall trading activity in a particular CA Bond, while remaining sensitive to confidentiality concerns. Thus, FINRA believes that the proposed rule change is in the public interest and consistent with the Act.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change would result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

Economic Impact Analysis

FINRA's existing Real-Time TRACE data product provides transaction data for the following Data Sets: Corporate Bond Data, Agency Data Set, SP Data Set, and Rule 144A Data Set. As detailed above, FINRA is proposing to create a TRACE Security Activity Report to provide additional aggregated statistics by security for CA Bonds, as an alternative or in addition to the transaction data contained in the Real-Time TRACE product. The TRACE Security Activity Report would be available on an optional basis to subscribers. The proposed rule change would expand the benefits of FINRA's TRACE initiatives by providing additional transparency on CA Bonds, as the product would provide subscribers with more detailed volume information on the overall trading activity in a particular CA Bond.

The proposal to create a new TRACE Security Activity Report would not impose any additional reporting requirements or costs on firms, and the purchase of TRACE data products would continue to be optional for market participants and others and, as a result, would have no direct impact on firms. However, FINRA also considered the potential for indirect costs regarding possible information leakage due to the inclusion of the number of unique reporting MPIDs. FINRA believes that information contained in the TRACE Security Activity Report alone is not sufficient to discover the true identity of other MPIDs by market participants, where the only information used in the analysis is the information to be contained in this product. However, there may exist other publicly available datasets that can be used in conjunction with the proposed TRACE Security Activity Report.<sup>10</sup> FINRA acknowledges the potential for reverse engineering of the information contained in the TRACE Security Activity Report, in particular for bonds that are traded by a few market participants in a given month, to determine the true identities of other market participants, and FINRA has taken a number of measures, such as displaying information in buckets as discussed above, to reduce this risk and mitigate any potential impacts.

The proposed TRACE Security Activity Report would include a “top 5” snapshot for each CA Bond showing the percentage of the total number of transactions that is represented by the activity of the top five MPIDs, and the percentage of the total par

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<sup>10</sup> One such dataset is sold by the National Association of Insurance Commissioners (NAIC) and contains detailed information about insurance company bond transactions, including the CUSIP of the bond traded along with identities of insurance companies and the dealers with whom each trade is completed, the date of the transaction, the amount traded and the price of the transaction. See Maureen O'Hara, Yihui Wang, and Xing (Alex) Zhou, The Execution Quality of Corporate Bonds (June 1, 2016), [http://papers.ssrn.com/sol3/Papers.cfm?abstract\\_id=2680480](http://papers.ssrn.com/sol3/Papers.cfm?abstract_id=2680480).

value traded by the top five MPIDs. To the extent that market participants extract non-reported information from this report about concentration and competition in a specific bond, they may alter their demand, supply and pricing accordingly. Customers may potentially find it easier or harder to trade some bonds, and may see a change in the costs of trading, including search costs. Such changes may eventually express themselves as an indirect impact on the liquidity of these bonds

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2017-021 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Robert W. Errett, Deputy Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2017-021. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You

should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2017-021 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

Robert W. Errett  
Deputy Secretary

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<sup>11</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

Below is the text of the proposed rule change. Proposed new language is underlined.

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**7000. CLEARING, TRANSACTION AND ORDER DATA REQUIREMENTS,  
AND FACILITY CHARGES**

\* \* \* \* \*

**7700. CHARGES FOR OTC REPORTING FACILITY, OTC BULLETIN BOARD  
AND TRADE REPORTING AND COMPLIANCE ENGINE SERVICES**

\* \* \* \* \*

**7730. Trade Reporting and Compliance Engine (TRACE)**

The following charges shall be paid by participants for the use of the Trade Reporting and Compliance Engine (“TRACE”):

<b>System Fees</b>	<b>Transaction Reporting Fees</b>	<b>Data Fees</b>
No Change to chart		

(a) through (f) No Change.

**(g) Definitions**

(1) through (5) No Change.

**(6) TRACE Security Activity Report**

The “TRACE Security Activity Report” is a monthly report containing basic descriptive security elements, aggregate par value volume information, number of transactions, number of unique market participant identifiers (“MPIDs”), and top 5 statistics for disseminated transactions in Corporate and

Agency Bonds. The TRACE Security Activity Report will be delayed a minimum of 90 days.

(A) Par Value Volume Information

The aggregate par value volume information provided in the TRACE Security Activity Report will include the total par value traded, par value traded of customer buys, par value traded of customer sells, and par value traded of interdealer transactions. For uncapped transactions, the aggregate par value volume information will reflect the actual trade size of each transaction. If there are six or more capped transactions disseminated during the calendar month, the aggregate par value volume information will reflect the actual trade size of each transaction, as well as the par value traded within specified size categories. If there are fewer than six disseminated capped transactions during the calendar month, the aggregate par value volume information will reflect the capped volumes disseminated by TRACE.

(B) Number of Transactions

The transaction totals provided in the TRACE Security Activity Report will include the total number of transactions, the number of customer buys, the number of customer sells, and the number of interdealer transactions. If there are six or more capped transactions disseminated during the calendar month, the report will provide the total number of transactions and an estimate (provided as incremental ranges)

of the number of transactions with a par value volume within specified size categories.

(C) Number of Unique Market Participant Identifiers and Top 5 Statistics

The TRACE Security Activity Report will provide the number of unique reporting MPIDs (displaying the actual number of unique MPIDs where there are six or more unique MPIDs or “1 to 5,” as applicable) and the number of unique reporting MPIDs for disseminated capped transactions (displaying the actual number of unique MPIDs where there are six or more unique MPIDs, or “0” or “1 to 5,” as applicable); the percentage of the total number of transactions traded by the top five MPIDs for each CUSIP; and the percentage of total par value traded by the top five MPIDs for each CUSIP.

(h) No Change.

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<sup>1</sup> No Change.

<sup>2</sup> No Change.

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