Regulatory Notice 19-30

TRACE Reporting of Transactions in U.S. Treasury Securities

SEC Approves Amendments Relating to Transactions in U.S. Treasury Securities Executed to Hedge a Primary Market Transaction

Effective Date: June 1, 2020

Summary

Effective June 1, 2020, members must report transactions in U.S. Treasury Securities executed to hedge a primary market transaction with an appropriate identifier. Members will have additional time to report such transactions—until the next business day during TRACE system hours. The rule text is available in the online FINRA Manual.

Questions regarding this *Notice* should be directed to:

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- for legal and interpretive questions, Racquel Russell, Associate General Counsel, Office of General Counsel, at (202) 728-8363 or *racquel.russell@finra.org.*

Background and Discussion

On June 21, 2019, the Securities and Exchange Commission (SEC) approved amendments to FINRA Rule 6730 (Transaction Reporting) to provide members with additional time to report to TRACE transactions in U.S. Treasury Securities[1] executed to hedge a primary market transaction, and to adopt a new modifier to identify such transactions.[2] Specifically, pursuant to the amendment, members would be required to report transactions executed to hedge a primary market transaction that meets the definition of "List or Fixed Offering Price Transaction" or "Takedown Transaction"[3] no later than the next business day (T+1) during TRACE system hours (*i.e.*, until 6:29:59 p.m. ET on T+1),[4] and to append an appropriate modifier to identify such transactions.

September 19, 2019

Notice Type
- Rule Amendment

Suggested Routing
- Compliance
- Fixed Income
- Government Securities
- Legal
- Operations
- Systems
- Trading

Key Topics
- Hedge Transaction
- List or Fixed Offering Price Transaction
- Primary Market Transaction
- Takedown Transaction
- TRACE Eligible Security
- U.S. Treasury Security

Referenced Rules
- FINRA Rule 6710
- FINRA Rule 6730

Financial Industry Regulatory Authority

These amendments will take effect on June 1, 2020. Specifications will be made available at least 90 days in advance of the effective date.

Below FINRA provides frequently asked questions (FAQs) and responses with respect to the application of the Treasury hedge requirements. *These FAQs also will be posted to FINRA's website and may be updated from time to time.*

Frequently Asked Questions

Question 1: A syndicate manager sells a new issue corporate debt security to a syndicate member as a Takedown Transaction and the syndicate member in turn sells to customers at the List Offering Price. If the syndicate member that is selling to customers in P1 trades effects Treasury hedge transactions for those customers, may it avail itself of the additional time and append the Treasury hedge modifier?

Answer: **Yes.** The syndicate member's Treasury hedge transactions for customers in connection with the P1 trades are in scope; therefore, the syndicate member must append the modifier (pursuant to Rule 6730(d)(4)(G)(iii)) and may avail itself of the additional reporting time (pursuant to Rule 6730(a)(4)(B)).

Question 2: Same facts as above, except instead, the syndicate manager, who is not executing the P1 transactions directly with customers, effects the Treasury hedges for the customers. Can the syndicate manager report the Treasury hedge on T+1 and use the Treasury hedge modifier?

Answer: **Yes.** Because the syndicate manager's Treasury hedge transactions are in connection with the customers' P1 positions (even though acquired from the syndicate member), then the syndicate manager's hedge transactions also would be in scope.

Question 3: A sole underwriter sells to Firm A at the List Offering Price. Firm A is trading for its proprietary account. Both parties report the trade as P1 transactions. Firm A then effects a Treasury hedge transaction for its corporate bond position with the sole underwriter. Is the Treasury hedge transaction in scope for the additional reporting time and Treasury hedge modifier?

Answer: **Yes.** Because Firm A's Treasury hedge transaction with the underwriter is hedging a position acquired in a P1 trade, both the underwriter and Firm A must append the Treasury hedge modifier and may avail themselves of the additional reporting time.

Question 4: Firm A bought corporate bonds from a sole underwriter in a P1 transaction and sold these bonds to a customer at a price above the List Offering Price. If Firm A also executes a Treasury hedge transaction for the customer in connection with the corporate bond transaction, would the Treasury hedge trade by Firm A qualify for the modifier?

Answer: **No.** In the above scenario, Firm A's sale to the customer was not at the List Offering Price, and, therefore, was not a P1 transaction. As a result, the Treasury hedge transaction in connection with the corporate bond trade would not be eligible for the additional time provided for under Rule 6730(a)(4)(B) and would not be appended with the Treasury hedge modifier pursuant to Rule 6730(d)(4)(G)(iii).

Question 5: At the request of customers, my firm effects Treasury trades to hedge positions acquired by customers in P1 transactions. However, my firm also hedges with Treasuries its own existing positions that were not P1 transactions. Can my firm's proprietary hedges carry the new Treasury hedge modifier under Rule 6730(d)(4)(G)(iii)?

Answer: **No.** The additional reporting time and modifier provided for under Rules 6730(a)(4)(B) and Rule 6730(d)(4)(G)(iii), respectively, would not be available where a member's Treasury hedging activity is not related to a new issue transaction that meets the definition of List or Fixed Offering Price or Takedown Transaction for a non-Treasury, TRACE-Eligible Security.

Question 6: My firm executed a Treasury hedge transaction in connection with a P1 trade and reported the Treasury hedge transaction on trade date prior to the close of TRACE system hours. May my firm omit the Treasury hedge modifier since we did not avail ourselves of the extra trade reporting time provided by the rule?

Answer: **No.** Members must append the Treasury hedge trade modifier when reporting to TRACE any transaction in a U.S. Treasury Security that is executed to hedge a P1 transaction, irrespective of when the trade was reported.

Endnotes

1. Rule 6710(p) defines a "U.S. Treasury Security" as "a security, other than a savings bond, issued by the U.S. Department of the Treasury to fund the operations of the federal government or to retire such outstanding securities." The term "U.S. Treasury Security" also includes separate principal and interest components of a U.S. Treasury Security that has been separated pursuant to the Separate Trading of Registered Interest and Principal of Securities (STRIPS) program operated by the U.S. Department of Treasury.

2. *See* Securities Exchange Act 86178, 84 FR 30783 (June 27, 2019) (Order Approving File No. SR-FINRA-2019-014).

3. A "List or Fixed Offering Price Transaction" and "Takedown Transaction," which are identified with the "P1" modifier, generally are primary market sale transactions on the first day of trading of a security: (i) by a sole underwriter, syndicate manager, syndicate member or selling group member at the published or stated list or fixed offering price (or, for Takedown Transactions, at a discount from the published or stated list or fixed offering price); or (ii) in the case of primary market sale transactions effected pursuant to Securities Act Rule 144A, by an initial purchaser, syndicate manager, syndicate member or selling group member at the published or stated fixed offering price (or, for Takedown Transactions, at a discount from the published or stated fixed offering price). *See* Rule 6710(q) and (r).

4. If the transaction is reported on T+1, the trade must be designated "as/of" and include the date of execution.