

OMB APPROVAL

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Required fields are shown with yellow backgrounds and asterisks.

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SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 Form 19b-4

File No.* SR - 2020 - * 029

Amendment No. (req. for Amendments *)

Filing by Financial Industry Regulatory Authority

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
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Rule

Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)
			<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)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Security-Based Swap Submission pursuant
 to the Securities Exchange Act of 1934

Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
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Section 3C(b)(2) *
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Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document



Description

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

Proposed Rule Change Relating to Granularity of Timestamps in Trade Reports Submitted to FINRA's Equity Trade Reporting Facilities

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 *	Lisa	Last Name *	Horrigan
Title *	Associate General Counsel		
E-mail *	lisa.horrigan@finra.org		
Telephone *	(202) 728-8190	Fax	(202) 728-8264

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 09/17/2020

By Stephanie Dumont

(Name *)

Senior Vice President and Director of Capital Markets
 Policy

Stephanie Dumont,

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 EFFT 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 *

Add Remove View

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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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 Sent As Paper Document

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Exhibit 3 - Form, Report, or Questionnaire

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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 Sent As Paper Document

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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” or “Exchange Act”),¹ the Financial Industry Regulatory Authority, Inc. (“FINRA”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to require firms to report time fields in trade reports submitted to an equity trade reporting facility (or “FINRA Facility”)² using the same timestamp granularity that they use to report to the consolidated audit trail (“CAT”), in accordance with an SEC order granting exemptive relief from certain CAT NMS Plan requirements.

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

The Chief Legal Officer of FINRA authorized the filing of the proposed rule change with the SEC pursuant to delegated authority. 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 implementation date of the proposed rule change in a Regulatory Notice. The implementation date of the proposed rule change relating to the FINRA Trade Reporting

¹ 15 U.S.C. 78s(b)(1).

² Specifically, the equity FINRA Facilities are (1) the Alternative Display Facility, the FINRA/Nasdaq Trade Reporting Facilities and the FINRA/NYSE Trade Reporting Facility, through which member firms report OTC transactions in NMS stocks to FINRA, and (2) the OTC Reporting Facility, through which member firms report transactions in OTC Equity Securities to FINRA.

Facilities (“TRFs”) and Alternative Display Facility (“ADF”) will be no later than December 15, 2021, and the implementation date of the proposed rule change relating to the OTC Reporting Facility (“ORF”) will be no later than December 15, 2022. To provide member firms sufficient time to make any systems changes necessary to comply with the proposed rule change, FINRA will provide ample advance notice of the implementation date, including publication of the Regulatory Notice, as well as updated technical specifications and testing schedule, at least 120 days prior to the implementation date.

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

(a) Purpose

Background

FINRA’s equity trade reporting rules require members to report all time fields, including time of trade execution and, if applicable, time of trade cancellation, to the FINRA Facilities in seconds (i.e., HH:MM:SS) and milliseconds, if the member’s system captures time in milliseconds.³ Pursuant to Rule 6860 of FINRA’s CAT Compliance Rule,⁴ Industry Members are required to report timestamps for Reportable Events, including trade executions, to the CAT’s Central Repository in milliseconds, and if their system captures time in finer increments, to report in such finer increments up to

³ See Rules 6282.04 and 7130.01 (relating to the ADF); 6380A.04 and 7230A.01 (relating to the FINRA/Nasdaq TRFs); 6380B.04 and 7230B.01 (relating to the FINRA/NYSE TRF); and 6622.04 and 7330.01 (relating to the ORF).

⁴ “Compliance Rule” is defined under Section 1.1 of the CAT NMS Plan to mean “with respect to a Participant, the rule(s) promulgated by such Participant as contemplated by Section 3.11.” FINRA’s CAT Compliance Rule is the FINRA Rule 6800 Series (Consolidated Audit Trail Compliance Rule).

nanoseconds (except as otherwise provided under Rule 6860 for Manual Order Events).⁵

This requirement is consistent with the CAT NMS Plan,⁶ the CAT Compliance Rules of the other Plan Participants and exemptive relief granted by the SEC relating to timestamp granularity.⁷

Thus, currently there is a difference in the timestamp granularity requirements applicable to member firms reporting to the FINRA Facilities (up to milliseconds) and to

⁵ Terms used but not otherwise defined herein have the meaning set forth in the CAT NMS Plan and FINRA's CAT Compliance Rule. Specifically, "Central Repository," "Industry Member," "Manual Order Event" and "Reportable Event" are defined under Section 1.1 of the CAT NMS Plan and FINRA Rule 6810.

⁶ Section 6.8(b) of the CAT NMS Plan states:

Each Participant shall, and through its Compliance Rule shall require its Industry Members to, report information required by SEC Rule 613 and this Agreement to the Central Repository in milliseconds. To the extent that any Participant's order handling or execution systems utilize timestamps in increments finer than the minimum required in this Agreement, such Participant shall utilize such finer increment when reporting CAT Data to the Central Repository so that all Reportable Events reported to the Central Repository can be adequately sequenced. Each Participant shall, through its Compliance Rule: (i) require that, to the extent that its Industry Members utilize timestamps in increments finer than the minimum required in this Agreement in their order handling or execution systems, such Industry Members shall utilize such finer increment when reporting CAT Data to the Central Repository; and (ii) provide that a pattern or practice of reporting events outside of the required clock synchronization time period without reasonable justification or exceptional circumstances may be considered a violation of SEC Rule 613 and the CAT NMS Plan.

⁷ See Securities Exchange Act Release No. 88608 (April 8, 2020), 85 FR 20743 (April 14, 2020). Pursuant to this exemption, Industry Members that capture timestamps in increments more granular than nanoseconds must truncate the timestamps, after the nanosecond level, for submission to the CAT and not round up or down in such circumstances. The exemption remains in effect for five years, until April 8, 2025, unless extended by the SEC.

the CAT (up to nanoseconds). This difference in timestamp granularity has implications for exemptive relief granted by the SEC. On June 11, 2020, the SEC granted the Plan Participants exemptive relief from, in pertinent part, Section 6.4(d)(ii)(B) of the CAT NMS Plan, which states that each Participant, through its Compliance Rule, must require its Industry Members to report to the CAT a cancelled trade indicator when a trade is cancelled.⁸ Specifically, since firms already report trade cancellations to the FINRA Facilities pursuant to FINRA's trade reporting rules, the Participants requested an exemption so that they could relieve firms of their obligation to report the same information to the CAT. Instead, the CAT will obtain trade cancellations from trade report data that FINRA reports to the CAT ("FINRA Facility Data") and will link such data to the related CAT execution reports submitted by Industry Members. As part of the FINRA Facility Data, FINRA submits to the CAT the time of trade cancellation as reported by the firm to the FINRA Facility. As noted above, under current rules and systems limitations, this timestamp is in milliseconds.

Given the difference in timestamp granularity requirements for firms reporting to the FINRA Facilities and the CAT, it is possible that the CAT could receive the time of trade cancellation in milliseconds from FINRA, while the time of trade cancellation for the same event might have been expressed in increments finer than milliseconds, had the

⁸ See Securities Exchange Act Release No. 89051 (June 11, 2020), 85 FR 36631 (June 17, 2020) ("FINRA Facility Data Exemption Order").

FINRA notes that the FINRA Facility Data Exemption Order also grants exemptive relief from Section 6.4(d)(ii)(A)(2) of the CAT NMS Plan, which states that each Participant, through its Compliance Rule, must require its Industry Members to report the SRO-Assigned Market Participant Identifier of the clearing broker or prime broker, if applicable, for orders that are executed in whole or in part. This aspect of the Order is not at issue in the proposed rule change.

firm reported such information directly to the CAT. In such instances, the CAT would not receive the same data it would have received absent the exemptive relief.⁹ As a result, to ensure that the FINRA Facility Data provided to the CAT is equivalent to the data that would have otherwise been submitted by Industry Members, in the FINRA Facility Data Exemption Order, the SEC expressly conditioned the exemptive relief on the FINRA Facilities accepting timestamps up to nanoseconds.

Specifically, the FINRA Facility Data Exemption Order requires that FINRA amend its rules and technical specifications to permit the FINRA Facilities to accept timestamps up to the granularity under the CAT NMS Plan (which, as noted above, is currently up to nanoseconds) and to implement such changes by December 15, 2021 for the TRFs and ADF and by December 15, 2022 for the ORF. In the FINRA Facility Data Exemption Order, the SEC notes that if the Plan Participants do not meet all of the conditions set forth in the order, on the schedule set forth in the order, their ability to recover fees from Industry Members could be impacted pursuant to the terms of Section 11.6 of the CAT NMS Plan.¹⁰

⁹ For example, a firm cancels a trade at 10:30:00.123456 and reports the cancellation to a FINRA Facility with a trade cancellation time of 10:30:00.123 (the timestamp is truncated at the millisecond level for reporting to the FINRA Facility). As a consequence of the FINRA Facility Data Exemption Order, the data in the CAT reflects the time of cancellation as 10:30:00.123, which is the time submitted in the FINRA Facility Data. Had the firm reported the trade cancellation directly to the CAT, the data in the CAT would reflect the time of cancellation as 10:30:00.123456.

¹⁰ See FINRA Facility Data Exemption Order, citing CAT NMS Plan at Section 11.6 (effective June 22, 2020).

Proposed Amendments to FINRA Trade Reporting Rules

FINRA is proposing to amend its equity trade reporting rules¹¹ to require Industry Members with an obligation to report order execution events to the Central Repository pursuant to FINRA's CAT Compliance Rule to report time fields (including time of execution and time of cancellation, if applicable) in trade reports submitted to a FINRA Facility using the same timestamp granularity, as set forth in Rule 6860 (currently up to nanoseconds), that they use to report to the Central Repository.

FINRA notes that, except as discussed below, all trades that are reported to a FINRA Facility must also be reported to the CAT. As such, firms with a trade reporting obligation under FINRA's trade reporting rules also have a CAT reporting obligation and are therefore already subject to the timestamp granularity requirements under the CAT Compliance Rule. Given that CAT Reporters must have systems that capture time in at least milliseconds to meet the requirement that they report to the CAT in milliseconds, FINRA expects such firms to report to the FINRA Facilities in milliseconds under FINRA's current trade reporting rules.¹² Once the proposed rule change is implemented, any firm capturing and reporting time to the CAT in increments finer than milliseconds would be required to report time to the FINRA Facilities in such finer increments up to nanoseconds.

¹¹ See Rules 6282.04, 6380A.04, 6380B.04, 6622.04, 7130.01, 7230A.01, 7230B.01 and 7330.01. FINRA is proposing identical amendments to these rules.

¹² Small Industry Members that do not currently report to FINRA's Order Audit Trail System ("OATS") are not required to begin reporting to the CAT until December 13, 2021. Accordingly, FINRA would not expect these non-OATS reporters to report to the FINRA Facilities in milliseconds until December 13, 2021, unless their systems currently capture milliseconds.

There is one instance where firms have an obligation to report trades to a FINRA Facility without a corresponding CAT reporting obligation. Under FINRA trade reporting rules, firms must report trades in Restricted Equity Securities effected pursuant to Securities Act Rule 144A to the ORF.¹³ Unlike trades in OTC Equity Securities, these 144A trades are not required to be reported within 10 seconds¹⁴ and as such are not reportable to the CAT.¹⁵ Therefore, in this limited instance, i.e., where a firm reports a trade in a Restricted Equity Security effected pursuant to Rule 144A, the firm could report to the ORF in seconds or, if the firm's system captures time in milliseconds, the firm would be required to report in milliseconds. The firm would not be required under the proposed rule change to report in increments finer than milliseconds; however, they could voluntarily do so.

Because the FINRA Facilities do not currently accept timestamps more granular than milliseconds, FINRA is unable to estimate, based on trade report information, how many firms capture time in increments more granular than milliseconds or have trade reporting systems capable of reporting time to a FINRA Facility in such finer increments.

¹³ See Rule 6622(a)(3).

¹⁴ Pursuant to Rule 6622(a)(3), such trades must be reported by the end of the day on trade date or, if executed after the ORF closes, by 8:00 p.m. the next business day. These trades are reported for regulatory purposes only and are not publicly disseminated.

¹⁵ The CAT NMS Plan and FINRA's CAT Compliance Rule apply to "Eligible Securities," which are defined as all NMS Securities and all OTC Equity Securities. "OTC Equity Security" is defined, in turn, as "any equity security, other than an NMS Security, subject to prompt last sale reporting rules of a registered national securities association and reported to one of such association's equity trade reporting facilities." See Rule 6810. Accordingly, order and trade events relating to Restricted Equity Securities, including trades effected pursuant to Rule 144A, are not reportable to CAT.

However, FINRA reviewed reporting statistics for order execution events in NMS stocks and OTC equity securities reported by Industry Members to the CAT (referred to in the CAT Industry Member Technical Specifications as “MEOTs”) during the month of July 2020. On an average day, 12,617,227 out of 32,667,792 Industry Member order execution events (or 38.6%) have a timestamp granularity finer than milliseconds. Of the 167 firms that reported order execution events on an average day, 79 firms (or 47.2%) used a timestamp granularity finer than milliseconds. Seven of those firms reported time in nanoseconds, and together they reported 1,792,160 order execution events (or 5.5% of the total number of order execution events).

Some of these firms may already send timestamps to a FINRA Facility in increments finer than milliseconds;¹⁶ FINRA does not believe that these firms would need to make any systems changes to comply with the proposed rule change. Other firms that capture time in increments finer than milliseconds may truncate the timestamp before sending to the FINRA Facility; these firms would need to make systems changes to send the more granular timestamp to the FINRA Facility. As noted above, FINRA will provide ample advance notice prior to the implementation date of the proposed rule change to allow firms to make and test the necessary systems changes.

FINRA understands that the securities information processors (“SIPs”) currently accommodate timestamps up to nanoseconds¹⁷ and at least some of the exchanges send

¹⁶ If a FINRA Facility receives a timestamp more granular than milliseconds, the Facility will truncate at the millisecond level (the Facility will not reject the trade report, nor will it round the timestamp up or down).

¹⁷ Today, where a firm reports time in seconds or milliseconds, the FINRA Facilities add zeroes to convert the times to nanoseconds before sending to the SIPs.

quotation and transaction information to the SIPs in nanoseconds today. Once the proposed rule change is implemented, the FINRA Facilities will send transaction information to the SIPs with timestamps at the level of granularity as reported by the firm.¹⁸ As such, FINRA believes that the proposed rule change will enhance the granularity and sequencing of trade reports both for purposes of FINRA's audit trail and the publicly disseminated SIP data, to the extent firms are reporting time in increments finer than milliseconds. FINRA notes that, because not all firms capture and report timestamps at the same granularity, there may be questions about the potential for reverse engineering based on timestamps published by the SIPs, e.g., could market participants attempt to identify the trading activity of a firm that they believe has the technological capability of capturing timestamps in nanoseconds. However, as noted above, on average, seven firms currently capture (and report to CAT) time in nanoseconds and these firms reported on average close to 1.8 million order execution events to CAT per day. FINRA believes that as more firms capture timestamps in more granular increments, the potential for such reverse engineering should decrease over time.

¹⁸ FINRA notes that the SIP NMS Plans require FINRA to send the trade execution time reported by its member firms to the SIPs. See Section IV(c) of the Consolidated Tape Association (CTA) Plan and Section VIII.B of the Nasdaq Unlisted Trading Privileges (UTP) Plan (stating that "in the case of FINRA, the time of the transaction shall be the time of execution that a FINRA member reports to a FINRA trade reporting facility in accordance with FINRA rules"). As such, once the FINRA Facilities begin accepting, and member firms begin reporting, more granular timestamps in accordance with the proposed rule change, FINRA will be required to send all timestamps in the granularity reported by the firm (up to nanoseconds) to the SIPs for publication. Any change (e.g., truncating a more granular timestamp to the millisecond or microsecond level before sending to the SIPs) would require amendment (or, at a minimum, interpretation) of the SIP NMS Plans by the Plan Participants jointly and is beyond the scope of this proposed rule change.

As noted in Item 2 of this filing, if the Commission approves the proposed rule change, FINRA will announce the implementation date of the proposed rule change in a Regulatory Notice. The implementation date of the proposed rule change relating to the TRFs and ADF will be no later than December 15, 2021, and the implementation date of the proposed rule change relating to the ORF will be no later than December 15, 2022. To provide member firms sufficient time to make any systems changes necessary to comply with the proposed rule change, FINRA will provide ample advance notice of the implementation date, including publication of the Regulatory Notice, as well as updated technical specifications and testing schedule, at least 120 days prior to the implementation date.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,¹⁹ 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 and Section 15A(b)(9) of the Act,²⁰ which requires that FINRA rules not impose any burden on competition that is not necessary or appropriate.

FINRA believes that the proposed rule change is consistent with the Act because it is consistent with the SEC's FINRA Facility Exemption Order, which provides exemptive relief from certain provisions of the CAT NMS Plan, and the proposed rule change is necessary to comply with the express conditions of that order. In approving the

¹⁹ 15 U.S.C. 78o-3(b)(6).

²⁰ 15 U.S.C. 78o-3(b)(9).

CAT NMS Plan, the SEC noted that the Plan “is necessary and appropriate in the public interest, for the protection of investors and the maintenance of fair and orderly markets, to remove impediments to, and perfect the mechanism of a national market system, or is otherwise in furtherance of the purposes of the Act.”²¹ Because the proposed rule change implements exemptive relief under the CAT NMS Plan, FINRA believes that the proposed rule change furthers the objectives of the Plan, as identified by the SEC, and is therefore consistent with the Act. In addition, FINRA believes that the proposed rule change will enhance the granularity and sequencing of trade reports both for purposes of FINRA’s audit trail and the publicly disseminated SIP data, to the extent firms are reporting time in increments finer than milliseconds.

4. Self-Regulatory Organization’s Statement on Burden on Competition

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

Economic Impact Assessment

FINRA has undertaken an economic impact assessment, as set forth below, to analyze the potential economic impacts, including anticipated costs, benefits, and distributional and competitive effects, relative to the current baseline, and the alternatives FINRA considered in assessing how to best meet its regulatory objectives.

Regulatory Need

²¹ See Securities Exchange Act Release No. 79318 (November 15, 2016), 81 FR 84696, 84697 (November 23, 2016).

On June 11, 2020, the SEC granted the Plan Participants exemptive relief from, in pertinent part, Section 6.4(d)(ii)(B) of the CAT NMS Plan, which states that each Participant, through its Compliance Rule, must require its Industry Members to report to the CAT a cancelled trade indicator when a trade is cancelled. As firms already report trade cancellations to the FINRA Facilities pursuant to FINRA's trade reporting rules, the Participants requested an exemption so that they could relieve firms of their obligation to report the same information to the CAT. Given the exemptive relief, the CAT will obtain trade cancellations from trade report data that FINRA reports to the CAT and will link such data to the related CAT execution reports submitted by Industry Members.

There is, however, a difference in the timestamp granularity requirements applicable to member firms reporting to the FINRA Facilities (up to milliseconds) and to the CAT (up to nanoseconds). Given the difference in timestamp granularity requirements for firms reporting to the FINRA Facilities and the CAT, it is possible that the CAT could receive a cancelled trade timestamp in milliseconds from FINRA, while a cancelled trade timestamp for the same trade cancellation might have been expressed in increments finer than milliseconds. In such instances, the CAT would not receive the same data it would have received absent the exemptive relief. The FINRA Facility Data Exemption Order requires that FINRA amend its rules and technical specifications to permit the FINRA Facilities to accept timestamps up to the granularity under the CAT NMS Plan.

Economic Baseline

Pursuant to Rule 6860 of FINRA's CAT Compliance Rule, Industry Members are required to report timestamps for Reportable Events, including trade executions, to the

CAT's Central Repository in milliseconds, and if their system captures time in finer increments, to report in such finer increments up to nanoseconds. The proposed rule change does not require firms to begin capturing time in more granular increments than milliseconds; however, if they are reporting timestamps to the CAT in increments finer than milliseconds, the proposed rule change requires that they also report to the FINRA Facilities in such finer increment (up to nanoseconds).

During the month of July 2020, 202 market participant identifiers ("MPIDs") submitted at least one trade cancellation message to a FINRA Facility. In total, 57,325 trade cancellation messages were submitted to the FINRA Facilities in July 2020 by these 202 MPIDs. Each of the 57,325 cancellation messages reported to the FINRA Facilities would then be reported to CAT by FINRA. Some of these cancellation messages are not publicly disseminated.²² Out of the 202 MPIDs, 146 MPIDs submitted at least one trade cancellation message to a FINRA Facility that was publicly disseminated in July 2020. Of the total 57,325 cancellation messages, 14,539 were publicly disseminated.

Because the FINRA Facilities do not currently accept timestamps more granular than milliseconds, FINRA is unable to estimate, based on trade report information, how many firms capture time in increments more granular than milliseconds or have trade reporting systems capable of reporting time to a FINRA Facility in such finer increments. FINRA, however, has reviewed reporting statistics for order execution events²³ in NMS

²² FINRA notes that where the original trade report was submitted for non-dissemination (i.e., regulatory and/or clearing only) purposes, the cancellation of that report would not be disseminated.

²³ Order execution events are referred to in the CAT Industry Member Technical Specifications as "MEOTs."

stocks and OTC equity securities reported by Industry Members to the CAT. On an average day in July 2020, 12,617,227 out of 32,667,792 Industry Member order execution events (or 38.6%) have a timestamp granularity finer than milliseconds. Of the 167 firms²⁴ that reported order execution events on an average day, 79 firms (or 47.2%) used a timestamp granularity finer than milliseconds (i.e., microseconds or nanoseconds). Seven of those firms reported time in nanoseconds, and together these firms reported 1,792,160 order execution events (or 5.5% of the total number of order execution events).

Economic Impact

Benefits

Given the exemptive relief, firms reporting trade cancellations to the FINRA Facilities are not required to report the same information to CAT, as CAT will obtain trade cancellations from trade report data that FINRA reports to the CAT. Consequently, firms are not required to report trade cancellations to both the FINRA Facilities and CAT.

Once the proposed rule change is implemented, any firm capturing and reporting time to the CAT in increments finer than milliseconds would be required to report time to the FINRA Facilities in such finer increments up to nanoseconds. This may enhance the granularity and sequencing of trade reports for FINRA's audit trail, which, in turn, may improve FINRA's ability to surveil equity markets. In addition, as the FINRA Facilities send transaction information to the SIPs with timestamps at the level of granularity as reported, the granularity of the publicly disseminated SIP would improve. This would

²⁴ The number of firms is calculated by the number of unique Central Registration Depository ("CRD") numbers.

benefit market participants who currently use data from the SIP, as the timestamps would be more granular.

Costs

Some firms that capture time in increments finer than milliseconds may already send timestamps to a FINRA Facility in such finer increment. If a firm already submits timestamps to a FINRA Facility in increments finer than milliseconds, then the firm would not need to make any systems changes to comply with this proposed rule change. However, if a firm currently truncates more granular timestamps at the millisecond level before sending to a FINRA Facility, then the firm would incur costs to make system changes to report more granular timestamps, up to nanoseconds. On an average day in July 2020, seven firms reported 1,792,160 order execution events to the CAT with timestamps reported in nanoseconds. As not all firms capture and report timestamps at that same granularity, there is a risk that firms that report executions with nanosecond timestamps published in the SIP may be identified by potential reverse engineering. This may put firms that report executions with nanosecond timestamps at a competitive disadvantage, relative to firms that do not report executions in nanoseconds, because firms reporting in nanoseconds might be identified by their executions. This risk of potential reverse engineering may decline over time as more firms capture timestamps in more granular increments.

Alternatives Considered

No further alternatives are under consideration.

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.²⁵

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

As discussed above, the proposed rule change is in furtherance of a condition of the SEC's FINRA Facility Exemption Order granting exemptive relief from certain CAT NMS Plan requirements.

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.

²⁵

15 U.S.C. 78s(b)(2).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-FINRA-2020-029)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change Relating to Granularity of Timestamps in Trade Reports Submitted to FINRA's Equity Trade Reporting Facilities

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on , the 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 require firms to report time fields in trade reports submitted to an equity trade reporting facility (or "FINRA Facility")³ using the same timestamp granularity that they use to report to the consolidated audit trail ("CAT"), in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Specifically, the equity FINRA Facilities are (1) the Alternative Display Facility, the FINRA/Nasdaq Trade Reporting Facilities and the FINRA/NYSE Trade Reporting Facility, through which member firms report OTC transactions in NMS stocks to FINRA, and (2) the OTC Reporting Facility, through which member firms report transactions in OTC Equity Securities to FINRA.

accordance with an SEC order granting exemptive relief from certain CAT NMS Plan requirements.

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.

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

Background

FINRA's equity trade reporting rules require members to report all time fields, including time of trade execution and, if applicable, time of trade cancellation, to the FINRA Facilities in seconds (i.e., HH:MM:SS) and milliseconds, if the member's system captures time in milliseconds.⁴ Pursuant to Rule 6860 of FINRA's CAT Compliance Rule,⁵ Industry Members are required to report timestamps for Reportable Events,

⁴ See Rules 6282.04 and 7130.01 (relating to the ADF); 6380A.04 and 7230A.01 (relating to the FINRA/Nasdaq TRFs); 6380B.04 and 7230B.01 (relating to the FINRA/NYSE TRF); and 6622.04 and 7330.01 (relating to the ORF).

⁵ "Compliance Rule" is defined under Section 1.1 of the CAT NMS Plan to mean "with respect to a Participant, the rule(s) promulgated by such Participant as

including trade executions, to the CAT's Central Repository in milliseconds, and if their system captures time in finer increments, to report in such finer increments up to nanoseconds (except as otherwise provided under Rule 6860 for Manual Order Events).⁶ This requirement is consistent with the CAT NMS Plan,⁷ the CAT Compliance Rules of the other Plan Participants and exemptive relief granted by the SEC relating to timestamp granularity.⁸

contemplated by Section 3.11.” FINRA’s CAT Compliance Rule is the FINRA Rule 6800 Series (Consolidated Audit Trail Compliance Rule).

⁶ Terms used but not otherwise defined herein have the meaning set forth in the CAT NMS Plan and FINRA’s CAT Compliance Rule. Specifically, “Central Repository,” “Industry Member,” “Manual Order Event” and “Reportable Event” are defined under Section 1.1 of the CAT NMS Plan and FINRA Rule 6810.

⁷ Section 6.8(b) of the CAT NMS Plan states:

Each Participant shall, and through its Compliance Rule shall require its Industry Members to, report information required by SEC Rule 613 and this Agreement to the Central Repository in milliseconds. To the extent that any Participant’s order handling or execution systems utilize timestamps in increments finer than the minimum required in this Agreement, such Participant shall utilize such finer increment when reporting CAT Data to the Central Repository so that all Reportable Events reported to the Central Repository can be adequately sequenced. Each Participant shall, through its Compliance Rule: (i) require that, to the extent that its Industry Members utilize timestamps in increments finer than the minimum required in this Agreement in their order handling or execution systems, such Industry Members shall utilize such finer increment when reporting CAT Data to the Central Repository; and (ii) provide that a pattern or practice of reporting events outside of the required clock synchronization time period without reasonable justification or exceptional circumstances may be considered a violation of SEC Rule 613 and the CAT NMS Plan.

⁸ See Securities Exchange Act Release No. 88608 (April 8, 2020), 85 FR 20743 (April 14, 2020). Pursuant to this exemption, Industry Members that capture timestamps in increments more granular than nanoseconds must truncate the timestamps, after the nanosecond level, for submission to the CAT and not round

Thus, currently there is a difference in the timestamp granularity requirements applicable to member firms reporting to the FINRA Facilities (up to milliseconds) and to the CAT (up to nanoseconds). This difference in timestamp granularity has implications for exemptive relief granted by the SEC. On June 11, 2020, the SEC granted the Plan Participants exemptive relief from, in pertinent part, Section 6.4(d)(ii)(B) of the CAT NMS Plan, which states that each Participant, through its Compliance Rule, must require its Industry Members to report to the CAT a cancelled trade indicator when a trade is cancelled.⁹ Specifically, since firms already report trade cancellations to the FINRA Facilities pursuant to FINRA's trade reporting rules, the Participants requested an exemption so that they could relieve firms of their obligation to report the same information to the CAT. Instead, the CAT will obtain trade cancellations from trade report data that FINRA reports to the CAT ("FINRA Facility Data") and will link such data to the related CAT execution reports submitted by Industry Members. As part of the FINRA Facility Data, FINRA submits to the CAT the time of trade cancellation as reported by the firm to the FINRA Facility. As noted above, under current rules and systems limitations, this timestamp is in milliseconds.

up or down in such circumstances. The exemption remains in effect for five years, until April 8, 2025, unless extended by the SEC.

⁹ See Securities Exchange Act Release No. 89051 (June 11, 2020), 85 FR 36631 (June 17, 2020) ("FINRA Facility Data Exemption Order").

FINRA notes that the FINRA Facility Data Exemption Order also grants exemptive relief from Section 6.4(d)(ii)(A)(2) of the CAT NMS Plan, which states that each Participant, through its Compliance Rule, must require its Industry Members to report the SRO-Assigned Market Participant Identifier of the clearing broker or prime broker, if applicable, for orders that are executed in whole or in part. This aspect of the Order is not at issue in the proposed rule change.

Given the difference in timestamp granularity requirements for firms reporting to the FINRA Facilities and the CAT, it is possible that the CAT could receive the time of trade cancellation in milliseconds from FINRA, while the time of trade cancellation for the same event might have been expressed in increments finer than milliseconds, had the firm reported such information directly to the CAT. In such instances, the CAT would not receive the same data it would have received absent the exemptive relief.¹⁰ As a result, to ensure that the FINRA Facility Data provided to the CAT is equivalent to the data that would have otherwise been submitted by Industry Members, in the FINRA Facility Data Exemption Order, the SEC expressly conditioned the exemptive relief on the FINRA Facilities accepting timestamps up to nanoseconds.

Specifically, the FINRA Facility Data Exemption Order requires that FINRA amend its rules and technical specifications to permit the FINRA Facilities to accept timestamps up to the granularity under the CAT NMS Plan (which, as noted above, is currently up to nanoseconds) and to implement such changes by December 15, 2021 for the TRFs and ADF and by December 15, 2022 for the ORF. In the FINRA Facility Data Exemption Order, the SEC notes that if the Plan Participants do not meet all of the conditions set forth in the order, on the schedule set forth in the order, their ability to

¹⁰ For example, a firm cancels a trade at 10:30:00.123456 and reports the cancellation to a FINRA Facility with a trade cancellation time of 10:30:00.123 (the timestamp is truncated at the millisecond level for reporting to the FINRA Facility). As a consequence of the FINRA Facility Data Exemption Order, the data in the CAT reflects the time of cancellation as 10:30:00.123, which is the time submitted in the FINRA Facility Data. Had the firm reported the trade cancellation directly to the CAT, the data in the CAT would reflect the time of cancellation as 10:30:00.123456.

recover fees from Industry Members could be impacted pursuant to the terms of Section 11.6 of the CAT NMS Plan.¹¹

Proposed Amendments to FINRA Trade Reporting Rules

FINRA is proposing to amend its equity trade reporting rules¹² to require Industry Members with an obligation to report order execution events to the Central Repository pursuant to FINRA's CAT Compliance Rule to report time fields (including time of execution and time of cancellation, if applicable) in trade reports submitted to a FINRA Facility using the same timestamp granularity, as set forth in Rule 6860 (currently up to nanoseconds), that they use to report to the Central Repository.

FINRA notes that, except as discussed below, all trades that are reported to a FINRA Facility must also be reported to the CAT. As such, firms with a trade reporting obligation under FINRA's trade reporting rules also have a CAT reporting obligation and are therefore already subject to the timestamp granularity requirements under the CAT Compliance Rule. Given that CAT Reporters must have systems that capture time in at least milliseconds to meet the requirement that they report to the CAT in milliseconds, FINRA expects such firms to report to the FINRA Facilities in milliseconds under FINRA's current trade reporting rules.¹³ Once the proposed rule change is implemented,

¹¹ See FINRA Facility Data Exemption Order, citing CAT NMS Plan at Section 11.6 (effective June 22, 2020).

¹² See Rules 6282.04, 6380A.04, 6380B.04, 6622.04, 7130.01, 7230A.01, 7230B.01 and 7330.01. FINRA is proposing identical amendments to these rules.

¹³ Small Industry Members that do not currently report to FINRA's Order Audit Trail System ("OATS") are not required to begin reporting to the CAT until December 13, 2021. Accordingly, FINRA would not expect these non-OATS reporters to report to the FINRA Facilities in milliseconds until December 13, 2021, unless their systems currently capture milliseconds.

any firm capturing and reporting time to the CAT in increments finer than milliseconds would be required to report time to the FINRA Facilities in such finer increments up to nanoseconds.

There is one instance where firms have an obligation to report trades to a FINRA Facility without a corresponding CAT reporting obligation. Under FINRA trade reporting rules, firms must report trades in Restricted Equity Securities effected pursuant to Securities Act Rule 144A to the ORF.¹⁴ Unlike trades in OTC Equity Securities, these 144A trades are not required to be reported within 10 seconds¹⁵ and as such are not reportable to the CAT.¹⁶ Therefore, in this limited instance, i.e., where a firm reports a trade in a Restricted Equity Security effected pursuant to Rule 144A, the firm could report to the ORF in seconds or, if the firm's system captures time in milliseconds, the firm would be required to report in milliseconds. The firm would not be required under the proposed rule change to report in increments finer than milliseconds; however, they could voluntarily do so.

¹⁴ See Rule 6622(a)(3).

¹⁵ Pursuant to Rule 6622(a)(3), such trades must be reported by the end of the day on trade date or, if executed after the ORF closes, by 8:00 p.m. the next business day. These trades are reported for regulatory purposes only and are not publicly disseminated.

¹⁶ The CAT NMS Plan and FINRA's CAT Compliance Rule apply to "Eligible Securities," which are defined as all NMS Securities and all OTC Equity Securities. "OTC Equity Security" is defined, in turn, as "any equity security, other than an NMS Security, subject to prompt last sale reporting rules of a registered national securities association and reported to one of such association's equity trade reporting facilities." See Rule 6810. Accordingly, order and trade events relating to Restricted Equity Securities, including trades effected pursuant to Rule 144A, are not reportable to CAT.

Because the FINRA Facilities do not currently accept timestamps more granular than milliseconds, FINRA is unable to estimate, based on trade report information, how many firms capture time in increments more granular than milliseconds or have trade reporting systems capable of reporting time to a FINRA Facility in such finer increments. However, FINRA reviewed reporting statistics for order execution events in NMS stocks and OTC equity securities reported by Industry Members to the CAT (referred to in the CAT Industry Member Technical Specifications as “MEOTs”) during the month of July 2020. On an average day, 12,617,227 out of 32,667,792 Industry Member order execution events (or 38.6%) have a timestamp granularity finer than milliseconds. Of the 167 firms that reported order execution events on an average day, 79 firms (or 47.2%) used a timestamp granularity finer than milliseconds. Seven of those firms reported time in nanoseconds, and together they reported 1,792,160 order execution events (or 5.5% of the total number of order execution events).

Some of these firms may already send timestamps to a FINRA Facility in increments finer than milliseconds;¹⁷ FINRA does not believe that these firms would need to make any systems changes to comply with the proposed rule change. Other firms that capture time in increments finer than milliseconds may truncate the timestamp before sending to the FINRA Facility; these firms would need to make systems changes to send the more granular timestamp to the FINRA Facility. As noted above, FINRA will provide ample advance notice prior to the implementation date of the proposed rule change to allow firms to make and test the necessary systems changes.

¹⁷ If a FINRA Facility receives a timestamp more granular than milliseconds, the Facility will truncate at the millisecond level (the Facility will not reject the trade report, nor will it round the timestamp up or down).

FINRA understands that the securities information processors (“SIPs”) currently accommodate timestamps up to nanoseconds¹⁸ and at least some of the exchanges send quotation and transaction information to the SIPs in nanoseconds today. Once the proposed rule change is implemented, the FINRA Facilities will send transaction information to the SIPs with timestamps at the level of granularity as reported by the firm.¹⁹ As such, FINRA believes that the proposed rule change will enhance the granularity and sequencing of trade reports both for purposes of FINRA’s audit trail and the publicly disseminated SIP data, to the extent firms are reporting time in increments finer than milliseconds. FINRA notes that, because not all firms capture and report timestamps at the same granularity, there may be questions about the potential for reverse engineering based on timestamps published by the SIPs, e.g., could market participants attempt to identify the trading activity of a firm that they believe has the technological capability of capturing timestamps in nanoseconds. However, as noted above, on average, seven firms currently capture (and report to CAT) time in nanoseconds and these

¹⁸ Today, where a firm reports time in seconds or milliseconds, the FINRA Facilities add zeroes to convert the times to nanoseconds before sending to the SIPs.

¹⁹ FINRA notes that the SIP NMS Plans require FINRA to send the trade execution time reported by its member firms to the SIPs. See Section IV(c) of the Consolidated Tape Association (CTA) Plan and Section VIII.B of the Nasdaq Unlisted Trading Privileges (UTP) Plan (stating that “in the case of FINRA, the time of the transaction shall be the time of execution that a FINRA member reports to a FINRA trade reporting facility in accordance with FINRA rules”). As such, once the FINRA Facilities begin accepting, and member firms begin reporting, more granular timestamps in accordance with the proposed rule change, FINRA will be required to send all timestamps in the granularity reported by the firm (up to nanoseconds) to the SIPs for publication. Any change (e.g., truncating a more granular timestamp to the millisecond or microsecond level before sending to the SIPs) would require amendment (or, at a minimum, interpretation) of the SIP NMS Plans by the Plan Participants jointly and is beyond the scope of this proposed rule change.

firms reported on average close to 1.8 million order execution events to CAT per day.

FINRA believes that as more firms capture timestamps in more granular increments, the potential for such reverse engineering should decrease over time.

If the Commission approves the proposed rule change, FINRA will announce the implementation date of the proposed rule change in a Regulatory Notice. The implementation date of the proposed rule change relating to the TRFs and ADF will be no later than December 15, 2021, and the implementation date of the proposed rule change relating to the ORF will be no later than December 15, 2022. To provide member firms sufficient time to make any systems changes necessary to comply with the proposed rule change, FINRA will provide ample advance notice of the implementation date, including publication of the Regulatory Notice, as well as updated technical specifications and testing schedule, at least 120 days prior to the implementation date.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,²⁰ 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 and Section 15A(b)(9) of the Act,²¹ which requires that FINRA rules not impose any burden on competition that is not necessary or appropriate.

FINRA believes that the proposed rule change is consistent with the Act because it is consistent with the SEC's FINRA Facility Exemption Order, which provides

²⁰ 15 U.S.C. 78o-3(b)(6).

²¹ 15 U.S.C. 78o-3(b)(9).

exemptive relief from certain provisions of the CAT NMS Plan, and the proposed rule change is necessary to comply with the express conditions of that order. In approving the CAT NMS Plan, the SEC noted that the Plan “is necessary and appropriate in the public interest, for the protection of investors and the maintenance of fair and orderly markets, to remove impediments to, and perfect the mechanism of a national market system, or is otherwise in furtherance of the purposes of the Act.”²² Because the proposed rule change implements exemptive relief under the CAT NMS Plan, FINRA believes that the proposed rule change furthers the objectives of the Plan, as identified by the SEC, and is therefore consistent with the Act. In addition, FINRA believes that the proposed rule change will enhance the granularity and sequencing of trade reports both for purposes of FINRA’s audit trail and the publicly disseminated SIP data, to the extent firms are reporting time in increments finer than milliseconds.

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

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

Economic Impact Assessment

FINRA has undertaken an economic impact assessment, as set forth below, to analyze the potential economic impacts, including anticipated costs, benefits, and distributional and competitive effects, relative to the current baseline, and the alternatives FINRA considered in assessing how to best meet its regulatory objectives.

²² See Securities Exchange Act Release No. 79318 (November 15, 2016), 81 FR 84696, 84697 (November 23, 2016).

Regulatory Need

On June 11, 2020, the SEC granted the Plan Participants exemptive relief from, in pertinent part, Section 6.4(d)(ii)(B) of the CAT NMS Plan, which states that each Participant, through its Compliance Rule, must require its Industry Members to report to the CAT a cancelled trade indicator when a trade is cancelled. As firms already report trade cancellations to the FINRA Facilities pursuant to FINRA's trade reporting rules, the Participants requested an exemption so that they could relieve firms of their obligation to report the same information to the CAT. Given the exemptive relief, the CAT will obtain trade cancellations from trade report data that FINRA reports to the CAT and will link such data to the related CAT execution reports submitted by Industry Members.

There is, however, a difference in the timestamp granularity requirements applicable to member firms reporting to the FINRA Facilities (up to milliseconds) and to the CAT (up to nanoseconds). Given the difference in timestamp granularity requirements for firms reporting to the FINRA Facilities and the CAT, it is possible that the CAT could receive a cancelled trade timestamp in milliseconds from FINRA, while a cancelled trade timestamp for the same trade cancellation might have been expressed in increments finer than milliseconds. In such instances, the CAT would not receive the same data it would have received absent the exemptive relief. The FINRA Facility Data Exemption Order requires that FINRA amend its rules and technical specifications to permit the FINRA Facilities to accept timestamps up to the granularity under the CAT NMS Plan.

Economic Baseline

Pursuant to Rule 6860 of FINRA's CAT Compliance Rule, Industry Members are required to report timestamps for Reportable Events, including trade executions, to the CAT's Central Repository in milliseconds, and if their system captures time in finer increments, to report in such finer increments up to nanoseconds. The proposed rule change does not require firms to begin capturing time in more granular increments than milliseconds; however, if they are reporting timestamps to the CAT in increments finer than milliseconds, the proposed rule change requires that they also report to the FINRA Facilities in such finer increment (up to nanoseconds).

During the month of July 2020, 202 market participant identifiers ("MPIDs") submitted at least one trade cancellation message to a FINRA Facility. In total, 57,325 trade cancellation messages were submitted to the FINRA Facilities in July 2020 by these 202 MPIDs. Each of the 57,325 cancellation messages reported to the FINRA Facilities would then be reported to CAT by FINRA. Some of these cancellation messages are not publicly disseminated.²³ Out of the 202 MPIDs, 146 MPIDs submitted at least one trade cancellation message to a FINRA Facility that was publicly disseminated in July 2020. Of the total 57,325 cancellation messages, 14,539 were publicly disseminated.

Because the FINRA Facilities do not currently accept timestamps more granular than milliseconds, FINRA is unable to estimate, based on trade report information, how many firms capture time in increments more granular than milliseconds or have trade reporting systems capable of reporting time to a FINRA Facility in such finer increments.

²³ FINRA notes that where the original trade report was submitted for non-dissemination (i.e., regulatory and/or clearing only) purposes, the cancellation of that report would not be disseminated.

FINRA, however, has reviewed reporting statistics for order execution events²⁴ in NMS stocks and OTC equity securities reported by Industry Members to the CAT. On an average day in July 2020, 12,617,227 out of 32,667,792 Industry Member order execution events (or 38.6%) have a timestamp granularity finer than milliseconds. Of the 167 firms²⁵ that reported order execution events on an average day, 79 firms (or 47.2%) used a timestamp granularity finer than milliseconds (i.e., microseconds or nanoseconds). Seven of those firms reported time in nanoseconds, and together these firms reported 1,792,160 order execution events (or 5.5% of the total number of order execution events).

Economic Impact

Benefits

Given the exemptive relief, firms reporting trade cancellations to the FINRA Facilities are not required to report the same information to CAT, as CAT will obtain trade cancellations from trade report data that FINRA reports to the CAT. Consequently, firms are not required to report trade cancellations to both the FINRA Facilities and CAT.

Once the proposed rule change is implemented, any firm capturing and reporting time to the CAT in increments finer than milliseconds would be required to report time to the FINRA Facilities in such finer increments up to nanoseconds. This may enhance the granularity and sequencing of trade reports for FINRA's audit trail, which, in turn, may improve FINRA's ability to surveil equity markets. In addition, as the FINRA Facilities send transaction information to the SIPs with timestamps at the level of granularity as

²⁴ Order execution events are referred to in the CAT Industry Member Technical Specifications as "MEOTs."

²⁵ The number of firms is calculated by the number of unique Central Registration Depository ("CRD") numbers.

reported, the granularity of the publicly disseminated SIP would improve. This would benefit market participants who currently use data from the SIP, as the timestamps would be more granular.

Costs

Some firms that capture time in increments finer than milliseconds may already send timestamps to a FINRA Facility in such finer increment. If a firm already submits timestamps to a FINRA Facility in increments finer than milliseconds, then the firm would not need to make any systems changes to comply with this proposed rule change. However, if a firm currently truncates more granular timestamps at the millisecond level before sending to a FINRA Facility, then the firm would incur costs to make system changes to report more granular timestamps, up to nanoseconds. On an average day in July 2020, seven firms reported 1,792,160 order execution events to the CAT with timestamps reported in nanoseconds. As not all firms capture and report timestamps at that same granularity, there is a risk that firms that report executions with nanosecond timestamps published in the SIP may be identified by potential reverse engineering. This may put firms that report executions with nanosecond timestamps at a competitive disadvantage, relative to firms that do not report executions in nanoseconds, because firms reporting in nanoseconds might be identified by their executions. This risk of potential reverse engineering may decline over time as more firms capture timestamps in more granular increments.

Alternatives Considered

No further alternatives are under consideration.

- 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. Please include File Number SR-FINRA-2020-029 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-FINRA-2020-029. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2020-029 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.²⁶

Jill M. Peterson
Assistant Secretary

²⁶ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

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6000. QUOTATION, ORDER, AND TRANSACTION REPORTING FACILITIES

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6200. ALTERNATIVE DISPLAY FACILITY

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6282. Transactions Reported by Members to the ADF

(a) through (h) No Change.

• • • Supplementary Material: -----

.01 through .03 No Change.

.04 All time fields required by this Rule must be reported in hours, minutes, seconds and milliseconds, if the member's system captures time in milliseconds. Pursuant to the FINRA Rule 6800 Series (Consolidated Audit Trail Compliance Rule), Industry Members must report the execution of an order, in whole or in part ("order execution events") to the Central Repository. Industry Members must report time fields required by this Rule using the same timestamp granularity that they use to report order execution events to the Central Repository, in accordance with Rule 6860.

6300. TRADE REPORTING FACILITIES

6300A. FINRA/NASDAQ TRADE REPORTING FACILITIES

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6380A. Transaction Reporting

(a) through (h) No Change.

• • • **Supplementary Material:** -----

.01 through .03 No Change.

.04 All time fields required by this Rule must be reported in hours, minutes, seconds and milliseconds, if the member's system captures time in milliseconds. Pursuant to the FINRA Rule 6800 Series (Consolidated Audit Trail Compliance Rule), Industry Members must report the execution of an order, in whole or in part ("order execution events") to the Central Repository. Industry Members must report time fields required by this Rule using the same timestamp granularity that they use to report order execution events to the Central Repository, in accordance with Rule 6860.

6300B. FINRA/NYSE TRADE REPORTING FACILITY

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6380B. Transaction Reporting

(a) through (h) No Change.

• • • **Supplementary Material:** -----

.01 through .03 No Change.

.04 All time fields required by this Rule must be reported in hours, minutes, seconds and milliseconds, if the member's system captures time in milliseconds. Pursuant to the FINRA Rule 6800 Series (Consolidated Audit Trail Compliance Rule), Industry Members must report the execution of an order, in whole or in part ("order execution events") to the Central Repository. Industry Members must report time fields required by this Rule using the same timestamp granularity that they use to report order execution events to the Central Repository, in accordance with Rule 6860.

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6600. OTC REPORTING FACILITY

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6622. Transaction Reporting

(a) through (h) No Change.

• • • Supplementary Material: -----

.01 through .03 No Change.

.04 All time fields required by this Rule must be reported in hours, minutes, seconds and milliseconds, if the member's system captures time in milliseconds. Pursuant to the FINRA Rule 6800 Series (Consolidated Audit Trail Compliance Rule), Industry Members must report the execution of an order, in whole or in part ("order execution events") to the Central Repository. Industry Members must report time fields required by this Rule using the same timestamp granularity that they use to report order execution events to the Central Repository, in accordance with Rule 6860.

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

7100. ALTERNATIVE DISPLAY FACILITY

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7130. Trade Report Input

(a) through (h) No Change.

• • • Supplementary Material: -----

.01 All time fields required by this Rule must be reported in hours, minutes, seconds and milliseconds, if the member's system captures time in milliseconds. Pursuant to the

FINRA Rule 6800 Series (Consolidated Audit Trail Compliance Rule), Industry Members must report the execution of an order, in whole or in part (“order execution events”) to the Central Repository. Industry Members must report time fields required by this Rule using the same timestamp granularity that they use to report order execution events to the Central Repository, in accordance with Rule 6860.

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7200. TRADE REPORTING FACILITIES

7200A. FINRA/NASDAQ TRADE REPORTING FACILITIES

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7230A. Trade Report Input

(a) through (i) No Change.

• • • Supplementary Material: -----

.01 All time fields required by this Rule must be reported in hours, minutes, seconds and milliseconds, if the member’s system captures time in milliseconds. Pursuant to the FINRA Rule 6800 Series (Consolidated Audit Trail Compliance Rule), Industry Members must report the execution of an order, in whole or in part (“order execution events”) to the Central Repository. Industry Members must report time fields required by this Rule using the same timestamp granularity that they use to report order execution events to the Central Repository, in accordance with Rule 6860.

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7200B. FINRA/NYSE TRADE REPORTING FACILITY

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7230B. Trade Report Input

(a) through (i) No Change.

• • • **Supplementary Material:** -----

.01 All time fields required by this Rule must be reported in hours, minutes, seconds and milliseconds, if the member's system captures time in milliseconds. Pursuant to the FINRA Rule 6800 Series (Consolidated Audit Trail Compliance Rule), Industry Members must report the execution of an order, in whole or in part ("order execution events") to the Central Repository. Industry Members must report time fields required by this Rule using the same timestamp granularity that they use to report order execution events to the Central Repository, in accordance with Rule 6860.

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7300. OTC REPORTING FACILITY

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7330. Trade Report Input

(a) through (i) No Change.

• • • **Supplementary Material:** -----

.01 All time fields required by this Rule must be reported in hours, minutes, seconds and milliseconds, if the member's system captures time in milliseconds. Pursuant to the FINRA Rule 6800 Series (Consolidated Audit Trail Compliance Rule), Industry Members must report the execution of an order, in whole or in part ("order execution events") to the Central Repository. Industry Members must report time fields required by this Rule using the same timestamp granularity that they use to report order execution events to the Central Repository, in accordance with Rule 6860.

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