

Trade Reporting and Compliance Engine (TRACE)

FINRA Modifies TRACE Dissemination Protocols for Specified Pool Transactions

Effective Date: May 17, 2021

Summary

FINRA has modified its Trade Reporting and Compliance Engine (TRACE) dissemination protocols applicable to agency pass-through mortgage-backed securities and Small Business Administration (SBA)-backed asset-backed securities traded in specified pool transactions.¹ The amendment will become effective on May 17, 2021.

Questions regarding this *Notice* should be directed to:

- ▶ Alié Diagne, Director, Transparency Services, at (212) 858-4092 or alie.diagne@finra.org; or
- ▶ for legal or interpretive questions, Racquel Russell, Associate General Counsel, Office of General Counsel, at (202) 728-8363 or racquel.russell@finra.org.

Background and Discussion

FINRA has modified its TRACE dissemination protocols applicable to specified pool transactions to improve their utility.² FINRA disseminates a Reference Data Identifier (RDID) instead of an individual CUSIP for specified pool transactions. The RDID represents approximated values for underlying data elements, such as the original loan-to-value (LTV) ratio, original maturity and coupon, widely used to project cash flows and prepayment rates. As a result, one or more CUSIPs are grouped or linked to each RDID.³ Under this framework, when a member reports a specified pool transaction to TRACE, FINRA disseminates the corresponding RDID and members obtain the underlying data elements that correspond to each RDID through the TRACE system.⁴

February 2, 2021

Notice Type

- ▶ Rule Amendment

Suggested Routing

- ▶ Compliance
- ▶ Fixed Income
- ▶ Legal
- ▶ Operations
- ▶ Systems
- ▶ Trading
- ▶ Training

Key Topics

- ▶ Agency Pass-Through Mortgage-Backed Securities
- ▶ Asset-Backed Securities
- ▶ Dissemination
- ▶ SBA-Backed ABS
- ▶ Specified Pool Transactions
- ▶ TRACE

Referenced Notices

- ▶ Regulatory Notice 12-56

Beginning on May 17, 2021, FINRA is modifying the convention for rounding one underlying data element, the original LTV ratio, for purposes of the groupings that are represented by the RDIDs disseminated through TRACE for specified pool transactions. Currently, LTV is rounded down to the nearest 25, meaning, for example, that an LTV of 72 percent is shown as 50 percent. Effective May 17, 2021, LTV ratios will be segmented into eight categories between zero and 121+, and FINRA will show the LTV as the upper limit of the applicable category, as follows:

- ▶ for an LTV up to 20 percent, the LTV will be shown as 20 percent (*e.g.*, an LTV of 12 percent will be shown as 20 percent);
- ▶ for an LTV between 21 percent and 40 percent, the LTV will be shown as 40 percent (*e.g.*, an LTV of 21 percent will be shown as 40 percent);
- ▶ for an LTV between 41 percent and 60 percent, the LTV will be shown as 60 percent (*e.g.*, an LTV of 60 percent will be shown as 60 percent);
- ▶ for an LTV between 61 percent and 80 percent, the LTV will be shown as 80 percent (*e.g.*, an LTV of 70 percent will be shown as 80 percent);
- ▶ for an LTV between 81 percent and 93 percent, the LTV will be shown as 93 percent (*e.g.*, an LTV of 90 percent will be shown as 93 percent);
- ▶ for an LTV between 94 percent and 100 percent, the LTV will be shown as 100 percent (*e.g.*, an LTV of 100 percent will be shown as 100 percent);
- ▶ for an LTV between 101 percent and 120 percent, the LTV will be shown as 120 percent (*e.g.*, an LTV of 105 percent will be shown as 120 percent); and
- ▶ for an LTV of 121 percent or greater, the LTV will be shown as 121+ (*e.g.*, an LTV of 125 percent will be shown as 121+).

FINRA believes that this approach will increase the granularity and usefulness of disseminated information on specified pool transactions.⁵ This change does not alter members' trade reporting obligations and will not necessitate any technological changes by firms. For additional information about dissemination of specified pool transactions, contact TRACE Data Services at (888) 507-3665.

Endnotes

1. The Securities and Exchange Commission has approved these changes. *See* Securities Exchange Act Release No. 90646 (December 11, 2020), 85 FR 82002 (December 17, 2020) (Order Approving File No. SR-FINRA-2020-034).
2. A “Specified Pool Transaction” is defined as a transaction in an agency pass-through mortgage-backed security (“agency pass-through MBS”) or an SBA-backed asset-backed security (“SBA-backed ABS”) requiring the delivery at settlement of a pool or pools that is identified by a unique pool identification number at the time of execution. *See* FINRA Rule 6710(x). FINRA Rule 6710(v) generally defines an “Agency Pass-Through Mortgage-Backed Security” as a type of securitized product issued in conformity with a program of an agency or a government-sponsored enterprise (GSE) for which the timely payment of principal and interest is guaranteed by the agency or GSE, representing ownership interest in a pool (or pools) of mortgage loans structured to “pass through” the principal and interest payments to the holders of the security on a pro rata basis. FINRA Rule 6710(bb) defines an “SBA-Backed ABS” as a securitized product issued in conformity with a program of the SBA, for which the timely payment of principal and interest is guaranteed by the SBA, representing ownership interest in a pool (or pools) of loans or debentures and structured to “pass through” the principal and interest payments made by the borrowers in such loans or debentures to the holders of the security on a pro rata basis.
3. FINRA determined to disseminate an RDID in lieu of a CUSIP due to concerns regarding information leakage. As stated in FINRA’s 2012 proposal, FINRA believed that disseminating a RDID instead of a CUSIP significantly limits the ability to “reverse engineer” transaction data to determine trading strategies and identities, while providing valuable information about the mortgages/loans that are in specified pool transactions. *See* Securities Exchange Act Release No. 67798 (September 7, 2012), 77 FR 56686,56691 (September 13, 2012) (Notice of Filing of SR-FINRA-2012-042). FINRA commenced dissemination of specified pool transactions in 2013. *See* [Regulatory Notice 12-56](#) (December 2012).
4. Specifically, FINRA uses the following ten data elements to form the RDID cohorts that describe the underlying security traded in a specified pool transaction: (1) Issuer; (2) Product Type; (3) Amortization Type; (4) Coupon; (5) Original Maturity; (6) Weighted Average Coupon; (7) Weighted Average Maturity; (8) Weighted Average Loan Age; (9) Current Average Loan Size; and (10) LTV ratio. *See also* Attachment A.
5. As stated in the proposed rule change, FINRA believes that the revised LTV rounding convention will provide more meaningful information to market participants by grouping securities with more similar characteristics, and that the new groupings should improve how disseminated TRACE data reflects the role of LTV ratios in MBS valuations.

“For example, separating pools with LTV ratios at or below 80 from those with LTV ratios of 81 or higher delineates the pools with mortgages that may require mortgage insurance from those that may not require mortgage insurance. Similarly, the revised rounding methodology for LTV ratios of 81 or more are more consistent with the way mortgage originators view loan characteristics and the way that the market determines pricing.”

See Securities Exchange Act Release No. 90264 (October 23, 2020), 85 FR 68607, 68608 (October 29, 2020) (Notice of Filing of File No. SR-FINRA-2020-034).

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Attachment A

Specified pool transaction information data elements and display dissemination details as of May 17, 2021, including sample values and display ranges (after truncating and rounding), are set forth below.

Data Element to be Disseminated	MBS Specified Pool Transaction Dissemination	SBA-Backed ABS Specified Pool Transaction Dissemination	Sample Values ¹
Product Type	The type of properties (or real-estate projects) subject to the mortgage underlying the MBS. For example, single family residential dwelling mortgage loans, multi-family residential dwelling mortgage loans or project loans.	Not Applicable.	Single Family Multi-Family Project
Amortization Type	Identification of the underlying mortgage types. For example, level payment, adjustable rate mortgages (ARM) or balloon payment.	Identification of the underlying loan type. For example, level payment or variable interest rate.	Level Payment ARM Balloon
Issuing Agency	The agency or GSE that issues the certificate and guaranteed the payment of principal and interest of the MBS: Fannie Mae, Freddie Mac or Ginnie Mae.	Small Business Administration.	Fannie Mae Freddie Mac Ginnie Mae Small Business Administration
Coupon	The stated annual percentage rate of interest.	The stated annual percentage rate of interest.	Coupon will be disseminated after rounding down to the nearest quarter percentage point. For example, an interest rate of 5.12 percent will be shown as 5 percent.
Original Maturity	The original stated term after which the principal amount of the security is due to be repaid in full, or the end of the life of the MBS.	The original stated term after which the principal amount of the security is due to be repaid in full, or the end of the life of the SBA-backed ABS.	Original maturity is expressed in months and rounded up to the nearest 10. For example, an original maturity of 358 months will be shown as 360 months.
Weighted Average Coupon (WAC)	WAC is the weighted average interest rate of the underlying mortgage loans or pools that serve as collateral for a mortgage security, weighted by the size of the principal loan balances. It is calculated by weighting the interest rate of each mortgage loan in the pool by the amount of the mortgage outstanding.	WAC is the weighted average interest rate of the underlying SBA loans or pools that serve as collateral for the security, weighted by the size of the principal loan balances. It is calculated by weighting the interest rate of each SBA loan in the pool by the amount of the loan outstanding.	WAC will be disseminated after truncating to a single decimal. For example, a WAC of 7.13 percent will be shown as 7.1 percent.

Data Element to be Disseminated	MBS Specified Pool Transaction Dissemination	SBA-Backed ABS Specified Pool Transaction Dissemination	Sample Values ¹
Weighted Average Maturity (WAM)	WAM is the weighted average number of months to the final payment of each loan backing an MBS, weighted by the size of the principal loan balances. WAM is calculated by weighting the remaining number of months to maturity for each mortgage loan in the pool by the amount of the mortgage outstanding.	WAM is the weighted average number of months to the final payment of each loan backing an SBA-backed ABS, weighted by the size of the principal loan balances. WAM is calculated by weighting the remaining number of months to maturity for each loan in the pool by the amount of the loan outstanding.	WAM will be disseminated rounded down to the nearest 10. For example, a WAM of 87 months will be shown as 80 months.
Weighted Average Loan Age (WALA)	WALA is the weighted average number of months since the date of the loan origination of the mortgages (<i>i.e.</i> , the age of the loans) backing an MBS, weighted by the size of the principal loan balances.	WALA is the weighted average number of months since the date of the loan origination of the loans (<i>i.e.</i> , the age of the loans) backing an SBA-backed ABS, weighted by the size of the principal loan balances.	WALA will be disseminated rounded up to the nearest 10. For example, a WALA of 163 months will be shown as 170 months.
Average Loan Size (ALS)	Current ALS is calculated by dividing the current mortgage loan outstanding principal balance by the number of loans that remain outstanding.	Not Applicable.	ALS will be rounded down to the nearest 25. For example, an ALS of 113 (<i>i.e.</i> , \$113,000 average loan size) will be shown as 100.
Original Loan-to-Value (original LTV) (revised effective on 5/17/21)	Original LTV ratio expresses the amount of a first mortgage lien as a percentage of the total appraised value of the real property for which the mortgage was made.	Not Applicable.	Original LTV ratio will be shown as the upper limit of the applicable category. Categories are as follows: up to 20; 21-40; 41-60; 61-80; 81-93; 94-100; 101-120; and 121+. For example, an original LTV of 92 percent will be shown as 93 percent.

1. The sample values are for illustration purposes only. TRACE technical specifications include more specific descriptions of the fields and the values to be disseminated.