

TRACE Reporting of Portfolio Trades

FINRA Adopts Amendments to TRACE Reporting Rule to Require Identification of Portfolio Trades

Effective Date: May 15, 2023

Summary

FINRA has adopted amendments to Rule 6730 (Transaction Reporting) to require members to append a modifier to a corporate bond trade that is part of a portfolio trade when reporting to FINRA's Trade Reporting and Compliance Engine (TRACE). The amendments to Rule 6730 will take effect on May 15, 2023.

The amended text of the rule is set forth in Attachment A.

Questions regarding this *Notice* should be directed to:

- ▶ Joseph Schwetz, Senior Director, Market Regulation, at (240) 386-6170 or joseph.schwetz@finra.org;
- ▶ Alié Diagne, Senior Director, Transparency Services, at (212) 858-4092 or alie.diagne@finra.org; or
- ▶ for legal and interpretive questions, Robert McNamee, Associate General Counsel, Office of General Counsel, at (202) 728-8012 or robert.mcnamee@finra.org.

Background and Discussion

FINRA has adopted amendments to Rule 6730 to require members to append a new portfolio trade modifier when reporting corporate bond trades that are part of a portfolio trade to TRACE.¹ Specifically, new paragraph (d)(4)(H) of Rule 6730 requires that a member must append the portfolio trade modifier if reporting a transaction in a corporate bond:

1. executed between only two parties;
2. involving a basket of corporate bonds of at least 10 unique issues; and
3. for a single agreed price for the entire basket.

Members must append qualifying transaction reports with the portfolio trade modifier beginning on May 15, 2023. FINRA will disseminate the transaction immediately upon receipt. FINRA will make specifications available at least 270 days in advance of the May 15, 2023, effective date.

May 24, 2022

Notice Type

- ▶ Rule Amendment

Suggested Routing

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

Key Topics

- ▶ Corporate Bond
- ▶ Portfolio Trade
- ▶ TRACE
- ▶ TRACE-Eligible Security

Referenced Rules

- ▶ FINRA Rule 6730

Below FINRA provides responses to frequently asked questions with respect to the application of the portfolio trade modifier requirement. These FAQs also will be posted to FINRA's [TRACE FAQ page](#) and may be updated from time to time.

Frequently Asked Questions

Question 1: My firm executed a portfolio trade involving a basket of 12 different corporate bonds, but three of the bonds are issued by the same issuer. Should the portfolio trade modifier be appended to these trades?

Answer: Yes. Assuming the other conditions of Rule 6730(d)(4)(H) are met, the portfolio trade modifier must be appended to each corporate bond trade reported to TRACE that is part of a basket of corporate bonds of at least 10 unique issues/ securities (*i.e.*, individual corporate bonds counted using security identifiers such as CUSIPs or TRACE symbols), regardless of whether the bonds are issued by the same or affiliated issuers.

Question 2: My firm executed a portfolio trade involving a basket of five corporate bonds and five agency debt securities. Should the portfolio trade modifier be appended to these trades?

Answer: No. As specified in Rule 6730(d)(4)(H), the portfolio trade modifier should be appended only where the basket consists of at least 10 unique corporate bonds. A basket of 10 that consists of a mix of corporate bonds and other securities—whether other TRACE-eligible securities or otherwise—would not warrant use of the portfolio trade modifier. However, where a basket contains at least 10 corporate bonds along with any number of other securities, the portfolio modifier should be appended to the TRACE reports of the corporate bond components (so long as the other conditions of Rule 6730(d)(4)(H) are met). (*See also* FAQ #3 below)

Question 3: My firm executed a portfolio trade involving a basket of 12 corporate bonds and five agency debt securities. Should the portfolio trade modifier be appended to all 17 TRACE reports?

Answer: The portfolio trade modifier should only be appended to TRACE reports of qualifying corporate bond trades, as provided for in Rule 6730(d)(4)(H). Therefore, agency debt security trade reports should not be appended with the portfolio trade modifier, even if the agency debt securities were traded as part of a basket that also included corporate bonds.

Question 4: My firm executed a portfolio trade involving a basket of 11 corporate bonds that met the conditions of Rule 6730(d)(4)(H) and therefore appended the portfolio trade modifier. Subsequently, two of the corporate bond trades were cancelled. Should the firm correct the remaining nine trade reports to remove the portfolio trade modifier?

Answer: No. Trade reports need not be corrected solely to remove the portfolio trade modifier where subsequent cancellations reduce the size of a basket to include fewer than 10 corporate bonds. However, where a basket trade did not meet the conditions of the portfolio trade modifier at the time of execution, and the firm subsequently discovers the error, the TRACE reports must be corrected to remove the modifier.

Question 5: My firm and a counterparty entered into a trade for a basket of corporate bonds of at least 10 unique issues by agreeing on a spread to a reference price. Were these trades entered into “for a single agreed price for the entire basket” for purposes of appending the portfolio trade modifier?

Answer: Yes. A portfolio trade is considered to be executed for a “single agreed price for the entire basket” where the overall price for the basket has been negotiated or agreed on an aggregate basis. This includes scenarios where the parties use a pricing list or pricing service as a starting point for negotiations and determine the final price by applying a uniform spread to all securities in the basket.

However, where the parties simply aggregate individual prices without further negotiation, including where the parties apply different spreads or other varying methodologies to determine the prices for individual securities in the basket, the basket trade would not be considered to be executed for a “single agreed price.” For example, the “single agreed price” prong would exclude normal multi-dealer list trades that originate as either an offer wanted in competition (OWIC), or bid wanted in competition (BWIC), as such protocols result in a competitively negotiated price for each security on the list.

Endnote

1. The Securities and Exchange Commission approved the amendments on March 4, 2022. See Securities Exchange Act Release No. 94365 (March 4, 2022); 87 FR 13781 (March 10, 2022) (Notice of Filing of Amendment No. 1 and Order Approving File No. SR-FINRA-2021-030).

Attachment A

New and Amended Rule Text

New language is underlined; deletions are in brackets.

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FINRA Rules

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6000. QUOTATION, ORDER, AND TRANSACTION REPORTING FACILITIES

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6700. TRADE REPORTING AND COMPLIANCE ENGINE (TRACE)

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6730. Transaction Reporting

(a) through (c) No Change.

(d) Procedures for Reporting Price, Capacity, Volume

(1) through (3) No Change.

(4) **Modifiers[;] and Indicators**

Members shall append the applicable trade report modifiers or indicators as specified by FINRA to all transaction reports.

(A) through (G) No Change.

(H) Portfolio Trade Modifier

If reporting a transaction in a corporate bond: (i) executed between only two parties; (ii) involving a basket of corporate bonds of at least 10 unique issues; and (iii) for a single agreed price for the entire basket, select the appropriate modifier.

(e) through (f) No Change.

••• **Supplementary Material:** -----

.01 through .07 No Change.

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