

TRACE Reporting of U.S. Treasury Securities

FINRA Adopts Enhancements to TRACE Reporting for U.S. Treasury Securities

Effective Dates: May 15, 2023 (Rule 6730(a)(4)) and November 6, 2023 (Rule 6730.04)

Summary

FINRA has adopted amendments to Rule 6730 (Transaction Reporting) to: (i) require members to report transactions in U.S. Treasury securities to FINRA's Trade Reporting and Compliance Engine (TRACE) as soon as practicable but no later than 60 minutes from the time of execution; and (ii) require members to report electronically executed transactions in U.S. Treasury securities to TRACE in the finest increment captured by the system used to execute the transaction, subject to an exception for members with limited trading volume in U.S. Treasury securities. FINRA is also revising its TRACE Frequently Asked Questions (FAQs) to standardize price reporting for Treasury bills and Floating Rate Notes (FRNs) by requiring all transactions to be reported using the dollar price.

The amendments to reduce the trade reporting timeframe for transactions in U.S. Treasury securities will take effect on May 15, 2023. The amendments related to the granularity of execution timestamps, as well as the revisions to the TRACE FAQs to standardize price reporting, will take effect on November 6, 2023.

The amended text of Rule 6730 is set forth in [Attachment A](#).

Questions regarding this *Notice* should be directed to:

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- ▶ 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.

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Notice Type

- ▶ Rule Amendment

Suggested Routing

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

Key Topics

- ▶ TRACE
- ▶ Trade Reporting
- ▶ U.S. Treasury Security

Referenced Rules

- ▶ FINRA Rule 6710
- ▶ FINRA Rule 6730

Background and Discussion

In consultation with the U.S. Department of the Treasury (Treasury Department), FINRA has adopted two changes to the TRACE¹ reporting requirements in Rule 6730 to require members to report transactions in U.S. Treasury securities² to FINRA in a timelier manner and enhance the regulatory audit trail for U.S. Treasury securities.³ FINRA is also revising its TRACE FAQs to standardize price reporting for Treasury bills and FRNs.

Reporting Timeframe Reduction

FINRA has amended Rule 6730(a)(4) (Reporting Requirements — U.S. Treasury Securities) to reduce the trade reporting timeframe for U.S. Treasury securities to generally require reporting to TRACE as soon as practicable but no later than 60 minutes. Specifically, amended Rule 6730(a)(4) provides that transactions in U.S. Treasury securities must be reported as soon as practicable,⁴ but no later than the following time periods:

- ▶ a transaction executed on a business day at or after 12:00:00 a.m. Eastern Time (ET) through 7:59:59 a.m. ET must be reported the same day no later than 60 minutes after the TRACE system opens;
- ▶ a transaction executed on a business day at or after the time the TRACE system opens at 8:00:00 a.m. ET through when the TRACE system closes at 6:29:59 p.m. ET (standard TRACE System Hours)⁵ must be reported within 60 minutes of the Time of Execution, except that a transaction executed on a business day less than 60 minutes before 6:30:00 p.m. ET can be reported the same day before the TRACE system closes, but must be reported no later than 60 minutes after the TRACE system opens the next business day (T+1), and if reported on T + 1, designated "as/of" and include the date of execution; and
- ▶ a transaction executed on a business day at or after 6:30:00 p.m. ET through 11:59:59 p.m. ET, or a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using ET) must be reported the next business day (T+1) no later than 60 minutes after the TRACE system opens, designated "as/of," and include the date of execution.⁶

The amendments to Rule 6730 to reduce the trade reporting timeframe for transactions in U.S. Treasury securities will take effect on May 15, 2023.

Execution Timestamps

FINRA has amended Supplementary Material .04 to Rule 6730 (Time of Execution for Transactions in U.S. Treasury Securities) to require that, subject to the exception discussed below for firms with limited trading volume in U.S. Treasury securities, members must report the time of execution to the finest increment of time captured by the execution system⁷ when reporting to TRACE transactions in U.S. Treasury securities executed electronically.⁸ While this amendment does not require members to update execution systems for U.S. Treasury securities to capture finer timestamp granularity, members must make any updates to their trade reporting systems necessary to ensure that their TRACE reports reflect the finest increment of time captured by such execution systems (but not finer than a microsecond).⁹

New Supplementary Material .07 to Rule 6730 provides an exception for members with limited trading volume in U.S. Treasury securities. Specifically, new Supplementary Material .07 defines a “member with limited trading volume in U.S. Treasury Securities” as a member that executed transactions in U.S. Treasury securities of \$10 million or less in average daily par value, computed by aggregating buy and sell transactions, during the preceding calendar year. Where a member’s activity is below this threshold during the preceding calendar year, such member is not required to report transactions in U.S. Treasury securities to the finest increment captured by the execution system and is permitted to continue to report the time of execution for transactions in U.S. Treasury securities executed electronically as it does today for the duration of the next calendar year.

A member that relies on the exception for limited trading volume under Supplementary Material .07 is required to confirm on an annual basis that it continues to meet the criteria for the exception based on its trading activity during the preceding calendar year. Where a member no longer meets the criteria for the exception based on its trading activity during a given preceding calendar year, the member may no longer rely on the exception beginning 90 days after the end of such calendar year.¹⁰

The amendments to Rule 6730 to increase the granularity of execution timestamps will take effect on November 6, 2023.

Standardized Price Reporting

Under existing FINRA guidance, members may report the execution price for Treasury bills and FRNs as either the discount rate or discount margin, as applicable, or using the dollar price, expressed as a percentage of par.¹¹ FINRA is revising its guidance to standardize the price format used for reporting transactions in Treasury bills and FRNs by requiring all transactions to be reported using the dollar price. Accordingly, FINRA is revising TRACE FAQ #3.5.25 to read as follows:

Question: Treasury bills and Floating Rate Notes (FRNs) are quoted and traded in terms of their discount rate (discount margin for FRNs) or interest rate based on a 360-day year, even after the auction and issue dates of the securities. The interest rate is a function of the purchase price, the face value of the security, and the time remaining until maturity. How should firms report the “price” of these securities that trade based on a discount rate/margin?

Answer: Firms must report the dollar price for transactions in Treasury bills and FRNs executed after the auction (using the price type of “decimal”).¹²

The revisions to TRACE FAQ #3.5.25 will take effect on November 6, 2023.

Endnotes

1. TRACE is the FINRA-developed system that facilitates the mandatory reporting of over-the-counter transactions in eligible fixed income securities, including U.S. Treasury Securities. *See generally* Rule 6700 Series.
2. Under Rule 6710(p), a “U.S. Treasury Security” means a security, other than a savings bond, issued by the Treasury Department to fund the operations of the federal government or to retire such outstanding securities. The term “U.S. Treasury Security” also includes separate principal and interest components of a U.S. Treasury Security that has been separated pursuant to the Separate Trading of Registered Interest and Principal of Securities (STRIPS) program operated by the Treasury Department.
3. The Securities and Exchange Commission approved the amendments on August 30, 2022. *See* Securities Exchange Act Release No. 95635 (August 30, 2022); 87 FR 54579 (September 6, 2022) (Order Approving File No. SR-FINRA-2022-013).
4. Under Supplementary Material .03 to Rule 6730, where a member has an obligation to report a transaction “as soon as practicable,” such member must adopt policies and procedures reasonably designed to comply with this requirement by implementing systems that commence the trade reporting process at the Time of Execution without delay.
5. Under Rule 6710(t), “TRACE System Hours” means the hours the TRACE system is open, which are 8:00:00 a.m. ET through 6:29:59 p.m. ET on a business day, unless otherwise announced by FINRA.
6. In line with the amendments to Rule 6730(a)(4), FINRA will also revise TRACE FAQ #3.5.6 to conform to the amended reporting timeframes for transactions in U.S. Treasury securities.
7. For purposes of amended Supplementary Material .04, FINRA considers the relevant execution system to be the system used to execute the particular U.S. Treasury security transaction being reported to TRACE, regardless of whether the member is using its own internal systems for execution or if the transaction is executed through an external system. For example, if a member executes a transaction in a U.S. Treasury security through an alternative trading system (ATS) or other electronic trading platform, the member would be required to report in the finest increment of time captured by such ATS or electronic trading platform (but no finer than a microsecond, in line with TRACE system parameters).
8. Amended Supplementary Material .04 also clarifies that reporting must be in an increment of (i) no longer than a second and (ii) no shorter than a microsecond. This clarification does not reflect a substantive change from existing Supplementary Material .04. The rule already requires that reporting be in an increment of no longer than a second, and the TRACE system does not accept trade reports in increments finer than a microsecond. Where a firm captures time in an increment finer than a microsecond, the firm must truncate the time when reporting the transaction to TRACE. *See* TRACE FAQ #3.5.7.
9. FINRA will update TRACE FAQ #3.5.8 on November 6, 2023, to conform with the amendments to the rule.

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10. Once a member's activity falls outside of the scope of the criteria based on its trading activity during a given preceding calendar year, such member generally may no longer rely on the exception beginning 90 days after the end of such calendar year, irrespective of whether it again meets the criteria in a subsequent calendar year. However, a member may consult with FINRA staff regarding the availability of the exception where the member has changed business lines or undergone a corporate restructuring that significantly impacts its level of activity in U.S. Treasury securities.
11. Specifically, existing TRACE FAQ #3.5.25 provides as follows:
 - percentage units should be entered in the price field (e.g., a discount rate of 0.97% should reflect an entered price of 0.97). Firms choosing to report the dollar price of the transaction instead of the discount rate/margin must use the price type of "Decimal."
12. FINRA notes that the revisions to TRACE FAQ #3.5.25 apply only to transactions in Treasury bills and FRNs executed after the auction for the security. The FAQ revisions described above do not affect the requirements for reporting when-issued transactions in U.S. Treasury securities executed before the auction, which must continue to be reported using the yield. See Rule 6730(c)(3) and (d)(1).

Question: Certain U.S. Treasury Securities, including Treasury bills and Floating Rate Notes (FRNs), are issued at a discount to face value and mature at face value rather than making interest payments. These securities are quoted and traded in terms of their discount rate (discount margin for FRNs) or interest rate based on a 360-day year, even after the auction and issue dates of the securities. The interest rate is a function of the purchase price, the face value of the security, and the time remaining until maturity. How should firms report the "price" of these securities that trade based on a discount rate/margin?

Answer: For transactions in U.S. Treasury Securities that trade based on discount rate/margin, either the discount rate/margin or the dollar price of the transaction may be reported as the price. When reporting the discount rate/margin in the Price field, the price type of "Yield" should be selected in the Price Type field. When reporting the discount rate or discount margin,