Regulatory Notice 26-16

August 26, 2026

TRACE

FINRA Expands the Scope of the TRACE Non-Member Affiliate—Principal Transaction Indicator

Effective Date: August 2, 2027; Voluntary Compliance Period: Begins August 31, 2026

Notice Type
- Rule Amendment

Suggested Routing
- Compliance
- Institutional
- Legal
- Systems
- Trading
- Training

Key Topic
- Affiliate Transactions
- TRACE
- TRACE-Eligible Securities
- TRACE Transaction Data
- Transaction Reporting

Referenced Rules & Notices
- FINRA Rule 6710
- FINRA Rule 6730

Summary

FINRA has amended its TRACE rules to expand the scope of the principal transaction indicator (previously applicable only to transactions with non-member affiliates) to also include transactions with member affiliates. This change will improve transparency in TRACE-eligible securities by streamlining dissemination of same-priced prints reflecting related transactions between a member and its member affiliate. The effective date of the amendments by which compliance is mandatory is August 2, 2027. Members may begin reporting in accordance with the amendments on a voluntary basis beginning on August 31, 2026.

The rule text is available in the online FINRA manual.

Questions concerning this *Notice* should be directed to:

- Alié Diagne, Senior Director, Transparency Services, by email or (212) 858-4092; or
- for legal and interpretive questions, Erica Proctor, Associate General Counsel, Office of General Counsel, by email or (202) 728-8864.

For inquiries regarding how to access TRACE data products, please contact TRACE Data Services at (888) 507-3665 or by email.

Background & Discussion

FINRA has adopted amendments to its TRACE reporting rules to expand the scope of the existing non-member affiliate—principal transaction indicator to also include member affiliates.[1] As a result, fewer trade reports for transactions that are not economically distinct from a separately disseminated transaction with another counterparty will be disseminated, improving transparency of TRACE data.

Under amended Rule 6730, if a member and an "affiliate" (as defined in amended Rule 6710 to now include both non-member and member affiliates)[2] transact in a principal capacity in a TRACE-eligible security,[3] and the member reasonably believes that the member (or its member affiliate, in the case of affiliated members) will engage (or has already engaged) in a transaction in the same security within the same day, at the same price, with another contra-party, the member must append the affiliate—principal transaction indicator.[4]

In a transaction between member affiliates, both members must share the reasonable belief[5] that the member or its member affiliate will engage (or has already engaged) in a transaction in the same security within the same day, at the same price, with another contra-party and both must append the indicator.[6] However, to ensure that at least one leg of a qualifying overall transaction remains subject to dissemination, where a member has transacted with both a member affiliate and a non-member affiliate on the same day, at the same price, in the same security, and neither member affiliate transacts with an unaffiliated contra-party under the same conditions, the member must append the affiliate—principal transaction indicator to only one of the two inter-affiliate trade reports.[7]

The below examples illustrate the operation of the expanded scope of the affiliate—principal transaction indicator. FINRA will also update its TRACE reporting frequently asked questions (FAQs) to reflect the amendments, including incorporating into the FAQs the scenarios set forth below.

Scenario 1: BD A and BD B are affiliated members that routinely engage in back-to-back transactions with each other in TRACE-eligible securities on the same day and at the same price as one of them trades in the same securities with another contra-party. Under their existing business models, BD A negotiates but does not trade directly with customers or carry customer accounts; BD A sells to BD B at the price at which it negotiated the sale with the customer; BD B sells the bonds to the customer at that same price. Specifically, in this scenario, a customer requests quotes from BD A through electronic chat and agrees to a price of $98 for 50 ABC bonds. BD A sells 50 ABC bonds at $98 to BD B, and BD B then sells 50 ABC bonds to the customer at $98. Both BD A and BD B trade as principal and, due to their business model, at the time of its TRACE report BD A and BD B shared a reasonable belief that BD B would engage in a same-day, same-price, principal transaction in ABC with another contra-party (*i.e.*, the customer).

TRACE Reporting:

- For the transaction between BD A and BD B, BD A must report a principal sale of 50 ABC bonds at $98 to BD B, identifying BD B by its MPID as the contra-party. BD B must report a principal purchase of 50 ABC bonds at $98 from BD A, identifying BD A by its MPID as the contra-party. Because BD A and BD B are affiliates, traded as principal with each other, and shared a reasonable belief that BD B will engage in a transaction in the same security, within the same day, and at the same price, with another contra-party, both BD A and BD B must append the affiliate—principal transaction indicator to their respective trade report.[8] TRACE would not disseminate either of the trade reports appended with the affiliate—principal transaction indicator.
- For the transaction between BD B and the customer, BD B must report a principal sale of 50 ABC bonds at $98 to the customer, identifying the customer as "C." BD B would not append the affiliate—principal transaction indicator to this trade report because BD B is not affiliated with the customer. TRACE would disseminate BD B's sale to the customer.

Scenario 2: BD A and BD B are affiliated members that routinely engage in back-to-back transactions with each other in TRACE-eligible securities. Sometimes these transactions are at the same price at which one of them trades with another contra-party and at other times a mark-up/mark-down is applied. Specifically, in this scenario, BD A sells 50 ABC bonds at $98 to BD B, which BD A knows BD B will sell to its customer. However, BD A does not know if BD B will sell the bonds to its customer at $98 or at some other price—a determination that BD B makes independent of BD A that is not systemically identifiable to BD A in the normal course of business. Ultimately, BD B subsequently sells 50 ABC bonds to its customer at $98. Both BD A and BD B trade as principal.

TRACE Reporting:

- For the transaction between BD A and BD B, BD A must report a principal sale of 50 ABC bonds at $98 to BD B, identifying BD B by its MPID as the contra-party. BD B must report a principal purchase of 50 ABC bonds at $98 from BD A, identifying BD A by its MPID as the contra-party. While BD A and BD B are affiliates and traded as principal with each other, and BD B subsequently trades 50 ABC bonds with its customer at the same price, BD A does not reasonably believe that it or its member affiliate will engage (or has already engaged) in a transaction in the same security, within the same day, and at the same price, with another contra-party (*i.e.*, both members did not share a reasonable belief regarding the price and timing of the overall transaction flow). Therefore, neither BD A nor BD B would append the affiliate—principal transaction indicator to their respective trade report. TRACE would disseminate the BD A sell transaction.

- For the transaction between BD B and the customer, BD B must report a principal sale of 50 ABC bonds at $98 to the customer, identifying the customer as "C." BD B would not append the affiliate—principal transaction indicator to its trade report because BD B is not affiliated with the customer. TRACE would disseminate BD B's sale to the customer.

Scenario 3: BD A and BD B are affiliated members that routinely engage in back-to-back transactions with each other in TRACE-eligible securities on the same day and at the same price as one of them trades in the same securities with another contra-party. Under their existing business models, BD A routinely moves its bond positions to be held at BD B. Specifically, in this scenario, BD A purchases 50 ABC bonds at $98 from an unaffiliated FINRA member, BD C, and on the same trading day sells 50 ABC bonds to BD B at $98. Both BD A and BD B trade as principal and, due to their business model, BD B reasonably believes that BD A previously engaged in a same-day, same-price transaction in ABC with another contra-party (*i.e.*, BD C).

TRACE Reporting:

- For the transaction between BD A and BD C, BD A must report a principal purchase of 50 ABC bonds at $98 from BD C, identifying BD C by its MPID as the contra-party. TRACE would not disseminate this trade report because it is an interdealer buy transaction. BD C must report a sale of 50 ABC bonds at $98 to BD A, identifying BD A by its MPID as the contra-party. TRACE would disseminate this trade report. Neither BD A nor BD C would append the affiliate—principal transaction indicator to their trade reports because BD A and BD C are not affiliates.
- For the transaction between BD A and BD B, BD A must report a principal sale of 50 ABC bonds at $98 to BD B, identifying BD B by its MPID as the contra-party. BD B must report a principal purchase of 50 ABC bonds at $98 from BD A, identifying BD A by its MPID as the contra-party. Because BD A and BD B are affiliates, traded as principal with each other, and both share a reasonable belief that BD A had already engaged in a transaction in the same security, within the same day, and at the same price, with another contra-party, both BD A and BD B must append the affiliate—principal transaction indicator to their respective trade report. TRACE would not disseminate either of the trade reports appended with the affiliate—principal transaction indicator.

Scenario 4: BD A and BD B are affiliated members that routinely engage in back-to-back transactions with each other in TRACE-eligible securities on the same day and at the same price as one of them trades in the same securities with a non-member affiliate. Under their existing business models, BD A and BD B routinely transact with each other, and BD A routinely transacts with non-member affiliate, NMA. Specifically, in this scenario, BD B sells 50 ABC bonds at $99 to BD A from its inventory, and on the same trading day, BD A later sells 50 ABC bonds to NMA at $99. Both BD A and BD B trade as principal and, due to their business model, at the time of their TRACE report BD A and BD B share a reasonable belief that BD A would engage in a same-day, same-price, principal transaction in ABC with NMA.

TRACE Reporting:

- For the transaction between BD A and BD B, BD A must report a principal purchase of 50 ABC bonds at $99 from BD B, identifying BD B by its MPID as the contra-party. BD B must report a principal sale of 50 ABC bonds at $99 to BD A, identifying BD A by its MPID as the contra-party. Because BD A and BD B are affiliates, traded as principal with each other, and both share a reasonable belief that BD A will engage in a transaction in the same security, within the same day, and at the same price, with a non-member affiliate, the affiliate—principal transaction indicator must either be appended to (1) BD A's and BD B's trade reports for the transaction with each other, or (2) BD A's trade report for the transaction with NMA.[9]
- For the transaction between BD A and NMA, BD A must report a principal sale of 50 ABC bonds at $99 to NMA, identifying NMA as "A." BD A would only append the affiliate—principal transaction indicator to its trade report for the transaction with NMA if BD A and BD B chose not to append the affiliate—principal transaction indicator to their trade reports for the inter-dealer transaction with each other.[10]
- TRACE would disseminate either BD B's sale to BD A or BD A's sale to the NMA, depending upon whether the affiliate—principal transaction indicator was appended to BD A's and BD B's trade reports for their inter-dealer transaction with each other or to BD A's trade report for the transaction with NMA.

The effective date of the amendments by which compliance is mandatory is August 2, 2027. Members may begin reporting in accordance with the amendments on a voluntary basis beginning on August 31, 2026.

Endnotes

1 *See* Securities Exchange Act Release No. 105991 (July 24, 2026); 91 FR 47909 (July 29, 2026) (Order Approving File No. SR-FINRA-2026-009).

2 Amended Rule 6710(ee) defines "affiliate" as an entity that controls, is controlled by or is under common control with a member. For the purposes of this definition, "control," along with any derivative thereof, means legal, beneficial, or equitable ownership, directly or indirectly, of 25 percent or more of the capital stock (or other ownership interest, if not a corporation) of any entity ordinarily having voting rights. The term "common control" means the same natural person or entity controls two or more entities.

3 "TRACE-eligible security" means a debt security that is United States (U.S.) dollar-denominated and is: (1) issued by a U.S. or foreign private issuer, and, if a "restricted security" as defined in Securities Act Rule 144(a)(3), sold pursuant to Securities Act Rule 144A; (2) issued or guaranteed by an Agency as defined in paragraph (k) or a Government-Sponsored Enterprise as defined in paragraph (n); (3) a U.S. Treasury Security as defined in paragraph (p); or (4) a Foreign Sovereign Debt Security as defined in paragraph (kk). "TRACE-eligible security" does not include a debt security that is a Money Market Instrument as defined in paragraph (o). *See* Rule 6710(a).

4 Under the amendments, the current non-member affiliate—principal transaction indicator has been renamed as the affiliate—principal transaction indicator.

5 The "reasonable belief" standard is intended to capture affiliated members that operate pursuant to a business model where, in the ordinary course, they share a reasonable belief related to relevant trade flow patterns. It is not intended to capture incidental same-day, same-price, principal trades between member affiliates or to impose any obligation to establish new information-sharing arrangements. As is the case under the existing rule, the quantity of the transaction with the other contra-party must be equal to or greater than the quantity of the inter-affiliate transaction. *See* FAQ 3.1.74, Frequently Asked Questions (FAQ) about the Trade Reporting and Compliance Engine (TRACE).

6 In the event only one member affiliate appends the affiliate—principal transaction indicator to its TRACE report, TRACE will still suppress from dissemination the sell-side trade report; however, both members will receive a mismatch report on their TRACE Match Status Reports.

7 *See* Rule 6730(d)(4)(E)(iii).

8 In this scenario, BD B engages in a subsequent qualifying same-day, same-price transaction with its customer; however, if BD B had not done so, BD A and BD B would be required to amend their prior trade reports to remove the affiliate—principal transaction indicator. *See* Rule 6730(d)(4)(E)(iv).

9 In this scenario, BD A and BD B would not be required to append the affiliate—principal transaction indicator to their trade reports in the event BD A chose instead to append the affiliate—principal transaction indicator to its trade report for the transaction with NMA. If BD A appends the affiliate—principal transaction indicator to the trade report for the transaction with NMA, neither BD A nor BD B may append the affiliate—principal transaction indicator to its trade report for the member-to-member transaction. *See* Rule 6730(d)(4)(E)(iii).

10 In this scenario, BD A would be required to append the affiliate—principal transaction indicator to its trade report for the transaction with NMA if it and BD A did not append the affiliate—principal transaction indicator to their trade reports for the inter-dealer transaction with each other. *See* Rule 6730(d)(4)(E)(iii).