

# Notice to Members

JUNE 2003

## SUGGESTED ROUTING

Corporate Finance  
Legal and Compliance  
Operations  
Senior Management  
Technology  
Trading and Market Making  
Training

## KEY TOPICS

Debt Securities  
Operations  
Rule 6200 Series  
Transaction Reporting

## INFORMATIONAL

### Corporate Debt Securities

SEC Approves Amendments to TRACE Rule 6230 to Reduce the Reporting Period to 45 Minutes

#### Executive Summary

On June 18, 2003, the Securities and Exchange Commission (SEC or Commission) approved amendments to Rule 6230 of the Trade Reporting and Compliance Engine (TRACE) Rules (Rule 6200 Series).<sup>1</sup> The amendments to TRACE Rule 6230 reduce the time to report a transaction in a TRACE-eligible security from 75 minutes to 45 minutes. Rule 6230, as amended, is set forth in Attachment A.

The amendments to Rule 6230 will become effective on October 1, 2003.

#### Questions/Further Information

Questions concerning this *Notice* should be directed to [tracefeedback.com](http://tracefeedback.com); Elliot Levine, Chief Counsel, Market Operations, Regulatory Services and Operations, at (212) 858-4174; or Sharon K. Zackula, Assistant General Counsel, Office of General Counsel, Regulatory Policy and Oversight, at (202) 728-8985.

#### Background and Discussion

On July 1, 2002, when TRACE became effective, members were required to report required transaction information in TRACE-eligible corporate debt securities within 75 minutes of the time of execution. At that time, NASD indicated that it planned to reduce the reporting period after members had obtained experience reporting. Reducing the reporting period was, and continues to

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be, an important regulatory goal that results in the market receiving market-based pricing information more quickly, which enhances the transparency of the debt market.

On May 2, 2003, NASD proposed to reduce the reporting period from 75 minutes to 45 minutes. Since 1999, NASD, the SEC, and industry participants have discussed reducing the reporting period after members obtained experience reporting corporate bond transactions to TRACE. Since July 1, 2002, when TRACE began, members have obtained that reporting experience. In addition, during the first year of TRACE, members have developed the technical and operational capabilities to report transactions within a much shorter period than the current 75-minute period. TRACE data shows that approximately 80% of all reported transactions (measured either by transaction count or par value) currently are being reported to TRACE within 45 minutes.

### 45 Minute Reporting Requirement

The SEC approved the 45 minute reporting requirement on June 18, 2003. Thus, generally, in Rule 6230(a) and (a)(1), as amended, a member must report a transaction in a TRACE-eligible security within 45 minutes of the time of execution. In addition, NASD reduced other 75 minute reporting periods to 45 minutes in paragraphs (1) through (4) of Rule 6230(a). Specifically, under Rule 6230(a)(1) as amended, if a member executes a transaction within 45 minutes of the time the TRACE system closes, a member is *permitted* to report the transaction the next business day that the TRACE system opens, but must do so within 45 minutes after the TRACE system

opens for the report to be timely.<sup>2</sup> Under Rule 6230(a)(2) as amended, a member is *required* to report a transaction that occurs after the TRACE system closes the next business day that the TRACE system opens, and must do so within 45 minutes after the TRACE system opens. Similarly, under paragraphs (a)(3) and (a)(4) as amended, a member is *required* to report on the next business day that the TRACE system opens, and within 45 minutes of the TRACE system open, any transaction in a TRACE-eligible security that occurs at or after 12:00 a.m. (midnight) through 7:59:59 a.m., Eastern Time, or during a weekend or a holiday

### Effective Date

The amendments to Rule 6230 will become effective on October 1, 2003. Based on current reporting practices, it appears that many members are already technically and operationally capable of reporting within 45 minutes. By October 1, 2003, NASD expects that the membership as a whole will be able to report within 45 minutes, and intends to guide members in making the transition.

### Endnotes

- 1 See Securities Exchange Act Release No. 48056 (June 18, 2003), 68 Fed. Reg. 37886 (June 25, 2003) (File No. SR-NASD-2003-78).
- 2 Generally, the TRACE System is open to receive reports Monday through Friday, from 8:00 a.m. through 6:29:59 p.m., Eastern Time.

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## **EXHIBIT A**

### **6200. TRADE REPORTING AND COMPLIANCE ENGINE (TRACE)**

#### **6230. Transaction Reporting**

##### **(a) When and How Transactions are Reported**

A member that is required to report transaction information pursuant to paragraph (b) below must report such transaction information within [one hour and fifteen]45 minutes of the time of execution, except as otherwise provided below, or the transaction report will be "late." The member must transmit the report to TRACE during the hours the TRACE system is open ("TRACE system hours"), which are 8:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time. Specific trade reporting obligations during a 24-hour cycle are set forth below.

##### **(1) Transactions Executed During TRACE System Hours**

Transactions in TRACE-eligible securities executed on a business day at or after 8:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time must be reported within 45[one hour and fifteen] minutes of the time of execution. If a transaction is executed on a business day less than 45[one hour and fifteen] minutes before 6:30 p.m. Eastern Time, a member may report the transaction the next business day within 45[one hour and fifteen] minutes after the TRACE system opens. If reporting the next business day, the member must indicate "as/of" and provide the actual transaction date.

##### **(2) Transactions Executed At or After 6:30 P.M. Through 11:59:59 P.M. Eastern Time**

Transactions in TRACE-eligible securities executed on a business day at or after 6:30 p.m. Eastern Time through 11:59:59 p.m. Eastern Time must be reported the

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next business day within 45[one hour and fifteen] minutes after the TRACE system opens. The member must indicate "as/of" and provide the actual transaction date.

**(3) Transactions Executed At or After 12:00 A.M. Through 7:59:59 A.M. Eastern Time**

Transactions in TRACE-eligible securities executed on a business day at or after 12:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day within 45[one hour and fifteen] minutes after the TRACE system opens.

**(4) Transactions Executed on a Non-Business Day**

Transactions in TRACE-eligible securities executed on a Saturday, Sunday, or a federal or religious holiday on which the TRACE system is closed, at any time during that day (determined using Eastern Time), must be reported the next business day within 45[one hour and fifteen] minutes after the TRACE system opens. The transaction must be reported as follows: the date of execution must be the first business day (the same day the report must be made); the execution time must be "12:01:00 a.m. Eastern Time" (stated in military time as "00:01:00"); and the modifier, "special price," must be selected. In addition, the transaction must not be designated "as/of". When the reporting method chosen provides a "special price" memo field, the member must enter the actual date and time of the transaction in the field.

**(5) through (6) No Change**

**(b) through (f) No Change**