

Notice to Members

APRIL 2005

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
TRACE

GUIDANCE

Corporate Debt Securities

NASD Reminds Members that the TRACE Reporting Period Will Be Reduced to 15 Minutes on July 1, 2005, and Rescinds Interpretive Guidance Regarding Rejected TRACE Transaction Reports

Executive Summary

On June 14, 2004, the Securities and Exchange Commission (SEC or Commission) approved amendments to Rule 6230(a) of the Trade Reporting and Compliance Engine (TRACE) Rules, the Rule 6200 Series, reducing the reporting period in two stages.¹ In the first stage (Stage One), effective on October 1, 2004, the period to report a transaction in a TRACE-eligible security was reduced from 45 minutes to 30 minutes. NASD is reminding members that the second stage (Stage Two), which reduces the period from 30 minutes to 15 minutes, will become effective on July 1, 2005. NASD is also rescinding interpretive guidance regarding the resubmission of rejected TRACE transaction reports. Rule 6230, as amended by Stage Two rule changes only, is set forth in Attachment A.

Questions/Further Information

Questions concerning this *Notice* should be directed to tracefeedback@nasd.com; Sharon K. Zackula, Associate General Counsel, Office of General Counsel, Regulatory Policy and Oversight, at (202) 728-8985; or Elliot Levine, Associate Vice President, Chief Counsel, Transparency Services, Markets, Services and Information, at (202) 728-8405.

Background and Discussion

In numerous public filings and notices, NASD and SEC stated that the TRACE reporting period would be reduced after members obtained experience reporting corporate bond transactions to TRACE. On October 1, 2003, NASD reduced the period to report a transaction in a TRACE-eligible security from 75 minutes to 45 minutes. One year later, on October 1, 2004, NASD reduced the reporting period from 45 minutes to 30 minutes. At that time, NASD informed members that the TRACE reporting period would be reduced from 30 minutes to 15 minutes effective July 1, 2005.² NASD is issuing this reminder to firms that 15-minute reporting of TRACE-eligible securities transactions will begin on July 1, 2005, as previously announced.

Stage Two 15-Minute Reporting

The impact of the Stage Two changes to TRACE transaction reporting is as follows. Under Rule 6230(a), as amended by Stage Two, a member is required to report a transaction in a TRACE-eligible security within 15 minutes of the time of execution. In addition, NASD is reducing other 30-minute reporting periods to 15 minutes in related provisions in paragraphs (1) through (4) of Rule 6230(a). Specifically, under Rule 6230(a)(1), as amended, if a member executes a transaction within 15 minutes of the time the TRACE System closes, which, on a normal day is 6:30:00 p.m. Eastern Time (ET), a member *is permitted* to report the transaction the next business day that the TRACE System opens, but must do so within 15 minutes after the TRACE System opens for the report to be timely (*i.e.*, on or before 8:14:59 a.m. ET).³ Under Rule 6230(a)(2), and (a)(4), as amended, a member is required to report a transaction that occurs on or after the closing of the TRACE System (*i.e.*, on or after 6:30:00 p.m. ET through 11:59:59 p.m. ET, or during a weekend or holiday) the next business day that the TRACE System opens, and must do so within 15 minutes after the TRACE System opens (*i.e.*, on or before 8:14:59 a.m. ET). Under Rule 6230(a)(3), as amended, a member is required to report any transaction in a TRACE-eligible security that occurs on a business day on or after 12:00:00 a.m. (midnight) through 7:59:59 a.m. ET within 15 minutes of the opening of the TRACE System (*i.e.*, on or before 8:14:59 a.m. ET).

Rescission of Prior Interpretive Guidance

In *Notice to Members (NTM) 04-51* (July 2004) (SEC Approves Amendments to TRACE Rule 6230 to Reduce the Reporting Period to 30 Minutes on October 1, 2004, and to 15 Minutes on July 1, 2005), NASD issued interpretive guidance regarding the re-submission of rejected transaction reports that provided members, in certain limited circumstances, limited and occasional flexibility to report a transaction later than the prescribed period.⁴ The guidance in *NTM 04-51*, Q&A No. 1, is rescinded as of July 1, 2005. As of July 1, 2005, regardless of the reporting mechanism used by the member (e.g., CTCL, Web browser, or third-party intermediary reporting system), a member must identify any rejected transaction report, and correct and resubmit it to TRACE within 15 minutes of the time of execution of the transaction. Any transaction report submitted after the 15-minute period has expired will be a late report, which will be treated as any other type of late transaction report.⁵

NASD will continue to monitor members' reporting to ensure that members have procedures in place that are reasonably designed to ensure that all transaction reports are submitted within 15 minutes of the time of execution, including rejected transaction reports requiring resubmission. Patterns and practices of late submissions due to rejections may be considered a violation of the TRACE Rules and Rule 2110 (Standards of Commercial Honor and Principles of Trade).

Effective Date

The amendments to Rule 6230(a) designated as Stage Two, which require a member to report a transaction in a TRACE-eligible security within 15 minutes of the time of execution, will become effective **July 1, 2005**.

Endnotes

- 1 See Securities Exchange Act Release No. 49854 (June 14, 2004), 69 Fed. Reg. 35088 (June 23, 2004) (File No. SR-NASD-2004-057). See also *NTM 04-51* (July 2004).
- 2 See *NTM 04-51* (July 2004).
- 3 Generally, the TRACE System is open to receive reports Monday through Friday, 8:00:00 a.m. through 6:29:59 p.m., and closes at 6:30:00 p.m. ET. On days when NASD announces that the TRACE System will close early (e.g., at 2:00:00 p.m. ET on the day after Thanksgiving), NASD will announce the early closing and specify when the TRACE System will cease accepting reports. When early closings in TRACE occur, NASD staff interprets Rule 6230(a)(1) as allowing a member (for a transaction that occurs just before the end of the TRACE System closing) to report the transaction on the day of execution before the TRACE System closes or the next business day, to provide the member the same flexibility that is provided when the TRACE System closes at 6:30:00 p.m. ET. Assume, for example, that NASD announces that the TRACE System will close at 2:00:00 p.m. ET, in which case the TRACE System will not accept reports at or after the 2:00:00 p.m. closing. If a 15-minute reporting period is in effect and a member executes a transaction at 1:50:00 p.m. ET, the member may report the transaction on the day of execution (up to 2:00 p.m. ET) or may report the transaction the next business day that the TRACE System is open within 15 minutes of the opening.
- 4 The guidance in *NTM 04-51* (July 2004), Q&A No. 1 regarding the re-submission of rejected trade reports was provided in Q&A format in the context of 30-minute reporting. Similar guidance was published in two prior Notices. See *NTM 02-76* (November 2002) (NASD Issues Interpretive Guidance to the Trade Reporting and Compliance Engine Rules), Q&A No. 1 (in the context of 75-minute reporting), and *NTM 03-58* (September 2003) (NASD Issues Interpretive Guidance to the Trade Reporting and Compliance Engine Rules), Q&A No. 6 (in the context of 45-minute reporting). When NASD published guidance on the re-submission of rejected trade reports in *NTM 04-51*, Q&A No. 1, NASD rescinded its prior guidance on the same subject in *NTM 03-58*, Q&A No. 6. Similarly, when NASD published its guidance in *NTM 03-58*, Q&A No. 6, NASD rescinded its guidance on the same issues found in *NTM 02-76*, Q&A No. 1.
- 5 NASD staff notes that a member may continue to rely on the interpretive guidance in *NTM 04-51* for transactions executed and reported prior to July 1, 2005.

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ATTACHMENT A

New language is underlined; deletions are in brackets.

6200. TRADE REPORTING AND COMPLIANCE ENGINE (TRACE)

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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 15[30] 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 15[30] minutes of the time of execution. If a transaction is executed on a business day less than 15[30] minutes before 6:30 p.m. Eastern Time, a member may report the transaction the next business day within 15[30] 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 next business day within 15[30] 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 15[30] 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 15[30] 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) and (6) No Change

(b) through (f) No Change

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