

Notice to Members

JUNE 2006

SUGGESTED ROUTING

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

KEY TOPICS

Debt Securities
Operations
Rule 6200 Series
TRACE Rules
Transaction Reporting

REQUEST FOR COMMENT

Corporate Debt Securities

NASD Requests Comment on Providing Public Access to Historic TRACE Data Not Previously Disseminated or Otherwise Publicly Available; **Comment Period Expires July 31, 2006**

Executive Summary

NASD has received multiple requests to broaden the provision of previously non-public historic Trade Reporting and Compliance Engine (TRACE) transaction-level data to a variety of persons for business, academic, personal or other purposes. TRACE data is information reported to NASD by broker-dealers when they are parties to transactions in corporate bonds that are TRACE-eligible securities. NASD requests comment on providing public access to previously non-public historic TRACE transaction-level data described in greater detail below.

Action Requested

NASD encourages all interested parties to comment on this proposal. Comments must be received by July 31, 2006. Members and interested persons can submit their comments using the following methods:

- ◆ Mail comments in hard copy to the address on the address below; or
- ◆ Email written comments to pubcom@nasd.com.

To help NASD process and review comments more efficiently, persons commenting on this proposal should use only one method. Comments sent by hard copy should be mailed to:

Barbara Z. Sweeney
Office of the Corporate Secretary
NASD
1735 K Street, NW
Washington, DC 20006-1506

Important Notes: The only comments that will be considered are those submitted pursuant to the methods described above. All comments received in response to this *Notice* will be made available to the public on the NASD Web site. Generally, comments will be posted on the NASD Web site one week after the end of the comment period.¹

Before becoming effective, a proposed rule change (or certain policies) must be authorized for filing with the Securities and Exchange Commission (SEC) by the NASD Board, and then must be approved by the SEC, following publication for public comment in the *Federal Register*.²

Questions/Further Information

As noted above, hard copy comments should be mailed to Barbara Z. Sweeney. Questions regarding this *Notice* may be directed to Elliot Levine, Chief Counsel, Transparency Services, Markets, Services and Information, at (202) 728-8405; David Lefferts, Vice President, Transparency Services, at (212) 858-4389; or Sharon K. Zackula, Associate General Counsel, Office of General Counsel, Regulatory Policy and Oversight, at (202) 728-8985.

Background and Discussion

The TRACE rules have two primary aspects: the reporting of individual corporate bond transactions (transaction-level data) to NASD through TRACE and the public dissemination of certain transaction information.³ When the TRACE rules became effective on July 1, 2002, all transactions in TRACE-eligible securities were required to be reported by any broker-dealer that was a party to a transaction. However, dissemination of transaction-level data was more limited in order to carefully gauge the relationship between transparent transaction information and its impact on the market and liquidity. As a result, transactions in the majority of instruments reported to TRACE were not subject to transaction-level public dissemination at launch.

Concurrently, NASD committed to the ongoing study and periodic review of the impact on those segments of the bond market subject to transaction-level information dissemination. NASD expanded transaction-level information dissemination gradually over time from July 1, 2002 through January 9, 2006, in several phases.⁴ Currently, each transaction in TRACE-eligible securities reported to NASD is subject to immediate public dissemination, except those transactions in TRACE-eligible securities that are purchased or sold pursuant to Rule 144A under the Securities Act of 1933 (Rule 144A transactions). Those TRACE transactions subject to public dissemination are redistributed on a transaction-by-transaction basis (transaction-level) to and through multiple market data vendors who display the transaction-level data in real time, often provide value-added analytics and, finally, store aggregate and transaction-level data for historic retrieval and analysis by their clients.

The TRACE transaction data that is reported to NASD comprise the first complete database of transaction and last-sale pricing ever compiled on the U.S. corporate bond market and, as such, is of widespread interest to corporate bond market participants, other financial intermediaries, market observers, academicians and financial regulators, among others. Since the introduction of TRACE, NASD has compiled and made available aggregated statistics from both disseminated and non-disseminated TRACE transaction information that have proven valuable in providing insights on activity in the overall corporate bond market. In doing so, NASD has been careful to aggregate the statistics in order to protect transaction-level non-disseminated data from being ascertained.

More recently, NASD has received requests to make more historic, non-disseminated transaction-level data publicly available for research. Specifically, two types of requests have been made: 1) for standard TRACE-disseminated transaction-level data⁵ in publicly traded bonds (*i.e.*, not Rule 144A transactions) that had previously not been disseminated (*i.e.*, non-disseminated transactions prior to full dissemination, which began February 7, 2005) and 2) for additional data fields on individual transactions that are **reported** to NASD for regulatory purposes, but are not publicly disseminated at the transaction level (report-only data).

NASD requests comment on whether NASD should make publicly available standard TRACE transaction-level data for public transactions that were not disseminated previously. If yes, NASD requests comment on whether access should be limited in any way, or if the data should be redacted as to certain types of information. Additionally, NASD requests comment on whether it should provide access to any portion of the transaction-level historic report-only data.

Standard TRACE Transaction-Level Data for Previously Non-Disseminated Transactions

1. Should NASD provide public access to historic transaction-level data (*i.e.*, using the standard disseminated data format) for the period during which these transactions in publicly traded bonds were previously not disseminated? Should these non-disseminated transactions be made available for the entire period of July 1, 2002 through February 6, 2005, in which they may not have been disseminated, or some more limited period?

Historic Report-Only Data

2. Should NASD provide public access to fields of TRACE historic, transaction-level information that is report-only data? If so, which additional fields (*see table of candidates for report-only data fields*) of historic report-only transaction-level data should be made available publicly?
 - a. Examples include historic report-only data transaction-level data fields, such as:
 - ▶ Providing uncapped volumes (par value) for each large transaction in Investment-Grade and Non-Investment Grade bonds. This is similar to historical volume data provided by MSRB.⁶
 - ▶ Providing indicators whether the trade was a customer buy, customer sell or inter-dealer trade.⁷
 - ▶ Providing indicators whether the broker-dealer reporting each transaction was acting as “agent” or “principal.”
 - ▶ Identifying the reporting broker-dealer's MPID (*i.e.*, identifier or corporate name) and/or their contra party (either another broker-dealer's MPID or “C” to denote that the contra party was an undisclosed customer) for each transaction.

3. Should NASD make historic, report-only transaction-level data (or only particular data element(s)) available after certain extended periods of time delay? For example, report-only transaction-level data should only be available at least three months or six months after it was reported to TRACE.

Candidates for Disclosure of Report-Only Data Transaction-Level Data Fields

TRACE Reporting Field	Currently Report-Only Field	Currently Partially Disseminated
Buy/Sell Indicator	✓	
Buyer \$ Commission of Executing Broker	✓	Amount reflected in total price
Buyer Principal/Agent Capacity	✓	
Contra Party ID (MPID or C for "Customer")	✓	
Reported Volume of Transaction (number of bonds multiplied x \$1,000)	✓	Capped at \$1MM or \$5MM
Reporting Party Give-Up (MPID)	✓	
Reporting Party ID (MPID)	✓	
Seller \$ Commission of Executing Broker	✓	Amount reflected in total price
Seller Principal/Agent Capacity	✓	

Endnotes

- 1 See *Notice to Members 03-73* (November 2003) (NASD Announces Online Availability of Comments). Personal identifying information, such as names or email addresses, will not be edited from submissions. Submit only information that you wish to make publicly available.
- 2 Section 19 of the Securities Exchange Act of 1934 (Exchange Act) permits certain limited types of proposed rule changes to take effect upon filing with the SEC. The SEC has the authority to summarily abrogate these types of rule changes within 60 days of filing. See Exchange Act Section 19 and the rules thereunder.
- 3 The TRACE Rules are the Rule 6200 Series.
- 4 The phases culminating in implementation of real-time dissemination of TRACE information occurred on July 1, 2002, with the implementation of SR-NASD-1999-065 (Phase I); March 3, 2003 and April 14, 2003, with the two-part implementation of SR-NASD-2002-174 (and a supplemental rule filing) (Phase II); October 1, 2004 and February 7, 2005, with the two-part implementation of SR-NASD-2004-094 (Phase III); and January 9, 2006, with the implementation of SR-NASD-2005-120 (Phase IV-final phase).
- 5 Dissemination data would be limited to the specific TRACE data fields that NASD currently disseminates to the market, not all the information per transaction that a broker-dealer reports to TRACE, and would be for transactions that were executed between July 1, 2002 to February 6, 2005, reported to TRACE, and not disseminated. It consists of the following information: the TRACE-eligible security identifier (e.g., the TRACE symbol or the CUSIP), the price inclusive of any mark-up, mark-down, or commission; the yield; the time of execution; and if the transaction was executed on a day other than when the information is being disseminated, the actual day of execution of the transaction. Quantity is reported as the par value of the trade, subject to certain limits. If a transaction is in an Investment-Grade TRACE-eligible security and exceeds \$5 million, the quantity disseminated is \$5 followed by an "MM+," indicating that the volume figure is capped. If a transaction is in a Non-Investment-Grade TRACE-eligible security and exceeds \$1 million, the quantity disseminated is \$1, followed by "MM+." (Information on Rule 144A transactions would not be included in dissemination data because such transactions have never been subject to dissemination.)
- 6 See MSRB Notice 2004-39 (November 23, 2004).
- 7 NASD recently published *Notice to Members 06-22* (May 2006), requesting comment on whether NASD should include in the transaction information that is disseminated real-time symbols indicating if the member reporting the transaction in a TRACE-eligible security was a buyer (B) or a seller (S) and if the counterparty was a customer (C) or a dealer (D). In this *Notice*, NASD is requesting comment on whether historic TRACE transaction-level data, if made available to the public, should include such designations.

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