

Trade Reporting and Compliance Engine (TRACE)

SEC Approves Amendments to Eliminate Yield Reporting to TRACE and FINRA Will Disseminate Standard Yield in Real-Time TRACE Data

Effective Date: November 3, 2008

Executive Summary

On September 12, 2008, the Securities and Exchange Commission approved an amendment to NASD Rule 6230 (Transaction Reporting).¹ Effective November 3, 2008, member firms will no longer report yield to TRACE and FINRA will calculate and disseminate a Standard Yield in TRACE data.

The text of the rule amendment is set forth in Attachment A.

Questions regarding this *Notice* should be directed to:

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October 2008

Notice Type

- Rule Amendment

Suggested Routing

- Compliance
- Executive Representatives
- Fixed Income
- Legal
- Operations
- Senior Management
- Systems
- Trading
- Training

Key Topic(s)

- TRACE Data
- TRACE-Eligible Security
- Transaction Reporting
- Yield

Referenced Rules & Notices

- NASD Rule 6230
- SEC Rule 10b-10

Background & Discussion

Currently, a member firm that executes a transaction in a TRACE-eligible security is required to report yield under NASD Rule 6230(c)(13). Also, currently disseminated TRACE data includes the yields reported by firms. FINRA has amended NASD Rule 6230(c) to eliminate the requirement to report yield when a transaction in a TRACE-eligible security is reported to TRACE. In addition, FINRA amends its dissemination practices for TRACE data. Instead of disseminating a member-reported yield, FINRA will disseminate a Standard Yield that is calculated in the TRACE System (Standard Yield) for each transaction in a TRACE-eligible security, with limited exceptions.

Background on Standard Yield. Standard Yield for each transaction is calculated based on uniform assumptions, using a method adopted by many professional market participants.² Generally, for principal transactions, Standard Yield is calculated based upon the reported price inclusive of markup, and, for agency trades, is calculated based upon the reported price plus any reported commission. As a general rule, FINRA will not disseminate a Standard Yield when transactions occur in the types of debt securities that were set forth in NASD Rule 6230(c)(13) prior to this amendment.³

FINRA believes that disseminating Standard Yields will enhance the usefulness of disseminated TRACE data to market participants. Because the yields are calculated according to a single formula and a uniform set of assumptions, market participants, especially those who are not market professionals, may find the data more informative. For customers that have purchased TRACE-eligible securities, deleting member-reported yields from disseminated TRACE data and replacing them with Standard Yields will not limit their access to relevant yield information. Under SEC Rule 10b-10, a customer currently receives yield information in the customer's confirmation.⁴ That yield is specifically calculated, reflecting the price and various fees the customer was charged by the member firm, as required in SEC Rule 10b-10.⁵

Vendors. FINRA requires TRACE data vendors and redistributors to display yield in real-time TRACE data. Currently, certain vendors disseminate a yield that they calculate and they want to continue to do so after November 3, 2008, instead of disseminating the Standard Yield calculated by FINRA's TRACE System. FINRA will permit this flexibility, provided that a vendor that displays a yield other than the Standard Yield discloses that the vendor is disseminating a yield other than the Standard Yield.

The amendment to NASD Rule 6230(c) and the change to FINRA's dissemination practices to disseminate Standard Yield in TRACE data will become effective on November 3, 2008.⁶

Endnotes

- 1 See Securities Exchange Act Release No. 58520 (September 11, 2008), 73 FR 54193 (September 18, 2008)(order approving File No. SR-FINRA-2008-040).
- 2 FINRA's TRACE System calculates Standard Yield using a calculation library that is widely used by professionals in the securities industry. All yields are calculated and disseminated, applying uniform rules, standards and practices that are generally accepted in the industry (e.g., the Standard Yield is calculated as the internal rate of return according to a discounted cash flow model, the calculation uses a day count of 30/360, and Standard Yield is the lower of yield to call (if the bond is callable) or yield to maturity, or so-called "yield-to-worst").
- 3 For example, Standard Yield will not be disseminated if the TRACE-eligible security (1) is in default; (2) has a floating interest rate; (3) has an interest rate that will or may be "stepped-up" or "stepped-down" and the amount of increase or decrease is an unknown variable; (4) is a pay-in-kind (PIK) security; (5) is a security where the principal or interest to be paid is an unknown variable or is an amount that is not currently ascertainable; or (6) is a security for which FINRA determines that disseminating a yield would provide inaccurate or misleading information concerning the price of, or trading in, the security. See also paragraph (13) of Rule NASD 6230(c) (to be deleted effective November 3, 2008).
- 4 17 CFR 240.10b-10.
- 5 Id.
- 6 If a member firm executes a transaction before November 3, 2008, but reports it to TRACE on or after November 3, 2008, yield must be reported to TRACE. However, when information regarding the transaction reported "as/of" is disseminated by TRACE, the disseminated yield will be the Standard Yield.

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Attachment A

New language is underlined; proposed deletions are in brackets.

6200. TRADE REPORTING AND COMPLIANCE ENGINE (TRACE)

6230. Transaction Reporting

(a) through (b) No Change.

(c) Transaction Information To Be Reported

Each TRACE trade report shall contain the following information:

(1) through (10) No Change.

(11) Stated commission; and

(12) Such trade modifiers as required by either the TRACE rules or the TRACE users guide.]; and]

[(13) The lower of yield to call or yield to maturity. A member is not required to report yield when the TRACE-eligible security is a security that is in default; a security for which the interest rate is floating; a security for which the interest rate will be or may be increased (*e.g.*, certain “step-up bonds”) or decreased (*e.g.*, certain “step-down bonds”) and the amount of increase or decrease is an unknown variable; a pay-in-kind security (“PIK”); any other security where the principal or interest to be paid is an unknown variable or is an amount that is not currently ascertainable, or any other security that the Association designates if the Association determines that reporting yield would provide inaccurate or misleading information concerning the price of, or trading in, the security.]

(d) through (f) No Change.
