Regulatory Notice 12-41

Trading Activity Fee (TAF)

FINRA Amends the TAF Rate for Transactions in Covered Security Futures

Effective Date: October 1, 2012

Executive Summary

Effective October 1, 2012, the Trading Activity Fee (TAF) rate for transactions in covered security futures will decrease from $0.04 for each security futures contract traded on a round-turn basis carried in a securities account to $0.00008, with a minimum fee of $0.01 per round-turn transaction.[1] The new rate applies to round-turn transactions in security futures subject to the TAF occurring on or after October 1, 2012.

The text of the new rule is available in the online FINRA Manual.

Questions concerning this *Notice* should be directed to:

- FINRA Finance at (240) 386-5397; or
- The Office of General Counsel at (202) 728-8071.

Background & Discussion

FINRA's primary member fee structure consists of the Personnel Assessment, the Gross Income Assessment and the TAF. Revenue from these fees funds FINRA's regulatory activities, including examinations, financial monitoring, and FINRA's policymaking, rulemaking and enforcement activities.[2] Currently, the TAF is generally assessed on round-turn transactions in security futures held in securities (as opposed to futures) accounts.[3] For transactions in covered security futures, member firms must pay to FINRA a fee for each round-turn transaction (treated as including one purchase and one sale of a contract of sale for future delivery) of a security future.[4] The current TAF rate for security future transactions is $0.04 per contract for each round-turn transaction.[5]

September 2012

Notice Type

- Rule Amendment

Suggested Routing

- Compliance
- Finance
- Internal Audit
- Legal
- Operations
- Senior Management
- Systems
- Trading

Key Topics

- Security Futures
- Trading Activity Fee

Referenced Rules & Notices

- FINRA By-Laws, Schedule A, Section 1
- NTM 02-75
- NTM 02-63
- Regulatory Notice 12-31
- Regulatory Notice 10-56

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Effective September 1, 2012, the National Futures Association (NFA) amended its assessment fee on diminutive notional value contracts and security futures products from $0.04 for each security futures contract traded on a round-turn basis carried in a commodity futures account to $0.00008 per round-turn transaction with a minimum fee of $0.01 per round-turn transaction.[6] To ensure there is no disincentive to hold security futures in securities accounts because of the TAF rate, FINRA has amended the TAF rate for round-turn security future transactions from $0.04 per contract for each round-turn transaction to $0.00008 per contract for each round-turn transaction, with a minimum fee of $0.01 per round-turn transaction.[7]

Beginning with round-turn transactions in covered security futures occurring on or after October 1, 2012, the TAF rate for such transactions is $0.00008 per contract, with a minimum fee of $0.01 per round-turn transaction. The new rate will apply to any round-turn transaction in a covered security future subject to the TAF occurring on or after October 1, 2012. The TAF Self-Reporting Form[8] will reflect this new rate beginning with TAF Self-Reporting Forms due on November 15, 2012,[9] which reflect trades subject to the TAF occurring in October 2012.[10]

Endnotes

1. *See* SR-FINRA-2012-044.
2. *See* FINRA By-Laws, Schedule A, § 1(a).
3. *See* FINRA By-Laws, Schedule A, § 1(a), (b)(2)(J).
4. *See* FINRA By-Laws, Schedule A, § 1(b)(3)(C).
5. *See* FINRA By-Laws, Schedule A, § 1. This rate has been in place since October 1, 2002. *See* *Notice to Members 02-75* (November 2002).
6. *See* NFA Notice to Members I-12-15 (July 20, 2012); *see also* NFA Filing from Thomas W. Sexton, Senior Vice President and General Counsel, NFA, to David A. Stawick, Office of the Secretariat, CFTC, dated June 1, 2012.
7. Since the TAF was adopted, FINRA has charged trades in security futures that result in delivery of the underlying securities based on the TAF equity rate structure rather than the rate for round-turn transactions in security futures. *See* *Notice to Members 02-63*, Question 10 (Sept. 2002); *see also* TAF Frequently Asked Question 500.4. FINRA is not changing this guidance. As of July 1, 2012, the TAF rate on covered equity securities is $0.000119 per share, with a per-transaction cap of $5.95. *See* *Regulatory Notice 12-31* (June 2012).
8. FINRA maintains a TAF page on its website that provides firms with additional guidance on the TAF, including Frequently Asked Questions (FAQ), as well as applicable forms. See *Regulatory Notice 10-56* (October 2010).
9. The TAF is self-reported by firms on a monthly basis. *See* TAF FAQ 100.5. TAF Self-Reporting Forms should be submitted to FINRA by the tenth business day following the end of the month. *See* TAF FAQ 100.7.
10. The TAF is calculated based on trade date, not settlement date. *See* TAF FAQ 100.8.

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