Trade Reporting Notice

Obligation to Report Cancellations of OTC Trades in Equity Securities, Including Trades Declined by the Contra Party

July 11, 2014

Key Topics

- Alternative Display Facility
- Cancellations
- Declined Trades
- OTC Reporting Facility
- Trade Reporting
- Trade Reporting Facilities

Referenced Rules & Notices

- FINRA Rule 6282
- FINRA Rule 6380A
- FINRA Rule 6380B
- FINRA Rule 6622
- FINRA Rule 7130
- FINRA Rule 7140
- FINRA Rules 7230A
- FINRA Rule 7240A
- FINRA Rule 7230B
- FINRA Rule 7330
- FINRA Rule 7340
- Regulatory Notice 14-21

Executive Summary

FINRA is reminding reporting firms of their obligation to report cancellations of over-the-counter (OTC) trades reported to a FINRA facility in accordance with FINRA rules. This obligation applies to all trades reported for publication purposes that ultimately do not clear and settle, including, for example, trades that have been declined by the contra party.

Questions regarding this *Notice* may be directed to:

- the Legal Section, Market Regulation, at (240) 386-5126;
- FINRA Operations at (866) 776-0800; or
- Office of General Counsel at (202) 728-8071.

Discussion

FINRA rules require that firms report cancellations (and reversals) of OTC trades in equity securities that were previously reported to FINRA to the FINRA facility used for the original report (*i.e.*, to a Trade Reporting Facility (TRF), the OTC Reporting Facility (ORF) or the Alternative Display Facility (ADF)).[1] The firm that is obligated to report the original trade also has the obligation to report the cancellation (or reversal) in accordance with FINRA rules.[2]

Firms are reminded that if a trade reported for public dissemination purposes ultimately does not clear and settle, reporting firms must submit a cancellation (or reversal, if applicable) to remove the trade from the "tape" (*i.e.*, the real-time data stream of consolidated trade execution and quotation information disseminated by the Securities Information Processors (SIPs)) so that the tape accurately reflects that the trade did not take place.[3] The FINRA facilities do not take such action on an automated basis on behalf of participants. For example, if the contra party declines a trade submitted to a FINRA facility that offers match/comparison functionality,[4] the reporting

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firm must submit a cancellation to remove the trade from the tape, if it ultimately did not clear and settle.[5] This obligation also applies to trades that are reported to FINRA for public dissemination purposes only (and not cleared through the FINRA facility) and trades that are submitted for public dissemination purposes and locked-in for clearing via an automatic give-up agreement (AGU) or National Securities Clearing Corporation's Qualified Special Representative agreement (QSR). If such trades ultimately do not clear and settle, then the reporting firm must submit a cancellation (or reversal, if applicable) to remove the trade from the tape. This requirement is designed to help ensure that the tape is accurate and does not reflect trades that are not effectuated.

Firms must report cancellations in the time frames set forth under FINRA rules. For example, for trades executed between 9:30 a.m. and 4:00 p.m. Eastern Time and cancelled at or before 4:00 p.m. on the date of execution, the reporting firm must report the cancellation as soon as practicable but no later than 10 seconds after the time the trade is cancelled. For trades cancelled after the date of execution (*e.g.*, T+1), the reporting firm must report the cancellation on the date of cancellation, if the trade is cancelled during the hours the FINRA facility is open, or the next day, if the trade is cancelled after the FINRA facility has closed.

Where a trade is declined by the contra party, the reporting firm should submit the cancellation as soon as practicable, but no later than the end of the day on which the trade was declined. FINRA believes that this approach affords firms the opportunity to conduct any necessary research regarding the trade and why it might have been declined, while ensuring that the tape is corrected as soon as possible.

Endnotes

1. *See* FINRA Rules 6282(g)(1) and 7130(g)(1); 6380A(g)(1) and 7230A(f)(1); 6380B(f)(1) and 7230B(e)(1); and 6622(f)(1) and 7330(f)(1).

2. Generally, today, firms report a "cancellation" when trades are cancelled on the date of execution and a "reversal" when trades are cancelled on any day after the date of execution (T+N). Upon implementation of planned systems enhancements, firms will be able to cancel trades submitted to the FINRA facilities up to T+3, and after that, they will submit a reversal.

3. A cancellation message will be disseminated with the trade details of the trade being removed, and the cancellation will update the high, low or last sale price, if the trade being cancelled was the high, low or last sale price.

4. The FINRA facilities that offer match/compare functionality are the FINRA/Nasdaq TRF, the ORF and the ADF.

5. This long-standing requirement was recently made explicit in FINRA rules. *See* FINRA Rules 7140, 7240A and 7340 and *Regulatory Notice 14-21*. FINRA notes that the reporting firm should only cancel trades that ultimately do not clear and settle. Thus, for example, if a trade was declined because it was erroneously submitted for match/comparison by the reporting firm (and instead should have been submitted as "tape only" or already locked in via AGU or QSR), then the reporting firm would not cancel the trade.