

OMB APPROVAL

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No. SR - 2008 - 011

Amendment No.

Proposed Rule Change by Financial Industry Regulatory Authority

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial ☒ Amendment ☐ Withdrawal ☐

Section 19(b)(2) ☒Section 19(b)(3)(A) ☐Section 19(b)(3)(B) ☐

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☐ 19b-4(f)(6)

Pilot ☐ Extension of Time Period
for Commission Action ☐ Date Expires

Exhibit 2 Sent As Paper Document
☐

Exhibit 3 Sent As Paper Document
☐

Description

Provide a brief description of the proposed rule change (limit 250 characters).

Proposed Rule Change to Amend Trade Reporting Structure and Require Submission of Non-Tape Reports to Identify Other Members for Agency and Riskless Principal Transactions

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name Last Name
Title
E-mail
Telephone Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date

By
(Name)

(Title)

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EDFS website.

Form 19b-4 Information

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a National Association of Securities Dealers, Inc. (“NASD”)) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend its trade reporting rules applicable to over-the-counter (OTC) equity transactions² to: (1) replace the current market maker-based trade reporting framework with an “executing party” framework; and (2) require that any member with the trade reporting obligation under FINRA rules that is acting in a riskless principal or agency capacity on behalf of one or more other members submit non-tape report(s) to FINRA, as necessary, to identify such other member(s) as a party to the trade. The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

At its meeting on April 19, 2007, the FINRA (then the NASD) Board of Governors authorized the filing with the SEC of the proposed rule change relating to the

¹ 15 U.S.C. 78s(b)(1).

² Specifically, OTC equity transactions are: (1) transactions in NMS stocks, as defined in SEC Rule 600(b) of Regulation NMS under the Act, effected otherwise than on an exchange, which are reported through the Alternative Display Facility (ADF) or a Trade Reporting Facility (TRF); and (2) transactions in “OTC Equity Securities,” as defined in NASD Rule 6610 (e.g., OTC Bulletin Board and Pink Sheets securities), Direct Participation Program (DPP) securities and PORTAL equity securities, which are reported through the OTC Reporting Facility (ORF). The ADF, TRFs and ORF are collectively referred to herein as the “FINRA Facilities.”

trade reporting structure. At its meeting on February 6, 2008, the FINRA Board of Governors authorized the filing with the SEC of the proposed rule change relating to the submission of non-tape reports to identify other members for agency and riskless principal transactions. No other action by FINRA is necessary for the filing of the proposed rule change.

FINRA will announce the operative date of the proposed rule change on its website. In recognition of the technological changes that the proposed rule change will require, the operative date will be (1) at least 90 days following Commission approval for transactions executed on alternative trading systems (“ATS”), including electronic communications networks; and (2) at least 180 days following Commission approval with respect to all other transactions.

3. **Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) Purpose

Trade Reporting Structure

Currently, the following structure is in place for purposes of reporting most OTC equity transactions to FINRA: (1) in transactions between two market makers, the sell-side reports; (2) in transactions between a market maker and a non-market maker, the market maker reports; (3) in transactions between two non-market makers, the sell-side reports; and (4) in transactions between a member and either a non-member or customer, the member reports.³ This reporting structure can result in confusion, delays and double-

³ See NASD Rules 4632(b) and 6130(c) relating to the NASD/Nasdaq TRF; 4632A(b) relating to the ADF; 4632C(b) and 6130C(c) relating to the NASD/NSX TRF; 4632E(b) and 6130E(c) relating to the NASD/NYSE TRF; and 6130(c) and 6620(b) relating to the ORF.

reporting, as the parties to a trade attempt to determine which party has the trade reporting obligation. Today, a firm's status as a market maker may not always be apparent to the contra-party to a trade and, increasingly, firms' proprietary desks (other than their market making desks) are handling and executing transactions in equity securities. In addition, members are required to report whether any applicable exception or exemption to SEC Rule 611 of Regulation NMS (the Order Protection Rule) applies to a transaction, which is information that may not be readily known to the party with the reporting obligation if it is not the executing broker to the transaction, e.g., whether the executing broker has routed intermarket sweep orders in compliance with SEC Rule 611(b)(6).

Accordingly, FINRA is proposing to adopt a simpler, more uniform structure for purposes of reporting OTC equity transactions to FINRA. Specifically, FINRA is proposing to amend NASD Rules 4632(b), 4632A(b), 4632C(b), 4632E(b), 6620(b) and 6920(b) to require that for transactions between members, the "executing party" report the trade to FINRA. For transactions between a member and a non-member or customer, the member would report the trade.⁴

For purposes of reporting transactions in DPP securities to FINRA, NASD Rule 6920(b) requires that in a transaction between two members, the member representing the sell-side report and in a transaction between a member and customer, the member report.

⁴ In addition, FINRA is proposing to amend NASD Rules 6130(c), 6130C(c) and 6130E(c) to delete the duplicative rule provisions in subparagraphs (1) through (4) and cross-reference NASD Rules 4632(b) and 6620(b), 4632C(b) and 4632E(b), respectively.

FINRA also notes that the proposed executing party reporting structure would apply to the reporting of transactions in PORTAL equity securities to FINRA. Pursuant to NASD Rule 6732(a)(3), the member with the obligation to report such transactions to FINRA is determined in accordance with NASD Rule 6620(b).

FINRA is proposing to define “executing party” as the member that receives an order for handling or execution or is presented an order against its quote, does not subsequently re-route the order, and executes the transaction. In certain limited circumstances, it may not be clear which member should be deemed the executing party for trade reporting purposes (e.g., manually negotiated trades via the telephone). Accordingly, FINRA is proposing to require expressly that for transactions between two members where both members may satisfy the definition of executing party, the member representing the sell-side shall report the transaction to FINRA, unless the parties agree otherwise and the member representing the sell-side contemporaneously documents such agreement. In such instances, the sell-side will be presumed to be the member with the trade reporting obligation unless it can demonstrate there was an agreement to the contrary, e.g., contemporaneous notes of a telephone conversation or notation on the order ticket. FINRA believes that this approach will establish an objective standard for determining the reporting obligation in these circumstances, while affording the parties flexibility if, for example, the member representing the buy-side is the party that knows the material terms and details of the trade and thus is in the better position to report the trade.

Under the proposed rule change, ATSs, including electronic communications networks, would be the executing party and have the reporting obligation where the transaction is executed on the ATS. If an ATS routes an order to another member for handling and/or execution, then the other member would be the executing party and have the reporting obligation under the proposed rule change. If an ATS routes an order to a non-member that is executed OTC, then the ATS would report the trade. Accordingly,

FINRA is proposing to delete subparagraphs (5) through (7) from NASD Rules 6130(c), 6130C(c) and 6130E(c) relating to trade reporting by a “Reporting ECN.”⁵ Under the current rules, a Reporting ECN is required to ensure that trades are reported in accordance with one of three enumerated methods and must notify FINRA in writing of the method of reporting for each of its subscribers.⁶ FINRA notes that today, most ATSs elect to report transactions to FINRA using the first reporting method, i.e., the ATS submits the trade report and identifies itself as the Reporting Party. Thus, FINRA believes that the proposed rule change would clarify the reporting requirements for ATSs and would better align the rules with current trade reporting practices.

Finally, FINRA is proposing to make certain technical conforming changes, including to (1) delete NASD Rules 4632(b)(5), 4632C(b)(5), 4632E(b)(5), 6620(b)(5) and 6920(b)(3) relating to reporting by a Reporting ECN, (2) delete the definitions of, and references to, “Reporting ECN,” “Reporting Market Maker” and “Reporting Order Entry Firm” in NASD Rules 6110, 6110C and 6110E, which terms would be obsolete as a result of the proposed rule change, and (3) amend NASD Rules 6130(d)(5), 6130C(d)(5) and 6130E(d)(5) to replace the terms “Market Maker side” and “Order Entry side” with “MMID or Reporting Party side” and “OEID or non-Reporting Party side,” respectively.

⁵ “Reporting ECN” generally is defined in NASD Rules 6110, 6110C and 6110E as an electronic communications network or alternative trading system, as those terms are defined in SEC Rule 600(b) of Regulation NMS.

⁶ FINRA notes that the three reporting methods apply only for purposes of reporting trades to a TRF or the ORF. There is no comparable provision relating to reporting trades to the ADF.

FINRA believes that the proposed rule change would result in more accurate and timely trade reporting and make the trade reporting process less cumbersome for members. The proposed rule change would ensure that the member with the trade reporting obligation is the party that knows the material terms and details of the transaction, including any exceptions or exemptions to the Order Protection Rule that may apply to the trade. Furthermore, many members have entered into agreements to permit the executing party to report on behalf of the member with the reporting obligation under FINRA's current rules. Thus, FINRA believes that, to a large extent, the proposed rule change would be consistent with current trade reporting practices.

Submission of Non-Tape Reports to Identify Other Members for Agency and Riskless Principal Transactions

As a general matter, FINRA trade reporting rules require that a member that is a party to an OTC trade be identified in trade reports submitted to FINRA. Each trade report submitted for public dissemination purposes (or "tape report") generally only allows for the identification of two parties. Thus, where a FINRA member executes a trade in a riskless principal⁷ or agency capacity on behalf of another member, or matches, as agent, the orders of two or more members, the tape report will not identify all members involved in the trade. In such circumstances, additional "non-tape reports," i.e., reports

⁷ For purposes of FINRA trade reporting rules applicable to equity securities, a "riskless principal" transaction is a transaction in which a member, after having received an order to buy (sell) a security, purchases (sells) the security as principal and satisfies the original order by selling (buying) as principal at the same price.

that are not submitted to the tape for public dissemination,⁸ would need to be submitted to identify all members involved in the trade.

Today, some members submit non-tape reports to FINRA identifying the other members involved in the trade, while other members do not. FINRA trade reporting rules generally are not specific in this regard because, for the most part, they reflect the traditional two-party trade model where a broker-dealer acts as principal or as agent for a non-broker-dealer customer. Industry business models have evolved to include more trades where one broker-dealer acts as agent or riskless principal for another broker-dealer and order management systems and ATSS can simultaneously match one or more broker-dealer orders on one or both sides of a trade.

To address these changes, FINRA is proposing to adopt NASD Rules 4632(d)(4), 4632A(e)(1)(D), 4632C(d)(4), 4632E(d)(4), 6620(d)(4) and 6920(d)(5) to require that any member with the obligation to report the trade under FINRA rules that is acting in a riskless principal or agency capacity on behalf of one or more other members submit to FINRA one or more non-tape report(s) identifying such other member(s) as a party to the transaction, if such other member(s) is not identified on the initial trade report or a report submitted to FINRA to reflect the offsetting leg of a riskless principal transaction. In addition, FINRA is proposing to amend NASD Rule 6732(a)(3), which currently cross-references the trade reporting structure in NASD Rule 6620(b), to also cross-reference NASD Rule 6620(d), thereby making the proposed reporting requirement applicable to

⁸ Non-tape reports can be (1) “non-tape, non-clearing,” meaning that the report is submitted to FINRA solely for regulatory purposes, or (2) “clearing-only,” meaning that the report is submitted to FINRA for clearing, i.e., for submission by FINRA to the National Securities Clearing Corporation (and perhaps also regulatory purposes).

PORTAL equity security transactions. A member that matches, as agent, the orders of multiple members on one or both sides of the trade would be required to submit multiple non-tape reports, as necessary, to identify all members on whose behalf the member was acting.

For example, where Member A, as agent or riskless principal on behalf of Member B, executes an OTC trade with Member C, and Member A has the obligation to report the trade to FINRA, Member A also would be required to submit a non-tape report to FINRA to indicate that it was acting on behalf of Member B. By way of further example, where Member A matches, as agent, the orders of Member B and Member C and submits to FINRA a tape report between Member A and Member C, Member A also would be required to submit a non-tape report to identify Member B as a party to the trade. In this example, if Member A were to report the trade to the tape as an agency cross (such that neither Member B nor Member C is identified on the tape report), then Member A would be required to submit two non-tape reports to identify Members B and C. In these examples, Member A can satisfy its reporting obligation under the proposed rule change by submitting a clearing-only report, if necessary to clear the offsetting leg(s) of the transaction through a FINRA Facility. However, if the parties do not need to clear the offsetting leg(s) of the transaction through a FINRA Facility, then Member A would be required to submit a non-tape, non-clearing report(s). Additionally, if Member A is required to submit a non-tape report to comply with applicable riskless principal

reporting requirements under FINRA rules⁹ and such report identifies Member B, then Member A would have no separate reporting obligation under the proposed rule change.

The proposed reporting requirement would only apply to the member that has the responsibility under FINRA rules to report the trade to FINRA (i.e., the “executing party” in a trade between two members, as discussed above). For example, where Member A, as agent on behalf of Member B, and Member C execute an OTC trade, and Member C has the obligation to report the trade to FINRA, Member A would not be required under the proposed rule change to submit a non-tape report to indicate that it was acting on behalf of Member B.

However, the proposed rule change expressly would not negate or modify the requirements for reporting riskless principal transactions under FINRA rules. Thus, drawing on the example in the paragraph above, if Member A is acting as riskless principal (as opposed to agent) on behalf of Member B, Member A currently is required to submit a non-tape report to reflect the offsetting leg of the transaction under FINRA riskless principal rules, if the tape report does not properly reflect Member A’s capacity as riskless principal.¹⁰ This requirement would not change under the proposed rule change. Additionally, the proposed rule change would not change the reporting requirements applicable to riskless principal transactions with a customer.

⁹ If an OTC riskless principal transaction is not reported to FINRA in a single tape report properly marked as riskless principal, then two separate reports must be submitted: (1) a tape report to reflect the initial leg of the transaction and (2) a non-tape report to reflect the offsetting, “riskless” leg of the transaction, with the correct capacity of riskless principal. See NASD Rules 4632(d)(3)(B), 4632A(e)(1)(C)(ii), 4632C(d)(3)(B), 4632E(d)(3)(B) and 6620(d)(3)(B).

¹⁰ If Member A’s capacity is properly marked as riskless principal on the tape report, Member A would not be required to submit a non-tape report to FINRA.

FINRA notes that the proposed reporting requirement would not apply to transactions that are executed on and reported through an exchange. Today, where the initial leg of a riskless principal or agency transaction is executed on an exchange, members are not required to report either leg of the transaction to FINRA. The initial leg of the transaction is reported through the exchange (and therefore must not be reported to FINRA), and members have the option of submitting a non-tape (typically, a clearing-only) report to FINRA for the offsetting leg of the transaction. Pursuant to the proposed rule change, members would continue to have the option of submitting a non-tape report for riskless principal and agency transactions where the initial leg is executed on an exchange; however, there would continue to be no obligation to submit a non-tape report for such trades. Thus, for example, where Member A, as agent or riskless principal on behalf of Member B, executes a trade on an exchange, the trade will be reported to the tape by the exchange and, under the proposed rule change, Member A would not be required to submit a non-tape report to FINRA to indicate that it was acting on behalf of Member B. However, Member A would be permitted to submit a clearing-only report to clear the offsetting leg of the transaction between Member A and Member B through a FINRA Facility. See FINRA Regulatory Notice 07-38 (August 2007).

To clarify the scope and application of the proposed reporting requirement, FINRA is proposing to include several examples in the proposed rule text. FINRA notes that these examples are not intended to represent all possible trade reporting scenarios under the proposed rule change. Additionally, consistent with the definition of “riskless principal” in other FINRA rules applicable to OTC equity trade reporting, FINRA is proposing to amend the definition of “riskless principal transaction” in NASD Rule 6910

to clarify that a member may act in a riskless principal capacity on behalf of another broker-dealer as well as a customer.¹¹

Finally, FINRA notes that because members would be submitting non-tape reports, the 90-second reporting requirement under FINRA trade reporting rules would not apply. Thus, members generally would have until the end of the day on trade date to submit the requisite non-tape reports.¹²

FINRA believes that the proposed rule change would enhance FINRA staff's ability to create a complete and accurate audit trail and assist in the automated surveillance of various customer protection and market integrity rules.

Many members today submit clearing-only reports to FINRA in instances where the proposed reporting requirement would apply, e.g., if a member needs to clear the offsetting leg of an agency transaction through a FINRA Facility or if a member elects under FINRA rules to report an OTC riskless principal trade in related tape and non-tape reports. Thus, for some members, the proposed rule change may not require any changes to current reporting practices and systems. For other members, however, the proposed rule change would require systems changes, e.g., if a member does not need to clear the offsetting leg of an agency transaction through a FINRA Facility. Additionally, where a member reports a riskless principal transaction to FINRA in a single properly marked tape report, a non-tape report would be required under the proposed rule change if the

¹¹ FINRA also is proposing a technical change to insert paragraph headings for ease of reference in NASD Rules 4632(d), 4632A(e)(1), 4632C(d), 4632E(d), 6620(d) and 6920(d).

¹² In certain circumstances, however, members must submit non-tape reports contemporaneously with trade execution, e.g., to qualify for the exemption from the requirements of IM-2110-2 (Trading Ahead of Customer Limit Order) for riskless principal transactions.

member is acting on behalf of another member. FINRA is requesting that the SEC specifically solicit comment regarding the potential costs and technology impact of the proposed rule change.

As noted in Item 2 of this filing, FINRA will announce the operative date of the proposed rule change on its website. In recognition of the technological changes that the proposed rule change will require, the operative date will be (1) at least 90 days following Commission approval for transactions executed on ATSs, including electronic communications networks; and (2) at least 180 days following Commission approval with respect to all other transactions. FINRA believes that a shorter implementation period is appropriate for ATSs because, as noted above, most ATSs currently are the reporting party for transactions executed on the ATS and some voluntarily submit non-tape reports to reflect all FINRA members that are parties to a trade.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,¹³ which requires, among other things, that FINRA rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change to amend the trade reporting structure will result in more accurate and timely trade reporting and thus enhance market transparency. Additionally, FINRA believes that the proposed rule change to require the submission of non-tape reports to identify other members for agency and riskless principal transactions will promote a more complete and accurate audit trail.

¹³ 15 U.S.C. 78o-3(b)(6).

4. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

In September 2007, FINRA published Regulatory Notice 07-46 soliciting comment on a proposal to adopt a simpler and more uniform trade reporting structure. Nine comment letters were received in response to the Notice.¹⁴ A copy of the Notice is attached as Exhibit 2a. A list of the comment letters received in response to the Notice is attached as Exhibit 2b. Copies of the comment letters received in response to the Notice are attached as Exhibit 2c.

All of the commenters support the adoption of a new trade reporting structure, asserting that the current structure can be confusing and create delays and reporting errors. Seven of the nine commenters support the proposed executing party reporting structure, asserting that this structure is the most logical and efficient approach.¹⁵ These commenters assert that the executing party knows the material terms and details of the

¹⁴ See Letter from Liquidnet, Inc., dated October 26, 2007 ("Liquidnet"); letter from Archipelago Trading Services, Inc., dated November 6, 2007 ("ArcaEdge"); letter from Financial Information Forum, dated November 8, 2007 ("FIF"); letter from Pipeline Trading Systems LLC, dated November 12, 2007 ("Pipeline"); letter from Automated Trading Desk, LLC, dated November 12, 2007 ("ATD"); letter from TD AMERITRADE, Inc., dated November 15, 2007 ("TD AMERITRADE"); letter from UBS Securities LLC, dated November 15, 2007 ("UBS"); letter from The Securities Industry and Financial Markets Association, dated November 16, 2007 ("SIFMA"); and letter from BNY ConvergeEx Execution Solutions LLC, Charles Schwab & Co., Inc., National Financial Services LLC and Pershing LLC, dated November 30, 2007 ("BNY").

¹⁵ FIF, Pipeline, ATD, TD AMERITRADE, UBS, SIFMA and BNY.

transaction, as well as any Order Protection Rule exceptions or exemptions that apply to the trade,¹⁶ and thus is in the best position to report in a timely manner¹⁷ and to correct reporting errors.¹⁸ In addition, several commenters note that industry practice is for executing parties to trade report; most executing parties already have established systems to trade report and many firms have entered give-up agreements to replicate the executing party reporting structure.¹⁹

One commenter states that it is unclear whether the advantages of Qualified Service Representative (QSR) agreements would remain under the proposed executing party reporting structure and strongly urges that any changes continue to keep the QSR process intact.²⁰ FINRA notes that a QSR agreement is a National Securities Clearing Corporation agreement and, for FINRA purposes, merely establishes that one party can send a trade to clearing on behalf of the other party. A give up agreement still is required for a member to report trade information to a FINRA Facility on behalf of another member, even if the parties have a QSR agreement in effect. See NASD Member Alert: Notice to All TRF, ADF and Other NASD Facility Participants Regarding AGU and QSR Relationships (January 25, 2007). The proposed rule change would not change the QSR process or member obligations with respect to give up agreements.

In Regulatory Notice 07-46, FINRA specifically requested comment on how

¹⁶ FIF, ATD, UBS and SIFMA.

¹⁷ Pipeline and UBS.

¹⁸ ATD.

¹⁹ ATD, TD AMERITRADE and BNY.

²⁰ TD AMERITRADE.

“executing party” should be defined. The commenters generally suggest that the “executing party” should be defined as the party that receives the order electronically for execution, does not subsequently re-route the order, and agrees to execute the trade, or in other words, the broker that is the “final recipient” and determines the price.²¹ One commenter states that in the electronic marketplace, the identity of the order entry broker generally will be readily apparent based on which party is initiating or seeking an execution, and the executing party’s identity will be equally apparent based on which party is receiving the order for execution.²² This commenter provides the following example: A displays a limit order to sell 100 shares at \$10. B routes an order to buy 100 shares against A’s displayed order. In this example, it is clear that A is the executing broker and B is the order entry broker; B initiated and sought out an execution against A’s displayed limit order.²³ As discussed above, FINRA is proposing to define “executing party” substantially as proposed by these commenters.

In instances of telephone orders, three commenters believe that the same approach should be followed (i.e., the executing party is the “answering” or “receiving” or “responding” broker), unless the parties agree to the contrary.²⁴ One commenter believes that in the case of telephone trades, the sell-side member should be the reporting party,²⁵ while another commenter asserts that the current trade reporting structure should apply in

²¹ FIF, ATD, UBS, SIFMA and BNY.

²² ATD.

²³ ATD.

²⁴ ATD, SIFMA and BNY.

²⁵ FIF.

such instances.²⁶ Additionally, one commenter asserts that the executing party may not be clear when a member requests a quote from another member, receives a quote and then agrees to trade at the quoted price, and suggests that the member responding to the request for a quote (i.e., the price-making firm) should be deemed the executing party.²⁷ As discussed above, FINRA is proposing to require that where it may be difficult to determine which member satisfies the definition of “executing party,” such as telephone and other manually negotiated trades, the member representing the sell-side report, unless the parties agree otherwise. Several commenters note that in today’s market, the number of telephone negotiated trades is relatively small compared to the number of trades involving the routing of electronic orders, and thus the instances where it would not be clear which member is the executing party should be limited.²⁸ In the words of one commenter, “[a]ll but a tiny fraction of orders in the current marketplace are routed electronically” and as such, “in the vast majority of transactions, there is no doubt about which entity is the Executing Broker.”²⁹

Two commenters support a sell-side reporting structure, whereby the member representing the sell-side would report a trade between members.³⁰ One commenter asserts that in all cases, it would be clear which party is selling and which party is buying, but the distinction between the executing party and introducing broker could be unclear

²⁶ UBS.

²⁷ BNY.

²⁸ UBS, SIFMA and BNY.

²⁹ BNY.

³⁰ Liquidnet and ArcaEdge.

in certain cases.³¹ FINRA disagrees and believes that where Member A, an introducing broker, routes an order for handling and/or execution to Member B, and Member B does not re-route the order and executes the trade, it is clear that Member B is the executing party. This commenter also asserts that in a trade between two brokers, the selling broker should be the reporting party, but the brokers should have full flexibility to override this default rule and designate the buyer as the reporting party.³² FINRA believes that the determination of which member has the trade reporting obligation should not be subject to agreement between the parties, except in limited circumstances as discussed above, as that approach would result in confusion and possible under or double reporting. FINRA notes, however, that members can enter into give up agreements under FINRA rules, whereby one member can trade report on behalf of the other member, while the member with the reporting obligation under FINRA rules remains responsible for trades submitted on its behalf.

The second commenter supports sell-side reporting in light of the problems with the current market maker-based reporting structure, noting that these problems are compounded in the context of ATS trades, where non-subscribers may not recognize that the reporting responsibility lies with the ATS.³³ As discussed above, under the proposed executing party structure, it would be clear that an ATS has the reporting responsibility where the trade is executed on the ATS.

The commenters opposing the sell-side reporting structure assert that this

³¹ Liquidnet.

³² Liquidnet.

³³ ArcaEdge.

approach would be less efficient and could increase the rate of unreported or inaccurately reported trades.³⁴ These commenters further assert that a sell-side broker that is not also the executing party will not have access to necessary information, such as exceptions and exemptions under the Order Protection Rule, may not be able to easily obtain this information and will not be able to independently verify this information.³⁵ Additionally, another commenter asserts that while an originating broker would be the seller if its sale were executed by the first broker to whom it routed its orders, frequently re-routed orders could make it difficult to determine which party has the reporting responsibility under a sell-side structure.³⁶ Furthermore, the commenters assert that a sell-side reporting structure would be costly because it would require members that currently do not trade report to implement trade reporting systems.³⁷ FINRA agrees with these commenters, and as discussed above, is proposing to adopt the executing party trade reporting structure.

6. Extension of Time Period for Commission Action

FINRA does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.³⁸

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

³⁴ FIF, Pipeline and BNY.

³⁵ FIF, SIFMA and BNY.

³⁶ Pipeline.

³⁷ TD AMERITRADE and BNY.

³⁸ 15 U.S.C. 78s(b)(2).

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Exhibits

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 2. FINRA Regulatory Notice 07-46 (September 2007) and comments received in response to FINRA Regulatory Notice 07-46 (September 2007). A copy of the Notice is attached as Exhibit 2a. A list of the comment letters received in response to the Notice is attached as Exhibit 2b. Copies of the comment letters received in response to the Notice are attached as Exhibit 2c.

Exhibit 5. Text of proposed rule change marked to show additions to and deletions from the current rule language.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-FINRA-2008-011)

Self-Regulatory Organizations: Financial Industry Regulatory Authority, Inc.; Notice of Filing of Proposed Rule Change to Amend Trade Reporting Structure and Require Submission of Non-Tape Reports to Identify Other Members for Agency and Riskless Principal Transactions

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on , Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a National Association of Securities Dealers, Inc. (“NASD”)) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to amend its trade reporting rules applicable to over-the-counter (OTC) equity transactions³ to: (1) replace the current market maker-based trade

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Specifically, OTC equity transactions are: (1) transactions in NMS stocks, as defined in SEC Rule 600(b) of Regulation NMS under the Act, effected otherwise than on an exchange, which are reported through the Alternative Display Facility (ADF) or a Trade Reporting Facility (TRF); and (2) transactions in “OTC Equity Securities,” as defined in NASD Rule 6610 (e.g., OTC Bulletin Board and Pink Sheets securities), Direct Participation Program (DPP) securities and PORTAL equity securities, which are reported through the OTC Reporting Facility (ORF). The ADF, TRFs and ORF are collectively referred to herein as the “FINRA Facilities.”

reporting framework with an “executing party” framework; and (2) require that any member with the trade reporting obligation under FINRA rules that is acting in a riskless principal or agency capacity on behalf of one or more other members submit non-tape report(s) to FINRA, as necessary, to identify such other member(s) as a party to the trade. The text of the proposed rule change is attached as Exhibit 5.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Trade Reporting Structure

Currently, the following structure is in place for purposes of reporting most OTC equity transactions to FINRA: (1) in transactions between two market makers, the sell-side reports; (2) in transactions between a market maker and a non-market maker, the market maker reports; (3) in transactions between two non-market makers, the sell-side reports; and (4) in transactions between a member and either a non-member or customer, the member reports.⁴ This reporting structure can result in confusion, delays and double-

⁴ See NASD Rules 4632(b) and 6130(c) relating to the NASD/Nasdaq TRF; 4632A(b) relating to the ADF; 4632C(b) and 6130C(c) relating to the

reporting, as the parties to a trade attempt to determine which party has the trade reporting obligation. Today, a firm's status as a market maker may not always be apparent to the contra-party to a trade and, increasingly, firms' proprietary desks (other than their market making desks) are handling and executing transactions in equity securities. In addition, members are required to report whether any applicable exception or exemption to SEC Rule 611 of Regulation NMS (the Order Protection Rule) applies to a transaction, which is information that may not be readily known to the party with the reporting obligation if it is not the executing broker to the transaction, e.g., whether the executing broker has routed intermarket sweep orders in compliance with SEC Rule 611(b)(6).

Accordingly, FINRA is proposing to adopt a simpler, more uniform structure for purposes of reporting OTC equity transactions to FINRA. Specifically, FINRA is proposing to amend NASD Rules 4632(b), 4632A(b), 4632C(b), 4632E(b), 6620(b) and 6920(b) to require that for transactions between members, the "executing party" report the trade to FINRA. For transactions between a member and a non-member or customer, the member would report the trade.⁵

NASD/NSX TRF; 4632E(b) and 6130E(c) relating to the NASD/NYSE TRF; and 6130(c) and 6620(b) relating to the ORF.

For purposes of reporting transactions in DPP securities to FINRA, NASD Rule 6920(b) requires that in a transaction between two members, the member representing the sell-side report and in a transaction between a member and customer, the member report.

⁵ In addition, FINRA is proposing to amend NASD Rules 6130(c), 6130C(c) and 6130E(c) to delete the duplicative rule provisions in subparagraphs (1) through (4) and cross-reference NASD Rules 4632(b) and 6620(b), 4632C(b) and 4632E(b), respectively.

FINRA is proposing to define “executing party” as the member that receives an order for handling or execution or is presented an order against its quote, does not subsequently re-route the order, and executes the transaction. In certain limited circumstances, it may not be clear which member should be deemed the executing party for trade reporting purposes (e.g., manually negotiated trades via the telephone). Accordingly, FINRA is proposing to require expressly that for transactions between two members where both members may satisfy the definition of executing party, the member representing the sell-side shall report the transaction to FINRA, unless the parties agree otherwise and the member representing the sell-side contemporaneously documents such agreement. In such instances, the sell-side will be presumed to be the member with the trade reporting obligation unless it can demonstrate there was an agreement to the contrary, e.g., contemporaneous notes of a telephone conversation or notation on the order ticket. FINRA believes that this approach will establish an objective standard for determining the reporting obligation in these circumstances, while affording the parties flexibility if, for example, the member representing the buy-side is the party that knows the material terms and details of the trade and thus is in the better position to report the trade.

Under the proposed rule change, ATSs, including electronic communications networks, would be the executing party and have the reporting obligation where the transaction is executed on the ATS. If an ATS routes an order to another member for handling and/or execution, then the other member would be the executing party and have

FINRA also notes that the proposed executing party reporting structure would apply to the reporting of transactions in PORTAL equity securities to FINRA. Pursuant to NASD Rule 6732(a)(3), the member with the obligation to report such transactions to FINRA is determined in accordance with NASD Rule 6620(b).

the reporting obligation under the proposed rule change. If an ATS routes an order to a non-member that is executed OTC, then the ATS would report the trade. Accordingly, FINRA is proposing to delete subparagraphs (5) through (7) from NASD Rules 6130(c), 6130C(c) and 6130E(c) relating to trade reporting by a “Reporting ECN.”⁶ Under the current rules, a Reporting ECN is required to ensure that trades are reported in accordance with one of three enumerated methods and must notify FINRA in writing of the method of reporting for each of its subscribers.⁷ FINRA notes that today, most ATSs elect to report transactions to FINRA using the first reporting method, i.e., the ATS submits the trade report and identifies itself as the Reporting Party. Thus, FINRA believes that the proposed rule change would clarify the reporting requirements for ATSs and would better align the rules with current trade reporting practices.

Finally, FINRA is proposing to make certain technical conforming changes, including to (1) delete NASD Rules 4632(b)(5), 4632C(b)(5), 4632E(b)(5), 6620(b)(5) and 6920(b)(3) relating to reporting by a Reporting ECN, (2) delete the definitions of, and references to, “Reporting ECN,” “Reporting Market Maker” and “Reporting Order Entry Firm” in NASD Rules 6110, 6110C and 6110E, which terms would be obsolete as a result of the proposed rule change, and (3) amend NASD Rules 6130(d)(5), 6130C(d)(5) and 6130E(d)(5) to replace the terms “Market Maker side” and “Order Entry

⁶ “Reporting ECN” generally is defined in NASD Rules 6110, 6110C and 6110E as an electronic communications network or alternative trading system, as those terms are defined in SEC Rule 600(b) of Regulation NMS.

⁷ FINRA notes that the three reporting methods apply only for purposes of reporting trades to a TRF or the ORF. There is no comparable provision relating to reporting trades to the ADF.

side” with “MMID or Reporting Party side” and “OEID or non-Reporting Party side,” respectively.

FINRA believes that the proposed rule change would result in more accurate and timely trade reporting and make the trade reporting process less cumbersome for members. The proposed rule change would ensure that the member with the trade reporting obligation is the party that knows the material terms and details of the transaction, including any exceptions or exemptions to the Order Protection Rule that may apply to the trade. Furthermore, many members have entered into agreements to permit the executing party to report on behalf of the member with the reporting obligation under FINRA’s current rules. Thus, FINRA believes that, to a large extent, the proposed rule change would be consistent with current trade reporting practices.

Submission of Non-Tape Reports to Identify Other Members for Agency and Riskless Principal Transactions

As a general matter, FINRA trade reporting rules require that a member that is a party to an OTC trade be identified in trade reports submitted to FINRA. Each trade report submitted for public dissemination purposes (or “tape report”) generally only allows for the identification of two parties. Thus, where a FINRA member executes a trade in a riskless principal⁸ or agency capacity on behalf of another member, or matches, as agent, the orders of two or more members, the tape report will not identify all members involved in the trade. In such circumstances, additional “non-tape reports,” i.e., reports

⁸ For purposes of FINRA trade reporting rules applicable to equity securities, a “riskless principal” transaction is a transaction in which a member, after having received an order to buy (sell) a security, purchases (sells) the security as principal and satisfies the original order by selling (buying) as principal at the same price.

that are not submitted to the tape for public dissemination,⁹ would need to be submitted to identify all members involved in the trade.

Today, some members submit non-tape reports to FINRA identifying the other members involved in the trade, while other members do not. FINRA trade reporting rules generally are not specific in this regard because, for the most part, they reflect the traditional two-party trade model where a broker-dealer acts as principal or as agent for a non-broker-dealer customer. Industry business models have evolved to include more trades where one broker-dealer acts as agent or riskless principal for another broker-dealer and order management systems and ATSS can simultaneously match one or more broker-dealer orders on one or both sides of a trade.

To address these changes, FINRA is proposing to adopt NASD Rules 4632(d)(4), 4632A(e)(1)(D), 4632C(d)(4), 4632E(d)(4), 6620(d)(4) and 6920(d)(5) to require that any member with the obligation to report the trade under FINRA rules that is acting in a riskless principal or agency capacity on behalf of one or more other members submit to FINRA one or more non-tape report(s) identifying such other member(s) as a party to the transaction, if such other member(s) is not identified on the initial trade report or a report submitted to FINRA to reflect the offsetting leg of a riskless principal transaction. In addition, FINRA is proposing to amend NASD Rule 6732(a)(3), which currently cross-references the trade reporting structure in NASD Rule 6620(b), to also cross-reference NASD Rule 6620(d), thereby making the proposed reporting requirement applicable to

⁹ Non-tape reports can be (1) “non-tape, non-clearing,” meaning that the report is submitted to FINRA solely for regulatory purposes, or (2) “clearing-only,” meaning that the report is submitted to FINRA for clearing, i.e., for submission by FINRA to the National Securities Clearing Corporation (and perhaps also regulatory purposes).

PORTAL equity security transactions. A member that matches, as agent, the orders of multiple members on one or both sides of the trade would be required to submit multiple non-tape reports, as necessary, to identify all members on whose behalf the member was acting.

For example, where Member A, as agent or riskless principal on behalf of Member B, executes an OTC trade with Member C, and Member A has the obligation to report the trade to FINRA, Member A also would be required to submit a non-tape report to FINRA to indicate that it was acting on behalf of Member B. By way of further example, where Member A matches, as agent, the orders of Member B and Member C and submits to FINRA a tape report between Member A and Member C, Member A also would be required to submit a non-tape report to identify Member B as a party to the trade. In this example, if Member A were to report the trade to the tape as an agency cross (such that neither Member B nor Member C is identified on the tape report), then Member A would be required to submit two non-tape reports to identify Members B and C. In these examples, Member A can satisfy its reporting obligation under the proposed rule change by submitting a clearing-only report, if necessary to clear the offsetting leg(s) of the transaction through a FINRA Facility. However, if the parties do not need to clear the offsetting leg(s) of the transaction through a FINRA Facility, then Member A would be required to submit a non-tape, non-clearing report(s). Additionally, if Member A is required to submit a non-tape report to comply with applicable riskless principal

reporting requirements under FINRA rules¹⁰ and such report identifies Member B, then Member A would have no separate reporting obligation under the proposed rule change.

The proposed reporting requirement would only apply to the member that has the responsibility under FINRA rules to report the trade to FINRA (i.e., the “executing party” in a trade between two members, as discussed above). For example, where Member A, as agent on behalf of Member B, and Member C execute an OTC trade, and Member C has the obligation to report the trade to FINRA, Member A would not be required under the proposed rule change to submit a non-tape report to indicate that it was acting on behalf of Member B.

However, the proposed rule change expressly would not negate or modify the requirements for reporting riskless principal transactions under FINRA rules. Thus, drawing on the example in the paragraph above, if Member A is acting as riskless principal (as opposed to agent) on behalf of Member B, Member A currently is required to submit a non-tape report to reflect the offsetting leg of the transaction under FINRA riskless principal rules, if the tape report does not properly reflect Member A’s capacity as riskless principal.¹¹ This requirement would not change under the proposed rule change. Additionally, the proposed rule change would not change the reporting requirements applicable to riskless principal transactions with a customer.

¹⁰ If an OTC riskless principal transaction is not reported to FINRA in a single tape report properly marked as riskless principal, then two separate reports must be submitted: (1) a tape report to reflect the initial leg of the transaction and (2) a non-tape report to reflect the offsetting, “riskless” leg of the transaction, with the correct capacity of riskless principal. See NASD Rules 4632(d)(3)(B), 4632A(e)(1)(C)(ii), 4632C(d)(3)(B), 4632E(d)(3)(B) and 6620(d)(3)(B).

¹¹ If Member A’s capacity is properly marked as riskless principal on the tape report, Member A would not be required to submit a non-tape report to FINRA.

FINRA notes that the proposed reporting requirement would not apply to transactions that are executed on and reported through an exchange. Today, where the initial leg of a riskless principal or agency transaction is executed on an exchange, members are not required to report either leg of the transaction to FINRA. The initial leg of the transaction is reported through the exchange (and therefore must not be reported to FINRA), and members have the option of submitting a non-tape (typically, a clearing-only) report to FINRA for the offsetting leg of the transaction. Pursuant to the proposed rule change, members would continue to have the option of submitting a non-tape report for riskless principal and agency transactions where the initial leg is executed on an exchange; however, there would continue to be no obligation to submit a non-tape report for such trades. Thus, for example, where Member A, as agent or riskless principal on behalf of Member B, executes a trade on an exchange, the trade will be reported to the tape by the exchange and, under the proposed rule change, Member A would not be required to submit a non-tape report to FINRA to indicate that it was acting on behalf of Member B. However, Member A would be permitted to submit a clearing-only report to clear the offsetting leg of the transaction between Member A and Member B through a FINRA Facility. See FINRA Regulatory Notice 07-38 (August 2007).

To clarify the scope and application of the proposed reporting requirement, FINRA is proposing to include several examples in the proposed rule text. FINRA notes that these examples are not intended to represent all possible trade reporting scenarios under the proposed rule change. Additionally, consistent with the definition of “riskless principal” in other FINRA rules applicable to OTC equity trade reporting, FINRA is proposing to amend the definition of “riskless principal transaction” in NASD Rule 6910

to clarify that a member may act in a riskless principal capacity on behalf of another broker-dealer as well as a customer.¹²

Finally, FINRA notes that because members would be submitting non-tape reports, the 90-second reporting requirement under FINRA trade reporting rules would not apply. Thus, members generally would have until the end of the day on trade date to submit the requisite non-tape reports.¹³

FINRA believes that the proposed rule change would enhance FINRA staff's ability to create a complete and accurate audit trail and assist in the automated surveillance of various customer protection and market integrity rules.

Many members today submit clearing-only reports to FINRA in instances where the proposed reporting requirement would apply, e.g., if a member needs to clear the offsetting leg of an agency transaction through a FINRA Facility or if a member elects under FINRA rules to report an OTC riskless principal trade in related tape and non-tape reports. Thus, for some members, the proposed rule change may not require any changes to current reporting practices and systems. For other members, however, the proposed rule change would require systems changes, e.g., if a member does not need to clear the offsetting leg of an agency transaction through a FINRA Facility. Additionally, where a member reports a riskless principal transaction to FINRA in a single properly marked tape report, a non-tape report would be required under the proposed rule change if the

¹² FINRA also is proposing a technical change to insert paragraph headings for ease of reference in NASD Rules 4632(d), 4632A(e)(1), 4632C(d), 4632E(d), 6620(d) and 6920(d).

¹³ In certain circumstances, however, members must submit non-tape reports contemporaneously with trade execution, e.g., to qualify for the exemption from the requirements of IM-2110-2 (Trading Ahead of Customer Limit Order) for riskless principal transactions.

member is acting on behalf of another member. FINRA is requesting that the SEC specifically solicit comment regarding the potential costs and technology impact of the proposed rule change.

FINRA will announce the operative date of the proposed rule change on its website. In recognition of the technological changes that the proposed rule change will require, the operative date will be (1) at least 90 days following Commission approval for transactions executed on ATSS, including electronic communications networks; and (2) at least 180 days following Commission approval with respect to all other transactions. FINRA believes that a shorter implementation period is appropriate for ATSS because, as noted above, most ATSS currently are the reporting party for transactions executed on the ATS and some voluntarily submit non-tape reports to reflect all FINRA members that are parties to a trade.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,¹⁴ which requires, among other things, that FINRA rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change to amend the trade reporting structure will result in more accurate and timely trade reporting and thus enhance market transparency. Additionally, FINRA believes that the proposed rule change to require the submission of non-tape reports to identify other members for agency and riskless principal transactions will promote a more complete and accurate audit trail.

¹⁴ 15 U.S.C. 78o-3(b)(6).

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

In September 2007, FINRA published Regulatory Notice 07-46 soliciting comment on a proposal to adopt a simpler and more uniform trade reporting structure. Nine comment letters were received in response to the Notice.¹⁵ A copy of the Notice is attached as Exhibit 2a. A list of the comment letters received in response to the Notice is attached as Exhibit 2b. Copies of the comment letters received in response to the Notice are attached as Exhibit 2c.

All of the commenters support the adoption of a new trade reporting structure, asserting that the current structure can be confusing and create delays and reporting errors. Seven of the nine commenters support the proposed executing party reporting structure, asserting that this structure is the most logical and efficient approach.¹⁶ These

¹⁵ See Letter from Liquidnet, Inc., dated October 26, 2007 ("Liquidnet"); letter from Archipelago Trading Services, Inc., dated November 6, 2007 ("ArcaEdge"); letter from Financial Information Forum, dated November 8, 2007 ("FIF"); letter from Pipeline Trading Systems LLC, dated November 12, 2007 ("Pipeline"); letter from Automated Trading Desk, LLC, dated November 12, 2007 ("ATD"); letter from TD AMERITRADE, Inc., dated November 15, 2007 ("TD AMERITRADE"); letter from UBS Securities LLC, dated November 15, 2007 ("UBS"); letter from The Securities Industry and Financial Markets Association, dated November 16, 2007 ("SIFMA"); and letter from BNY ConvergeEx Execution Solutions LLC, Charles Schwab & Co., Inc., National Financial Services LLC and Pershing LLC, dated November 30, 2007 ("BNY").

¹⁶ FIF, Pipeline, ATD, TD AMERITRADE, UBS, SIFMA and BNY.

commenters assert that the executing party knows the material terms and details of the transaction, as well as any Order Protection Rule exceptions or exemptions that apply to the trade,¹⁷ and thus is in the best position to report in a timely manner¹⁸ and to correct reporting errors.¹⁹ In addition, several commenters note that industry practice is for executing parties to trade report; most executing parties already have established systems to trade report and many firms have entered give-up agreements to replicate the executing party reporting structure.²⁰

One commenter states that it is unclear whether the advantages of Qualified Service Representative (QSR) agreements would remain under the proposed executing party reporting structure and strongly urges that any changes continue to keep the QSR process intact.²¹ FINRA notes that a QSR agreement is a National Securities Clearing Corporation agreement and, for FINRA purposes, merely establishes that one party can send a trade to clearing on behalf of the other party. A give up agreement still is required for a member to report trade information to a FINRA Facility on behalf of another member, even if the parties have a QSR agreement in effect. See NASD Member Alert: Notice to All TRF, ADF and Other NASD Facility Participants Regarding AGU and QSR Relationships (January 25, 2007). The proposed rule change would not change the QSR process or member obligations with respect to give up agreements.

¹⁷ FIF, ATD, UBS and SIFMA.

¹⁸ Pipeline and UBS.

¹⁹ ATD.

²⁰ ATD, TD AMERITRADE and BNY.

²¹ TD AMERITRADE.

In Regulatory Notice 07-46, FINRA specifically requested comment on how “executing party” should be defined. The commenters generally suggest that the “executing party” should be defined as the party that receives the order electronically for execution, does not subsequently re-route the order, and agrees to execute the trade, or in other words, the broker that is the “final recipient” and determines the price.²² One commenter states that in the electronic marketplace, the identity of the order entry broker generally will be readily apparent based on which party is initiating or seeking an execution, and the executing party’s identity will be equally apparent based on which party is receiving the order for execution.²³ This commenter provides the following example: A displays a limit order to sell 100 shares at \$10. B routes an order to buy 100 shares against A’s displayed order. In this example, it is clear that A is the executing broker and B is the order entry broker; B initiated and sought out an execution against A’s displayed limit order.²⁴ As discussed above, FINRA is proposing to define “executing party” substantially as proposed by these commenters.

In instances of telephone orders, three commenters believe that the same approach should be followed (i.e., the executing party is the “answering” or “receiving” or “responding” broker), unless the parties agree to the contrary.²⁵ One commenter believes that in the case of telephone trades, the sell-side member should be the reporting party,²⁶

²² FIF, ATD, UBS, SIFMA and BNY.

²³ ATD.

²⁴ ATD.

²⁵ ATD, SIFMA and BNY.

²⁶ FIF.

while another commenter asserts that the current trade reporting structure should apply in such instances.²⁷ Additionally, one commenter asserts that the executing party may not be clear when a member requests a quote from another member, receives a quote and then agrees to trade at the quoted price, and suggests that the member responding to the request for a quote (i.e., the price-making firm) should be deemed the executing party.²⁸ As discussed above, FINRA is proposing to require that where it may be difficult to determine which member satisfies the definition of “executing party,” such as telephone and other manually negotiated trades, the member representing the sell-side report, unless the parties agree otherwise. Several commenters note that in today’s market, the number of telephone negotiated trades is relatively small compared to the number of trades involving the routing of electronic orders, and thus the instances where it would not be clear which member is the executing party should be limited.²⁹ In the words of one commenter, “[a]ll but a tiny fraction of orders in the current marketplace are routed electronically” and as such, “in the vast majority of transactions, there is no doubt about which entity is the Executing Broker.”³⁰

Two commenters support a sell-side reporting structure, whereby the member representing the sell-side would report a trade between members.³¹ One commenter asserts that in all cases, it would be clear which party is selling and which party is buying,

²⁷ UBS.

²⁸ BNY.

²⁹ UBS, SIFMA and BNY.

³⁰ BNY.

³¹ Liquidnet and ArcaEdge.

but the distinction between the executing party and introducing broker could be unclear in certain cases.³² FINRA disagrees and believes that where Member A, an introducing broker, routes an order for handling and/or execution to Member B, and Member B does not re-route the order and executes the trade, it is clear that Member B is the executing party. This commenter also asserts that in a trade between two brokers, the selling broker should be the reporting party, but the brokers should have full flexibility to override this default rule and designate the buyer as the reporting party.³³ FINRA believes that the determination of which member has the trade reporting obligation should not be subject to agreement between the parties, except in limited circumstances as discussed above, as that approach would result in confusion and possible under or double reporting. FINRA notes, however, that members can enter into give up agreements under FINRA rules, whereby one member can trade report on behalf of the other member, while the member with the reporting obligation under FINRA rules remains responsible for trades submitted on its behalf.

The second commenter supports sell-side reporting in light of the problems with the current market maker-based reporting structure, noting that these problems are compounded in the context of ATS trades, where non-subscribers may not recognize that the reporting responsibility lies with the ATS.³⁴ As discussed above, under the proposed executing party structure, it would be clear that an ATS has the reporting responsibility where the trade is executed on the ATS.

³² Liquidnet.

³³ Liquidnet.

³⁴ ArcaEdge.

The commenters opposing the sell-side reporting structure assert that this approach would be less efficient and could increase the rate of unreported or inaccurately reported trades.³⁵ These commenters further assert that a sell-side broker that is not also the executing party will not have access to necessary information, such as exceptions and exemptions under the Order Protection Rule, may not be able to easily obtain this information and will not be able to independently verify this information.³⁶ Additionally, another commenter asserts that while an originating broker would be the seller if its sale were executed by the first broker to whom it routed its orders, frequently re-routed orders could make it difficult to determine which party has the reporting responsibility under a sell-side structure.³⁷ Furthermore, the commenters assert that a sell-side reporting structure would be costly because it would require members that currently do not trade report to implement trade reporting systems.³⁸ FINRA agrees with these commenters, and as discussed above, is proposing to adopt the executing party trade reporting structure.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

³⁵ FIF, Pipeline and BNY.

³⁶ FIF, SIFMA and BNY.

³⁷ Pipeline.

³⁸ TD AMERITRADE and BNY.

(A) by order approve such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number insert SR-FINRA-2008-011 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number insert SR-FINRA-2008-011. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule

change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal office of FINRA.

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2008-011 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³⁹

Nancy M. Morris

Secretary

³⁹ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

4000. THE NASD/NASDAQ TRADE REPORTING FACILITY

* * * * *

4632. Transaction Reporting

(a) No Change.

(b) Which Party Reports the Transaction

(1) In transactions between two [Market Makers] members, the [member representing the sell side] executing party shall report the trade.

(2) [In transactions between a Market Maker and a Non-Market Maker, the Market Maker shall report the trade.]

[(3) In transactions between two Non-Market Makers, the member representing the sell side shall report the trade.]

[(4)] In transactions between a member and a non-member or customer, the member shall report the trade.

[(5) In transactions conducted through a Reporting ECN (as defined in Rule 6110) that are reported to the NASD/Nasdaq Trade Reporting Facility, the Reporting ECN shall ensure that transactions are reported in accordance with Rule 6130(c).]

For purposes of this paragraph (b), “executing party” shall mean the member that receives an order for handling or execution or is presented an order against its quote, does

not subsequently re-route the order, and executes the transaction. In a transaction between two members where both members may satisfy the definition of executing party (e.g., manually negotiated transactions via the telephone), the member representing the sell-side shall report the transaction, unless the parties agree otherwise and the member representing the sell-side contemporaneously documents such agreement.

(c) No Change.

(d) Procedures for Reporting Price [and], Volume, Capacity and Identification of Other Members

Members that report transactions to the NASD/Nasdaq Trade Reporting Facility, pursuant to paragraph (b) above shall transmit last sale reports for all purchases and sales in designated securities in the following manner:

(1) Reporting Agency Transactions

For agency transactions, report the number of shares and the price excluding the commission charged.

Example:

SELL as agent 100 shares at 40 less a commission of \$12.50;
REPORT 100 shares at 40.

(2) Reporting Dual Agency Transactions

For dual agency transactions, report the number of shares only once, and report the price excluding the commission charged.

Example:

SELL as agent 100 shares at 40 less a commission of \$12.50;
BUY as agent 100 shares at 40 plus a commission of \$12.50;

REPORT 100 shares at 40.

(3) Reporting Principal and Riskless Principal Transactions

(A) through (B) No Change.

(4) Identification of Other Members for Agency and Riskless

Principal Transactions

Any member that has a reporting obligation pursuant to paragraph (b) above and is acting in a riskless principal or agency capacity on behalf of one or more other members shall submit to FINRA one or more non-tape (either non-tape, clearing-only or non-tape, non-clearing) report(s) identifying such other member(s) as a party to the transaction, if such other member(s) is not identified on the initial trade report submitted to FINRA or a report submitted to FINRA pursuant to 4632(d)(3)(B) for the offsetting leg of a riskless principal transaction. Nothing in this Rule 4632(d)(4) shall negate or modify the riskless principal transaction reporting requirements set forth in Rule 4632(d)(3)(B).

Example #1:

Member A, as agent or riskless principal on behalf of Member B, BUYS 100 shares from Member C at 40 (no mark-down included)

Member A has the reporting obligation under Rule 4632(b)

TAPE REPORT 100 shares at 40 By Member A between Member A and Member C

NON-TAPE REPORT 100 shares at 40 By Member A identifying Member B

Example #2A:

Member A MATCHES, as agent, the orders of Member B and Member C
for 100 shares at 40

Member A has the reporting obligation under Rule 4632(b)

TAPE REPORT 100 shares at 40 By Member A between Member A and
Member B (or Member C)

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member C (or Member B)

Example #2B:

Member A MATCHES, as agent, the orders of Member B and Member C
for 100 shares at 40

Member A has the reporting obligation under Rule 4632(b)

TAPE REPORT a CROSS of 100 shares at 40 By Member A

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member B and

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member C

Example #3:

Member A, as agent or riskless principal on behalf of Member B, BUYS
100 shares on an exchange at 40

DO NOT TAPE REPORT this leg (will be reported by exchange)

NO NON-TAPE REPORT required; however, Member A may submit a

NON-TAPE REPORT as between Member A and Member B

(e) through (h) No Change.

* * * * *

4000A. NASD ALTERNATIVE DISPLAY FACILITY

* * * * *

4632A. Transactions Reported by Members to TRACS

(a) No Change.

(b) Which Party Reports Transaction

(1) In transactions between two [Registered Reporting Members] members, the [member representing the sell side] executing party shall report the trade using TRACS.

(2) [In transactions between a Registered Reporting Member and a Non-Registered Reporting Member, the Registered Reporting Member shall report the trade using TRACS.]

[(3) In transactions between two Non-Registered Reporting Members, the member representing the sell side shall report the trade to TRACS.]

[(4)] In transactions between a member and a customer or non-member, the member shall report the trade using TRACS.

For purposes of this paragraph (b), “executing party” shall mean the member that receives an order for handling or execution or is presented an order against its quote, does not subsequently re-route the order, and executes the transaction. In a transaction between two members where both members may satisfy the definition of executing party (e.g., manually negotiated transactions via the telephone), the member representing the sell-side shall report the transaction, unless the parties agree otherwise and the member representing the sell-side contemporaneously documents such agreement.

(c) through (d) No Change.

(e) Procedures for Reporting Price [and], Volume, Capacity and

Identification of Other Members

(1) Members that are required, or have the option, to report transactions pursuant to paragraph (d) above shall transmit last sale reports in the following manner:

(A) Reporting Agency Transactions

For agency transactions, report the number of shares (or bonds) and the price excluding the commission charged.

Example:

SELL as agent 100 shares at 40 less a commission of \$12.50;

REPORT 100 shares at 40.

(B) Reporting Dual Agency Transactions

For dual agency transactions, report the number of shares (or bonds) only once, and report the price excluding the commission charged.

Example:

SELL as agent 100 shares at 40 less a commission of \$12.50;

BUY as agent 100 shares at 40 plus a commission of \$12.50;

REPORT 100 shares at 40.

(C) Reporting Principal and Riskless Principal Transactions

(i) and (ii) No Change.

(D) Identification of Other Members for Agency and Riskless

Principal Transactions

Any member that has a reporting obligation pursuant to paragraph (b) above and is acting in a riskless principal or agency capacity on behalf of one or more other members shall submit to FINRA one or more non-tape (either non-tape, clearing-only or non-tape, non-clearing) report(s) identifying such other member(s) as a party to the transaction, if such other member(s) is not identified on the initial trade report submitted to FINRA or a report submitted to FINRA pursuant to 4632A(e)(1)(C)(ii) for the offsetting leg of a riskless principal transaction. Nothing in this Rule 4632A(e)(1)(D) shall negate or modify the riskless principal transaction reporting requirements set forth in Rule 4632A(e)(1)(C)(ii).

Example #1:

Member A, as agent or riskless principal on behalf of Member B,
BUYS 100 shares from Member C at 40 (no mark-down included)
Member A has the reporting obligation under Rule 4632A(b)
TAPE REPORT 100 shares at 40 By Member A between Member
A and Member C
NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member B

Example #2A:

Member A MATCHES, as agent, the orders of Member B and
Member C for 100 shares at 40
Member A has the reporting obligation under Rule 4632A(b)

TAPE REPORT 100 shares at 40 By Member A between Member A and Member B (or Member C)

NON-TAPE REPORT 100 shares at 40 By Member A identifying Member C (or Member B)

Example #2B:

Member A MATCHES, as agent, the orders of Member B and Member C for 100 shares at 40

Member A has the reporting obligation under Rule 4632A(b)

TAPE REPORT a CROSS of 100 shares at 40 By Member A

NON-TAPE REPORT 100 shares at 40 By Member A identifying Member B and

NON-TAPE REPORT 100 shares at 40 By Member A identifying Member C

Example #3:

Member A, as agent or riskless principal on behalf of Member B,

BUYS 100 shares on an exchange at 40

DO NOT TAPE REPORT this leg (will be reported by exchange)

NO NON-TAPE REPORT required; however, Member A may submit a NON-TAPE REPORT as between Member A and

Member B

(E) Reporting Prior Reference Price Transactions

For transactions that are executed at a price different from the current market when the execution is based on a prior reference point in

time, members shall append to the transaction report a trade report modifier designated by NASD and shall include in the transaction report the prior reference time.

Example:

At 9:45 a.m., a member discovers that a customer's order to BUY 100 shares at the opening price has not been executed. The member executes the customer's order at 9:45 a.m. at the opening price (40). Current market is 41.

REPORT 100 shares at 40 and append the .PRP modifier with the time 9:30.

(f) through (j) No Change.

* * * * *

4000C. THE NASD/NSX TRADE REPORTING FACILITY

* * * * *

4632C. Transaction Reporting

(a) No Change.

(b) Which Party Reports the Transaction

(1) In transactions between two [Market Makers] members, the [member representing the sell side] executing party shall report the trade.

(2) [In transactions between a Market Maker and a Non-Market Maker, the Market Maker shall report the trade.]

[(3) In transactions between two Non-Market Makers, the member representing the sell side shall report the trade.]

[(4)] In transactions between a member and a non-member or customer, the member shall report the trade.

[(5) In transactions conducted through a Reporting ECN (as defined in Rule 6110C) that are reported to the NASD/NSX Trade Reporting Facility, the Reporting ECN shall ensure that transactions are reported in accordance with Rule 6130C(c).]

For purposes of this paragraph (b), “executing party” shall mean the member that receives an order for handling or execution or is presented an order against its quote, does not subsequently re-route the order, and executes the transaction. In a transaction between two members where both members may satisfy the definition of executing party (e.g., manually negotiated transactions via the telephone), the member representing the sell-side shall report the transaction, unless the parties agree otherwise and the member representing the sell-side contemporaneously documents such agreement.

(c) No Change.

(d) Procedures for Reporting Price [and], Volume, Capacity and Identification of Other Members

Members that report transactions to the NASD/NSX Trade Reporting Facility, pursuant to paragraph (b) above shall transmit last sale reports for all purchases and sales in designated securities in the following manner:

(1) Reporting Agency Transactions

For agency transactions, report the number of shares or bonds and the price excluding the commission charged.

Example:

SELL as agent 100 shares at 40 less a commission of \$12.50;

REPORT 100 shares at 40.

(2) Reporting Dual Agency Transactions

For dual agency transactions, report the number of shares or bonds only once, and report the price excluding the commission charged.

Example:

SELL as agent 100 shares at 40 less a commission of \$12.50;

BUY as agent 100 shares at 40 plus a commission of \$12.50;

REPORT 100 shares at 40.

(3) Reporting Principal and Riskless Principal Transactions

(A) through (B) No Change.

(4) Identification of Other Members for Agency and Riskless

Principal Transactions

Any member that has a reporting obligation pursuant to paragraph (b) above and is acting in a riskless principal or agency capacity on behalf of one or more other members shall submit to FINRA one or more non-tape (either non-tape, clearing-only or non-tape, non-clearing) report(s) identifying such other member(s) as a party to the transaction, if such other member(s) is not identified on the initial trade report submitted to FINRA or a report submitted to FINRA pursuant to 4632C(d)(3)(B) for the offsetting leg of a riskless principal transaction. Nothing in this Rule 4632C(d)(4) shall negate or modify the riskless principal transaction reporting requirements set forth in Rule 4632C(d)(3)(B).

Example #1:

Member A, as agent or riskless principal on behalf of Member B, BUYS
100 shares from Member C at 40 (no mark-down included)

Member A has the reporting obligation under Rule 4632C(b)

TAPE REPORT 100 shares at 40 By Member A between Member A and
Member C

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member B

Example #2A:

Member A MATCHES, as agent, the orders of Member B and Member C
for 100 shares at 40

Member A has the reporting obligation under Rule 4632C(b)

TAPE REPORT 100 shares at 40 By Member A between Member A and
Member B (or Member C)

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member C (or Member B)

Example #2B:

Member A MATCHES, as agent, the orders of Member B and Member C
for 100 shares at 40

Member A has the reporting obligation under Rule 4632C(b)

TAPE REPORT a CROSS of 100 shares at 40 By Member A

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member B and

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member C

Example #3:

Member A, as agent or riskless principal on behalf of Member B, BUYS
100 shares on an exchange at 40

DO NOT TAPE REPORT this leg (will be reported by exchange)

NO NON-TAPE REPORT required; however, Member A may submit a
NON-TAPE REPORT as between Member A and Member B

(e) through (h) No Change.

* * * * *

4000E. THE NASD/NYSE TRADE REPORTING FACILITY

* * * * *

4632E. Transaction Reporting

(a) No Change.

(b) Which Party Reports the Transaction

(1) In transactions between two [Market Makers] members, the [member
representing the sell side] executing party shall report the trade.

(2) [In transactions between a Market Maker and a Non-Market Maker,
the Market Maker shall report the trade.]

[(3) In transactions between two Non-Market Makers, the member
representing the sell side shall report the trade.]

[(4)] In transactions between a member and a non-member or customer,
the member shall report the trade.

[(5) In transactions conducted through a Reporting ECN (as defined in Rule 6110E) that are reported to the NASD/NYSE Trade Reporting Facility, the Reporting ECN shall ensure that transactions are reported in accordance with Rule 6130E(c).]

For purposes of this paragraph (b), “executing party” shall mean the member that receives an order for handling or execution or is presented an order against its quote, does not subsequently re-route the order, and executes the transaction. In a transaction between two members where both members may satisfy the definition of executing party (e.g., manually negotiated transactions via the telephone), the member representing the sell-side shall report the transaction, unless the parties agree otherwise and the member representing the sell-side contemporaneously documents such agreement.

(c) No Change.

(d) Procedures for Reporting Price [and], Volume, Capacity and Identification of Other Members

Members that report transactions to the NASD/NYSE Trade Reporting Facility, pursuant to paragraph (b) above shall transmit last sale reports for all purchases and sales in designated securities in the following manner:

(1) Reporting Agency Transactions

For agency transactions, report the number of shares or bonds and the price excluding the commission charged.

Example:

SELL as agent 100 shares at 40 less a commission of \$12.50;

REPORT 100 shares at 40.

(2) Reporting Dual Agency Transactions

For dual agency transactions, report the number of shares or bonds only once, and report the price excluding the commission charged.

Example:

SELL as agent 100 shares at 40 less a commission of \$12.50;

BUY as agent 100 shares at 40 plus a commission of \$12.50;

REPORT 100 shares at 40.

(3) Reporting Principal and Riskless Principal Transactions

(A) through (B) No Change.

(4) Identification of Other Members for Agency and Riskless

Principal Transactions

Any member that has a reporting obligation pursuant to paragraph (b) above and is acting in a riskless principal or agency capacity on behalf of one or more other members shall submit to FINRA one or more non-tape (either non-tape, clearing-only or non-tape, non-clearing) report(s) identifying such other member(s) as a party to the transaction, if such other member(s) is not identified on the initial trade report submitted to FINRA or a report submitted to FINRA pursuant to 4632E(d)(3)(B) for the offsetting leg of a riskless principal transaction. Nothing in this Rule 4632E(d)(4) shall negate or modify the riskless principal transaction reporting requirements set forth in Rule 4632E(d)(3)(B).

Example #1:

Member A, as agent or riskless principal on behalf of Member B, BUYS 100 shares from Member C at 40 (no mark-down included)

Member A has the reporting obligation under Rule 4632E(b)

TAPE REPORT 100 shares at 40 By Member A between Member A and
Member C

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member B

Example #2A:

Member A MATCHES, as agent, the orders of Member B and Member C
for 100 shares at 40

Member A has the reporting obligation under Rule 4632E(b)

TAPE REPORT 100 shares at 40 By Member A between Member A and
Member B (or Member C)

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member C (or Member B)

Example #2B:

Member A MATCHES, as agent, the orders of Member B and Member C
for 100 shares at 40

Member A has the reporting obligation under Rule 4632E(b)

TAPE REPORT a CROSS of 100 shares at 40 By Member A

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member B and

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member C

Example #3:

Member A, as agent or riskless principal on behalf of Member B, BUYS
100 shares on an exchange at 40

DO NOT TAPE REPORT this leg (will be reported by exchange)

NO NON-TAPE REPORT required; however, Member A may submit a
NON-TAPE REPORT as between Member A and Member B

(e) through (h) No Change.

* * * * *

6000. NASD SYSTEMS AND PROGRAMS

6100. CLEARING AND COMPARISON RULES

6110. Definitions

(a) through (d) No Change.

(e) The terms "Participant," ["Reporting Order Entry Firm,"] "Correspondent executing broker/dealer," "Correspondent executing broker," "Introducing broker/dealer," "Introducing broker," "Clearing broker/dealer," and "Clearing broker" shall also include, where appropriate, the Non-Member Clearing Organizations listed in Rules 6120(a)(4) below and their qualifying members.

(f) through (h) No Change.

[(i) The term "Reporting ECN" shall mean a member of NASD that is an electronic communications network or alternative trading system, as those terms are defined in SEC Rule 600, that is a participant of a registered clearing agency for clearing or comparison purposes or has a clearing arrangement with such a participant, to the extent that transactions executed through it are reported to the System.]

[(j) The term "Reporting Market Maker" shall mean a member of NASD that meets the definition of OTC Market Maker in Rule 4200 and is a member of a registered clearing agency for clearing or comparison purposes or has a clearing arrangement with such a member.]

[(k) The term "Reporting Order Entry Firm" shall mean a member of NASD that is a firm that executes orders but does not act as a market maker in the instant transaction and is a member of a registered clearing agency for clearing or comparison purposes or has a clearing arrangement with such a member.]

(l) through (n) redesignated as (i) through (k)

* * * * *

6130. Trade Report Input

(a) through (b) No Change.

(c) Which Party Inputs Trade Reports

Participants shall, subject to the input requirements below, either input trade reports or use the Browse feature to accept or decline a trade within the applicable time-frames as specified in paragraph (b) of this Rule. [Trade data input obligations are as follows:] Trade reports shall be submitted by the member as required by Rules 4632(b) and 6620(b).

[(1) in transactions between a Reporting Market Maker and a Reporting Order Entry Firm Reporting Market Maker shall be required to submit a trade report to the System;]

[(2) in transactions between two Reporting Market Makers, the member representing the sell side shall be required to submit a trade report to the System;]

[(3) in transactions between two Reporting Order Entry Firms, the member representing the sell side shall be required to submit a trade report to the System;]

[(4) in transactions between a member and a non-member or customer, the member shall be required to submit a trade report to the System;]

[(5) in transactions conducted through a Reporting ECN that are reported to the System, the Reporting ECN shall ensure that transactions are reported in accordance with one of the following methods:]

[(A) the Reporting ECN shall submit the trade reports to the System and identify itself as the Reporting Party;]

[(B) the Reporting ECN shall submit the trade reports to the System on behalf of the Reporting Party and identify the Reporting Party in accordance with the rules for determining Reporting Parties reflected in paragraphs (1), (2), (3), and (4) above; or]

[(C) the Reporting ECN shall require one of the parties, determined in accordance with the rules for determining Reporting Parties reflected in paragraphs (1), (2), (3), and (4) above, to submit the trade reports to the System.]

[When a Reporting ECN reports transactions in accordance with subparagraph (A), the Reporting ECN shall be responsible for ensuring that the trade reports are accurate and contain all information required by subsection (d) of this rule for both the Reporting ECN and the identified non-reporting party.]

[When a Reporting ECN reports transactions in accordance with subparagraph (B), both the Reporting ECN and the party identified as the Reporting Party shall be responsible for ensuring that the trade reports are accurate and contain all information required by subsection (d) of this rule for both the Reporting ECN and the identified Reporting Party. When a Reporting ECN requires reporting of transactions in accordance with subparagraph (C), the Reporting Party shall be responsible for ensuring the accuracy and completeness of the trade report.]

[A Reporting ECN shall provide written notice to NASD of the method of trade reporting used by the Reporting ECN for each of its subscribers, and may change the method of trade reporting used for a subscriber by providing advance written notice of the change to NASD;]

[(6) in transactions conducted through two Reporting ECNs or a Reporting ECN and an ECN that is not a Reporting ECN, a Reporting ECN shall be responsible for complying with the requirements of paragraph (5) above for reporting a transaction executed through its facilities, and an ECN that routed an order to it for execution shall be deemed to be a Reporting Order Entry Firm and a member for purposes of the rules for determining reporting parties reflected in paragraphs (1), (3), and (4) above; and]

[(7) in transactions conducted through a Reporting ECN in which neither of the parties is a member, the Reporting ECN shall report the transaction in accordance with the requirements of subparagraph (5)(A) above.]

(d) Trade Information To Be Input

Each report to the System shall contain the following information:

(1) through (4) No Change.

(5) A symbol indicating whether the party submitting the trade report represents the [Market Maker] “MMID” or Reporting Party side or the [Order Entry] “OEID” or non-Reporting Party side;

(6) through (14) No Change.

(e) through (i) No Change.

* * * * *

6600. OVER-THE-COUNTER EQUITY SECURITIES

* * * * *

6620. Transaction Reporting

(a) No Change.

(b) Which Party Reports Transaction

(1) In [a] transactions between two [OTC Market Makers] members, [only] the [member representing the sell side] executing party shall report the transaction.

(2) [In a transaction between an OTC Market Maker and a Non-Market Maker, only the OTC Market Maker shall report the transaction.]

[(3) In a transaction between two Non-Market Makers, only the member representing the sell side shall report the transaction.]

[(4)] In [a] transactions between a member and a non-member or customer, the member shall report the transaction.

[(5) In a transaction conducted through a Reporting ECN (as defined in Rule 6110), the Reporting ECN shall ensure that the transactions are reported in accordance with Rule 6130(c), and the term "Reporting Market Maker" as used in such rule shall be construed to refer to an OTC Market Maker.]

For purposes of this paragraph (b), "executing party" shall mean the member that receives an order for handling or execution or is presented an order against its quote, does not subsequently re-route the order, and executes the transaction. In a transaction between two members where both members may satisfy the definition of executing party (e.g., manually negotiated transactions via the telephone), the member representing the sell-side shall report the transaction, unless the parties agree otherwise and the member representing the sell-side contemporaneously documents such agreement.

(c) No Change.

(d) Procedures for Reporting Price [and], Volume, Capacity and Identification of Other Members

Members that are required to report pursuant to paragraph (b) above shall transmit last sale reports for all purchases and sales in OTC Equity Securities in the following manner:

(1) Reporting Agency Transactions

For agency transactions, report the number of shares and the price excluding the commission charged.

(2) Reporting Dual Agency Transactions

For dual agency transactions, report the number of shares only once, and report the price excluding the commission charged.

(3) Reporting Principal and Riskless Principal Transactions

(A) through (B) No Change.

(4) Identification of Other Members for Agency and Riskless

Principal Transactions

Any member that has a reporting obligation pursuant to paragraph (b) above and is acting in a riskless principal or agency capacity on behalf of one or more other members shall submit to FINRA one or more non-tape (either non-tape, clearing-only or non-tape, non-clearing) report(s) identifying such other member(s) as a party to the transaction, if such other member(s) is not identified on the initial trade report submitted to FINRA or a report submitted to FINRA pursuant to 6620(d)(3)(B) for the offsetting leg of a riskless principal transaction. Nothing in this Rule 6620(d)(4) shall negate or modify the riskless principal transaction reporting requirements set forth in Rule 6620(d)(3)(B).

Example #1:

Member A, as agent or riskless principal on behalf of Member B, BUYS 100 shares from Member C at 40 (no mark-down included)

Member A has the reporting obligation under Rule 6620(b)

TAPE REPORT 100 shares at 40 By Member A between Member A and Member C

NON-TAPE REPORT 100 shares at 40 By Member A identifying

Member B

Example #2A:

Member A MATCHES, as agent, the orders of Member B and Member C
for 100 shares at 40

Member A has the reporting obligation under Rule 6620(b)

TAPE REPORT 100 shares at 40 By Member A between Member A and
Member B (or Member C)

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member C (or Member B)

Example #2B:

Member A MATCHES, as agent, the orders of Member B and Member C
for 100 shares at 40

Member A has the reporting obligation under Rule 6620(b)

TAPE REPORT a CROSS of 100 shares at 40 By Member A

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member B and

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member C

Example #3:

Member A, as agent or riskless principal on behalf of Member B, BUYS
100 shares on a foreign exchange at 40

DO NOT TAPE REPORT this leg if reported to foreign exchange

NO NON-TAPE REPORT required; however, Member A may submit a

NON-TAPE REPORT as between Member A and Member B

(e) through (g) No Change.

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6700. TRANSACTION REPORTING IN PORTAL[®] SECURITIES

* * * * *

6732. Reporting Debt and Equity Transactions in PORTAL Securities

(a) Transactions in a PORTAL equity security shall be reported to the OTC Reporting Facility in accordance with this Rule. Each PORTAL transaction report on a PORTAL equity security shall:

(1) through (2) No Change.

(3) be submitted by the party as required by Rule 6620(b) and comply with the procedures under Rule 6620(d).

(b) through (d) No Change.

* * * * *

6900. REPORTING TRANSACTIONS IN DIRECT PARTICIPATION PROGRAMS

6910. Definitions

The following terms shall have the following meanings for purposes of Rule 6900.

(a) through (c) No Change.

(d) “Riskless principal transaction” means a principal transaction where a member, after having received [from a customer] an order to buy, purchases the security as principal [from another member or customer] to satisfy the order to buy or, after having received [from a customer] an order to sell, sells the security as principal [to another member or customer] to satisfy the order to sell.

(e) No Change.

6920. Transaction Reporting

(a) No Change.

(b) Which Party Reports Transactions

(1) In transactions between two members, [only] the [member representing the sell side] executing party shall report the trade.

(2) In transactions between a member and a non-member or customer, the member shall report the trade.

[(3) In transactions conducted through a Reporting ECN (as defined in Rule 6110), the Reporting ECN shall ensure that the transactions are reported in accordance with Rule 6130(c); provided that for purposes of Rule 6130(c)(5)(B) and (C), the party with the reporting obligation shall be as set forth in Rule 6130(c)(3) and the term "Reporting Order Entry Firm" as used in such rule shall be construed to refer to any member.]

For purposes of this paragraph (b), "executing party" shall mean the member that receives an order for handling or execution or is presented an order against its quote, does not subsequently re-route the order, and executes the transaction. In a transaction between two members where both members may satisfy the definition of executing party (e.g., manually negotiated transactions via the telephone), the member representing the sell-side shall report the transaction, unless the parties agree and contemporaneously document otherwise, unless the parties agree otherwise and the member representing the sell-side contemporaneously documents such agreement.

(c) No Change.

(d) Procedures for Reporting Price [and], Volume, Capacity and Identification of Other Members

Members that are required to report pursuant to paragraph (b) above shall transmit transaction reports for all purchases and sales in DPPs in the following manner:

(1) Reporting Agency Transactions

For agency transactions, report the number of units and the price excluding any commission or service charge.

(2) Reporting Dual Agency Transactions

For dual agency transactions, report the number of units only once, and report the price excluding any commission or service charge.

(3) Reporting Principal Transactions

For principal transactions, except as provided under paragraph (4) below, report each purchase and sale transaction separately and report the number of units and the price. For principal transactions that are executed at a price which includes a mark-up, markdown or service charge, the price reported shall exclude the mark-up, mark-down or service charge. Such reported price shall be reasonably related to the prevailing market, taking into such consideration all relevant circumstances including, but not limited to, market conditions with respect to the DPP, the number of units involved in the transaction, the published bids and offers with size displayed in any quotation system at the time of the execution (including the reporting firm's own quotation), the cost of execution and the expenses involved in clearing the transaction.

(4) Reporting Riskless Principal Transactions

For riskless principal transactions, report as one transaction in the same manner as an agency transaction, excluding the mark-up, mark-down, or service charge.

(5) Identification of Other Members for Agency and Riskless

Principal Transactions

Any member that has a reporting obligation pursuant to paragraph (b) above and is acting in a riskless principal or agency capacity on behalf of one or more other members shall submit to FINRA one or more non-tape (either non-tape, clearing-only or non-tape, non-clearing) report(s) identifying such other member(s) as a party to the transaction, if such other member(s) is not identified on the initial trade report submitted to FINRA. Nothing in this Rule 6920(d)(5) shall negate or modify the riskless principal transaction reporting requirements set forth in Rule 6920(d)(4).

Example #1:

Member A, as agent or riskless principal on behalf of Member B, BUYS 100 shares from Member C at 40 (no mark-down included)

Member A has the reporting obligation under Rule 6920(b)

TAPE REPORT 100 shares at 40 By Member A between Member A and Member C

NON-TAPE REPORT 100 shares at 40 By Member A identifying

Member B

Example #2A:

Member A MATCHES, as agent, the orders of Member B and Member C
for 100 shares at 40

Member A has the reporting obligation under Rule 6920(b)

TAPE REPORT 100 shares at 40 By Member A between Member A and
Member B (or Member C)

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member C (or Member B)

Example #2B:

Member A MATCHES, as agent, the orders of Member B and Member C
for 100 shares at 40

Member A has the reporting obligation under Rule 6920(b)

TAPE REPORT a CROSS of 100 shares at 40 By Member A

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member B and

NON-TAPE REPORT 100 shares at 40 By Member A identifying
Member C

Example #3:

Member A, as agent or riskless principal on behalf of Member B, BUYS
100 shares on an exchange at 40

DO NOT TAPE REPORT this leg (will be reported by exchange)

NO NON-TAPE REPORT required; however, Member A may submit a

NON-TAPE REPORT as between Member A and Member B

(e) No Change.

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6000C. NASD/NSX TRADE REPORTING FACILITY SYSTEMS AND PROGRAMS

6100C. CLEARING AND COMPARISON RULES

6110C. Definitions

(a) through (f) No Change.

[(g) The term "Reporting ECN" shall mean a member of NASD that is an electronic communications network or alternative trading system, as those terms are defined in Rule 600 of Regulation NMS under the Act, that is a participant of a registered clearing agency for clearing or comparison purposes or has a clearing arrangement with such a participant, to the extent that transactions executed through it are reported to the System.]

[(h) The term "Reporting Market Maker" shall mean a member of NASD that meets the definition of Market Maker in Rule 4200C and is a member of a registered clearing agency for clearing or comparison purposes or has a clearing arrangement with such a member.]

[(i) The term "Reporting Order Entry Firm" shall mean a member of NASD that is a firm that executes orders but does not act as a market maker in the instant transaction and is a member of a registered clearing agency for clearing or comparison purposes or has a clearing arrangement with such a member.]

(j) through (l) redesignated as (g) through (i)

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6130C. Trade Report Input

(a) through (b) No Change.

(c) Which Party Inputs Trade Reports

Participants shall, subject to the input requirements below, input trade reports.

[Trade data input obligations are as follows:] Trade reports shall be submitted by the member as required by Rule 4632C(b).

[(1) in transactions between a Reporting Market Maker and a Reporting Order Entry Firm, the Reporting Market Maker shall be required to submit a trade report to the System;]

[(2) in transactions between two Reporting Market Makers, the member representing the sell side shall be required to submit a trade report to the System;]

[(3) in transactions between two Reporting Order Entry Firms, the member representing the sell side shall be required to submit a trade report to the System;]

[(4) in transactions between a member and a non-member or customer, the member shall be required to submit a trade report to the System;]

[(5) in transactions conducted through a Reporting ECN that are reported to the System, the Reporting ECN shall ensure that transactions are reported in accordance with one of the following methods:]

[(A) the Reporting ECN shall submit the trade reports to the System and identify itself as the Reporting Party;]

[(B) the Reporting ECN shall submit the trade reports to the System on behalf of the Reporting Party and identify the Reporting Party

in accordance with the rules for determining Reporting Parties reflected in paragraphs (1), (2), (3), and (4) above; or]

[(C) the Reporting ECN shall require one of the parties, determined in accordance with the rules for determining Reporting Parties reflected in paragraphs (1), (2), (3), and (4) above, to submit the trade reports to the System.]

[When a Reporting ECN reports transactions in accordance with subparagraph (A), the Reporting ECN shall be responsible for ensuring that the trade reports are accurate and contain all information required by subsection (d) of this rule for both the Reporting ECN and the identified non-reporting party.]

[When a Reporting ECN reports transactions in accordance with subparagraph (B), both the Reporting ECN and the party identified as the Reporting Party shall be responsible for ensuring that the trade reports are accurate and contain all information required by subsection (d) of this rule for both the Reporting ECN and the identified Reporting Party.]

[When a Reporting ECN requires reporting of transactions in accordance with subparagraph (C), the Reporting Party shall be responsible for ensuring the accuracy and completeness of the trade report.]

[A Reporting ECN shall provide written notice to NASD of the method of trade reporting used by the Reporting ECN for each of its subscribers, and may change the method of trade reporting used for a subscriber by providing advance written notice of the change to NASD;]

[(6) in transactions conducted through two Reporting ECNs or a Reporting ECN and an ECN that is not a Reporting ECN, a Reporting ECN shall be responsible for complying with the requirements of paragraph (5) above for reporting a transaction executed through its facilities, and an ECN that routed an order to it for execution shall be deemed to be a Reporting Order Entry Firm and a member for purposes of the rules for determining Reporting Parties reflected in paragraphs (1), (3), and (4) above; and]

[(7) in transactions conducted through a Reporting ECN in which neither of the parties is a member, the Reporting ECN shall report the transaction in accordance with the requirements of subparagraph (5)(A) above.]

(d) Trade Information To Be Input

Each report to the System shall contain the following information:

(1) through (4) No Change.

(5) A symbol indicating whether the party submitting the trade report represents the [Market Maker] “MMID” or Reporting Party side or the [Order Entry] “OEID” or non-Reporting Party side;

(6) through (13) No Change.

(e) through (h) No Change.

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6000E. NASD/NYSE TRADE REPORTING FACILITY SYSTEMS AND PROGRAMS

6100E. CLEARING AND COMPARISON RULES

6110E. Definitions

(a) through (f) No Change.

[(g) The term "Reporting ECN" shall mean a member of NASD that is an electronic communications network or alternative trading system, as those terms are defined in Rule 600 of Regulation NMS under the Act, that is a participant of a registered clearing agency for clearing or comparison purposes or has a clearing arrangement with such a participant, to the extent that transactions executed through it are reported to the System.]

[(h) The term "Reporting Market Maker" shall mean a member of NASD that meets the definition of Market Maker in Rule 4200E and is a member of a registered clearing agency for clearing or comparison purposes or has a clearing arrangement with such a member.]

[(i) The term "Reporting Order Entry Firm" shall mean a member of NASD that is a firm that executes orders but does not act as a market maker in the instant transaction and is a member of a registered clearing agency for clearing or comparison purposes or has a clearing arrangement with such a member.]

(j) through (l) redesignated as (g) through (i)

* * * * *

6130E. Trade Report Input

(a) through (b) No Change.

(c) Which Party Inputs Trade Reports

Participants shall, subject to the input requirements below, input trade reports.

[Trade data input obligations are as follows:] Trade reports shall be submitted by the member as required by Rule 4632E(b).

[(1) in transactions between a Reporting Market Maker and a Reporting Order Entry Firm, the Reporting Market Maker shall be required to submit a trade report to the System;]

[(2) in transactions between two Reporting Market Makers, the member representing the sell side shall be required to submit a trade report to the System;]

[(3) in transactions between two Reporting Order Entry Firms, the member representing the sell side shall be required to submit a trade report to the System;]

[(4) in transactions between a member and a non-member or customer, the member shall be required to submit a trade report to the System;]

[(5) in transactions conducted through a Reporting ECN that are reported to the System, the Reporting ECN shall ensure that transactions are reported in accordance with one of the following methods:]

[(A) the Reporting ECN shall submit the trade reports to the System and identify itself as the Reporting Party;]

[(B) the Reporting ECN shall submit the trade reports to the System on behalf of the Reporting Party and identify the Reporting Party in accordance with the rules for determining Reporting Parties reflected in paragraphs (1), (2), (3), and (4) above; or]

[(C) the Reporting ECN shall require one of the parties, determined in accordance with the rules for determining Reporting Parties reflected in paragraphs (1), (2), (3), and (4) above, to submit the trade reports to the System.]

[When a Reporting ECN reports transactions in accordance with subparagraph (A), the Reporting ECN shall be responsible for ensuring that the trade reports are accurate and contain all information required by subsection (d) of this rule for both the Reporting ECN and the identified non-reporting party.]

[When a Reporting ECN reports transactions in accordance with subparagraph (B), both the Reporting ECN and the party identified as the Reporting Party shall be responsible for ensuring that the trade reports are accurate and contain all information required by subsection (d) of this rule for both the Reporting ECN and the identified Reporting Party.]

[When a Reporting ECN requires reporting of transactions in accordance with subparagraph (C), the Reporting Party shall be responsible for ensuring the accuracy and completeness of the trade report.]

[A Reporting ECN shall provide written notice to NASD of the method of trade reporting used by the Reporting ECN for each of its subscribers and may change the method of trade reporting used for a subscriber by providing advance written notice of the change to NASD;]

[(6) in transactions conducted through two Reporting ECNs or a Reporting ECN and an ECN that is not a Reporting ECN, a Reporting ECN shall be responsible for complying with the requirements of paragraph (5) above for

reporting a transaction executed through its facilities, and an ECN that routed an order to it for execution shall be deemed to be a Reporting Order Entry Firm and a member for purposes of the rules for determining Reporting Parties reflected in paragraphs (1), (3), and (4) above; and]

[(7) in transactions conducted through a Reporting ECN in which neither of the parties is a member, the Reporting ECN shall report the transaction in accordance with the requirements of subparagraph (5)(A) above.]

(d) Trade Information To Be Input

Each report to the System shall contain the following information:

(1) through (4) No Change.

(5) A symbol indicating whether the party submitting the trade report represents the [Market Maker] “MMID” or Reporting Party side or the [Order Entry] “OEID” or non-Reporting Party side;

(6) through (13) No Change.

(e) through (h) No Change.

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