

Required fields are shown with yellow backgrounds and asterisks.

Proposed Rule Change by Financial Industry Regulatory Authority
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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|-------------------------------------|---|--------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Initial * | Amendment * | Withdrawal | Section 19(b)(2) * | Section 19(b)(3)(A) * | Section 19(b)(3)(B) * | | | |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | | | |
| | | | Rule | | | | | |
| Pilot | Extension of Time Period for Commission Action * | Date Expires * | 19b-4(f)(1) | 19b-4(f)(2) | 19b-4(f)(3) | 19b-4(f)(4) | 19b-4(f)(5) | 19b-4(f)(6) |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="text"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |

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| Exhibit 2 Sent As Paper Document | Exhibit 3 Sent As Paper Document |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |

Description
Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *).
Proposed Rule Change Relating to TRACE Reporting and Dissemination of Transactions in Agency Pass-Through Mortgage-Backed Securities Traded in Specified Pool Transactions and SBA-Backed ABS 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.


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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 08/29/2012
By Patrice Gliniecki Senior Vice President and Deputy General Counsel
(Name *) (Title *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.



SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information (required)

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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 (required)

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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

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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Exhibit Sent As Paper Document

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”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend the FINRA Rule 6700 Series and Trade Reporting and Compliance Engine (“TRACE”) dissemination protocols regarding the reporting and dissemination of transactions in TRACE-Eligible Securities that are: (1) Agency Pass-Through Mortgage-Backed Securities traded in Specified Pool Transactions (“MBS Specified Pool transactions”) and (2) Asset-Backed Securities backed by loans guaranteed as to principal and interest by the Small Business Administration (“SBA-Backed ABS”) and traded either in Specified Pool Transactions or to be announced (“TBA”) (collectively, “SBA-Backed ABS transactions”).²

The text of the proposed rule change is attached as Exhibit 5.³

¹ 15 U.S.C. 78s(b)(1).

² The terms TRACE-Eligible Security, Agency Pass-Through Mortgage-Backed Security, Specified Pool Transaction, Asset-Backed Security and To Be Announced are defined in, respectively, Rule 6710(a), Rule 6710(v), Rule 6710(x), Rule 6710(m) and Rule 6710(u). The definition of SBA-Backed ABS is proposed in Rule 6710(bb).

³ The proposed rule text set forth in Exhibit 5 includes the amendments to the FINRA Rule 6700 Series to provide for reduced reporting times and dissemination of transactions in TRACE-Eligible Securities that are Agency Pass-Through Mortgage-Backed Securities that are traded To Be Announced (“TBA”) (“MBS TBA transactions”), which were approved by the SEC and will become effective November 5, 2012. See Securities Exchange Act Release No. 66829 (April 18, 2012), 77 FR 24748 (April 25, 2012) (Order Approving File No. SR-FINRA-2012-020) and Regulatory Notice 12-26 (May 2012) (“TBA Amendments”).

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

At its meeting on February 16, 2012, the FINRA Board of Governors authorized the filing of the proposed rule change with the SEC. No other action by FINRA is necessary for the filing of the proposed rule change.

FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 60 days following Commission approval. The effective date will be no later than 270 days following publication of the Regulatory Notice announcing Commission approval.

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

(a) Purpose

On April 18, 2012, the SEC approved the TBA Amendments to provide for the dissemination of MBS TBA transactions, subject to dissemination caps, and concomitant reductions in the reporting periods for such transactions, which will become effective November 5, 2012.⁴ FINRA is proposing to expand transparency further in the market for Asset-Backed Securities in the proposed rule change, which provides for the dissemination of MBS Specified Pool and SBA-Backed ABS transactions, subject to

⁴ See supra note 3. The TBA Amendments distinguished between MBS TBA transactions for good delivery (“MBS TBA transactions GD”) and not for good delivery (“MBS TBA transactions NGD”). In response to comments, FINRA proposed a longer period to timely report, and lower dissemination caps for, MBS TBA transactions NGD than the requirements proposed for MBS TBA transactions GD.

dissemination caps, and concomitant reductions in the reporting periods for such transactions.

FINRA proposes to amend Rule 6730 to reduce, in two stages, the time frames to report MBS Specified Pool and SBA-Backed ABS transactions. FINRA also proposes minor clarifying amendments to Rule 6730(a)(3)(D) and (E) to specify that the reporting requirements set forth therein apply solely to MBS TBA transactions. In connection with such changes, FINRA proposes amendments in Rule 6710 to the definitions of “Agency Pass-Through Mortgage-Backed Security,” “To Be Announced (‘TBA’),” and “Specified Pool Transaction,” and a new defined term, “SBA-Backed ABS.” Finally FINRA proposes to amend Rule 6750 to provide for the dissemination of MBS Specified Pool and SBA-Backed ABS transactions, and proposes to establish, as part of TRACE dissemination protocols, the specific data elements of the transactions that will be disseminated as well as a \$10 million dissemination cap for such transactions.

MBS Specified Pool Transactions

Generally, Agency Pass-Through Mortgage-Backed Securities are traded either TBA or in Specified Pool Transactions as defined in Rule 6710(u) and (x), respectively. In MBS Specified Pool transactions, on the date of trade (trade date), the seller agrees to deliver to the buyer a specific Agency Pass-Through Mortgage-Backed Security identifiable by a unique identification number, representing a specific pool of mortgage loans. In an MBS TBA transaction, the mortgage pools to be delivered are described (e.g., by program, interest rate, type of residential mortgage, maturity) but are not specifically identified, and will not be identified until shortly before settlement. While the majority of Agency Pass-Through Mortgage-Backed Securities are traded TBA, the

daily volume of MBS Specified Pool transactions represents significant economic activity in mortgage-related securities, and FINRA believes that additional transparency in such securities is appropriate. The reported transaction data shows that MBS Specified Pool transaction pricing is strongly correlated to (and in general is priced at a premium over) the pricing of similar mortgage pools traded in the substantially larger MBS TBA market. Moreover, the two market sectors exhibit similar trading characteristics, and the same programs dominate both markets. For example, approximately 98 percent of the total volume in MBS Specified Pool transactions, and approximately 95 percent of the total volume in MBS TBA transactions, occurs in securities backed by single-family mortgage loans.⁵ Accordingly, the TRACE data sets are complimentary and the dissemination of the additional pricing information for MBS Specified Pool transactions will further improve transparency in the Agency Pass-Through Mortgage-Backed Securities market.

SBA-Backed ABS Transactions

SBA-Backed ABSs are Asset-Backed Securities created from pooling loans made to small business by banks and other financial institutions in conformity with the program requirements of the Small Business Administration (“SBA”). Loans that meet the SBA’s requirements are guaranteed by SBA as to the timely payment of principal and interest, and pools are then created to issue SBA-Backed Asset-Backed Securities.

⁵ Over half of all transactions in MBS Specified Pool transactions, and approximately 77 percent of all transactions in MBS TBA transactions, occur in Federal National Mortgage Association (“Fannie Mae”) program securities. The information is based on FINRA staff’s review of all Asset-Backed Securities transactions reported to TRACE from May 16, 2011 through October 31, 2011.

SBA-Backed ABS also are traded TBA and in Specified Pool Transactions.⁶ Like Agency Pass-Through Mortgage-Backed Securities discussed above, such TBA trading may occur because market participants may anticipate with some certainty the creation of loan pools and are aware of the pool characteristics, and the extent to which such loan pools are fungible with previously-settled SBA-Backed ABS. FINRA proposes that both types of SBA-Backed ABS transactions be subject to dissemination.

Amendments to Defined Terms

FINRA proposes to define “SBA-Backed ABS” in proposed Rule 6710(bb) as an Asset-Backed Security issued in conformity with a program of the Small Business Administration (“SBA”), for which the timely payment of principal and interest is guaranteed by the SBA, representing ownership interest in a pool (or pools) of loans and structured to “pass through” the principal and interest payments made by the borrowers in such loans to the holders of the security on a pro rata basis.

In connection with the proposed addition of the definition of SBA-Backed ABS, FINRA also proposes amendments to the definitions of “To Be Announced (‘TBA’)” and “Specified Pool Transaction” in Rule 6710(u) and Rule 6710(x), respectively. Both definitions currently apply only to Agency Pass-Through Mortgage-Backed Securities.

⁶ SBA-Backed ABS transactions constitute a very minor portion of all Specified Pool Transactions. SBA-Backed ABS Specified Pool Transactions account for only 0.41 percent of the combined total volume of all Specified Pool Transactions (i.e., the total volume of Agency Pass-Through Mortgage Backed-Securities and SBA-Backed ABS traded in Specified Pool Transactions).

As amended, both terms would include transactions in SBA-Backed ABS.⁷ In addition, FINRA proposes amendments to the definition of “Agency Pass-Through Mortgage-Backed Security” in Rule 6710(v) to incorporate minor, technical changes to the defined term.⁸

Reduction of Reporting Period

Currently, Asset-Backed Securities transactions (except certain pre-issuance transactions in collateralized mortgage obligations (“CMOs”) and real estate mortgage investment conduits (“REMICs”)) that are executed on a business day through 5:00:00

⁷ As revised, Rule 6710(u) would provide:

“To Be Announced” (“TBA”) means a transaction in an Agency Pass-Through Mortgage-Backed Security as defined in paragraph (v) or an SBA-Backed ABS as defined in paragraph (bb) where the parties agree that the seller will deliver to the buyer a pool or pool(s) of a specified face amount and meeting certain other criteria but the specific pool or pool(s) to be delivered at settlement is not specified at the Time of Execution, and includes TBA transactions “for good delivery” (“GD”) and TBA transactions “not for good delivery” (“NGD”).

As revised, Rule 6710(x) would provide:

“Specified Pool Transaction” means a transaction in an Agency Pass-Through Mortgage-Backed Security as defined in paragraph (v) or an SBA-Backed ABS as defined in paragraph (bb) requiring the delivery at settlement of a pool or pool(s) that is identified by a unique pool identification number at the Time of Execution.

⁸ As revised, Rule 6710(v) would provide:

“Agency Pass-Through Mortgage-Backed Security” means a type of Asset-Backed Security issued in conformity with a program of an Agency or a Government-Sponsored Enterprise (“GSE”), for which the timely payment of principal and interest is guaranteed by the Agency or GSE, representing ownership interest in a pool (or pools) of mortgage loans structured to “pass through” the principal and interest payments to the holders of the security on a pro rata basis.

p.m. Eastern Time must be reported to TRACE on the Trade Date during TRACE System Hours, as provided in Rule 6730(a)(3)(A)(i), subject to the exceptions for transactions executed after 5:00:00 p.m. and during times when the TRACE System is not open in Rule 6730(a)(3)(A)(ii) and (iii). In contrast, secondary market transactions in all other TRACE-Eligible Securities must be reported within 15 minutes of the Time of Execution.⁹ With certain exceptions, transaction information on such TRACE-Eligible Securities is disseminated as soon as the transaction is reported, and the 15-minute reporting requirement results in meaningful price transparency for market participants trading such securities.¹⁰ In addition, effective November 5, 2012, MBS TBA transactions will be disseminated, and, in connection with their dissemination, the time frames for timely reporting such transactions will be reduced to provide market participants meaningful and timely price information about MBS TBA transactions.¹¹

In connection with proposing that MBS Specified Pool and SBA-Backed ABS transactions be disseminated, FINRA proposes to reduce the reporting time frames for such transactions for the same reasons. The proposed reduction of the reporting time frames would occur in two stages to permit industry participants time to adjust policies

⁹ The term Time of Execution is defined in Rule 6710(d).

¹⁰ See Rule 6750(b) for exceptions to dissemination. See also supra note 3 regarding the TBA Amendments and dissemination of MBS TBA transactions.

¹¹ See supra note 3. Under the TBA Amendments, which become effective November 5, 2012, MBS TBA transactions GD must be reported generally within 45 minutes of the Time of Execution until May 10, 2013 (reduced to 15 minutes after May 10, 2013), and MBS TBA transactions NGD be reported within 120 minutes until May 10, 2013 (reduced to 60 minutes after May 10, 2013). Both reporting requirements are subject to exceptions for transactions executed close to the end of the business day or when the TRACE system is not open.

and procedures and to make required technological changes, as also done in connection with the TBA Amendments.

The requirements to report MBS Specified Pool and SBA-Backed ABS transactions are set forth in, respectively, proposed Rule 6730(a)(3)(F) and proposed Rule 6730(a)(3)(G). First, FINRA proposes to reduce the reporting period for MBS Specified Pool and SBA-Backed ABS transactions from no later than the close of the TRACE system on Trade Date to no later than two hours (i.e., 120 minutes) from the Time of Execution for the duration of the proposed MBS Specified Pool Pilot Program and the proposed SBA-Backed ABS Pilot Program in, respectively, proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i).¹² Like the reporting requirements currently in effect for other TRACE-Eligible Securities, FINRA also proposes exceptions to the 120-minute time frame for transactions executed near the end of the business day or when the TRACE system is not open.¹³ Second, after the pilot programs expire, the

¹² Proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i) each incorporate by reference Rule 6730(a)(3)(E)(i)a. through d., which provides for a 120-minute reporting time frame in Rule 6730(a)(3)(E)(i)b.

Each of the pilot programs would expire after approximately 180 days. To accommodate member requests that, if possible, rule changes requiring technology changes occur on a Friday, proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i) provide that the MBS Specified Pool Pilot Program and the SBA-Backed ABS Pilot Program each would expire on a Friday (i.e., on the 180th day, if a Friday, or, if the 180th day is not a Friday, on the Friday next occurring that the TRACE system is open).

¹³ See proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i), which incorporate by reference Rule 6730(a)(3)(E)(i)a., c. and d, which apply to transactions executed near the end of the business day or when the TRACE system is not open. Under Rule 6730(a)(3)(E)(i)a., transactions executed on a business day at or after 12:00:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day no later than 120 minutes after the TRACE system opens. Under Rule 6730(a)(3)(E)(i)c., transactions executed on a business

reporting periods for MBS Specified Pool and SBA-Backed ABS transactions would be reduced from no later than two hours (120 minutes) from the Time of Execution to no later than one hour (60 minutes) from the Time of Execution, as set forth in, respectively, proposed Rule 6730(a)(3)(F)(ii) and proposed Rule 6730(a)(3)(G)(ii).¹⁴ Currently, approximately 84 percent of MBS Specified Pool and SBA-Backed ABS transactions are reported within two hours of execution, and approximately 75 percent are reported within one hour of execution.

After the 60-minute reporting requirement is implemented, FINRA will continue to review the reporting of MBS Specified Pool and SBA-Backed ABS transactions and may recommend further reductions in the reporting period.

FINRA also proposes minor clarifying amendments to Rule 6730(a)(3)(D) and (E) to specify that the reporting requirements set forth therein apply solely to MBS TBA transactions.

day less than 120 minutes before 6:30:00 p.m. Eastern Time (the time the TRACE system closes) must be reported no later than 120 minutes after the TRACE system opens the next business day (T + 1), and if reported on T + 1, designated “as/of” and include the date of execution. Under Rule 6730(a)(3)(E)(i)d., transactions executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time or on a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T + 1), no later than 120 minutes after the TRACE system opens, designated “as/of” and include the date of execution.

¹⁴ Proposed Rule 6730(a)(3)(F)(ii) and proposed Rule 6730(a)(3)(G)(ii) – the “post-pilot program” reporting provisions – incorporate by reference the reporting requirements set forth in Rule 6730(a)(3)(E)(ii)a. through d., including the exceptions to the requirement to report within 60 minutes that apply to transactions executed near the end of the business day or when the TRACE system is not open in Rule 6730(a)(3)(E)(ii)a., c. and d.

Dissemination

Amendment to Rule 6750

Although members began reporting transactions in Asset-Backed Securities to TRACE on May 16, 2011, FINRA currently does not disseminate publicly Asset-Backed Securities transaction data reported to TRACE as provided in Rule 6750(b)(4). However, on November 5, 2012, transparency in Asset-Backed Securities transactions will increase significantly with the dissemination of MBS TBA transactions, which represent approximately 87 percent of the average daily volume traded in all Asset-Backed Securities.¹⁵ After obtaining the SEC's approval to disseminate such transaction information, FINRA continued to examine transactions in Asset-Backed Securities to determine if FINRA should propose to disseminate additional Asset-Backed Securities. The SEC has been supportive of such efforts.¹⁶

FINRA has reviewed the data reported for Asset-Backed Securities other than MBS TBA transactions, including MBS Specified Pool and SBA-Backed ABS transactions, and studied the total volume of MBS Specified Pool and SBA-Backed ABS transactions, the concentration of trading in such securities, and the pricing disparity among various types of MBS Specified Pool and SBA-Backed ABS transactions to understand their liquidity and fungibility. The market activity reported and reviewed reveals that for MBS Specified Pool transactions, the market is generally active and

¹⁵ See supra note 3.

¹⁶ See Securities Exchange Act Release No. 61566 (February 22, 2010), 75 FR 9262, 9265 (March 1, 2010) (Order Approving File No. SR-FINRA-2009-065).

liquid, and with liquidity comparable to that of corporate bonds.¹⁷ Based on the review, FINRA believes that it is appropriate to amend Rule 6750 to provide for the immediate dissemination of MBS Specified Pool and SBA-Backed ABS transaction information, and that such dissemination will benefit market participants by improving transparency in both market segments. Specifically, Rule 6750(b)(4) would be amended to provide that FINRA will not disseminate information on a transaction in a TRACE-Eligible Security that is an Asset-Backed Security, except: (A) an Agency Pass-Through Mortgage-Backed Security; and (B) an SBA-Backed ABS.¹⁸ Thus, information would be disseminated on MBS Specified Pool and SBA-Backed ABS transactions immediately upon receipt of the transaction report and no later than 120 minutes, or, after the expiration of the applicable pilot program, no later than 60 minutes, from the Time of Execution.¹⁹

Dissemination Protocols

SBA-Backed ABS Transactions Traded TBA. The dissemination protocols applicable to SBA-Backed ABS transactions traded TBA would be the same as the dissemination protocols for MBS TBA transactions NGD and subject to the dissemination cap discussed below. Generally, such securities will be disseminated

¹⁷ Liquidity as measured by par value traded is comparable to corporate bonds. Although MBS TBA transactions account for approximately 93 percent of all trading in Agency Pass-Through Mortgage-Backed Securities, the average daily volume of MBS Specified Pool transactions is significant – approximately \$17.5 billion is traded daily on average, in approximately 3,000 trades per day. The information is based on FINRA staff’s review of all Asset-Backed Securities transactions reported to TRACE from May 16, 2011 through October 31, 2011.

¹⁸ See supra note 3.

¹⁹ FINRA continues to review Asset-Backed Security transaction information in other sectors of the Asset-Backed Securities market and, at a later date, may propose that transactions in other Asset-Backed Securities be disseminated.

immediately upon receipt of transaction information, and the standard data elements will be displayed.²⁰

MBS and SBA-Backed ABS Specified Pool Transactions. FINRA proposes to modify the dissemination protocols for MBS Specified Pool transactions and SBA-Backed ABS traded in Specified Pool Transactions (collectively “MBS and SBA-Backed ABS Specified Pool transactions”) from those initially proposed by FINRA, to strike a balance between certain anonymity concerns and providing meaningful transparency.²¹ Unlike the dissemination protocols for other disseminated TRACE –Eligible Securities, including MBS TBA transactions, FINRA proposes not to disseminate the CUSIP of the MBS or the SBA-Backed ABS Specified Pool transaction.²² Instead, certain specified data elements that are integral to describing and valuing the security traded, with numeric values expressed within specific ranges (*i.e.*, the information will be truncated and, depending on the data element, rounded up or down) would be disseminated. Although FINRA has determined not to disseminate the specific CUSIP of the security, FINRA believes that investor must be provided sufficient information such that the investor can appropriately interpret the price transparency provided by the TRACE data. Part of the valuation analysis of any Asset-Backed Security includes a projection of its cash flow which in turn relies on assumptions about prepayment rates. FINRA believes that the

²⁰ Standard data elements include, among other things, CUSIP, time of transaction, size (subject to dissemination caps), price, counterparty type (customer or dealer), and buy/sell indicator.

²¹ See Item 5 of this filing for a discussion of SR-FINRA-2012-021.

²² FINRA notes that notwithstanding the proposed changes to dissemination protocols, FINRA is not proposing to change any of the reporting requirements

data elements outlined below provide information that will allow market participants to perform such analysis.

MBS Specified Pool Transactions

In lieu of a CUSIP, the following information would be disseminated for each MBS Specified Pool transaction reported to TRACE: product type; amortization type; issuing agency; coupon; original maturity; weighted average coupon (“WAC”); weighted average maturity (“WAM”); weighted average loan age (“WALA”); average loan size (“ALS”); and original loan-to-value (“original LTV”) information. Each data element (except issuing agency, product type and amortization type) would be provided in ranges (truncated and disseminated after rounding) to further reduce the potential for “reverse engineering” transaction data to determine the identification of a market participant and/or the participant’s trading strategies. FINRA believes that these data elements will permit investors to meaningfully assess the value and price of the security. If in the future, FINRA identifies additional data elements that would significantly improve transparency using this approach, FINRA may add such data elements to the dissemination protocol for MBS Specified Pool transactions discussed herein.

Product type, amortization type, issuing agency, coupon and original maturity would be disseminated to permit identification of the security type traded. Product type refers to the type of properties (or real-estate related projects) subject to the mortgages underlying the Agency-Pass Through Mortgage-Backed Security (e.g., single family residential dwelling mortgage loans, multi-family residential dwelling mortgage loans, or

applicable to such securities, including the requirement to report the CUSIP number.

project loans). Amortization type identifies the underlying mortgage types (e.g., level payment, adjustable rate mortgages (“ARMs”) or balloons). Issuing agency refers to the Agency or Government-Sponsored Enterprise (GSE) that issues the certificate and guarantees the payment of principal and interest of the Agency Pass-Through Mortgage-Backed Security (e.g., Fannie Mae, the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and the Government National Mortgage Association (“Ginnie Mae”)). Coupon refers to the stated annual percentage rate of interest paid on the Agency-Pass Through Mortgage-Backed Security, and would be disseminated after rounding down to the nearest quarter percentage point (e.g., an interest rate of 5.12 percent would be disseminated at 5.00 percent). Original maturity refers to the original stated term after which the principal amount of the security is due to be repaid in full, or the end of the life of the Agency-Pass Through Mortgage-Backed Security (e.g., 30 years (expressed as 360 months)). Original maturity would be disseminated after rounding up to the nearest 10 (e.g., an original maturity of 358 months would be disseminated at 360).

In addition, FINRA will disseminate WAC, WAM, WALA, ALS, and original LTV to provide information on recent and historic cash flows and prepayments, and permit investors to develop projections or assumptions regarding future payments, prepayments, and cash flows. WAC is the weighted average interest rate of the underlying mortgage loans or pools that serve as collateral for a mortgage security, weighted by the size of the principal loan balances.²³ WAC would be disseminated after truncating to a single decimal (e.g., WAC of 7.13% would be disseminated as 7.1).

²³ WAC is calculated by weighting the interest rate of each mortgage loan in the pool by the amount of the mortgage outstanding.

WAM is the weighted average number of months to the final payment of each loan backing an Agency Pass-Through Mortgage-Backed Security (or other mortgage-backed security), weighted by the size of the principal loan balances.²⁴ WAM would be disseminated rounded down to the nearest 10 (e.g., WAM of 87 months would be disseminated as 80). WALA is the weighted average number of months since the date of the loan origination of the mortgages (i.e., the age of the loans) backing an Agency Pass-Through Mortgage Security (or other mortgage-backed security), weighted by the size of the principal loan balances. WALA would be disseminated rounded up to the nearest 10 (e.g., WALA of 163 months would be disseminated as 170). Current ALS is obtained by dividing the current mortgage loan outstanding principal balance by the number of loans that remain outstanding. ALS would be rounded down to the nearest 25 (e.g., an ALS of 113 (i.e., \$113,000 average loan size) would be disseminated as 100). Original LTV ratio expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property, and also would be disseminated rounded down to the nearest 25 (e.g., an original LTV of 92 (i.e., 92 percent) would be disseminated as 75).

The data elements are publicly available as they are published on a monthly basis by the issuing agency. Upon receipt of a transaction report, the TRACE system will automatically disseminate the above data elements corresponding to the CUSIP reported in lieu of disseminating the CUSIP number.

²⁴ WAM is calculated by weighting the remaining number of months to maturity for each mortgage loan in the pool by the amount of the mortgage outstanding.

Dissemination of SBA-Backed ABS traded in Specified Pool Transactions

For Specified Pool transactions in SBA-Backed ABS, FINRA generally proposes that dissemination protocols be established that are substantially similar to those discussed above for MBS Specified Pool transactions. The dissemination protocols would result in the dissemination of substantially the same data elements for SBA-Backed ABS Specified Pool transactions as those disseminated for MBS Specified Pool transactions, in lieu of the dissemination of the specific CUSIP. Specifically, upon receipt of a transaction report, FINRA would disseminate amortization type; coupon; original maturity; WAC; WAM; and WALA, except that such values would be based on SBA-backed pooled loans. The values, like those for MBS Specified Pool transactions, would be rounded and truncated prior to dissemination to reduce the possibility of potential identification of a market participant by “reverse engineering” of a transaction. In addition, if in the future, FINRA identifies additional data elements that would significantly improve transparency using this approach, FINRA may add such data elements to the dissemination protocol for SBA-Backed ABS Specified Pool transactions.

FINRA believes that, in the absence of disseminating CUSIP data, disseminating the information set forth above will help ensure meaningful price transparency, by providing relevant information commonly used to identify, value and price MBS and SBA-Backed ABS Specified Pool transactions. FINRA believes that its proposal strikes the appropriate balance in achieving meaningful transparency while significantly reducing

the potential to “reverse engineer” transaction data to identify a market participant and/or determine its trading strategies.²⁵

Dissemination Caps

FINRA has established TRACE dissemination caps for disseminated TRACE data generally, such that the actual size of a transaction over a certain par value is not displayed in disseminated TRACE transaction data. For TRACE-Eligible Securities that are rated Investment Grade, the dissemination cap is \$5 million (“\$5MM”), and the size of transactions in excess of \$5MM is displayed as “\$5MM+.” For TRACE-Eligible Securities that are rated Non-Investment Grade, the dissemination cap is \$1 million (“\$1MM”), and the size of a transaction in excess of \$1MM is displayed as “\$1MM+.”²⁶ As of November 5, 2012, a \$25 million (“\$25MM”) dissemination cap will apply to MBS TBA transactions GD (with the size of a transaction in excess of \$25MM displayed as “\$25MM+”) and a \$10 million (“\$10MM”) dissemination cap will apply to MBS TBA

²⁵ As noted above, with respect to both MBS and SBA-Backed ABS Specified Pool transactions, if FINRA identifies additional data elements that would significantly improve transparency, FINRA may add such data elements to the dissemination protocols for such securities.(e.g., FICO).

²⁶ The dissemination caps for Investment Grade corporate bonds limit the display of actual size for approximately 1.6 percent of trades representing approximately 48 percent of total par value traded, and, for Agency Debt Securities, approximately 6 percent of trades representing approximately 74 percent of total par value traded. The dissemination cap for Non-Investment Grade corporate bonds limits the display of actual size for approximately 15 percent of trades representing approximately 84 percent of total par value traded. The information is based on a review of all transactions in Investment Grade corporate bonds, Agency Debt Securities and Non-Investment Grade corporate bonds reported to TRACE from May 16, 2011 through January 4, 2012.

The terms Investment Grade, Non-Investment Grade and Agency Debt Security are defined in, respectively, Rule 6710(h), Rule 6710(i) and Rule 6710(l).

transactions NGD (with the size of a transaction in excess of \$10MM displayed as “\$10MM+”).²⁷

FINRA has analyzed the distribution of MBS Specified Pool and SBA-Backed ABS transactions to determine an appropriate dissemination cap, and proposes a \$10 million (“\$10MM”) dissemination cap for MBS Specified Pool and SBA-Backed ABS transactions initially. Accordingly, the size of MBS Specified Pool and SBA-Backed ABS transactions greater than \$10 million would be displayed in disseminated data as “\$10MM+.” In setting the dissemination caps, FINRA took into account the liquidity and trading activity in these segments, and at \$10 million, approximately nine percent of transactions and approximately 80 percent of par value traded would be disseminated subject to the \$10MM cap.²⁸ FINRA believes that the proposed dissemination caps will allow the marketplace time to adjust to the new levels of transparency.

As dissemination of MBS Specified Pool and SBA-Backed ABS transactions is implemented, FINRA will continue to review the volume of and liquidity in these securities, and may recommend that such dissemination caps be set at higher levels to provide additional transparency to market participants.

²⁷ See supra note 3.

²⁸ See supra note 3. The proposed dissemination caps for MBS TBA transactions GD would limit display of actual size for approximately 20 percent of trades representing approximately 84 percent of par value traded and for MBS TBA transactions NGD would limit the display of actual size for approximately 42 percent of trades representing approximately 85 percent of par value traded. The information is based on a review of all MBS TBA, MBS Specified Pool and SBA-Backed ABS transactions reported to TRACE from May 16, 2011 through January 4, 2012.

As noted in Item 2 of this filing, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 60 days following Commission approval. The effective date will be no later than 270 days following publication of the Regulatory Notice announcing Commission approval.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,²⁹ which requires, among other things, that FINRA rules must 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 increase fixed income market transparency is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, generally to protect investors and the public because transparency in MBS Specified Pool and SBA-Backed ABS transactions will enhance the ability of investors and other market participants to identify and negotiate fair and competitive prices for these securities, and because the dissemination of price and other information publicly will promote just and equitable principles of trade among participants in the more transparent market, and will aid in the prevention of fraudulent and manipulative acts and practices in the Asset-Backed Securities market.

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.

²⁹ 15 U.S.C. 78o-3(b)(6).

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

On April 2, 2012, FINRA filed with the Commission SR-FINRA-2012-021 (“April 2012 Filing”), a proposed rule change to amend the Rule 6700 Series and TRACE dissemination protocols regarding the reporting and dissemination of (1) MBS Specified Pool transactions and (2) SBA-Backed ABS traded either in Specified Pool Transactions or to be announced (“TBA”) (collectively, “SBA-Backed ABS transactions”). Specifically, FINRA proposed to amend Rule 6730 to reduce, in two stages, the time frames to report MBS Specified Pool and SBA-Backed ABS transactions. FINRA also proposed minor clarifying amendments to Rule 6730(a)(3)(D) and (E) to specify that the reporting requirements set forth therein apply solely to MBS TBA transactions. In connection with such changes, FINRA proposed amendments to the definitions of “To Be Announced (‘TBA’),” “Specified Pool Transaction,” and “Agency Pass-Through Mortgage-Backed Security” and a new defined term, “SBA-Backed ABS.” Finally, FINRA proposed to amend Rule 6750 to provide for the dissemination of MBS Specified Pool and SBA-Backed ABS transactions, and proposed to establish, as part of TRACE dissemination protocols, a \$10 million dissemination cap for such transactions. A copy of the Form 19b-4 and original Exhibit 5 of the April 2012 Filing is attached as Exhibit 2a.

On April 19, 2012, the April 2012 Filing was published for comment in the Federal Register.³⁰ A copy of the Federal Register release is attached as Exhibit 2b. SEC

³⁰ See Securities Exchange Act Release No. 66804 (April 13, 2012), 77 FR 23524 (April 19, 2012) (Notice of Filing of File No. SR-FINRA-2012-021).

received two comment letters in response.³¹ A list of the comment letters received in response to the April 2012 Filing is attached as Exhibit 2c. Copies of the comment letters received in response to the April 2012 Filing are attached as Exhibit 2d.

One commenter focuses its comments solely on the aspects of the proposal relating to MBS Specified Pool transactions. The commenter states that a pool traded on a specified basis (i.e., by CUSIP) may not trade frequently, that most trades in pools – or at least those for smaller pools – are trades of the whole pool, which means that most pools are owned by a single investor, or two or three investors, instead of being widely held, and that most market participants track which pools they trade to and from their various counterparties. As a result, the commenter is concerned that FINRA’s proposal to disseminate such a security’s CUSIP as part of disseminated transaction information will compromise sensitive information regarding investors’ trading strategies, volumes, identities and positions, and, over time, market participants will be able to “reverse engineer” and develop quite detailed and precise estimates of other participants strategies and positions. The commenter expresses concern that the impact of “such diminution of confidentiality,” especially regarding positions and strategy, may be quite negative and impair participation and liquidity in the market for such instruments.³² The second commenter discusses the same issues raised by the first, –though the second commenter raises such issues in connection with SBA-Backed TBA transactions as well as MBS and

³¹ See Letter from Chris Killian, Managing Director, Securities Industry and Financial Markets Association (“SIFMA”), to Elizabeth M. Murphy, Secretary, SEC, dated May 10, 2012 (“SIFMA Letter”) and Letter from Michael Nicholas, Chief Executive Officer, Bond Dealers of America (“BDA”), to Elizabeth M. Murphy, Secretary, SEC, dated May 10, 2012 (“BDA Letter”).

³² See SIFMA Letter, p. 3.

SBA-Backed Specified Pool transactions.³³ Both commenters recommend that certain information be withheld from dissemination. One commenter recommended that pool number and CUSIP information, regardless of size, should be omitted.³⁴ The other commenter recommended that for pools with an original face amount below \$1 billion, the CUSIP information not be shown on disseminated trade reports for a three to six month period.³⁵ This commenter also recommended that FINRA reduce the dissemination cap to \$1 million.³⁶ In addition, one commenter was concerned that broker-dealers affiliated with banks can effect MBS Specified Pool and SBA-Backed ABS transactions through the bank and avoid reporting such transactions to TRACE, giving such broker-dealers an unfair advantage.³⁷

³³ See BDA Letter, pp. 1 and 2. (See, for example, the second commenter’s statements: “Much of the market in the Agency Specified Pool Securities is driven by institutional investors who take the time to research the performance of pools, to develop a strategy to generate a profit and ultimately to execute on that strategy.”; “. . . the pools can be smaller in size and a single investor frequently owns the entire pool . . .”; regarding smaller pools, “. . . the market easily knows who these investors are and what pools they own.”; “When a single investor owns a large percentage of a specified pool, if the FINRA proposal were finalized in its current form, the market would be able to know that this investor is buying or selling and the market would then be able to track this investor’s activity, and reverse engineer and capitalize on its strategy.”; and, “. . . a more fair approach to investors is if broker-dealers are allowed to omit the pool number and CUSIP information from TRACE dissemination regardless of the size of the transaction.”)

³⁴ See BDA letter, p. 1.

³⁵ See SIFMA Letter, p. 3.

³⁶ See SIFMA Letter, p. 3.

³⁷ See BDA Letter, p. 2.

FINRA withdrew the April 2012 Filing on July 12, 2012, prior to filing a response to comments. Accordingly, the comments to the April 2012 Filing and FINRA's responses are discussed below.

After careful consideration of the commenters' concerns, in this proposed rule change, FINRA proposes to modify the transaction dissemination protocols such that the disseminated information regarding MBS and SBA-Backed ABS Specified Pool transactions would not include the CUSIP of such securities. Instead, as detailed above, FINRA proposes to disseminate specific reference data elements, including information widely used to project cash flows and pre-payments, in specific ranges. FINRA believes that this approach would significantly limit the ability to "reverse engineer" transaction data to determine trading strategies and identities while providing valuable information about the mortgages/loans that are in MBS and SBA-Backed ABS Specified Pool transactions.

The information set forth above will help provide meaningful price transparency, by providing relevant information commonly used to identify, value and price MBS and SBA-Backed ABS Specified Pool transactions. FINRA believes that the proposed rule change strikes the appropriate balance in achieving meaningful transparency while significantly reducing the potential for "reverse engineering" transaction data to determine trading strategies and/or participant identification. If in the future, FINRA identifies additional data elements that would significantly improve transparency, FINRA may add such data elements to the dissemination protocols for such securities (e.g., FICO).

In addition, FINRA believes that the \$10 million dissemination cap is appropriate and does not propose to reduce it. As noted in the proposed rule change and the April 2012 Filing, the size of MBS Specified Pool and SBA-Backed ABS transactions greater than \$10 million would be displayed in disseminated data as "\$10MM+." At this level, approximately nine percent of transactions and approximately 80% of par value traded would be subject to the \$10MM cap. FINRA believes this data is consistent with respect to dissemination caps for other securities.³⁸

Finally, with respect to the commenter's concern that a broker-dealer affiliated with a bank may run MBS Specified Pool and SBA-Backed ABS transactions through the bank's balance sheet and avoid reporting such transactions to TRACE, FINRA notes that the statutory standard requires that FINRA's proposed rules not impose any burden on competition not necessary or appropriate in furtherance of the Act. FINRA believes that increased transparency in the securities trading market appropriately furthers the purposes of the Act. As FINRA has previously noted, it defeats the purposes of the Act by referring to market participants that may not be subject to the Act (in whole or in part), as a basis for not approving the proposed rule change.³⁹ Such a standard would undo much, if not all, regulation of broker-dealers and markets necessary for the protection of investors and the efficiency, competitiveness and integrity of securities markets. FINRA believes that the fact that there may be market participants that are not subject to the Act should not

³⁸ See note 21 and note 23 of the Form 19b-4 and Exhibit 1, respectively, in SR-FINRA-2012-021.

³⁹ See Response to Comments on SR-FINRA-2009-010 (Proposed Rule Change Relating to Expansion of TRACE to Include Agency Debt Securities and Primary Market Transactions).

delay the reporting and dissemination of MBS Specified Pool and SBA-Backed ABS transactions and related changes regarding the reporting of such transactions.

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.⁴⁰

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

Not applicable.

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 2a. A copy of the April 2012 Filing's Form 19b-4 and Exhibit 5.

Exhibit 2b. Federal Register Notice Requesting Comment on File No. SR-FINRA-2012-021.

Exhibit 2c. List of Commenters.

Exhibit 2d. Comments received in response to File No. SR-FINRA-2012-021.

Exhibit 5. Text of proposed rule change.

⁴⁰ 15 U.S.C. 78s(b)(2).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-FINRA-2012-042)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of Proposed Rule Change Relating to TRACE Reporting and Dissemination of Transactions in Agency Pass-Through Mortgage-Backed Securities Traded in Specified Pool Transactions and SBA-Backed Asset-Backed Securities 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”) 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 the FINRA Rule 6700 Series and Trade Reporting and Compliance Engine (“TRACE”) dissemination protocols regarding the reporting and dissemination of transactions in TRACE-Eligible Securities that are: (1) Agency Pass-Through Mortgage-Backed Securities traded in Specified Pool Transactions (“MBS Specified Pool transactions”) and (2) Asset-Backed Securities backed by loans guaranteed as to principal and interest by the Small Business Administration (“SBA-

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Backed ABS”) and traded either in Specified Pool Transactions or to be announced (“TBA”) (collectively, “SBA-Backed ABS transactions”).³

The text of the proposed rule change is available on FINRA’s website at <http://www.finra.org>, at the principal office of FINRA and at the Commission’s Public Reference Room.

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

On April 18, 2012, the SEC approved the TBA Amendments to provide for the dissemination of MBS TBA transactions, subject to dissemination caps, and concomitant reductions in the reporting periods for such transactions, which will become effective November 5, 2012.⁴ FINRA is proposing to expand transparency further in the market

³ The terms TRACE-Eligible Security, Agency Pass-Through Mortgage-Backed Security, Specified Pool Transaction, Asset-Backed Security and To Be Announced are defined in, respectively, Rule 6710(a), Rule 6710(v), Rule 6710(x), Rule 6710(m) and Rule 6710(u). The definition of SBA-Backed ABS is proposed in Rule 6710(bb).

⁴ The proposed rule text includes the amendments to the FINRA Rule 6700 Series to provide for reduced reporting times and dissemination of transactions in TRACE-Eligible Securities that are Agency Pass-Through Mortgage-Backed Securities that are traded To Be Announced (“TBA”) (“MBS TBA transactions”),

for Asset-Backed Securities in the proposed rule change, which provides for the dissemination of MBS Specified Pool and SBA-Backed ABS transactions, subject to dissemination caps, and concomitant reductions in the reporting periods for such transactions.

FINRA proposes to amend Rule 6730 to reduce, in two stages, the time frames to report MBS Specified Pool and SBA-Backed ABS transactions. FINRA also proposes minor clarifying amendments to Rule 6730(a)(3)(D) and (E) to specify that the reporting requirements set forth therein apply solely to MBS TBA transactions. In connection with such changes, FINRA proposes amendments in Rule 6710 to the definitions of “Agency Pass-Through Mortgage-Backed Security,” “To Be Announced (‘TBA’),” and “Specified Pool Transaction,” and a new defined term, “SBA-Backed ABS.” Finally FINRA proposes to amend Rule 6750 to provide for the dissemination of MBS Specified Pool and SBA-Backed ABS transactions, and proposes to establish, as part of TRACE dissemination protocols, the specific data elements of the transactions that will be disseminated as well as a \$10 million dissemination cap for such transactions.

MBS Specified Pool Transactions

Generally, Agency Pass-Through Mortgage-Backed Securities are traded either TBA or in Specified Pool Transactions as defined in Rule 6710(u) and (x), respectively.

which were approved by the SEC and will become effective November 5, 2012. See Securities Exchange Act Release No. 66829 (April 18, 2012), 77 FR 24748 (April 25, 2012) (Order Approving File No. SR-FINRA-2012-020) and Regulatory Notice 12-26 (May 2012) (“TBA Amendments”).

The TBA Amendments distinguished between MBS TBA transactions for good delivery (“MBS TBA transactions GD”) and not for good delivery (“MBS TBA transactions NGD”). In response to comments, FINRA proposed a longer period to timely report, and lower dissemination caps for, MBS TBA transactions NGD than the requirements proposed for MBS TBA transactions GD.

In MBS Specified Pool transactions, on the date of trade (trade date), the seller agrees to deliver to the buyer a specific Agency Pass-Through Mortgage-Backed Security identifiable by a unique identification number, representing a specific pool of mortgage loans. In an MBS TBA transaction, the mortgage pools to be delivered are described (e.g., by program, interest rate, type of residential mortgage, maturity) but are not specifically identified, and will not be identified until shortly before settlement. While the majority of Agency Pass-Through Mortgage-Backed Securities are traded TBA, the daily volume of MBS Specified Pool transactions represents significant economic activity in mortgage-related securities, and FINRA believes that additional transparency in such securities is appropriate. The reported transaction data shows that MBS Specified Pool transaction pricing is strongly correlated to (and in general is priced at a premium over) the pricing of similar mortgage pools traded in the substantially larger MBS TBA market. Moreover, the two market sectors exhibit similar trading characteristics, and the same programs dominate both markets. For example, approximately 98 percent of the total volume in MBS Specified Pool transactions, and approximately 95 percent of the total volume in MBS TBA transactions, occurs in securities backed by single-family mortgage loans.⁵ Accordingly, the TRACE data sets are complimentary and the dissemination of the additional pricing information for MBS Specified Pool transactions will further improve transparency in the Agency Pass-Through Mortgage-Backed Securities market.

⁵ Over half of all transactions in MBS Specified Pool transactions, and approximately 77 percent of all transactions in MBS TBA transactions, occur in Federal National Mortgage Association (“Fannie Mae”) program securities. The information is based on FINRA staff’s review of all Asset-Backed Securities transactions reported to TRACE from May 16, 2011 through October 31, 2011.

SBA-Backed ABS Transactions

SBA-Backed ABSs are Asset-Backed Securities created from pooling loans made to small business by banks and other financial institutions in conformity with the program requirements of the Small Business Administration (“SBA”). Loans that meet the SBA’s requirements are guaranteed by SBA as to the timely payment of principal and interest, and pools are then created to issue SBA-Backed Asset-Backed Securities.

SBA-Backed ABS also are traded TBA and in Specified Pool Transactions.⁶ Like Agency Pass-Through Mortgage-Backed Securities discussed above, such TBA trading may occur because market participants may anticipate with some certainty the creation of loan pools and are aware of the pool characteristics, and the extent to which such loan pools are fungible with previously-settled SBA-Backed ABS. FINRA proposes that both types of SBA-Backed ABS transactions be subject to dissemination.

Amendments to Defined Terms

FINRA proposes to define “SBA-Backed ABS” in proposed Rule 6710(bb) as an Asset-Backed Security issued in conformity with a program of the Small Business Administration (“SBA”), for which the timely payment of principal and interest is guaranteed by the SBA, representing ownership interest in a pool (or pools) of loans and structured to “pass through” the principal and interest payments

⁶ SBA-Backed ABS transactions constitute a very minor portion of all Specified Pool Transactions. SBA-Backed ABS Specified Pool Transactions account for only 0.41 percent of the combined total volume of all Specified Pool Transactions (i.e., the total volume of Agency Pass-Through Mortgage Backed-Securities and SBA-Backed ABS traded in Specified Pool Transactions).

made by the borrowers in such loans to the holders of the security on a pro rata basis.

In connection with the proposed addition of the definition of SBA-Backed ABS, FINRA also proposes amendments to the definitions of “To Be Announced (‘TBA’)” and “Specified Pool Transaction” in Rule 6710(u) and Rule 6710(x), respectively. Both definitions currently apply only to Agency Pass-Through Mortgage-Backed Securities. As amended, both terms would include transactions in SBA-Backed ABS.⁷ In addition, FINRA proposes amendments to the definition of “Agency Pass-Through Mortgage-Backed Security” in Rule 6710(v) to incorporate minor, technical changes to the defined term.⁸

⁷ As revised, Rule 6710(u) would provide:

“To Be Announced” (“TBA”) means a transaction in an Agency Pass-Through Mortgage-Backed Security as defined in paragraph (v) or an SBA-Backed ABS as defined in paragraph (bb) where the parties agree that the seller will deliver to the buyer a pool or pool(s) of a specified face amount and meeting certain other criteria but the specific pool or pool(s) to be delivered at settlement is not specified at the Time of Execution, and includes TBA transactions “for good delivery” (“GD”) and TBA transactions “not for good delivery” (“NGD”).

As revised, Rule 6710(x) would provide:

“Specified Pool Transaction” means a transaction in an Agency Pass-Through Mortgage-Backed Security as defined in paragraph (v) or an SBA-Backed ABS as defined in paragraph (bb) requiring the delivery at settlement of a pool or pool(s) that is identified by a unique pool identification number at the Time of Execution.

⁸ As revised, Rule 6710(v) would provide:

“Agency Pass-Through Mortgage-Backed Security” means a type of Asset-Backed Security issued in conformity with a program of an Agency or a Government-Sponsored Enterprise (“GSE”), for which the timely payment of principal and interest is guaranteed by the Agency or GSE, representing ownership interest in a pool (or pools) of mortgage loans

Reduction of Reporting Period

Currently, Asset-Backed Securities transactions (except certain pre-issuance transactions in collateralized mortgage obligations (“CMOs”) and real estate mortgage investment conduits (“REMICs”)) that are executed on a business day through 5:00:00 p.m. Eastern Time must be reported to TRACE on the Trade Date during TRACE System Hours, as provided in Rule 6730(a)(3)(A)(i), subject to the exceptions for transactions executed after 5:00:00 p.m. and during times when the TRACE System is not open in Rule 6730(a)(3)(A)(ii) and (iii). In contrast, secondary market transactions in all other TRACE-Eligible Securities must be reported within 15 minutes of the Time of Execution.⁹ With certain exceptions, transaction information on such TRACE-Eligible Securities is disseminated as soon as the transaction is reported, and the 15-minute reporting requirement results in meaningful price transparency for market participants trading such securities.¹⁰ In addition, effective November 5, 2012, MBS TBA transactions will be disseminated, and, in connection with their dissemination, the time frames for timely reporting such transactions will be reduced to provide market participants meaningful and timely price information about MBS TBA transactions.¹¹

structured to “pass through” the principal and interest payments to the holders of the security on a pro rata basis.

⁹ The term Time of Execution is defined in Rule 6710(d).

¹⁰ See Rule 6750(b) for exceptions to dissemination. See also supra note 4 regarding the TBA Amendments and dissemination of MBS TBA transactions.

¹¹ See supra note 4. Under the TBA Amendments, which become effective November 5, 2012, MBS TBA transactions GD must be reported generally within 45 minutes of the Time of Execution until May 10, 2013 (reduced to 15 minutes after May 10, 2013), and MBS TBA transactions NGD be reported within 120 minutes until May 10, 2013 (reduced to 60 minutes after May 10, 2013). Both

In connection with proposing that MBS Specified Pool and SBA-Backed ABS transactions be disseminated, FINRA proposes to reduce the reporting time frames for such transactions for the same reasons. The proposed reduction of the reporting time frames would occur in two stages to permit industry participants time to adjust policies and procedures and to make required technological changes, as also done in connection with the TBA Amendments.

The requirements to report MBS Specified Pool and SBA-Backed ABS transactions are set forth in, respectively, proposed Rule 6730(a)(3)(F) and proposed Rule 6730(a)(3)(G). First, FINRA proposes to reduce the reporting period for MBS Specified Pool and SBA-Backed ABS transactions from no later than the close of the TRACE system on Trade Date to no later than two hours (i.e., 120 minutes) from the Time of Execution for the duration of the proposed MBS Specified Pool Pilot Program and the proposed SBA-Backed ABS Pilot Program in, respectively, proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i).¹² Like the reporting requirements currently in effect for other TRACE-Eligible Securities, FINRA also proposes exceptions to the 120-minute time frame for transactions executed near the end of the business day

reporting requirements are subject to exceptions for transactions executed close to the end of the business day or when the TRACE system is not open.

¹² Proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i) each incorporate by reference Rule 6730(a)(3)(E)(i)a. through d., which provides for a 120-minute reporting time frame in Rule 6730(a)(3)(E)(i)b.

Each of the pilot programs would expire after approximately 180 days. To accommodate member requests that, if possible, rule changes requiring technology changes occur on a Friday, proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i) provide that the MBS Specified Pool Pilot Program and the SBA-Backed ABS Pilot Program each would expire on a Friday (i.e., on the 180th day, if a Friday, or, if the 180th day is not a Friday, on the Friday next occurring that the TRACE system is open).

or when the TRACE system is not open.¹³ Second, after the pilot programs expire, the reporting periods for MBS Specified Pool and SBA-Backed ABS transactions would be reduced from no later than two hours (120 minutes) from the Time of Execution to no later than one hour (60 minutes) from the Time of Execution, as set forth in, respectively, proposed Rule 6730(a)(3)(F)(ii) and proposed Rule 6730(a)(3)(G)(ii).¹⁴ Currently, approximately 84 percent of MBS Specified Pool and SBA-Backed ABS transactions are reported within two hours of execution, and approximately 75 percent are reported within one hour of execution.

After the 60-minute reporting requirement is implemented, FINRA will continue to review the reporting of MBS Specified Pool and SBA-Backed ABS transactions and may recommend further reductions in the reporting period.

¹³ See proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i), which incorporate by reference Rule 6730(a)(3)(E)(i)a., c. and d, which apply to transactions executed near the end of the business day or when the TRACE system is not open. Under Rule 6730(a)(3)(E)(i)a., transactions executed on a business day at or after 12:00:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day no later than 120 minutes after the TRACE system opens. Under Rule 6730(a)(3)(E)(i)c., transactions executed on a business day less than 120 minutes before 6:30:00 p.m. Eastern Time (the time the TRACE system closes) must be reported no later than 120 minutes after the TRACE system opens the next business day (T + 1), and if reported on T + 1, designated “as/of” and include the date of execution. Under Rule 6730(a)(3)(E)(i)d., transactions executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time or on a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T + 1), no later than 120 minutes after the TRACE system opens, designated “as/of” and include the date of execution.

¹⁴ Proposed Rule 6730(a)(3)(F)(ii) and proposed Rule 6730(a)(3)(G)(ii) – the “post-pilot program” reporting provisions – incorporate by reference the reporting requirements set forth in Rule 6730(a)(3)(E)(ii)a. through d., including the exceptions to the requirement to report within 60 minutes that apply to transactions executed near the end of the business day or when the TRACE system is not open in Rule 6730(a)(3)(E)(ii)a., c. and d.

FINRA also proposes minor clarifying amendments to Rule 6730(a)(3)(D) and (E) to specify that the reporting requirements set forth therein apply solely to MBS TBA transactions.

Dissemination

Amendment to Rule 6750

Although members began reporting transactions in Asset-Backed Securities to TRACE on May 16, 2011, FINRA currently does not disseminate publicly Asset-Backed Securities transaction data reported to TRACE as provided in Rule 6750(b)(4). However, on November 5, 2012, transparency in Asset-Backed Securities transactions will increase significantly with the dissemination of MBS TBA transactions, which represent approximately 87 percent of the average daily volume traded in all Asset-Backed Securities.¹⁵ After obtaining the SEC's approval to disseminate such transaction information, FINRA continued to examine transactions in Asset-Backed Securities to determine if FINRA should propose to disseminate additional Asset-Backed Securities. The SEC has been supportive of such efforts.¹⁶

FINRA has reviewed the data reported for Asset-Backed Securities other than MBS TBA transactions, including MBS Specified Pool and SBA-Backed ABS transactions, and studied the total volume of MBS Specified Pool and SBA-Backed ABS transactions, the concentration of trading in such securities, and the pricing disparity among various types of MBS Specified Pool and SBA-Backed ABS transactions to understand their liquidity and fungibility. The market activity reported and reviewed

¹⁵ See supra note 4.

¹⁶ See Securities Exchange Act Release No. 61566 (February 22, 2010), 75 FR 9262, 9265 (March 1, 2010) (Order Approving File No. SR-FINRA-2009-065).

reveals that for MBS Specified Pool transactions, the market is generally active and liquid, and with liquidity comparable to that of corporate bonds.¹⁷ Based on the review, FINRA believes that it is appropriate to amend Rule 6750 to provide for the immediate dissemination of MBS Specified Pool and SBA-Backed ABS transaction information, and that such dissemination will benefit market participants by improving transparency in both market segments. Specifically, Rule 6750(b)(4) would be amended to provide that FINRA will not disseminate information on a transaction in a TRACE-Eligible Security that is an Asset-Backed Security, except: (A) an Agency Pass-Through Mortgage-Backed Security; and (B) an SBA-Backed ABS.¹⁸ Thus, information would be disseminated on MBS Specified Pool and SBA-Backed ABS transactions immediately upon receipt of the transaction report and no later than 120 minutes, or, after the expiration of the applicable pilot program, no later than 60 minutes, from the Time of Execution.¹⁹

Dissemination Protocols

SBA-Backed ABS Transactions Traded TBA. The dissemination protocols applicable to SBA-Backed ABS transactions traded TBA would be the same as the dissemination protocols for MBS TBA transactions NGD and subject to the

¹⁷ Liquidity as measured by par value traded is comparable to corporate bonds. Although MBS TBA transactions account for approximately 93 percent of all trading in Agency Pass-Through Mortgage-Backed Securities, the average daily volume of MBS Specified Pool transactions is significant – approximately \$17.5 billion is traded daily on average, in approximately 3,000 trades per day. The information is based on FINRA staff’s review of all Asset-Backed Securities transactions reported to TRACE from May 16, 2011 through October 31, 2011.

¹⁸ See supra, note 4.

¹⁹ FINRA continues to review Asset-Backed Security transaction information in other sectors of the Asset-Backed Securities market and, at a later date, may propose that transactions in other Asset-Backed Securities be disseminated.

dissemination cap discussed below. Generally, such securities will be disseminated immediately upon receipt of transaction information, and the standard data elements will be displayed.²⁰

MBS and SBA-Backed ABS Specified Pool Transactions. FINRA proposes to modify the dissemination protocols for MBS Specified Pool transactions and SBA-Backed ABS traded in Specified Pool Transactions (collectively “MBS and SBA-Backed ABS Specified Pool transactions”) from those initially proposed by FINRA, to strike a balance between certain anonymity concerns and providing meaningful transparency.²¹ Unlike the dissemination protocols for other disseminated TRACE –Eligible Securities, including MBS TBA transactions, FINRA proposes not to disseminate the CUSIP of the MBS or the SBA-Backed ABS Specified Pool transaction.²² Instead, certain specified data elements that are integral to describing and valuing the security traded, with numeric values expressed within specific ranges (i.e., the information will be truncated and, depending on the data element, rounded up or down) would be disseminated. Although FINRA has determined not to disseminate the specific CUSIP of the security, FINRA believes that investor must be provided sufficient information such that the investor can appropriately interpret the price transparency provided by the TRACE data. Part of the valuation analysis of any Asset-Backed Security includes a projection of its

²⁰ Standard data elements include, among other things, CUSIP, time of transaction, size (subject to dissemination caps), price, counterparty type (customer or dealer), and buy/sell indicator.

²¹ See Item C of this filing for a discussion of SR-FINRA-2012-021.

²² FINRA notes that notwithstanding the proposed changes to dissemination protocols, FINRA is not proposing to change any of the reporting requirements applicable to such securities, including the requirement to report the CUSIP number.

cash flow which in turn relies on assumptions about prepayment rates. FINRA believes that the data elements outlined below provide information that will allow market participants to perform such analysis.

MBS Specified Pool Transactions

In lieu of a CUSIP, the following information would be disseminated for each MBS Specified Pool transaction reported to TRACE: product type; amortization type; issuing agency; coupon; original maturity; weighted average coupon (“WAC”); weighted average maturity (“WAM”); weighted average loan age (“WALA”); average loan size (“ALS”); and original loan-to-value (“original LTV”) information. Each data element (except issuing agency, product type and amortization type) would be provided in ranges (truncated and disseminated after rounding) to further reduce the potential for “reverse engineering” transaction data to determine the identification of a market participant and/or the participant’s trading strategies. FINRA believes that these data elements will permit investors to meaningfully assess the value and price of the security. If in the future, FINRA identifies additional data elements that would significantly improve transparency using this approach, FINRA may add such data elements to the dissemination protocol for MBS Specified Pool transactions discussed herein.

Product type, amortization type, issuing agency, coupon and original maturity would be disseminated to permit identification of the security type traded. Product type refers to the type of properties (or real-estate related projects) subject to the mortgages underlying the Agency-Pass Through Mortgage-Backed Security (e.g., single family residential dwelling mortgage loans, multi-family residential dwelling mortgage loans, or project loans). Amortization type identifies the underlying mortgage types (e.g., level

payment, adjustable rate mortgages (“ARMs”) or balloons). Issuing agency refers to the Agency or Government-Sponsored Enterprise (GSE) that issues the certificate and guarantees the payment of principal and interest of the Agency Pass-Through Mortgage-Backed Security (e.g., Fannie Mae, the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and the Government National Mortgage Association (“Ginnie Mae”). Coupon refers to the stated annual percentage rate of interest paid on the Agency-Pass Through Mortgage-Backed Security, and would be disseminated after rounding down to the nearest quarter percentage point (e.g., an interest rate of 5.12 percent would be disseminated at 5.00 percent). Original maturity refers to the original stated term after which the principal amount of the security is due to be repaid in full, or the end of the life of the Agency-Pass Through Mortgage-Backed Security (e.g., 30 years (expressed as 360 months)). Original maturity would be disseminated after rounding up to the nearest 10 (e.g., an original maturity of 358 months would be disseminated at 360).

In addition, FINRA will disseminate WAC, WAM, WALA, ALS, and original LTV to provide information on recent and historic cash flows and prepayments, and permit investors to develop projections or assumptions regarding future payments, prepayments, and cash flows. WAC is the weighted average interest rate of the underlying mortgage loans or pools that serve as collateral for a mortgage security, weighted by the size of the principal loan balances.²³ WAC would be disseminated after truncating to a single decimal (e.g., WAC of 7.13% would be disseminated as 7.1). WAM is the weighted average number of months to the final payment of each loan backing an Agency Pass-Through Mortgage-Backed Security (or other mortgage-backed

²³ WAC is calculated by weighting the interest rate of each mortgage loan in the pool by the amount of the mortgage outstanding.

security), weighted by the size of the principal loan balances.²⁴ WAM would be disseminated rounded down to the nearest 10 (e.g., WAM of 87 months would be disseminated as 80). WALA is the weighted average number of months since the date of the loan origination of the mortgages (i.e., the age of the loans) backing an Agency Pass-Through Mortgage Security (or other mortgage-backed security), weighted by the size of the principal loan balances. WALA would be disseminated rounded up to the nearest 10 (e.g., WALA of 163 months would be disseminated as 170). Current ALS is obtained by dividing the current mortgage loan outstanding principal balance by the number of loans that remain outstanding. ALS would be rounded down to the nearest 25 (e.g., an ALS of 113 (i.e., \$113,000 average loan size) would be disseminated as 100). Original LTV ratio expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property, and also would be disseminated rounded down to the nearest 25 (e.g., an original LTV of 92 (i.e., 92 percent) would be disseminated as 75).

The data elements are publicly available as they are published on a monthly basis by the issuing agency. Upon receipt of a transaction report, the TRACE system will automatically disseminate the above data elements corresponding to the CUSIP reported in lieu of disseminating the CUSIP number.

Dissemination of SBA-Backed ABS traded in Specified Pool Transactions

For Specified Pool transactions in SBA-Backed ABS, FINRA generally proposes that dissemination protocols be established that are substantially similar to those discussed above for MBS Specified Pool transactions. The dissemination protocols would result in the dissemination of substantially the same data elements for SBA-

²⁴ WAM is calculated by weighting the remaining number of months to maturity for each mortgage loan in the pool by the amount of the mortgage outstanding.

Backed ABS Specified Pool transactions as those disseminated for MBS Specified Pool transactions, in lieu of the dissemination of the specific CUSIP. Specifically, upon receipt of a transaction report, FINRA would disseminate amortization type; coupon; original maturity; WAC; WAM; and WALA, except that such values would be based on SBA-backed pooled loans. The values, like those for MBS Specified Pool transactions, would be rounded and truncated prior to dissemination to reduce the possibility of potential identification of a market participant by “reverse engineering” of a transaction. In addition, if in the future, FINRA identifies additional data elements that would significantly improve transparency using this approach, FINRA may add such data elements to the dissemination protocol for SBA-Backed ABS Specified Pool transactions.

FINRA believes that, in the absence of disseminating CUSIP data, disseminating the information set forth above will help ensure meaningful price transparency, by providing relevant information commonly used to identify, value and price MBS and SBA-Backed ABS Specified Pool transactions. FINRA believes that its proposal strikes the appropriate balance in achieving meaningful transparency while significantly reducing the potential to “reverse engineer” transaction data to identify a market participant and/or determine its trading strategies.²⁵

Dissemination Caps

FINRA has established TRACE dissemination caps for disseminated TRACE data generally, such that the actual size of a transaction over a certain par value is not displayed in disseminated TRACE transaction data. For TRACE-Eligible Securities that

²⁵ As noted above, with respect to both MBS and SBA-Backed ABS Specified Pool transactions, if FINRA identifies additional data elements that would significantly improve transparency, FINRA may add such data elements to the dissemination protocols for such securities.(e.g., FICO).

are rated Investment Grade, the dissemination cap is \$5 million (“\$5MM”), and the size of transactions in excess of \$5MM is displayed as “\$5MM+.” For TRACE-Eligible Securities that are rated Non-Investment Grade, the dissemination cap is \$1 million (“\$1MM”), and the size of a transaction in excess of \$1MM is displayed as “\$1MM+.”²⁶ As of November 5, 2012, a \$25 million (“\$25MM”) dissemination cap will apply to MBS TBA transactions GD (with the size of a transaction in excess of \$25MM displayed as “\$25MM+”) and a \$10 million (“\$10MM”) dissemination cap will apply to MBS TBA transactions NGD (with the size of a transaction in excess of \$10MM displayed as “\$10MM+”).²⁷

FINRA has analyzed the distribution of MBS Specified Pool and SBA-Backed ABS transactions to determine an appropriate dissemination cap, and proposes a \$10 million (“\$10MM”) dissemination cap for MBS Specified Pool and SBA-Backed ABS transactions initially. Accordingly, the size of MBS Specified Pool and SBA-Backed ABS transactions greater than \$10 million would be displayed in disseminated data as “\$10MM+.” In setting the dissemination caps, FINRA took into account the liquidity

²⁶ The dissemination caps for Investment Grade corporate bonds limit the display of actual size for approximately 1.6 percent of trades representing approximately 48 percent of total par value traded, and, for Agency Debt Securities, approximately 6 percent of trades representing approximately 74 percent of total par value traded. The dissemination cap for Non-Investment Grade corporate bonds limits the display of actual size for approximately 15 percent of trades representing approximately 84 percent of total par value traded. The information is based on a review of all transactions in Investment Grade corporate bonds, Agency Debt Securities and Non-Investment Grade corporate bonds reported to TRACE from May 16, 2011 through January 4, 2012.

The terms Investment Grade, Non-Investment Grade and Agency Debt Security are defined in, respectively, Rule 6710(h), Rule 6710(i) and Rule 6710(l).

²⁷ See supra note 4.

and trading activity in these segments, and at \$10 million, approximately nine percent of transactions and approximately 80 percent of par value traded would be disseminated subject to the \$10MM cap.²⁸ FINRA believes that the proposed dissemination caps will allow the marketplace time to adjust to the new levels of transparency.

As dissemination of MBS Specified Pool and SBA-Backed ABS transactions is implemented, FINRA will continue to review the volume of and liquidity in these securities, and may recommend that such dissemination caps be set at higher levels to provide additional transparency to market participants.

FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 60 days following Commission approval. The effective date will be no later than 270 days following publication of the Regulatory Notice announcing Commission approval.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,²⁹ which requires, among other things, that FINRA rules must 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 increase fixed income market

²⁸ See supra note 4. The proposed dissemination caps for MBS TBA transactions GD would limit display of actual size for approximately 20 percent of trades representing approximately 84 percent of par value traded and for MBS TBA transactions NGD would limit the display of actual size for approximately 42 percent of trades representing approximately 85 percent of par value traded. The information is based on a review of all MBS TBA, MBS Specified Pool and SBA-Backed ABS transactions reported to TRACE from May 16, 2011 through January 4, 2012.

²⁹ 15 U.S.C. 78o-3(b)(6).

transparency is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, generally to protect investors and the public because transparency in MBS Specified Pool and SBA-Backed ABS transactions will enhance the ability of investors and other market participants to identify and negotiate fair and competitive prices for these securities, and because the dissemination of price and other information publicly will promote just and equitable principles of trade among participants in the more transparent market, and will aid in the prevention of fraudulent and manipulative acts and practices in the Asset-Backed Securities market.

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

On April 2, 2012, FINRA filed with the Commission SR-FINRA-2012-021 ("April 2012 Filing"), a proposed rule change to amend the Rule 6700 Series and TRACE dissemination protocols regarding the reporting and dissemination of (1) MBS Specified Pool transactions and (2) SBA-Backed ABS traded either in Specified Pool Transactions or to be announced ("TBA") (collectively, "SBA-Backed ABS transactions"). Specifically, FINRA proposed to amend Rule 6730 to reduce, in two stages, the time frames to report MBS Specified Pool and SBA-Backed ABS transactions. FINRA also proposed minor clarifying amendments to Rule 6730(a)(3)(D) and (E) to specify that the reporting requirements set forth therein apply solely to MBS TBA transactions. In connection with such changes, FINRA proposed amendments to the

definitions of “To Be Announced (‘TBA’),” “Specified Pool Transaction,” and “Agency Pass-Through Mortgage-Backed Security” and a new defined term, “SBA-Backed ABS.” Finally, FINRA proposed to amend Rule 6750 to provide for the dissemination of MBS Specified Pool and SBA-Backed ABS transactions, and proposed to establish, as part of TRACE dissemination protocols, a \$10 million dissemination cap for such transactions. A copy of the Form 19b-4 and original Exhibit 5 of the April 2012 Filing is attached as Exhibit 2a.

On April 19, 2012, the April 2012 Filing was published for comment in the Federal Register.³⁰ A copy of the Federal Register release is attached as Exhibit 2b. SEC received two comment letters in response.³¹ A list of the comment letters received in response to the April 2012 Filing is attached as Exhibit 2c. Copies of the comment letters received in response to the April 2012 Filing are attached as Exhibit 2d.

One commenter focuses its comments solely on the aspects of the proposal relating to MBS Specified Pool transactions. The commenter states that a pool traded on a specified basis (i.e., by CUSIP) may not trade frequently, that most trades in pools – or at least those for smaller pools – are trades of the whole pool, which means that most pools are owned by a single investor, or two or three investors, instead of being widely held, and that most market participants track which pools they trade to and from their various counterparties. As a result, the commenter is concerned that FINRA’s proposal

³⁰ See Securities Exchange Act Release No. 66804 (April 13, 2012), 77 FR 23524 (April 19, 2012) (Notice of Filing of File No. SR-FINRA-2012-021).

³¹ See Letter from Chris Killian, Managing Director, Securities Industry and Financial Markets Association (“SIFMA”), to Elizabeth M. Murphy, Secretary, SEC, dated May 10, 2012 (“SIFMA Letter”) and Letter from Michael Nicholas, Chief Executive Officer, Bond Dealers of America (“BDA”), to Elizabeth M. Murphy, Secretary, SEC, dated May 10, 2012 (“BDA Letter”).

to disseminate such a security's CUSIP as part of disseminated transaction information will compromise sensitive information regarding investors' trading strategies, volumes, identities and positions, and, over time, market participants will be able to "reverse engineer" and develop quite detailed and precise estimates of other participants strategies and positions. The commenter expresses concern that the impact of "such diminution of confidentiality," especially regarding positions and strategy, may be quite negative and impair participation and liquidity in the market for such instruments.³² The second commenter discusses the same issues raised by the first, –though the second commenter raises such issues in connection with SBA-Backed TBA transactions as well as MBS and SBA-Backed Specified Pool transactions.³³ Both commenters recommend that certain information be withheld from dissemination. One commenter recommended that pool number and CUSIP information, regardless of size, should be omitted.³⁴ The other commenter recommended that for pools with an original face amount below \$1 billion, the CUSIP information not be shown on disseminated trade reports for a three to six

³² See SIFMA Letter, p. 3.

³³ See BDA Letter, pp. 1 and 2. (See, for example, the second commenter's statements: "Much of the market in the Agency Specified Pool Securities is driven by institutional investors who take the time to research the performance of pools, to develop a strategy to generate a profit and ultimately to execute on that strategy."; ". . . the pools can be smaller in size and a single investor frequently owns the entire pool . . ."; regarding smaller pools, ". . . the market easily knows who these investors are and what pools they own."; "When a single investor owns a large percentage of a specified pool, if the FINRA proposal were finalized in its current form, the market would be able to know that this investor is buying or selling and the market would then be able to track this investor's activity, and reverse engineer and capitalize on its strategy."; and, ". . . a more fair approach to investors is if broker-dealers are allowed to omit the pool number and CUSIP information from TRACE dissemination regardless of the size of the transaction.")

³⁴ See BDA letter, p. 1.

month period.³⁵ This commenter also recommended that FINRA reduce the dissemination cap to \$1 million.³⁶ In addition, one commenter was concerned that broker-dealers affiliated with banks can effect MBS Specified Pool and SBA-Backed ABS transactions through the bank and avoid reporting such transactions to TRACE, giving such broker-dealers an unfair advantage.³⁷

FINRA withdrew the April 2012 Filing on July 12, 2012, prior to filing a response to comments. Accordingly, the comments to the April 2012 Filing and FINRA's responses are discussed below.

After careful consideration of the commenters' concerns, in this proposed rule change, FINRA proposes to modify the transaction dissemination protocols such that the disseminated information regarding MBS and SBA-Backed ABS Specified Pool transactions would not include the CUSIP of such securities. Instead, as detailed above, FINRA proposes to disseminate specific reference data elements, including information widely used to project cash flows and pre-payments, in specific ranges. FINRA believes that this approach would significantly limit the ability to "reverse engineer" transaction data to determine trading strategies and identities while providing valuable information about the mortgages/loans that are in MBS and SBA-Backed ABS Specified Pool transactions.

The information set forth above will help provide meaningful price transparency, by providing relevant information commonly used to identify, value and price MBS and

³⁵ See SIFMA Letter, p. 3.

³⁶ See SIFMA Letter, p. 3.

³⁷ See BDA Letter, p. 2.

SBA-Backed ABS Specified Pool transactions. FINRA believes that the proposed rule change strikes the appropriate balance in achieving meaningful transparency while significantly reducing the potential for “reverse engineering” transaction data to determine trading strategies and/or participant identification. If in the future, FINRA identifies additional data elements that would significantly improve transparency, FINRA may add such data elements to the dissemination protocols for such securities (e.g., FICO).

In addition, FINRA believes that the \$10 million dissemination cap is appropriate and does not propose to reduce it. As noted in the proposed rule change and the April 2012 Filing, the size of MBS Specified Pool and SBA-Backed ABS transactions greater than \$10 million would be displayed in disseminated data as “\$10MM+.” At this level, approximately nine percent of transactions and approximately 80% of par value traded would be subject to the \$10MM cap. FINRA believes this data is consistent with respect to dissemination caps for other securities.³⁸

Finally, with respect to the commenter’s concern that a broker-dealer affiliated with a bank may run MBS Specified Pool and SBA-Backed ABS transactions through the bank’s balance sheet and avoid reporting such transactions to TRACE, FINRA notes that the statutory standard requires that FINRA’s proposed rules not impose any burden on competition not necessary or appropriate in furtherance of the Act. FINRA believes that increased transparency in the securities trading market appropriately furthers the purposes the Act. As FINRA has previously noted, it defeats the purposes of the Act by referring

³⁸ See note 21 and note 23 of the Form 19b-4 and Exhibit 1, respectively, in SR-FINRA-2012-021.

to market participants that may not be subject to the Act (in whole or in part), as a basis for not approving the proposed rule change.³⁹ Such a standard would undo much, if not all, regulation of broker-dealers and markets necessary for the protection of investors and the efficiency, competitiveness and integrity of securities markets. FINRA believes that the fact that there may be market participants that are not subject to the Act should not delay the reporting and dissemination of MBS Specified Pool and SBA-Backed ABS transactions and related changes regarding the reporting of such transactions.

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

Within 45 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:

(A) by order approve or disapprove 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:

³⁹ See Response to Comments on SR-FINRA-2009-010 (Proposed Rule Change Relating to Expansion of TRACE to Include Agency Debt Securities and Primary Market Transactions).

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 SR-FINRA-2012-042 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-FINRA-2012-042. 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 website (<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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. 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-2012-042 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴⁰

Elizabeth M. Murphy

Secretary

⁴⁰ 17 CFR 200.30-3(a)(12).

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| OMB APPROVAL | |
| OMB Number: | 3235-0045 |
| Estimated average burden hours per response: | 38 |

Required fields are shown with yellow backgrounds and asterisks.

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| Page 1 of * <input style="width: 40px;" type="text" value="41"/> | SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4 | File No.* SR - <input style="width: 40px;" type="text" value="2012"/> - * <input style="width: 40px;" type="text" value="021"/> |
| Proposed Rule Change by Financial Industry Regulatory Authority Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934 | | |
| Initial * <input checked="" type="checkbox"/> | Amendment * <input type="checkbox"/> | Withdrawal <input type="checkbox"/> |
| Section 19(b)(2) * <input checked="" type="checkbox"/> Section 19(b)(3)(A) * <input type="checkbox"/> Section 19(b)(3)(B) * <input type="checkbox"/> | | |
| Pilot <input type="checkbox"/> | Extension of Time Period for Commission Action * <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <p>Description</p> <p>Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *).</p> <div style="border: 1px solid black; padding: 5px; min-height: 30px;">Proposed Rule Change Relating to TRACE Reporting and Dissemination of Transactions in Agency Pass-Through Mortgage-Backed Securities Traded in Specified Pool Transactions and SBA-Backed ABS Transactions</div> | | |
| <p>Contact Information</p> <p>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.</p> <p>First Name * <input style="width: 200px;" type="text" value="Kathryn"/> Last Name * <input style="width: 200px;" type="text" value="Moore"/></p> <p>Title * <input style="width: 500px;" type="text" value="Assistant General Counsel"/></p> <p>E-mail * <input style="width: 500px;" type="text" value="kathryn.moore@finra.org"/></p> <p>Telephone * <input style="width: 100px;" type="text" value="(202) 974-2974"/> Fax <input style="width: 100px;" type="text" value="(202) 728-8264"/></p> | | |
| <p>Signature</p> <p>Pursuant to the requirements of the Securities Exchange Act of 1934,</p> <p>has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.</p> <p>Date <input style="width: 100px;" type="text" value="04/02/2012"/></p> <p>By <input style="width: 200px;" type="text" value="Patrice Gliniecki"/> Senior Vice President and Deputy General Counsel (Name *) <input style="width: 200px; height: 40px;" type="text" value="Patrice Gliniecki"/> (Title *)</p> <p style="text-align: center;">NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.</p> <div style="text-align: center; margin-top: 10px;"><input style="width: 150px; height: 20px;" type="button" value="Patrice Gliniecki"/></div> | | |

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information (required)

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 (required)

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

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 Sent As Paper Document

Exhibit 3 - Form, Report, or Questionnaire

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 Sent As Paper Document

Exhibit 4 - Marked Copies

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

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item 1 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

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”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend the FINRA Rule 6700 Series and Trade Reporting and Compliance Engine (“TRACE”) dissemination protocols regarding the reporting and dissemination of transactions in TRACE-Eligible Securities that are: (1) Agency Pass-Through Mortgage-Backed Securities traded in Specified Pool Transactions (“MBS Specified Pool transactions”) and (2) Asset-Backed Securities backed by loans guaranteed as to principal and interest by the Small Business Administration (“SBA-Backed ABS”) and traded either in Specified Pool Transactions or to be announced (“TBA”) (collectively, “SBA-Backed ABS transactions”).²

The text of the proposed rule change is attached as Exhibit 5.³

¹ 15 U.S.C. 78s(b)(1).

² The terms TRACE-Eligible Security, Agency Pass-Through Mortgage-Backed Security, Specified Pool Transaction, Asset-Backed Security and To Be Announced (“TBA”) are defined in, respectively, Rule 6710(a), Rule 6710(v), Rule 6710(x), Rule 6710(m) and Rule 6710(u). The definition of SBA-Backed ABS is proposed in Rule 6710(bb).

³ The proposed rule text set forth in Exhibit 5 assumes the SEC approval of File No. SR-FINRA-2012-020, which proposed amendments to the FINRA Rule 6700 Series to provide for the dissemination of transactions in TRACE-Eligible Securities that are Agency Pass-Through Mortgage-Backed Securities that are traded TBA (“MBS TBA transactions”), subject to dissemination caps, and to reduce the reporting periods for such transactions. See Securities Exchange Act Release No. 66577 (March 12, 2012), 77 FR 15827 (March 16, 2012) (Notice of Filing of File No. SR-FINRA-2012-020) (“TBA proposal”).

(b) Not applicable.

(c) Not applicable.

2. **Procedures of the Self-Regulatory Organization**

At its meeting on February 16, 2012, the FINRA Board of Governors authorized the filing of the proposed rule change with the SEC. No other action by FINRA is necessary for the filing of the proposed rule change.

FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 60 days following Commission approval. The effective date will be no earlier than August 1, 2012, and no later than 180 days following publication of the Regulatory Notice announcing Commission approval.

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

(a) Purpose

On March 1, 2012, FINRA filed the TBA proposal to provide for the dissemination of MBS TBA transactions, subject to dissemination caps, and concomitant reductions in the reporting periods for such transactions.⁴ FINRA is proposing to further expand transparency in the market for Asset-Backed Securities in this proposed rule change, which provides for the dissemination of MBS Specified Pool and SBA-Backed ABS transactions, subject to dissemination caps, and concomitant reductions in the reporting periods for such transactions.

⁴ See supra note 3. The TBA proposal distinguished between MBS TBA transactions for good delivery ("MBS TBA transactions GD") and not for good delivery ("MBS TBA transactions NGD"). In response to comments, FINRA proposed a longer period to timely report, and lower dissemination caps for, MBS

FINRA proposes to amend Rule 6730 to reduce, in two stages, the time frames to report MBS Specified Pool and SBA-Backed ABS transactions. FINRA also proposes minor clarifying amendments to Rule 6730(a)(3)(D) and (E) to specify that the reporting requirements set forth therein apply solely to MBS TBA transactions. In connection with such changes, FINRA proposes amendments to the definitions of “To Be Announced (‘TBA’),” “Specified Pool Transaction,” and “Agency Pass-Through Mortgage-Backed Security” and a new defined term, “SBA-Backed ABS.” Finally, FINRA proposes to amend Rule 6750 to provide for the dissemination of MBS Specified Pool and SBA-Backed ABS transactions, and proposes to establish, as part of TRACE dissemination protocols, a \$10 million dissemination cap for such transactions.

MBS Specified Pool Transactions

Generally, Agency Pass-Through Mortgage-Backed Securities are traded either TBA or in Specified Pool Transactions as defined in Rule 6710(v) and (x), respectively. In MBS Specified Pool transactions, on the date of trade (trade date), the seller agrees to deliver to the buyer a specific security identifiable by a unique identification number, which is backed by a specific pool (or pools) of mortgage loans, or other Agency Pass-Through Mortgage-Backed Securities, or a combination of such assets. MBS Specified Pool transactions differ from MBS TBA transactions in that, on trade date, in an MBS TBA transaction, the security to be delivered is described (e.g., program, interest rate, type of residential mortgage, maturity) but is not specifically identified (i.e., does not have a specific unique identification number), and will not be identified until shortly

TBA transactions NGD than the requirements proposed for MBS TBA transactions GD.

before settlement. While the majority of Agency Pass-Through Mortgage-Backed Securities are traded TBA, the daily volume of MBS Specified Pool transactions represents significant economic activity in mortgage-related securities, and FINRA believes that additional transparency in such securities is appropriate. The reported transaction data shows that MBS Specified Pool transaction pricing is strongly correlated to the pricing of the substantially larger market in MBS TBA transactions. Moreover, the two market sectors exhibit similar trading characteristics. For example, approximately 98 percent of the total volume in MBS Specified Pool transactions occurs in securities backed by single-family mortgage loans. Similarly, for MBS TBA transactions, approximately 95 percent of the total volume occurs in securities backed by single-family mortgage loans.⁵ Accordingly, the data sets are complimentary and the dissemination of the additional pricing information for MBS Specified Pool transactions will further improve transparency in the Agency Pass-Through Mortgage-Backed Securities market.

SBA-Backed ABS Transactions

SBA-Backed ABSs are Asset-Backed Securities created from pooling loans made to small business by banks and other financial institutions in conformity with the program requirements of the Small Business Administration (“SBA”). Loans that meet the SBA’s requirements are guaranteed by SBA as to the timely payment of principal and interest, and pools are then created to issue SBA-Backed Asset-Backed Securities.

⁵ Certain programs also dominate both market segments. For example, over half of all transactions in MBS Specified Pool transactions occur in Fannie Mae program securities, and approximately 77 percent of all transactions in MBS TBA transactions occur in Fannie Mae program securities. The data is based on FINRA staff review of all Asset-Backed Securities traded during a six-month period from May 16, 2011 through October 31, 2011.

SBA-Backed ABS also are traded TBA and in Specified Pool Transactions.⁶ Like Agency Pass-Through Mortgage-Backed Securities discussed above, such TBA trading may occur because market participants may anticipate with some certainty the creation of loan pools and are aware of the pool characteristics, and the extent to which such loan pools are fungible with previously-settled SBA-Backed ABS. FINRA proposes that both types of SBA-Backed ABS transactions be subject to dissemination.

Amendments to Defined Terms

FINRA proposes to define “SBA-Backed ABS” in proposed Rule 6710(bb) as an Asset-Backed Security issued in conformity with a program of the Small Business Administration (SBA), for which the timely payment of principal and interest is guaranteed by the SBA, representing ownership interest in a pool (or pools) of loans and structured to “pass through” the principal and interest payments made by the borrowers in such loans to the holders of the security on a pro rata basis.

In connection with the proposed addition of the definition of SBA-Backed ABS, FINRA also proposes amendments to the definitions of “To Be Announced (“TBA”)” and “Specified Pool Transaction” in Rule 6710(u) and Rule 6710(x), respectively. Both definitions currently apply only to Agency Pass-Through Mortgage-Backed Securities.

⁶ SBA-Backed ABS transactions traded in Specified Pool Transactions account for 0.41 percent of the combined total volume of all Specified Pool Transactions (which includes Agency Pass-Through Mortgage Backed-Securities and SBA-Backed ABS traded in Specified Pool Transactions).

As amended, both terms would include transactions in SBA-Backed ABS.⁷ In addition, FINRA proposes amendments to the definition of “Agency Pass-Through Mortgage-Backed Security” in Rule 6710(v) to incorporate minor, technical changes to the defined term.⁸

Reduction of Reporting Period

Currently, Asset-Backed Securities transactions (except certain pre-issuance transactions in collateralized mortgage obligations (“CMOs”) and real estate mortgage investment conduits (“REMICs”)) that are executed on a business day through 5:00:00

⁷ As revised, Rule 6710(u) would provide:

“To Be Announced” (“TBA”) means a transaction in an Agency Pass-Through Mortgage-Backed Security as defined in paragraph (v) or an SBA-Backed ABS as defined in paragraph (bb) where the parties agree that the seller will deliver to the buyer a security(ies) of a specified face amount and meeting certain other criteria but the specific security(ies) to be delivered at settlement is not specified at the Time of Execution, and includes TBA transactions “for good delivery” (“GD”) and TBA transactions “not for good delivery” (“NGD”).

As revised, Rule 6710(x) would provide:

“Specified Pool Transaction” means a transaction in an Agency Pass-Through Mortgage-Backed Security as defined in paragraph (v) or an SBA-Backed ABS as defined in paragraph (bb) requiring the delivery at settlement of a pool(s) that is identified by a unique pool identification number at the Time of Execution.

⁸ As revised, Rule 6710(v) would provide:

“Agency Pass-Through Mortgage-Backed Security” means a type of Asset-Backed Security issued in conformity with a program of an Agency or a Government-Sponsored Enterprise (“GSE”), for which the timely payment of principal and interest is guaranteed by the Agency or GSE, representing ownership interest in a pool (or pools) of mortgage loans, other Agency Pass-Through Mortgage-Backed Securities, or a combination of such assets, and structured to “pass through” the principal and interest payments to the holders of the security on a pro rata basis.

p.m. Eastern Time must be reported to TRACE on the Trade Date during TRACE System Hours, as provided in Rule 6730(a)(3)(A)(i), subject to the exceptions for transactions executed after 5:00:00 p.m. and during times when the TRACE System is not open in Rule 6730(a)(3)(A)(ii) and (iii). In contrast, secondary market transactions in all other TRACE-Eligible Securities must be reported within 15 minutes of the Time of Execution.⁹ With certain exceptions, transaction information on such TRACE-Eligible Securities is disseminated as soon as the transaction is reported, and the 15-minute reporting requirement results in meaningful price transparency for market participants trading such securities.¹⁰

As noted above, FINRA recently filed the TBA proposal, which is pending before the SEC. In the TBA proposal, FINRA proposes that MBS TBA transactions be disseminated, and, in connection with their dissemination, also proposes to reduce the time frames for timely reporting such transactions to provide market participants meaningful and timely price information about MBS TBA transactions.¹¹

In connection with proposing that MBS Specified Pool and SBA-Backed ABS transactions be disseminated, FINRA proposes to reduce the reporting time frames for

⁹ The term Time of Execution is defined in Rule 6710(d).

¹⁰ See Rule 6750(b) for exceptions to dissemination. See also *supra* note 3 regarding the TBA proposal and proposed dissemination of MBS TBA transactions.

¹¹ See *supra* note 3. The TBA proposal, which was filed on March 1, 2012, proposes that MBS TBA transactions GD be reported generally within 45 minutes of the Time of Execution during a six-month pilot program (reduced to 15 minutes after the pilot program expires), and MBS TBA transactions NGD be reported within 120 minutes during a six-month pilot program (reduced to 60 minutes after the pilot program expires). Both proposed reporting requirements are subject to exceptions for transactions executed close to the end of the business day or when the TRACE system is not open.

such transactions for the same reasons. FINRA also proposes that the reduction of the reporting time frames occur in two stages to permit industry participants time to adjust policies and procedures and to make required technological changes, as FINRA also proposed in the TBA proposal.

Proposed Rule 6730(a)(3)(F) and proposed Rule 6730(a)(3)(G), respectively, set forth the requirements to report MBS Specified Pool and SBA-Backed ABS transactions. First, FINRA proposes to reduce the reporting period for MBS Specified Pool and SBA-Backed ABS transactions from no later than the close of the TRACE system on Trade Date to no later than two hours (i.e., 120 minutes) from the Time of Execution for the duration of the proposed MBS Specified Pool Pilot Program and the proposed SBA-Backed ABS Pilot Program in, respectively, proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i).¹² Like the reporting requirements currently in effect for other TRACE-Eligible Securities, FINRA also proposes exceptions to the 120-minute time frame for transactions executed near the end of the business day or when the TRACE system is not open.¹³ Second, after the pilot programs expire, the reporting periods for

¹² Proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i) each incorporate by reference Rule 6730(a)(3)(E)(i)a. through d., which provides for a 120-minute reporting time frame in Rule 6730(a)(3)(E)(i)b.

Each of the pilot programs would expire after approximately 180 days. To accommodate member requests that, if possible, rule changes requiring technology changes occur on a Friday, proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i) provide that the MBS Specified Pool Pilot Program and the SBA-Backed ABS Pilot Program each would expire on a Friday (i.e., on the 180th day, if a Friday, or, if the 180th day is not a Friday, on the Friday next occurring that the TRACE system is open).

¹³ See proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i), which incorporate by reference Rule 6730(a)(3)(E)(i)a., c. and d., which apply to transactions executed near the end of the business day or when the TRACE

MBS Specified Pool and SBA-Backed ABS transactions would be reduced from no later than two hours (120 minutes) from the Time of Execution to no later than one hour (60 minutes) from the Time of Execution, as set forth in, respectively, proposed Rule 6730(a)(3)(F)(ii) and proposed Rule 6730(a)(3)(G)(ii).¹⁴ Currently, 84 percent of MBS Specified Pool and SBA-Backed ABS transactions are reported within two hours of execution, and 75 percent are reported within one hour of execution.

After the 60-minute reporting requirement is implemented, FINRA will continue to review the reporting of MBS Specified Pool and SBA-Backed ABS transactions and may recommend further reductions in the reporting period.

system is not open. Under Rule 6730(a)(3)(E)(i)a., transactions executed on a business day at or after 12:00:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day no later than 120 minutes after the TRACE system opens. Under Rule 6730(a)(3)(E)(i)c., transactions executed on a business day less than 120 minutes before 6:30:00 p.m. Eastern Time (the time the TRACE system closes) must be reported no later than 120 minutes after the TRACE system opens the next business day (T + 1), and if reported on T + 1, designated “as/of” and include the date of execution. Under Rule 6730(a)(3)(E)(i)d., transactions executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time or on a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T + 1), no later than 120 minutes after the TRACE system opens, designated “as/of” and include the date of execution.

¹⁴ Proposed Rule 6730(a)(3)(F)(ii) and proposed Rule 6730(a)(3)(G)(ii) – the “post-pilot program” reporting provisions – incorporate by reference the reporting requirements set forth in Rule 6730(a)(3)(E)(ii)a. through d., including the exceptions to the requirement to report within 60 minutes that apply to transactions executed near the end of the business day or when the TRACE system is not open in Rule 6730(a)(3)(E)(ii)a., c. and d.

FINRA also proposes minor clarifying amendments to Rule 6730(a)(3)(D) and (E) to specify that the reporting requirements set forth therein apply solely to MBS TBA transactions.

Dissemination

Amendment to Rule 6750

Although members began reporting transactions in Asset-Backed Securities to TRACE on May 16, 2011, FINRA currently does not disseminate publicly any of the Asset-Backed Securities transaction data reported to TRACE as provided in Rule 6750(b)(4). However, as noted above, FINRA has filed the TBA proposal, in which FINRA proposes to disseminate MBS TBA transactions, which represent approximately 87 percent of the average daily volume traded in all Asset-Backed Securities.¹⁵ Following the submission of the TBA proposal, FINRA continued to examine transactions in Asset-Backed Securities to determine if FINRA should propose to disseminate additional Asset-Backed Securities, and will continue its review and research. The SEC has been supportive of such efforts.¹⁶

Among other things, FINRA has reviewed the data reported for Asset-Backed Securities, including MBS Specified Pool and SBA-Backed ABS transactions, and studied the total volume of MBS Specified Pool and SBA-Backed ABS transactions, the concentration of trading in such securities, and the pricing disparity among various types

¹⁵ See supra note 3. Beginning on the later of August 1, 2012, or 180 days following publication by FINRA of the Regulatory Notice announcing SEC approval of the TBA proposal, FINRA will disseminate such MBS TBA transaction data.

¹⁶ See Securities Exchange Act Release No. 61566 (February 22, 2010), 75 FR 9262, 9265 (March 1, 2010) (Order Approving File No. SR-FINRA-2009-065).

of MBS Specified Pool and SBA-Backed ABS transactions to understand their liquidity and fungibility. The market activity reported and reviewed reveals that for MBS Specified Pool transactions, the market is generally active and liquid, and with liquidity comparable to that of corporate bonds.¹⁷ Based on the review, FINRA believes that it is appropriate to provide for the dissemination of MBS Specified Pool and SBA-Backed ABS transactions, and such dissemination will benefit market participants by improving transparency in both market segments.

FINRA proposes to amend Rule 6750 to provide for the dissemination of MBS Specified Pool and SBA-Backed ABS transactions, with dissemination occurring immediately upon receipt of a transaction report. Specifically, Rule 6750(b)(4) would be amended to provide that FINRA will not disseminate information on a transaction in a TRACE-Eligible Security that is an Asset-Backed Security, except: (A) an Agency Pass-Through Mortgage-Backed Security; and (B) an SBA-Backed ABS.¹⁸ Thus, information would be disseminated on MBS Specified Pool and SBA-Backed ABS transactions within 120 minutes, or, after the expiration of the applicable pilot program, within 60 minutes of the Time of Execution.¹⁹

¹⁷ Liquidity as measured by par value traded is comparable to corporate bonds. Although MBS TBA transactions account for approximately 93 percent of all trading in Agency Pass-Through Mortgage-Backed Securities, the average daily volume of MBS Specified Pool transactions is significant – approximately \$17.5 billion is traded daily on average, in approximately 3,000 trades per day. The information is based upon FINRA's review of Asset-Backed Securities transactions reported to TRACE from May 16, 2011 through October 31, 2011.

¹⁸ See supra note 3.

¹⁹ FINRA continues to review Asset-Backed Security transaction information in other sectors of the Asset-Backed Securities market and, at a later date, may propose that transactions in other Asset-Backed Securities be disseminated.

Dissemination Caps

FINRA has TRACE dissemination protocols in place, referred to as dissemination caps, under which the actual size of a transaction over a certain par value is not displayed in disseminated TRACE transaction data. For TRACE-Eligible Securities that are rated Investment Grade, the dissemination cap is \$5 million (“\$5MM”), and the size of transactions in excess of \$5MM is displayed as “\$5MM+.” For TRACE-Eligible Securities that are rated Non-Investment Grade, the dissemination cap is \$1 million (“\$1MM”), and the size of a transaction in excess of \$1MM is displayed as “\$1MM+.”²⁰ Upon the approval and effectiveness of the TBA proposal: (1) the dissemination cap will be \$25 million (“\$25MM”) for MBS TBA transactions GD, and the size of transactions in excess of \$25MM will be displayed as “\$25MM+,” and (2) the dissemination cap will be \$10 million (“\$10MM”) for MBS TBA transactions NGD, and the size of transactions in excess of \$10MM will be displayed as “\$10MM+.”²¹

FINRA has analyzed the distribution of MBS Specified Pool and SBA-Backed ABS transactions to determine an appropriate dissemination cap for these transactions,

²⁰ The dissemination caps for Investment Grade corporate bonds limit the display of actual size for approximately 1.6 percent of trades representing approximately 48 percent of total par value traded, and, for Agency Debt Securities, approximately 6 percent of trades representing approximately 74 percent of total par value traded. The dissemination cap for Non-Investment Grade corporate bonds limits the display of actual size for approximately 15 percent of trades representing approximately 84 percent of total par value traded. The information is based on a review of all transactions in Investment Grade corporate bonds, Agency Debt Securities and Non-Investment Grade corporate bonds reported to TRACE from May 16, 2011 through January 4, 2012.

The terms Investment Grade, Non-Investment Grade and Agency Debt Security are defined in, respectively, Rule 6710(h), Rule 6710(i) and Rule 6710(l).

²¹ See supra note 3.

and proposes to set a dissemination cap for each of MBS Specified Pool and SBA-Backed ABS transactions initially at \$10 million (“\$10MM”). Accordingly, the size of MBS Specified Pool and SBA-Backed ABS transactions greater than \$10 million would be displayed in disseminated data as “\$10MM+.” At this level approximately nine percent of transactions and approximately 80 percent of par value traded would be disseminated subject to the \$10MM cap.²² FINRA believes that these caps will allow the marketplace time to adjust to the new levels of transparency. In setting these dissemination caps, FINRA took into account the liquidity and trading activity in these segments.

As dissemination of MBS Specified Pool and SBA-Backed ABS transactions is implemented, FINRA will continue to review the volume of and liquidity in these securities, and may recommend that the dissemination caps be set at higher levels to provide additional transparency to market participants.

As noted in Item 2 of this filing, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 60 days following Commission approval. The effective date will be no earlier than August 1, 2012, and no later than 180 days following publication of the Regulatory Notice announcing Commission approval.

²² See supra note 3. The proposed dissemination caps for MBS TBA transactions GD would limit display of actual size for approximately 20 percent of trades representing approximately 84 percent of par value traded and for MBS TBA transactions NGD would limit the display of actual size for approximately 42 percent of trades representing approximately 85 percent of par value traded. The information is based on a review of all MBS TBA, MBS Specified Pool and SBA-Backed ABS transactions reported to TRACE from May 16, 2011 through January 4, 2012.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,²³ which requires, among other things, that FINRA rules must 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 increase fixed income market transparency is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, generally to protect investors and the public because transparency in MBS Specified Pool and SBA-Backed ABS transactions will enhance the ability of investors and other market participants to identify and negotiate fair and competitive prices for these securities, and because the dissemination of price and other information publicly will promote just and equitable principles of trade among participants in the more transparent market, and will aid in the prevention of fraudulent and manipulative acts and practices in the Asset-Backed Securities market.

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**

Written comments were neither solicited nor received.

²³ 15 U.S.C. 78o-3(b)(6).

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.²⁴

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

Not applicable.

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 5. Text of proposed rule change.

²⁴ 15 U.S.C. 78s(b)(2).

EXHIBIT 5

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets. The amendments to the rule text proposed in SR-FINRA-2012-020 are incorporated herein as if approved.

* * * * *

6000. QUOTATION AND TRANSACTION REPORTING FACILITIES

* * * * *

6700. TRADE REPORTING AND COMPLIANCE ENGINE (TRACE)

* * * * *

6710. Definitions

The terms used in this Rule 6700 Series shall have the same meaning as those defined in the FINRA By-Laws and rules unless otherwise specified. For the purposes of this Rule 6700 Series, the following terms have the following meaning:

(a) through (t) No Change.

(u) "To Be Announced" ("TBA") means a transaction in an Agency Pass-Through Mortgage-Backed Security as defined in paragraph (v) or an SBA-Backed ABS as defined in paragraph (bb) where the parties agree that the seller will deliver to the buyer a security(ies) [an Agency Pass-Through Mortgage-Backed Security] of a specified face amount and meeting certain other criteria but the specific security(ies) to be delivered at settlement is not specified at the Time of Execution [coupon from a specified Agency or Government-Sponsored Enterprise program representing a pool (or pools) of mortgages (that are not specified by unique pool number)], and includes TBA transactions "for good delivery" ("GD") and TBA transactions "not for good delivery" ("NGD").

(v) “Agency Pass-Through Mortgage-Backed Security” means a type of Asset-Backed Security [a mortgage-backed security] issued [by] in conformity with a program of an Agency or a Government-Sponsored Enterprise (“GSE”), for which the timely payment of principal and interest is guaranteed by [an] the Agency or [a Government-Sponsored Enterprise] GSE, representing ownership interest[s] in a pool (or pools) of [residential] mortgage loans, other Agency Pass-Through Mortgage-Backed Securities, or a combination of such assets, and [with the security] structured to “pass through” the principal and interest payments to the holders of the security on a pro rata basis. [made by the mortgagees to the owners of the pool(s) on a pro rata basis.]

(w) No Change.

(x) “Specified Pool Transaction” means a transaction in an Agency Pass-Through Mortgage-Backed Security as defined in paragraph (v) or an SBA-Backed ABS as defined in paragraph (bb) requiring the delivery at settlement of [one or more] a pool(s) [pools of mortgages] that [, at the Time of Execution, are] is identified by [their] a unique pool identification number[s] at the Time of Execution. [and original principal value.]

(y) through (aa) No Change.

(bb) “SBA-Backed ABS” means an Asset-Backed Security issued in conformity with a program of the Small Business Administration (SBA), for which the timely payment of principal and interest is guaranteed by the SBA, representing ownership interest in a pool (or pools) of loans and structured to “pass through” the principal and interest payments made by the borrowers in such loans to the holders of the security on a pro rata basis.

* * * * *

6730. Transaction Reporting**(a) When and How Transactions are Reported**

Each member that is a Party to a Transaction in a TRACE-Eligible Security must report the transaction. A member must report a transaction in a TRACE-Eligible Security within 15 minutes of the Time of Execution, except as otherwise specifically provided below, or the transaction report will be "late." A member must transmit the report to TRACE during TRACE System Hours.

(1) through (2) No Change.

(3) Reporting Requirements — Asset-Backed Securities Transactions

Transactions in Asset-Backed Securities must be reported as provided in this paragraph (a)(3).

(A) General Reporting Requirements

Except as provided in paragraphs (a)(3)(C), (a)(3)(D) [and] (a)(3)(E), (a)(3)(F) and (a)(3)(G), transactions in Asset-Backed Securities executed on:

(i) through (iii) No Change.

(B) and (C) No Change.

(D) Agency Pass-Through Mortgage-Backed Securities Traded To Be Announced For Good Delivery

Transactions in Asset-Backed Securities that are Agency Pass-Through Mortgage-Backed Securities traded to be announced ("TBA") for good delivery ("GD") ("MBS TBA transactions GD") must be reported as provided in this paragraph (a)(3)(D).

(i) During a pilot program for MBS TBA transactions GD (“MBS TBA GD Pilot Program”), which shall expire at 11:59:59 p.m. Eastern Time [insert date that is 180 days following the effective date of the MBS TBA GD Pilot Program (provided that if the 180th day is not a Friday, insert date of the Friday next occurring (that the TRACE system is open) after the 180th day)], [TBA] such transactions [GD] must be reported as follows:

a. through d. No Change.

(ii) After the MBS TBA GD Pilot Program expires, MBS TBA transactions GD must be reported as provided in paragraph (a)(1)(A) through paragraph (a)(1)(D).

(E) Agency Pass-Through Mortgage-Backed Securities Traded To Be Announced Not For Good Delivery [(“TBA Transactions NGD”)] Transactions in Asset-Backed Securities that are Agency Pass-Through Mortgage-Backed Securities traded to be announced (“TBA”) not for good delivery (“NGD”) (“MBS TBA transactions NGD”) must be reported as provided in this paragraph (a)(3)(E).

(i) During a pilot program for MBS TBA transactions NGD (“MBS TBA NGD Pilot Program”), which shall expire at 11:59:59 p.m. Eastern Time [insert date that is 180 days following the effective date of the MBS TBA NGD Pilot Program (provided that if the 180th day is not a Friday, insert date of the Friday next

occurring (that the TRACE system is open) after the 180th day], [TBA] such transactions [NGD] must be reported as follows:

a. through d. No Change.

(ii) After the MBS TBA NGD Pilot Program expires, MBS

TBA transactions NGD must be reported as follows:

a. through d. No Change.

(F) Agency Pass-Through Mortgage-Backed Securities Traded in Specified Pool Transactions

Agency Pass-Through Mortgage-Backed Securities traded in Specified Pool Transactions (“MBS Specified Pool transactions”) must be reported as provided in this paragraph (a)(3)(F).

(i) During a pilot program for MBS Specified Pool transactions (“MBS Specified Pool Pilot Program”), which shall expire at 11:59:59 p.m. Eastern Time [insert date that is 180 days following the effective date of the MBS Specified Pool Pilot Program (provided that if the 180th day is not a Friday, insert date of the Friday next occurring (that the TRACE system is open) after the 180th day], such transactions must be reported as provided in paragraph (a)(3)(E)(i)a. through paragraph (a)(3)(E)(i)d.

(ii) After the MBS Specified Pool Pilot Program expires, MBS Specified Pool transactions must be reported as provided in paragraph (a)(3)(E)(ii)a. through paragraph (a)(3)(E)(ii)d.

(G) SBA-Backed ABS

SBA-Backed ABS traded to be announced (“TBA”) or in Specified Pool Transactions must be reported as provided in this paragraph

(a)(3)(G).

(i) During a pilot program for SBA-Backed ABS traded TBA or in Specified Pool Transactions (“SBA-Backed ABS Pilot Program”), which shall expire at 11:59:59 p.m. Eastern Time [insert date that is 180 days following the effective date of the SBA-Backed ABS Pilot Program (provided that if the 180th day is not a Friday, insert date of the Friday next occurring (that the TRACE system is open) after the 180th day], such transactions must be reported as provided in paragraph (a)(3)(E)(i)a. through paragraph (a)(3)(E)(i)d.

(ii) After the SBA-Backed ABS Pilot Program expires, SBA-Backed ABS traded TBA or in Specified Pool Transactions must be reported as provided in paragraph (a)(3)(E)(ii)a. through paragraph (a)(3)(E)(ii)d.

(4) through (6) No Change.

(b) through (f) No Change.

* * * * *

6750. Dissemination of Transaction Information

(a) No Change.

(b) Transaction Information Not Disseminated

FINRA will not disseminate information on a transaction in a TRACE-Eligible

Security that is:

(1) through (3) No Change.

(4) an Asset-Backed Security, except:

(A) an Agency Pass-Through Mortgage-Backed Security [traded to be announced (“TBA”) (“TBA transaction”)]; and

(B) an SBA-Backed ABS.

* * * * *

information that you wish to make available publicly. All submissions should refer to File No. SR-Phlx-2012-47 and should be submitted on or before May 10, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁷

Kevin M. O'Neill,
Deputy Secretary.

[FR Doc. 2012-9404 Filed 4-18-12; 8:45 am]

BILLING CODE 8011-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-66804; File No. SR-FINRA-2012-021]

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of Proposed Rule Change Relating to Post-Trade Transparency for Agency Pass-Through Mortgage-Backed Securities Traded in Specified Pool Transactions and SBA-Backed Asset-Backed Securities Transactions

April 13, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that, on April 2, 2012, the Financial Industry Regulatory Authority, Inc. ("FINRA") 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 the FINRA Rule 6700 Series and Trade Reporting and Compliance Engine ("TRACE") dissemination protocols regarding the reporting and dissemination of transactions in TRACE-Eligible Securities that are: (1) Agency Pass-Through Mortgage-Backed Securities traded in Specified Pool Transactions ("MBS Specified Pool transactions") and (2) Asset-Backed Securities backed by loans guaranteed as to principal and interest by the Small Business Administration ("SBA-Backed ABS") and traded either in Specified Pool Transactions or to be announced

("TBA") (collectively, "SBA-Backed ABS transactions").³

The text of the proposed rule change is available on FINRA's Web site at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.⁴

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

On March 1, 2012, FINRA filed the TBA proposal to provide for the dissemination of MBS TBA transactions, subject to dissemination caps, and concomitant reductions in the reporting periods for such transactions.⁵ FINRA is proposing to further expand transparency in the market for Asset-Backed Securities in this proposed rule change, which provides for the dissemination of MBS Specified Pool and SBA-Backed ABS transactions, subject to dissemination caps, and

concomitant reductions in the reporting periods for such transactions.

FINRA proposes to amend Rule 6730 to reduce, in two stages, the time frames to report MBS Specified Pool and SBA-Backed ABS transactions. FINRA also proposes minor clarifying amendments to Rule 6730(a)(3)(D) and (E) to specify that the reporting requirements set forth therein apply solely to MBS TBA transactions. In connection with such changes, FINRA proposes amendments to the definitions of "To Be Announced ("TBA"), "Specified Pool Transaction," and "Agency Pass-Through Mortgage-Backed Security" and a new defined term, "SBA-Backed ABS." Finally, FINRA proposes to amend Rule 6750 to provide for the dissemination of MBS Specified Pool and SBA-Backed ABS transactions, and proposes to establish, as part of TRACE dissemination protocols, a \$10 million dissemination cap for such transactions.

MBS Specified Pool Transactions

Generally, Agency Pass-Through Mortgage-Backed Securities are traded either TBA or in Specified Pool Transactions as defined in Rule 6710(v) and (x), respectively. In MBS Specified Pool transactions, on the date of trade (trade date), the seller agrees to deliver to the buyer a specific security identifiable by a unique identification number, which is backed by a specific pool (or pools) of mortgage loans, or other Agency Pass-Through Mortgage-Backed Securities, or a combination of such assets. MBS Specified Pool transactions differ from MBS TBA transactions in that, on trade date, in an MBS TBA transaction, the security to be delivered is described (e.g., program, interest rate, type of residential mortgage, maturity) but is not specifically identified (i.e., does not have a specific unique identification number), and will not be identified until shortly before settlement. While the majority of Agency Pass-Through Mortgage-Backed Securities are traded TBA, the daily volume of MBS Specified Pool transactions represents significant economic activity in mortgage-related securities, and FINRA believes that additional transparency in such securities is appropriate. The reported transaction data shows that MBS Specified Pool transaction pricing is strongly correlated to the pricing of the substantially larger market in MBS TBA transactions. Moreover, the two market sectors exhibit similar trading characteristics. For example, approximately 98 percent of the total volume in MBS Specified Pool transactions occurs in securities backed by single-family mortgage loans.

³ The terms TRACE-Eligible Security, Agency Pass-Through Mortgage-Backed Security, Specified Pool Transaction, Asset-Backed Security and To Be Announced ("TBA") are defined in, respectively, Rule 6710(a), Rule 6710(v), Rule 6710(x), Rule 6710(m) and Rule 6710(u). The definition of SBA-Backed ABS is proposed in Rule 6710(bb).

⁴ The proposed rule text assumes the SEC approval of File No. SR-FINRA-2012-020, which proposed amendments to the FINRA Rule 6700 Series to provide for the dissemination of transactions in TRACE-Eligible Securities that are Agency Pass-Through Mortgage-Backed Securities that are traded TBA ("MBS TBA transactions"), subject to dissemination caps, and to reduce the reporting periods for such transactions. See Securities Exchange Act Release No. 66577 (March 12, 2012), 77 FR 15827 (March 16, 2012) (Notice of Filing of File No. SR-FINRA-2012-020) ("TBA proposal").

⁵ See *supra* note 4. The TBA proposal distinguished between MBS TBA transactions for good delivery ("MBS TBA transactions GD") and not for good delivery ("MBS TBA transactions NGD"). In response to comments, FINRA proposed a longer period to timely report, and lower dissemination caps for, MBS TBA transactions NGD than the requirements proposed for MBS TBA transactions GD.

²⁷ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Similarly, for MBS TBA transactions, approximately 95 percent of the total volume occurs in securities backed by single-family mortgage loans.⁶ Accordingly, the data sets are complimentary and the dissemination of the additional pricing information for MBS Specified Pool transactions will further improve transparency in the Agency Pass-Through Mortgage-Backed Securities market.

SBA-Backed ABS Transactions

SBA-Backed ABSs are Asset-Backed Securities created from pooling loans made to small business by banks and other financial institutions in conformity with the program requirements of the Small Business Administration ("SBA"). Loans that meet the SBA's requirements are guaranteed by SBA as to the timely payment of principal and interest, and pools are then created to issue SBA-Backed Asset-Backed Securities.

SBA-Backed ABS also are traded TBA and in Specified Pool Transactions.⁷ Like Agency Pass-Through Mortgage-Backed Securities discussed above, such TBA trading may occur because market participants may anticipate with some certainty the creation of loan pools and are aware of the pool characteristics, and the extent to which such loan pools are fungible with previously-settled SBA-Backed ABS. FINRA proposes that both types of SBA-Backed ABS transactions be subject to dissemination.

Amendments to Defined Terms

FINRA proposes to define "SBA-Backed ABS" in proposed Rule 6710(bb) as an Asset-Backed Security issued in conformity with a program of the Small Business Administration (SBA), for which the timely payment of principal and interest is guaranteed by the SBA, representing ownership interest in a pool (or pools) of loans and structured to "pass through" the principal and interest payments made by the borrowers in such loans to the holders of the security on a pro rata basis.

In connection with the proposed addition of the definition of SBA-

Backed ABS, FINRA also proposes amendments to the definitions of "To Be Announced ("TBA")" and "Specified Pool Transaction" in Rule 6710(u) and Rule 6710(x), respectively. Both definitions currently apply only to Agency Pass-Through Mortgage-Backed Securities. As amended, both terms would include transactions in SBA-Backed ABS.⁸ In addition, FINRA proposes amendments to the definition of "Agency Pass-Through Mortgage-Backed Security" in Rule 6710(v) to incorporate minor, technical changes to the defined term.⁹

Reduction of Reporting Period

Currently, Asset-Backed Securities transactions (except certain pre-issuance transactions in collateralized mortgage obligations ("CMOs") and real estate mortgage investment conduits ("REMICs")) that are executed on a business day through 5:00 p.m. Eastern Time must be reported to TRACE on the Trade Date during TRACE System Hours, as provided in Rule 6730(a)(3)(A)(i), subject to the exceptions for transactions executed after 5:00 p.m. and during times when the TRACE System is not open in Rule 6730(a)(3)(A)(ii) and (iii). In contrast, secondary market transactions in all other TRACE-Eligible Securities must be reported within 15 minutes of the Time of Execution.¹⁰ With certain exceptions, transaction information on such TRACE-Eligible Securities is disseminated as soon as the transaction

⁶ As revised, Rule 6710(u) would provide:

"To Be Announced" ("TBA") means a transaction in an Agency Pass-Through Mortgage-Backed Security as defined in paragraph (v) or an SBA-Backed ABS as defined in paragraph (bb) where the parties agree that the seller will deliver to the buyer a security(ies) of a specified face amount and meeting certain other criteria but the specific security(ies) to be delivered at settlement is not specified at the Time of Execution, and includes TBA transactions "for good delivery" ("GD") and TBA transactions "not for good delivery" ("NGD").

As revised, Rule 6710(x) would provide:

"Specified Pool Transaction" means a transaction in an Agency Pass-Through Mortgage-Backed Security as defined in paragraph (v) or an SBA-Backed ABS as defined in paragraph (bb) requiring the delivery at settlement of a pool(s) that is identified by a unique pool identification number at the Time of Execution.

⁸ As revised, Rule 6710(v) would provide:

"Agency Pass-Through Mortgage-Backed Security" means a type of Asset-Backed Security issued in conformity with a program of an Agency or a Government-Sponsored Enterprise ("GSE"), for which the timely payment of principal and interest is guaranteed by the Agency or GSE, representing ownership interest in a pool (or pools) of mortgage loans, other Agency Pass-Through Mortgage-Backed Securities, or a combination of such assets, and structured to "pass through" the principal and interest payments to the holders of the security on a pro rata basis.

¹⁰ The term Time of Execution is defined in Rule 6710(d).

is reported, and the 15-minute reporting requirement results in meaningful price transparency for market participants trading such securities.¹¹

As noted above, FINRA recently filed the TBA proposal, which is pending before the SEC. In the TBA proposal, FINRA proposes that MBS TBA transactions be disseminated, and, in connection with their dissemination, also proposes to reduce the time frames for timely reporting such transactions to provide market participants meaningful and timely price information about MBS TBA transactions.¹²

In connection with proposing that MBS Specified Pool and SBA-Backed ABS transactions be disseminated, FINRA proposes to reduce the reporting time frames for such transactions for the same reasons. FINRA also proposes that the reduction of the reporting time frames occur in two stages to permit industry participants time to adjust policies and procedures and to make required technological changes, as FINRA also proposed in the TBA proposal.

Proposed Rule 6730(a)(3)(F) and proposed Rule 6730(a)(3)(G), respectively, set forth the requirements to report MBS Specified Pool and SBA-Backed ABS transactions. First, FINRA proposes to reduce the reporting period for MBS Specified Pool and SBA-Backed ABS transactions from no later than the close of the TRACE system on Trade Date to no later than two hours (i.e., 120 minutes) from the Time of Execution for the duration of the proposed MBS Specified Pool Pilot Program and the proposed SBA-Backed ABS Pilot Program in, respectively, proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i).¹³ Like

¹¹ See Rule 6750(b) for exceptions to dissemination. See also *supra* note 4 regarding the TBA proposal and proposed dissemination of MBS TBA transactions.

¹² See *supra* note 4. The TBA proposal, which was filed on March 1, 2012, proposes that MBS TBA transactions CD be reported generally within 45 minutes of the Time of Execution during a six-month pilot program (reduced to 15 minutes after the pilot program expires), and MBS TBA transactions NGD be reported within 120 minutes during a six-month pilot program (reduced to 60 minutes after the pilot program expires). Both proposed reporting requirements are subject to exceptions for transactions executed close to the end of the business day or when the TRACE system is not open.

¹³ Proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i) each incorporate by reference Rule 6730(a)(3)(E)(i)a. through d., which provides for a 120-minute reporting time frame in Rule 6730(a)(3)(E)(i)b.

Each of the pilot programs would expire after approximately 180 days. To accommodate member requests that, if possible, rule changes requiring technology changes occur on a Friday, proposed Rule 6730(a)(3)(F)(i) and proposed Rule

⁶ Certain programs also dominate both market segments. For example, over half of all transactions in MBS Specified Pool transactions occur in Fannie Mae program securities, and approximately 77 percent of all transactions in MBS TBA transactions occur in Fannie Mae program securities. The data is based on FINRA staff review of all Asset-Backed Securities traded during a six-month period from May 16, 2011 through October 31, 2011.

⁷ SBA-Backed ABS transactions traded in Specified Pool Transactions account for 0.41 percent of the combined total volume of all Specified Pool Transactions (which includes Agency Pass-Through Mortgage Backed-Securities and SBA-Backed ABS traded in Specified Pool Transactions).

the reporting requirements currently in effect for other TRACE-Eligible Securities, FINRA also proposes exceptions to the 120-minute time frame for transactions executed near the end of the business day or when the TRACE system is not open.¹⁴ Second, after the pilot programs expire, the reporting periods for MBS Specified Pool and SBA-Backed ABS transactions would be reduced from no later than two hours (120 minutes) from the Time of Execution to no later than one hour (60 minutes) from the Time of Execution, as set forth in, respectively, proposed Rule 6730(a)(3)(F)(ii) and proposed Rule 6730(a)(3)(G)(ii).¹⁵ Currently, 84 percent of MBS Specified Pool and SBA-Backed ABS transactions are reported within two hours of execution, and 75 percent are reported within one hour of execution.

After the 60-minute reporting requirement is implemented, FINRA will continue to review the reporting of MBS Specified Pool and SBA-Backed ABS transactions and may recommend further reductions in the reporting period.

FINRA also proposes minor clarifying amendments to Rule 6730(a)(3)(D) and (E) to specify that the reporting

6730(a)(3)(G)(i) provide that the MBS Specified Pool Pilot Program and the SBA-Backed ABS Pilot Program each would expire on a Friday (*i.e.*, on the 180th day, if a Friday, or, if the 180th day is not a Friday, on the Friday next occurring that the TRACE system is open).

¹⁴ See proposed Rule 6730(a)(3)(F)(i) and proposed Rule 6730(a)(3)(G)(i), which incorporate by reference Rule 6730(a)(3)(E)(i), c. and d., which apply to transactions executed near the end of the business day or when the TRACE system is not open. Under Rule 6730(a)(3)(E)(i)a., transactions executed on a business day at or after 12:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day no later than 120 minutes after the TRACE system opens. Under Rule 6730(a)(3)(E)(i)c., transactions executed on a business day less than 120 minutes before 6:30 p.m. Eastern Time (the time the TRACE system closes) must be reported no later than 120 minutes after the TRACE system opens the next business day (T + 1), and if reported on T + 1, designated "as/of" and include the date of execution. Under Rule 6730(a)(3)(E)(i)d., transactions executed on a business day at or after 6:30 p.m. Eastern Time through 11:59:59 p.m. Eastern Time or on a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T + 1), no later than 120 minutes after the TRACE system opens, designated "as/of" and include the date of execution.

¹⁵ Proposed Rule 6730(a)(3)(F)(ii) and proposed Rule 6730(a)(3)(G)(ii)—the "post-pilot program" reporting provisions—incorporate by reference the reporting requirements set forth in Rule 6730(a)(3)(E)(i)a. through d., including the exceptions to the requirement to report within 60 minutes that apply to transactions executed near the end of the business day or when the TRACE system is not open in Rule 6730(a)(3)(E)(i)a., c. and d.

requirements set forth therein apply solely to MBS TBA transactions.

Dissemination

Amendment to Rule 6750

Although members began reporting transactions in Asset-Backed Securities to TRACE on May 16, 2011, FINRA currently does not disseminate publicly any of the Asset-Backed Securities transaction data reported to TRACE as provided in Rule 6750(b)(4). However, as noted above, FINRA has filed the TBA proposal, in which FINRA proposes to disseminate MBS TBA transactions, which represent approximately 87 percent of the average daily volume traded in all Asset-Backed Securities.¹⁶ Following the submission of the TBA proposal, FINRA continued to examine transactions in Asset-Backed Securities to determine if FINRA should propose to disseminate additional Asset-Backed Securities, and will continue its review and research. The SEC has been supportive of such efforts.¹⁷

Among other things, FINRA has reviewed the data reported for Asset-Backed Securities, including MBS Specified Pool and SBA-Backed ABS transactions, and studied the total volume of MBS Specified Pool and SBA-Backed ABS transactions, the concentration of trading in such securities, and the pricing disparity among various types of MBS Specified Pool and SBA-Backed ABS transactions to understand their liquidity and fungibility. The market activity reported and reviewed reveals that for MBS Specified Pool transactions, the market is generally active and liquid, and with liquidity comparable to that of corporate bonds.¹⁸ Based on the review, FINRA believes that it is appropriate to provide for the dissemination of MBS Specified Pool and SBA-Backed ABS transactions, and such dissemination will benefit

¹⁶ See *supra* note 4. Beginning on the later of August 1, 2012, or 180 days following publication by FINRA of the *Regulatory Notice* announcing SEC approval of the TBA proposal, FINRA will disseminate such MBS TBA transaction data.

¹⁷ See Securities Exchange Act Release No. 61566 (February 22, 2010), 75 FR 9262, 9265 (March 1, 2010) (Order Approving File No. SR-FINRA-2009-065).

¹⁸ Liquidity as measured by par value traded is comparable to corporate bonds. Although MBS TBA transactions account for approximately 93 percent of all trading in Agency Pass-Through Mortgage-Backed Securities, the average daily volume of MBS Specified Pool transactions is significant—approximately \$17.5 billion is traded daily on average, in approximately 3,000 trades per day. The information is based upon FINRA's review of Asset-Backed Securities transactions reported to TRACE from May 16, 2011 through October 31, 2011.

market participants by improving transparency in both market segments.

FINRA proposes to amend Rule 6750 to provide for the dissemination of MBS Specified Pool and SBA-Backed ABS transactions, with dissemination occurring immediately upon receipt of a transaction report. Specifically, Rule 6750(b)(4) would be amended to provide that FINRA will not disseminate information on a transaction in a TRACE-Eligible Security that is an Asset-Backed Security, except: (A) an Agency Pass-Through Mortgage-Backed Security; and (B) an SBA-Backed ABS.¹⁹ Thus, information would be disseminated on MBS Specified Pool and SBA-Backed ABS transactions within 120 minutes, or, after the expiration of the applicable pilot program, within 60 minutes of the Time of Execution.²⁰

Dissemination Caps

FINRA has TRACE dissemination protocols in place, referred to as dissemination caps, under which the actual size of a transaction over a certain par value is not displayed in disseminated TRACE transaction data. For TRACE-Eligible Securities that are rated Investment Grade, the dissemination cap is \$5 million ("5MM"), and the size of transactions in excess of \$5MM is displayed as "\$5MM+." For TRACE-Eligible Securities that are rated Non-Investment Grade, the dissemination cap is \$1 million ("1MM"), and the size of a transaction in excess of \$1MM is displayed as "\$1MM+."²¹ Upon the approval and effectiveness of the TBA proposal: (1) The dissemination cap will be \$25 million ("25MM") for MBS TBA transactions GD, and the size of transactions in excess of \$25MM will be displayed as "\$25MM+," and (2) the

¹⁹ See *supra* note 4.

²⁰ FINRA continues to review Asset-Backed Security transaction information in other sectors of the Asset-Backed Securities market and, at a later date, may propose that transactions in other Asset-Backed Securities be disseminated.

²¹ The dissemination caps for Investment Grade corporate bonds limit the display of actual size for approximately 1.6 percent of trades representing approximately 48 percent of total par value traded, and, for Agency Debt Securities, approximately 6 percent of trades representing approximately 74 percent of total par value traded. The dissemination cap for Non-Investment Grade corporate bonds limits the display of actual size for approximately 15 percent of trades representing approximately 84 percent of total par value traded. The information is based on a review of all transactions in Investment Grade corporate bonds, Agency Debt Securities and Non-Investment Grade corporate bonds reported to TRACE from May 16, 2011 through January 4, 2012.

The terms Investment Grade, Non-Investment Grade and Agency Debt Security are defined in, respectively, Rule 6710(h), Rule 6710(i) and Rule 6710(l).

dissemination cap will be \$10 million ("10MM") for MBS TBA transactions NGD, and the size of transactions in excess of \$10MM will be displayed as "\$10MM+."²²

FINRA has analyzed the distribution of MBS Specified Pool and SBA-Backed ABS transactions to determine an appropriate dissemination cap for these transactions, and proposes to set a dissemination cap for each of MBS Specified Pool and SBA-Backed ABS transactions initially at \$10 million ("10MM"). Accordingly, the size of MBS Specified Pool and SBA-Backed ABS transactions greater than \$10 million would be displayed in disseminated data as "\$10MM+." At this level approximately nine percent of transactions and approximately 80 percent of par value traded would be disseminated subject to the \$10MM cap.²³ FINRA believes that these caps will allow the marketplace time to adjust to the new levels of transparency. In setting these dissemination caps, FINRA took into account the liquidity and trading activity in these segments.

As dissemination of MBS Specified Pool and SBA-Backed ABS transactions is implemented, FINRA will continue to review the volume of and liquidity in these securities, and may recommend that the dissemination caps be set at higher levels to provide additional transparency to market participants.

FINRA will announce the effective date of the proposed rule change in a *Regulatory Notice* to be published no later than 60 days following Commission approval. The effective date will be no earlier than August 1, 2012, and no later than 180 days following publication of the *Regulatory Notice* announcing Commission approval.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,²⁴ which requires, among other things, that FINRA rules must 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 increase fixed income market transparency is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, generally to protect investors and the public because transparency in MBS Specified Pool and SBA-Backed ABS transactions will enhance the ability of investors and other market participants to identify and negotiate fair and competitive prices for these securities, and because the dissemination of price and other information publicly will promote just and equitable principles of trade among participants in the more transparent market, and will aid in the prevention of fraudulent and manipulative acts and practices in the Asset-Backed Securities market.

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

Written comments were neither solicited nor received.

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

Within 45 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:

- (A) By order approve or disapprove 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 email to rule-comments@sec.gov. Please include File Number SR-FINRA-2012-021 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR-FINRA-2012-021. This file number should be included on the subject line if email 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 Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the 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-2012-021 and should be submitted on or before May 10, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁵

Kevin M. O'Neill,

Deputy Secretary.

[FR Doc. 2012-9405 Filed 4-18-12; 8:45 am]

BILLING CODE 8011-01-P

²² See *supra* note 4.

²³ See *supra* note 4. The proposed dissemination caps for MBS TBA transactions CD would limit display of actual size for approximately 20 percent of trades representing approximately 84 percent of par value traded and for MBS TBA transactions NGD would limit the display of actual size for approximately 42 percent of trades representing approximately 85 percent of par value traded. The information is based on a review of all MBS TBA, MBS Specified Pool and SBA-Backed ABS transactions reported to TRACE from May 16, 2011 through January 4, 2012.

²⁴ 15 U.S.C. 78o-3(b)(6).

²⁵ 17 CFR 200.30-3(a)(12).

EXHIBIT 2c

Alphabetical List of Written Comments

1. Chris Killian, Securities Industry and Financial Markets Association (May 10, 2012)
2. Michael Nicholas, Bond Dealers of America (May 10, 2012)



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May 10, 2012

VIA ELECTRONIC MAIL (send to: rule-comments@sec.gov)

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Proposed Rule Change Relating to TRACE Reporting and Dissemination of Transactions in Agency Pass-Through Mortgage-Backed Securities Traded in Specified Pool Transactions and SBA-Backed ABS Transactions (Release No. 34-66804; File No. SR-FINRA-2012-021)

Dear Ms. Murphy:

The Bond Dealers of America (BDA) is pleased to submit this letter in response to the United States Securities and Exchange Commission's (SEC) solicitation of comments in connection with the Financial Industry Regulatory Authority's (FINRA) proposed rule change (FINRA proposal) to amend the FINRA Rule 6700 Series and Trade Reporting and Compliance Engine (TRACE) dissemination protocols regarding the reporting and dissemination of transactions in TRACE-Eligible Securities that are (collectively, the Agency Specified Pool Securities): (1) Agency Pass-Through Mortgage-Backed Securities traded in Specified Pool Transactions and (2) Asset-Backed Securities backed by loans guaranteed as to principal and interest by the Small Business Administration and traded either in Specified Pool Transactions or to be announced. The BDA is the only DC based group representing the interests of securities dealers and banks focused on the U.S. fixed income markets and we welcome this opportunity to state our position.

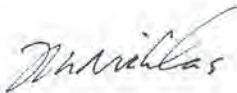
The BDA is concerned with the FINRA proposal in that it will disclose to the market information concerning investor strategies and trading activity that is currently considered proprietary. Agency Specified Pool Securities are different from other fixed income securities in that the pools can be smaller in size and a single investor frequently owns the entire pool when the pool is smaller in size. In these cases, the market easily knows who these investors are and what pools they own. Much of the market in the Agency Specified Pool Securities is driven by institutional investors who take the time to research the performance of pools, to develop a strategy to generate a profit and ultimately to execute on that strategy. When a single investor owns a large percentage of a specified pool, if the FINRA proposal were finalized in its current form, the market would be able to know that this investor is buying or selling and the market would be then be able to track this investor's activity, and reverse engineer and capitalize on its strategy. The BDA thinks a more fair approach to investors is if broker-dealers are allowed to omit the pool number and CUSIP information from TRACE dissemination regardless of the size

of the transaction. This would still require the dissemination of the security type, the coupon and the actual maturity, which would allow the market to have access to the information it needs without compromising the proprietary trading strategy of investors.

Another concern of the BDA revolves around a loophole in the TRACE reporting system. Broker-dealers that are affiliated with banks can run transactions through the bank's balance sheet and there is no requirement that the banks report these transactions to the TRACE reporting system. This allows banks to effectively avoid TRACE reporting in transactions involving Agency Specified Pool Securities. This causes two problems that are particular to the market in Agency Specified Pool Securities. First, this can encourage manipulation in the market for the Agency Specified Pool Securities because the market in Agency Specified Pool Securities experiences a lot less liquidity and activity than other fixed income markets. This can invite investors to manipulate the market by purchasing a block of Agency Specified Pool Securities through a broker-dealer that is required to report the transaction through the TRACE reporting system, and then selling an even larger block of the same Agency Specified Pool Securities through a bank that is not required to report the transaction. This can give the investing public the appearance of demand for the security that does not in fact exist. Given the size, activity levels and liquidity in the market for Agency Specified Pool Securities, it is very important that if some of the transactions are required to be reported, all transactions must be reported or the FINRA proposal will invite manipulation of the market. Second, investors will be encouraged to trade Agency Specified Pool Securities through banks rather than unaffiliated broker-dealers so as to avoid the reporting requirement. Given the concerns that investors have about retaining proprietary information in this market, the FINRA proposal will draw customers away from these broker-dealers only because of the existence of these rules. This will unfairly treat broker-dealers that are not affiliated with banks.

Thank you again for the opportunity to submit these comments.

Sincerely,



Michael Nicholas

Chief Executive Officer



Invested in America

May 10, 2012

Submitted Via Email to Rule-Comments@SEC.gov

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE., Washington, DC 20549-1090

Re: (Release No. 34-66804; File No. SR-FINRA-2012-021) Notice of Filing of Proposed Rule Change Relating to Post-Trade Transparency for Agency Pass-Through Mortgage-Backed Securities Traded in Specified Pool Transactions and SBA-Backed Asset-Backed Securities Transactions

Ladies and Gentlemen,

The Securities Industry and Financial Markets Association (“SIFMA”) is pleased to respond to the SEC’s request for comment on FINRA’s proposed rule (the “Proposal”) to begin dissemination of data for Agency mortgage-backed securities traded as specified pools (“MBS-SP” or “specified pool market”) and all SBA trades.¹ SIFMA’s comments on this proposal focus on the aspects of the proposal affecting MBS-SP.

Summary of the Proposal

The Proposal would implement shorter reporting timeframes for MBS-SP transactions (initially two hours, then one hour), as well as real-time dissemination of trade information. Volume information would be capped at \$10MM. Trades above that amount would be displayed as “10+”.

Summary of SIFMA Views

SIFMA members believe the proposal has the potential to negatively impact participant confidentiality, and therefore participant desire to transact in the MBS-SP market. FINRA should institute masks for CUSIP information for MBS-SP trades if the original issue size of the pool is below a threshold level.

Nature of the Specified Pool Market

The MBS-SP market has a few unique and consequential features that should be addressed before our discussion of the applicability of the proposal. The market is extremely large in terms of the number of CUSIPs. While we do not have an exact number, based on information and belief we estimate it encompasses over one million individual securities. Any MBS pool issued by a GSE or guaranteed by Ginnie Mae could theoretically be traded on a specified basis. This makes the MBS-SP market far more granular than corporate or agency debt markets, and more akin to the municipal markets in terms of granularity. The market is a liquid and active market when viewed in the aggregate; however, its granularity means that any individual CUSIP may not necessarily trade frequently. While there may be

¹ 77 FR 23524 (April 19, 2012), available here: <https://federalregister.gov/a/2012-9405>

some retail participation in this market, in the opinion of SIFMA members is predominantly an institutional market.

The MBS-SP market is not only important for investors and market makers, it is also important for mortgage originators who use the MBS-SP market to maximize their efficiency and the economics of their lending programs. For example, premiums received in the MBS-SP market have provided significant incentives for the use of the Administration's Home Affordable Refinance Program (commonly called HARP).² Pools of loans refinanced under HARP are traded in the MBS-SP market at a premium to pools traded in the TBA market, creating incentives for originators to execute refinancing under the terms of the HARP program. The MBS-SP market may be smaller and less liquid than the broader TBA MBS market, but it is very important to our mortgage finance system.

A critical consideration in the MBS-SP market is the nature of trading. Most MBS-SP trades, for smaller pool sizes, are trades of whole pools.³ This may be for a number of reasons: smaller issuance size of individual pools⁴, desire to obtain pools with specific characteristics, regulatory considerations⁵, or other reasons. But in any case, our membership reports that most trades are for whole pools, and that means that most pools are owned by a single party – individual issues are not widely held. In the event that these smaller pools are held by more than one person, it is likely that there are only 2-3 total holders. This has important ramifications.

Because the MBS-SP market is very granular, and ownership very often is in the form of whole pools, the protection that dissemination volume caps provide in other more widely-held markets, such as TBA MBS or corporate bonds, will not accrue to MBS-SP to the same extent they accrue to TBA MBS, for example. The disseminated volume of a trade for a \$27MM pool may be capped at \$10MM (as proposed), but given the nature of the market, other participants will know that there is a very strong likelihood that the trade was indeed for \$27MM.

Given that most market participants track which pools they trade to and from their various counterparties, our buy-side and sell-side members active in the MBS-SP market are very concerned that sensitive information regarding trading strategies, volumes, identities and positions will be compromised if the proposal is implemented without amendment. For example, Dealer A sells whole pool 123456 to customer A. Customer A then sells whole pool 123456 to Dealer B. Dealer A will know both sides of that customer's trade – their sale to that customer and that customer's subsequent sale. Likewise, dealer B will know from whom that customer bought that pool, at what price and size. Over time, market participants will be able to develop quite detailed and precise estimates of other participants' strategies and positions.

This is different than the situation in the corporate, agency debt, or TBA MBS markets where securities tend to be more widely held. In those markets, one would not know the actual size of a trade for which displayed volume is capped, given that securities tend to be more widely held and sold in smaller portions of the entire issue. As discussed, MBS-SP tend to trade as whole pools and be held by a single party (or in any case, very few parties). Our members active in the MBS-SP market, both buy-side and

² More information on HARP is available here: <http://www.makinghomeaffordable.gov/programs/lower-rates/Pages/harp.aspx>.

³ We also note that many large trades are in fact trades of lists of smaller pools; these are reported to TRACE on an individual pool level.

⁴ Most pools are smaller as opposed to larger. Our estimates of average MBS pool issuance size from Fannie Mae, Freddie Mac, and Ginnie Mae range from \$10-\$35MM.

⁵ E.g., REITs.

sell-side, believe the impact of this diminution of confidentiality on the MBS-SP market may be quite negative and significantly impair participation in the market. Information around position and strategy is among the most sensitive of all financial market information, and this proposal has the potential to severely compromise the confidentiality of this information.

SIFMA Proposes a Change to Disseminated Information to Preserve Confidentiality

As discussed above, our dealer and investor members who are active in the specified pool market have expressed great discomfort with the proposed CUSIP-level dissemination for all specified pool trades and propose a modification to the rule filing. We support price transparency in Agency MBS markets, as evidenced by our constructive feedback on the TBA proposal; our concern is that the implementation of dissemination of trade information does not create market distortions through incentives to obfuscate trading strategies, or by making the market less attractive to its participants. We think the proposal creates a strong likelihood of such distortions.

We have considered ways in which the proposal could be modified in order to mitigate these concerns. Because the primary concern regards specific knowledge of transaction sizes and holdings for securities that are not widely held and are generally traded as whole pools, we believe that lowering the volume cap is a less effective solution for our concerns for the reasons noted above. Contrast this to the proposal for the dissemination of TBA MBS trading information, where a lower volume cap did ameliorate many of these concerns.⁶

SIFMA's buy-side and sell-side members active in the MBS-SP market propose that FINRA amend the proposal such that, for pools with an original face amount below \$1 billion, CUSIP information would not be shown on disseminated trade reports. Instead, that field would be populated by "MBS-SP" or some similar indicator. All other information would be disseminated as usual, e.g. date, time of execution, price, flags on the trade, coupon, issuer, maturity date, issuance date, and so on.⁷

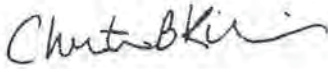
This change would preserve the confidentiality of market participant trading strategies, identities, positions, and other information for the portion of the market where pools are most likely to be held by a single party. Larger pools are more likely to be widely held, and therefore raise fewer concerns about confidentiality. The proposed approach would continue allow for important trading information to be disseminated to the market in a valuable manner.

⁶ While we believe volume caps are significantly less effective in the MBS-SP market that does not mean they are entirely ineffective. Regardless of whether our suggested revision to the proposal is implemented, we believe that volume caps should be lowered to a significant degree, and would suggest a cap of \$1MM, which is the maximum size displayed by MSRB for the similarly granular municipal securities market. We believe, however, that this is an incomplete remedy for the problems that we describe above, and is not likely to significantly ameliorate the concerns shared by our buy- and sell-side market participant members which lead us to suggest the masking of CUSIP information for certain transactions.

⁷ Over time the sensitivity of specific information lessens. Therefore, the masking of CUSIP information could sunset after a period of time. SIFMA would suggest three to six months as an appropriate sunset date, where the masked CUSIP information in the publicly available TRACE system could be reverted to actual CUSIP information.

SIFMA appreciates the opportunity to comment on this rule proposal and hopes our comments are helpful. We would be pleased to discuss any questions or comments. Please contact Chris Killian at 212-313-1126 or ckillian@sifma.org with any questions or comments.

Sincerely,



Chris Killian
Managing Director

About Sifma

SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

EXHIBIT 5

Below is the text of the proposed rule change. Proposed new language is double-underlined; proposed deletions are in brackets. Amendments to the Rule 6700 Series proposed in SR-FINRA-2012-020, which the SEC approved on April 18, 2012 and will become effective on November 5, 2012, are incorporated herein and are single-underlined.¹

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6000. QUOTATION AND TRANSACTION REPORTING FACILITIES

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6700. TRADE REPORTING AND COMPLIANCE ENGINE (TRACE)

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6710. Definitions

The terms used in this Rule 6700 Series shall have the same meaning as those defined in the FINRA By-Laws and rules unless otherwise specified. For the purposes of this Rule 6700 Series, the following terms have the following meaning:

(a) through (t) No Change.

(u) “To Be Announced” (“TBA”) means a transaction in an Agency Pass-Through Mortgage-Backed Security as defined in paragraph (v) or an SBA-Backed ABS as defined in paragraph (bb) where the parties agree that the seller will deliver to the buyer a pool or pool(s) [an Agency Pass-Through Mortgage-Backed Security] of a specified face amount and meeting certain other criteria but the specific pool or pool(s) to be delivered at settlement is not specified at the Time of Execution [coupon from a specified Agency or Government-Sponsored Enterprise program representing a pool (or

¹ See Securities Exchange Act Release No. 66829 (April 18, 2012), 77 FR 24748 (April 25, 2012) (Order Approving File No. SR-FINRA-2012-020) and Regulatory Notice 12-26 (May 2012).

pools) of mortgages (that are not specified by unique pool number)], and includes TBA transactions “for good delivery” (“GD”) and TBA transactions “not for good delivery” (“NGD”).

(v) “Agency Pass-Through Mortgage-Backed Security” means a type of Asset-Backed Security [a mortgage-backed security] issued [by] in conformity with a program of an Agency or a Government-Sponsored Enterprise (“GSE”), for which the timely payment of principal and interest is guaranteed by [an] the Agency or [a Government-Sponsored Enterprise] GSE, representing ownership interest[s] in a pool (or pools) of [residential] mortgage loans [with the security] structured to “pass through” the principal and interest payments to the holders of the security on a pro rata basis. [made by the mortgagees to the owners of the pool(s) on a pro rata basis.]

(w) No Change.

(x) “Specified Pool Transaction” means a transaction in an Agency Pass-Through Mortgage-Backed Security as defined in paragraph (v) or an SBA-Backed ABS as defined in paragraph (bb) requiring the delivery at settlement of [one or more] a pool or pool(s) [pools of mortgages] that [, at the Time of Execution, are] is identified by [their] a unique pool identification number[s] at the Time of Execution. [and original principal value.]

(y) through (aa) No Change.

(bb) “SBA-Backed ABS” means an Asset-Backed Security issued in conformity with a program of the Small Business Administration (“SBA”), for which the timely payment of principal and interest is guaranteed by the SBA, representing ownership interest in a pool (or pools) of loans and structured to “pass through” the principal and

interest payments made by the borrowers in such loans to the holders of the security on a pro rata basis.

* * * * *

6730. Transaction Reporting

(a) When and How Transactions are Reported

Each member that is a Party to a Transaction in a TRACE-Eligible Security must report the transaction. A member must report a transaction in a TRACE-Eligible Security within 15 minutes of the Time of Execution, except as otherwise specifically provided below, or the transaction report will be “late.” A member must transmit the report to TRACE during TRACE System Hours.

(1) through (2) No Change.

(3) Reporting Requirements — Asset-Backed Securities Transactions

Transactions in Asset-Backed Securities must be reported as provided in this paragraph (a)(3).

(A) General Reporting Requirements

Except as provided in paragraphs (a)(3)(C), (a)(3)(D), [and] (a)(3)(E), (a)(3)(F) and (a)(3)(G), transactions in Asset-Backed Securities executed on:

(i) a business day at or after 12:00:00 a.m. Eastern Time through 5:00:00 p.m. Eastern Time must be reported the same day during TRACE System Hours;

(ii) a business day after 5:00:00 p.m. Eastern Time but before the TRACE system closes must be reported no later than the

next business day (T + 1) during TRACE System Hours, and, if reported on T + 1, designated “as/of” and include the date of execution; or

(iii) a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time, or a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T + 1) during TRACE System Hours, designated “as/of” and include the date of execution.

(B) Reserved.

(C) Collateralized Mortgage Obligation and Real Estate

Mortgage Investment Conduit Transactions Before Issuance

Transactions in Asset-Backed Securities that are collateralized mortgage obligations (“CMOs”) or real estate mortgage investment conduits (“REMICs”) that are executed before the issuance of the security must be reported the earlier of:

(i) the business day that the security is assigned a CUSIP, a similar numeric identifier or a FINRA symbol during TRACE System Hours (unless such identifier is assigned after 1:00:00 p.m. Eastern Time, and in such case, such transactions must be reported no later than the next business day during TRACE System Hours), or

(ii) the date of issuance of the security during TRACE System Hours.

In either case, if the transaction is reported other than on the date of execution, the transaction report must be designated “as/of” and include the date of execution.

(D) Agency Pass-Through Mortgage-Backed Securities

Traded To Be Announced For Good Delivery

Transactions in Asset-Backed Securities that are Agency Pass-Through Mortgage-Backed Securities traded to be announced (“TBA”) for good delivery (“GD”) (“MBS TBA transactions GD”) must be reported as provided in this paragraph (a)(3)(D).

(i) During a pilot program for MBS TBA transactions GD (“MBS TBA GD Pilot Program”), which shall expire at 11:59:59 p.m. Eastern Time [insert date that is 180 days following the effective date of the MBS TBA GD Pilot Program (provided that if the 180th day is not a Friday, insert date of the Friday next occurring (that the TRACE system is open) after the 180th day]. [TBA] such transactions [GD] must be reported as follows:

a. Transactions executed on a business day at or after 12:00:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day no later than 45 minutes after the TRACE system opens.

b. Transactions executed on a business day at or after 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time (standard TRACE System Hours) must be reported within 45 minutes of the Time of Execution, except as provided in paragraph (a)(3)(D)(i)c. below.

c. Transactions executed on a business day less than 45 minutes before 6:30:00 p.m. Eastern Time must be reported no later than 45 minutes after the TRACE system opens the next business day (T + 1), and if reported on T + 1, designated “as/of” and include the date of execution.

d. Transactions executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time or on a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T + 1), no later than 45 minutes after the TRACE system opens, designated “as/of” and include the date of execution.

(ii) After the MBS TBA GD Pilot Program expires, MBS TBA transactions GD must be reported as provided in paragraph (a)(1)(A) through paragraph (a)(1)(D).

(E) Agency Pass-Through Mortgage-Backed Securities Traded

To Be Announced Not For Good Delivery [“TBA Transactions

NGD”]

Transactions in Asset-Backed Securities that are Agency Pass-Through Mortgage-Backed Securities traded to be announced (“TBA”) not for good delivery (“NGD”) (“MBS TBA transactions NGD”) must be reported as provided in this paragraph (a)(3)(E).

(i) During a pilot program for MBS TBA transactions NGD (“MBS TBA NGD Pilot Program”), which shall expire at 11:59:59 p.m. Eastern Time [insert date that is 180 days following the effective date of the MBS TBA NGD Pilot Program (provided that if the 180th day is not a Friday, insert date of the Friday next occurring (that the TRACE system is open) after the 180th day], [TBA] such transactions [NGD] must be reported as follows:

a. Transactions executed on a business day at or after 12:00:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day no later than 120 minutes after the TRACE system opens.

b. Transactions executed on a business day at or after 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time (standard TRACE System Hours) must be reported within 120 minutes of the Time of Execution, except as provided in paragraph (a)(3)(E)(i)c. below.

c. Transactions executed on a business day less than 120 minutes before 6:30:00 p.m. Eastern Time must

be reported no later than 120 minutes after the TRACE system opens the next business day (T + 1), and if reported on T + 1, designated “as/of” and include the date of execution.

d. Transactions executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time or on a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T + 1), no later than 120 minutes after the TRACE system opens, designated “as/of” and include the date of execution.

(ii) After the MBS TBA NGD Pilot Program expires, MBS

TBA transactions NGD must be reported as follows:

a. Transactions executed on a business day at or after 12:00:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day no later than 60 minutes after the TRACE system opens.

b. Transactions executed on a business day at or after 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time (standard TRACE System Hours) must be reported within 60 minutes of the Time of Execution, except as provided in paragraph (a)(3)(E)(ii)c. below.

c. Transactions executed on a business day less than 60 minutes before 6:30:00 p.m. Eastern Time must be reported no later than 60 minutes after the TRACE system opens the next business day (T + 1), and if reported on T + 1, designated “as/of” and include the date of execution.

d. Transactions executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time or on a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T + 1), no later than 60 minutes after the TRACE system opens, designated “as/of” and include the date of execution.

(F) Agency Pass-Through Mortgage-Backed Securities Traded in Specified Pool Transactions

Agency Pass-Through Mortgage-Backed Securities traded in Specified Pool Transactions (“MBS Specified Pool transactions”) must be reported as provided in this paragraph (a)(3)(F).

(i) During a pilot program for MBS Specified Pool transactions (“MBS Specified Pool Pilot Program”), which shall expire at 11:59:59 p.m. Eastern Time [insert date that is 180 days following the effective date of the MBS Specified Pool Pilot Program (provided that if the 180th day is not a Friday, insert date

of the Friday next occurring (that the TRACE system is open) after the 180th day], such transactions must be reported as provided in paragraph (a)(3)(E)(i)a. through paragraph (a)(3)(E)(i)d.

(ii) After the MBS Specified Pool Pilot Program expires, MBS Specified Pool transactions must be reported as provided in paragraph (a)(3)(E)(ii)a. through paragraph (a)(3)(E)(ii)d.

(G) SBA-Backed ABS

SBA-Backed ABS traded to be announced (“TBA”) or in Specified Pool Transactions must be reported as provided in this paragraph (a)(3)(G).

(i) During a pilot program for SBA-Backed ABS traded TBA or in Specified Pool Transactions (“SBA-Backed ABS Pilot Program”), which shall expire at 11:59:59 p.m. Eastern Time [insert date that is 180 days following the effective date of the SBA-Backed ABS Pilot Program (provided that if the 180th day is not a Friday, insert date of the Friday next occurring (that the TRACE system is open) after the 180th day], such transactions must be reported as provided in paragraph (a)(3)(E)(i)a. through paragraph (a)(3)(E)(i)d.

(ii) After the SBA-Backed ABS Pilot Program expires, SBA-Backed ABS traded TBA or in Specified Pool Transactions must be reported as provided in paragraph (a)(3)(E)(ii)a. through paragraph (a)(3)(E)(ii)d.

(4) through (6) No Change.

(b) through (f) No Change.

* * * * *

6750. Dissemination of Transaction Information

(a) No Change.

(b) Transaction Information Not Disseminated

FINRA will not disseminate information on a transaction in a TRACE-Eligible Security that is:

(1) through (3) No Change.

(4) an Asset-Backed Security, except:

(A) an Agency Pass-Through Mortgage-Backed Security [traded to be announced (“TBA”) (“TBA transaction”)]; and

(B) an SBA-Backed ABS.

* * * * *