

Trade Reporting and Compliance Engine (TRACE)

FINRA Reminds Alternative Trading Systems (ATSs) and ATS Subscribers of Their Trade Reporting Obligations in TRACE-Eligible Securities

Executive Summary

FINRA is publishing this *Notice* to remind firms of their TRACE trade reporting obligations for transactions in TRACE-eligible securities occurring through an ATS.

Questions regarding this *Notice* should be directed to:

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Background and Discussion

FINRA Rule 6730 (Transaction Reporting) sets forth firms' trade reporting obligations with regard to transactions in TRACE-eligible securities.¹ Pursuant to Rule 6730, each FINRA member firm that is a "party to a transaction" in a TRACE-eligible security is obligated to report the transaction to TRACE within the prescribed period of time (generally within 15 minutes). "Party to a transaction" means an introducing broker-dealer, if any, an executing broker-dealer or a customer.² Thus, in transactions between firms, each firm is a party to the transaction and is required to report the trade.

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Notice Type

- ▶ Guidance

Suggested Routing

- ▶ Compliance
- ▶ Fixed Income
- ▶ Legal
- ▶ Operations
- ▶ Systems
- ▶ Trading
- ▶ Training

Key Topics

- ▶ Alternative Trading Systems
- ▶ Party to a Transaction
- ▶ Transaction Reporting

Referenced Rules

- ▶ FINRA Rule 6710
- ▶ FINRA Rule 6730

An ATS, which includes electronic communication networks, also is a party to a transaction and has a trade reporting obligation when a transaction in a TRACE-eligible security is executed through the ATS.³ Specifically, the ATS is required to report two transactions to TRACE: (1) the purchase of the securities from one counterparty and (2) the sale of the securities to the other counterparty. In addition, each counterparty, if a FINRA member firm, is required to report a buy or a sell, as applicable, identifying the ATS as the counterparty to each trade. Whether the ATS is involved in the clearance and settlement of a transaction does not change the TRACE trade reporting obligation for trades occurring through its system.

FINRA is issuing this *Notice* to remind firms of their TRACE trade reporting obligations for transactions occurring on and through an ATS. It is critical for regulatory audit trail and transaction dissemination purposes that all firms (ATSs and their member subscribers) report consistently across all ATSs and that the ATS is properly included and identified as a party to the transaction.⁴

Provided below are several examples of the reporting requirements for transactions executed through an ATS. In all cases, every sell report within each scenario is disseminated.

Example #1: FINRA members D1 and D2 are subscribers to an ATS. D1 is displaying an offer on the ATS system for ABC bonds for a price at which D2 is willing to trade, so D2 accesses D1's offer, resulting in a trade. The following reports must be submitted to TRACE by the ATS:

- ▶ ATS reports a buy from D1
- ▶ ATS reports a sell to D2

If both D1 and D2 trade on a proprietary basis, each dealer would submit a trade report to TRACE:

- ▶ D1 reports a sell to ATS as principal
- ▶ D2 reports a buy from ATS as principal

Example #2: If, in the above scenario, D1's sale was as agent on behalf of a customer, then D1 would submit two trade reports to TRACE:

- ▶ D1 reports a buy from customer as agent
- ▶ D1 reports a sell to ATS as agent

Likewise, if D2's purchase was as agent on behalf of a customer, D2 also would be required to submit two trade reports to TRACE:

- ▶ D2 reports a buy from ATS as agent
- ▶ D2 reports a sale to customer as agent

Example #3: IA (a non-FINRA member) is an ATS subscriber and purchases bonds through the ATS from FINRA member D3. The following reports must be submitted to TRACE by each specified party:

- ▶ ATS reports a buy from D3
- ▶ ATS reports a sell to IA
- ▶ D3 reports a sell to ATS

Example #4: D4, FINRA member firm and ATS subscriber, submits a request for a bid on ABC bonds through the ATS. FINRA member firm D5 submits a bid for the ABC bonds at a price that D4 chooses to accept. The following reports must be submitted to TRACE by each specified party:

- ▶ ATS reports a buy from D4
- ▶ ATS reports a sell to D5
- ▶ D4 reports a sell to ATS
- ▶ D5 reports a buy from ATS

In addition, if D4's sale or D5's purchase was as agent on behalf of a customer, then the transaction with the customer also must be reported. For example, the following trade reports also may be required to be reported to TRACE, if applicable:

- ▶ D4 reports a buy from customer as agent
- ▶ D5 reports a sell to customer as agent

As noted above, complete, accurate and timely reporting of transactions in TRACE-eligible securities is necessary both for price transparency as well as to enable FINRA to perform its oversight functions. Firms should review their trade reporting policies, procedures and protocols to ensure they are reporting properly to FINRA.

Endnotes

1. Rule 6710 generally defines a “TRACE-Eligible Security” as: (1) a debt security that is U.S. dollar-denominated and issued by a U.S. or foreign private issuer (and, if a “restricted security” as defined in Securities Act Rule 144(a)(3), sold pursuant to Securities Act Rule 144A); or (2) a debt security that is U.S. dollar-denominated and issued or guaranteed by an “Agency” as defined in Rule 6710(k) or a “Government-Sponsored Enterprise” as defined in Rule 6710(n).
2. See FINRA Rule 6710(e).
3. See [question 7.4](#) in FINRA’s Reporting of Corporate and Agencies Debt Frequently Asked Questions (FAQ): Who reports trades executed through electronic trading systems that are themselves broker-dealers? All FINRA members that are “parties to a transaction” have a trade reporting obligation under TRACE Rules. Where two FINRA members effect/execute a transaction through an electronic trading system that is registered as a broker-dealer, both members, as well as the electronic trading system would have a trade reporting obligation). See also Amendment No. 1 to File No. SR-FINRA-2013-042 (Proposed Rule to Require Alternative Trading Systems to Report Volume Information to FINRA and Use Unique Market Participant Identifiers).
4. In addition, for purposes of the potential expansion of FINRA’s ATS Volume Transparency initiative to include TRACE-eligible securities, ATSS must be reporting in compliance with the TRACE rules to ensure that the ATS volume information that is aggregated and disseminated is accurate, reliable and consistent across ATSS. See [Regulatory Notice 14-07](#) (February 2014); see also Securities Exchange Act Release No. 71911 (April 9, 2014), 79 FR 21316 (April 15, 2014) (Notice of Filing and Immediate Effectiveness of SR-FINRA-2014-017).