Regulatory Notice 15-47

Trade Reporting and Compliance Engine (TRACE)

SEC Approves Amendments to Require Firms to Add a No-Remuneration Indicator in TRACE Trade Report

Implementation Date: May 23, 2016

November 2015

Notice Type
- Rule Amendment

Suggested Routing
- Compliance
- Fixed Income
- Legal
- Operations
- Systems
- Trading

Key Topics
- Fixed Income Securities
- Mark-ups, Mark-downs and Commissions
- TRACE
- Transaction Reporting

Referenced Rules & Notices
- FINRA Rule 6730

Executive Summary

The SEC approved amendments to the Trade Reporting and Compliance Engine (TRACE) rules to require an indicator when the TRACE report does not reflect a commission or mark-up/mark-down. The implementation date for these amendments is May 23, 2016.

The amended rule text is available in the online FINRA Manual.

Questions regarding this *Notice* should be directed to:

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- Andrew Madar, Associate General Counsel, Office of General Counsel, at (202) 728-8056 or by email at *Andrew.Madar@finra.org*.

Background and Discussion

FINRA Rule 6730 (Transaction Reporting) sets forth the requirements that apply to firms when reporting transactions in TRACE-eligible securities,[1] and provides the specific items of information that must be included in a TRACE trade report. Among other things, Rules 6730(c) and (d) require that firms report the commission (total dollar amount) separately on the TRACE trade report for agency transactions. FINRA then combines the dollar amount that is reported as the commission with the amount that is reported in the price field, and disseminates to the market this aggregate amount as the transaction's price. For principal transactions, Rule 6730(d)(1) provides that

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firms must report a price that includes the mark-up/mark-down, and FINRA disseminates this price to the market. The goal of these reporting requirements is to enable FINRA to provide investors and market participants with pricing information that better reflects comparable prices for principal and agency trades in a TRACE-eligible security.

The SEC approved amendments to Rule 6730 that require that firms use a No-Remuneration indicator to identify those transactions for which a commission or mark-up/mark-down is not reflected in a TRACE trade report.[2] A firm may select the No-Remuneration indicator either because the firm does not charge or does not know the amount of the commission or mark-up/mark-down at the time of TRACE reporting. For example, some firms may assess a charge that is not transaction-based, such as in the case of a "fee-based account" where remuneration is based upon assets under management (and individual commissions or mark-ups/mark-downs are not charged). As is the case now, the disseminated TRACE feed will not explicitly distinguish between agency and principal transactions, and the No-Remuneration flag will apply to both principal and agency transactions. FINRA believes that the No-Remuneration flag will provide more meaningful pricing transparency through TRACE by identifying those transactions where no commission or mark-up/mark-down was charged or known at the time of TRACE reporting, while not inhibiting possible firm remuneration arrangements.

Rule 6730 also sets forth three exceptions regarding the use of the No-Remuneration indicator: (1) the transaction is a "List or Fixed Offering Price Transaction," as defined in Rule 6710(q); (2) the transaction is a "Takedown Transaction," as defined in Rule 6710(r); and (3) the transaction is an inter-dealer transaction.

The implementation date of these amendments is May 23, 2016.

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* Securities Exchange Act Release No. 76176 (October 16, 2015), 80 FR 64039 (October 22, 2015) (SR-FINRA-2015-026).