

Equity Trade Reporting

FINRA Adopts Amendments Relating to Use of the Alternative Display Facility for Trade Reporting Purposes Only

Effective Date: September 12, 2016

Executive Summary

Effective Monday, September 12, 2016, firms that elect to use the ADF for trade reporting purposes only are subject to annual testing requirements (with exceptions for firms that qualify) and connectivity fees.

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

Questions regarding this *Notice* may be directed to:

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Background and Discussion

On January 20, 2016, FINRA published a [Trade Reporting Notice](#) with guidance on firms' over-the-counter (OTC) equity trade reporting obligations in the event of a systems issue during the trading day that prevents them from reporting OTC trades in NMS stocks in accordance with FINRA rules.¹ As set forth in the *Trade Reporting Notice*, a firm that routinely reports its OTC trades in NMS stocks to only one FINRA trade reporting facility (a firm's "primary facility") must establish and maintain connectivity and report to a second FINRA trade reporting facility (a firm's "secondary facility"), if the firm intends to continue to support OTC trading as an executing broker while its primary facility is experiencing a widespread systems issue.² FINRA currently has three facilities that support the reporting of OTC trades in NMS stocks: the ADF and two Trade Reporting Facilities (TRFs). The TRFs are facilities that are operated by both FINRA and its exchange partners (NASDAQ and NYSE).

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Notice Type

- ▶ Rule Amendment

Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Senior Management
- ▶ Systems
- ▶ Trading

Key Topics

- ▶ Alternative Display Facility (ADF)
- ▶ NMS Stocks
- ▶ Trade Reporting
- ▶ Trade Reporting Facilities (TRF)

Referenced Rules & Notices

- ▶ FINRA Rule 7120
- ▶ FINRA Rule 7510
- ▶ FINRA Rule 7520
- ▶ Trade Reporting Notice 1/20/2016

While the ADF historically has not been used by firms for trade reporting without quoting activity, FINRA rules do not prohibit it. Thus, to better accommodate firms in their efforts to comply with the guidance in the *Trade Reporting Notice*, and to provide an alternative to connecting to both TRFs, FINRA is making the ADF available to firms for trade reporting purposes only—as either their primary or secondary facility. FINRA currently is making systems updates to the ADF and anticipates that the ADF will be available to firms for new participant testing before the end of this year. Firms interested in using the ADF for trade reporting purposes should contact FINRA Business Services at (866) 953-4672 or FINRABusinessServices@finra.org.

Firms—including firms that use the ADF for trade reporting only—are prohibited from quoting on the ADF without registering under one of the two categories of “ADF Market Participant” under FINRA rules (*i.e.*, Registered Reporting ADF ECN and Registered Reporting ADF Market Maker) and satisfying all applicable requirements for quoting.³

New Requirements

While the substantive trade reporting and trade reporting participation requirements under ADF rules⁴ mirror the TRF requirements, FINRA recently adopted additional requirements that apply specifically to firms that use the ADF for trade reporting purposes only.⁵ FINRA notes that these requirements apply only to firms with a Financial Information eXchange (FIX) connection; they do not apply to firms that use only the web browser for trade reporting to the ADF and have no FIX connections.

Annual Testing Requirements

Firms that intend to use the ADF for trade reporting purposes only and connect to the ADF via FIX must participate in annual connectivity and capacity/stress testing.⁶ FINRA will excuse firms that meet certain thresholds from the testing requirements. Specifically, firms that report at least 100 trades per month to the ADF are not required to participate in annual connectivity testing. Firms are not required to participate in annual capacity/stress testing unless their actual ADF activity levels, or their capacity projections based on their TRF usage,⁷ increase by more than 20 percent from one year to the next. FINRA notes that these exceptions apply independently. For example, a firm may be subject to annual connectivity testing (because it reports fewer than 100 trades per month to the ADF), while being excused from the capacity/stress testing requirement (because its capacity projection based on its TRF usage has not increased by more than 20 percent from the prior year).⁸

Firms that are required to participate in annual connectivity and capacity/stress testing will not be charged fees for the annual testing. However, any firm requesting additional testing beyond the required annual connectivity and capacity/stress testing will be required to pay fees for testing services under Rule 7530(c).⁹

FIX Connectivity Fee

Firms that use the ADF for trade reporting purposes only and connect to the ADF via a FIX line will be charged a monthly fee of \$500.¹⁰ This fee applies to all firms that use the ADF for trade reporting purposes only—as either their primary or secondary facility. FINRA notes that this fee is in addition to any charges firms must pay NASDAQ, as FINRA’s technology provider for the ADF, under NASDAQ rules.¹¹

The new requirements for firms using the ADF for trade reporting purposes only are effective on Monday, September 12, 2016.

Endnotes

1. See [Trade Reporting Notice 1/20/16](#) (OTC Equity Trading and Reporting in the Event of Systems Issues). See also [Trade Reporting Frequently Asked Questions, Section 206](#).
2. As discussed in the *Trade Reporting Notice*, if a firm chooses not to have connectivity to a secondary facility, it should cease executing OTC trades altogether when its primary trade reporting facility is experiencing a widespread systems issue. In that instance, the firm could route orders for execution to an exchange or another FINRA member firm (*i.e.*, a firm with connectivity and the ability to report to a FINRA trade reporting facility that is operational).
3. For example, in addition to registration, FINRA rules include certification and deposit requirements for ADF quoting participants, as well as capacity fees and penalties. See, *e.g.*, Rules 6271 and 7580.
4. See Rule 6200 and 7100 Series.
5. See Securities Exchange Act Release No. 78609 (August 18, 2016), 81 FR 57964 (August 24, 2016) (Notice of Filing and Immediate Effectiveness; File No. SR-FINRA-2016-031).
6. See Rule 7120(b)(2)(E).
7. FINRA will develop capacity projections for firms that intend to use the ADF for trade reporting purposes only based on their current usage of a TRF, and firms may be asked to review and confirm these projections from time to time. If a firm’s volume on a TRF increases by more than 20 percent from one year to the next, the firm will be required to participate in capacity/stress testing to retain connectivity to the ADF for use as a secondary facility for trade reporting.
8. FINRA notes that while a firm may be exempt from the annual testing requirements under Rule 7120(b)(2)(E), it may nonetheless be subject to mandatory business continuity and disaster recovery plan testing for SEC Regulation Systems Compliance and Integrity purposes under Rule 4380. See [Regulatory Notice 15-43](#) (November 2015).
9. Pursuant to Rule 7530(c)(1), firms are charged \$333 per hour for testing with the ADF, subject to the exceptions identified in paragraph (c)(2) of the rule.

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10. See Rule 7520. FINRA notes that firms that trade report to the ADF via web browser pay the monthly fee of \$20 per user ID under Rule 7510(c). In addition, all firms that submit trades to the ADF—via FIX or web browser—are subject to the trade reporting fees under Rule 7510(a).
11. For example, firms that report to the ADF via FIX—either directly or indirectly through third party intermediaries (*e.g.*, service bureaus)—will pay NASDAQ charges associated with FIX ports to connect to the ADF data center. See, *e.g.*, NASDAQ Rule 7015.