

Trade Reporting and Compliance Engine (TRACE)

SEC Approves Amendments to Disseminate Collateralized Mortgage Obligation (CMO) Transactions and to Reduce the Reporting Time for CMO Transactions

Effective Date: March 20, 2017

Executive Summary

The Securities and Exchange Commission (SEC) approved amendments to the Trade Reporting and Compliance Engine (TRACE) rules and dissemination protocols to provide for dissemination of transactions in collateralized mortgage obligations (CMOs), to reduce the time frame for reporting transactions in CMOs executed after issuance, and to simplify the reporting requirements for transactions in CMOs executed prior to issuance. These amendments will become effective on March 20, 2017.

The amended rule text is available on FINRA's website.

Questions regarding this *Notice* should be directed to:

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Background and Discussion

Over the past several years, FINRA has taken a phased approach to disseminating transaction information for securitized products,¹ which were the last group of TRACE-eligible securities to be reported to FINRA but not disseminated. FINRA began with the most liquid types of securitized products, agency pass-through mortgage-backed securities traded to be announced (MBS TBA transactions), and most recently implemented dissemination of asset-backed securities (ABS).² Today, there are three types of securitized

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Notice Type

- ▶ Rule Amendment

Suggested Routing

- ▶ Compliance
- ▶ Fixed Income
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Key Topics

- ▶ Collateralized Mortgage Obligations
- ▶ Dissemination
- ▶ Rule 144A Transactions
- ▶ Securitized Products
- ▶ Transaction Reporting

Referenced Rules

- ▶ FINRA Rule 6710
- ▶ FINRA Rule 6730
- ▶ FINRA Rule 6750
- ▶ FINRA Rule 7730
- ▶ Securities Act Rule 144A

products not yet subject to dissemination: CMOs,³ commercial mortgage-backed securities (CMBSs) and collateralized debt obligations (CDOs).⁴ CMOs are the most actively traded of these remaining product types.

On September 23, 2016, the SEC approved amendments to the Rule 6700 Series, Rule 7730, and the TRACE dissemination protocols to provide for the dissemination of transactions in CMOs based on transaction size and level of trading activity in the CMO security.⁵ To facilitate the dissemination of CMO transaction information, the SEC also approved corresponding changes to Rule 6730 to reduce the time period for reporting to TRACE transactions in CMOs executed after issuance, and to simplify the reporting timeframe for pre-issuance CMO transactions.

Dissemination

Under the approved changes to the Rule 6700 Series, and Rule 6750 in particular, FINRA will disseminate information about CMO transactions, including those effected pursuant to Rule 144A, based on transaction size and level of trading activity in the CMO security. Specifically, FINRA will disseminate trade-by-trade information about CMO transactions valued under \$1 million (calculated based on original principal balance) immediately upon receipt of the transaction report. For CMO transactions valued at \$1 million or more, and where there have been five or more transactions in that security of \$1 million or more in the period reported by at least two different market participant identifiers (MPIDs), FINRA will disseminate aggregated information about transactions in that security on a weekly and monthly basis. A CMO transaction that does not meet the criteria for either immediate trade-by-trade dissemination or periodic aggregate dissemination will not be subject to public dissemination, but will be included in the Historic Securitized Products Data Set (Historic SP Data Set), as discussed below.

FINRA will begin to disseminate CMO transaction information in accordance with the rule amendments on the effective date, March 20, 2017. CMBSs and CDOs will continue to be reported to TRACE but not subject to dissemination.⁶

Reporting Time Periods

The amendments also address the time periods by which firms must report CMO transactions to TRACE. Specifically, Rule 6730(a)(3)(A) currently provides that a CMO transaction executed on or after issuance must be reported to TRACE no later than the close of the TRACE system on the date of execution. Beginning on March 20, 2017, these transactions must be reported within 60 minutes of execution under Rule 6730(a)(3)(H).⁷ Additionally, Rule 6730(a)(3)(C) currently provides that a CMO transaction executed before the date of issuance of the security must be reported to TRACE by the earlier of (i) the business day that the security is assigned a CUSIP, a similar numeric identifier, or a FINRA symbol; or (ii) the date of issuance of the security. Beginning on March 20, 2017, Rule 6730(a)(3)(C) will provide that such CMO transactions must be reported to TRACE no later than the first settlement date of the security.

Data Availability

As of the effective date, under Rule 7730(c), the Securitized Products Data Set will include TRACE data for CMO transactions that are disseminated upon receipt and in periodic aggregated reports. The Historic SP Data Set will include all non-Rule 144A CMO transactions, even if not previously disseminated immediately or as part of a periodic report.⁸ Similarly, disseminated transactions and periodic reports for transactions in CMOs issued pursuant to 144A will be part of the Rule 144A Data Set, and all Rule 144A transactions in CMOs will become part of the Historic 144A Data Set. The inclusion of this additional data in the data sets will not cause a change in the fees for the data sets.

Endnotes

1. The term “Securitized Product” is defined in Rule 6710(m).
2. The terms “TBA,” “Agency Pass-Through Mortgage-Backed Security,” and “Asset-Backed Security” are defined in FINRA Rule 6710 (u), (v), and (cc), respectively.
3. The term “Collateralized Mortgage Obligation,” or CMO, is defined in FINRA Rule 6710(dd) to mean a type of Securitized Product backed by Agency Pass-Through Mortgage-Backed Securities, mortgage loans, certificates backed by project loans or construction loans, other types of mortgage-backed securities or assets derivative of mortgage-backed securities, structured in multiple classes or tranches with each class or tranche entitled to receive distributions of principal and/or interest according to the requirements adopted for the specific class or tranche, and includes a real estate mortgage investment conduit (REMIC).
4. As part of the amendments that were approved by the SEC, FINRA defined the term “Collateralized Debt Obligation” in Rule 6710(ff).
5. See Securities Exchange Act Release No. 78925 (September 23, 2016), 81 FR 67023 (September 29, 2016) (Order Approving Proposed Rule Change Relating to TRACE Reporting and Dissemination of CMO Transactions; File No. SR-FINRA-2016-023).
6. However, agency CMBSs (such as Ginnie Mae Project Loans), which fall within the definition of CMO in FINRA Rule 6710(dd), will be subject to dissemination.
7. Transactions in CDOs and CMBSs will remain subject to end-of-day reporting according to Rule 6730(a)(3)(A).
8. See Rule 7730(f)(4).