Regulatory Notice

15-24

Trade Reporting and Compliance Engine (TRACE)

FINRA Requests Comment on the Reduction of the Delay Period for Historic TRACE Data

Comment Period Expires: August 24, 2015

Executive Summary

FINRA is soliciting comment on a proposal to reduce the delay period for the Historic TRACE Data Sets from 18 months to six months.

The proposed rule text is attached as Appendix A.

Questions regarding this *Notice* should be directed to:

▶ Ola Persson, Vice President, Transparency Services, at (212) 858-4796; or

▶ Racquel Russell, Associate General Counsel, Office of General Counsel, at (202) 728-8363.

Action Requested

FINRA encourages all interested parties to comment on the proposal. Comments must be received by August 24, 2015.

Member firms and other interested parties can submit their comments using the following methods:

▶ Emailing comments to *pubcom@finra.org*; or

▶ Mailing comments in hard copy to:

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

June 2015

Notice Type
▶ Request for Comment

Suggested Routing
▶ Fixed Income
▶ Research
▶ Trading

Key Topics
▶ Fees
▶ Historic TRACE Data
▶ TRACE Transaction Data

Referenced Rules and Notices
▶ FINRA Rule 7730
▶ Regulatory Notice 10-14
▶ Securities Act Rule 144A

FINra
Financial Industry Regulatory Authority

To help FINRA process and review comments more efficiently, persons should use only one method to comment on the proposal.[1]

Before becoming effective, the proposed rule change must be filed with the Securities and Exchange Commission (SEC) pursuant to Section 19(b) of the Securities and Exchange Act.[2]

Important Notes: The only comments that FINRA will consider are those submitted pursuant to the methods described above. All comments received in response to this *Notice* will be made available to the public on the FINRA website. In general, FINRA will post comments as they are received.

Background and Discussion

FINRA Rule 7730 sets forth the TRACE data products offered by FINRA. FINRA's data offerings include both real-time as well as aged historical data for most TRACE-eligible securities.[3] FINRA is soliciting comment on proposed changes to reduce the delay period applicable to the Historic TRACE Data Sets from 18 months to six months.

Historic TRACE Data

FINRA adopted the Historic TRACE Data rule and related fees in 2010.[4] Historic TRACE Data provides transaction-level data for all transactions that have been reported to TRACE in those classes of TRACE-eligible securities that currently are disseminated. Historic TRACE Data includes, among other things, the price, date, time of execution, yield and uncapped volume for each transaction, provided the transaction is at least 18 months old.[5] Initially, Historic TRACE Data was available only for corporate bonds and agency debt, but was expanded to include other classes of TRACE-eligible securities as they became subject to public dissemination.

While Historic TRACE Data has been used by researchers and other non-dealers, firms rarely use it due to the 18-month minimum period that transactions must age prior to being included in the data sets. FINRA has received feedback from firms that 18 months is too long to make Historic TRACE Data useful, and that six months would greatly improve its utility. When FINRA initially adopted the Historic TRACE Data rule, an 18-month delay was put in place as a conservative measure intended to respond to concerns that the data might be used to identify current trading, positions or the strategies of market participants.[6] However, FINRA believes that a shorter delay period can be sufficient to continue to address information leakage concerns, while improving the usefulness of the data.[7] Thus, FINRA proposes to amend Rule 7730 to shorten the delay period from 18 months to six months. FINRA believes that a six-month delay will increase the utility of historic data to market participants, thereby promoting the goal of increased transparency for TRACE-eligible securities.[8]

Economic Impact Analysis

Need for the Rule

As discussed above, FINRA has received feedback from firms that the current 18-month delay period may be too long to make Historic TRACE Data useful. Most subscribers to the Historic TRACE Data Sets have been vendors and research firms. There have been very few broker-dealer subscribers due to the length of the delay.

Regulatory Objective

The proposed shorter delay period for Historic TRACE Data aims to increase the utility of historical data to market participants, thereby promoting the goal of increased transparency for TRACE-eligible securities.

Economic Impacts

The proposal will not have any direct operational impact on firms, as it does not require firms to provide FINRA with any additional data. The purchase of TRACE data products will continue to be optional for firms and others. The proposal will require changes by FINRA to adjust the permissible delay for Historic TRACE Data product generation to six months.

While the shortened delay period for Historic TRACE Data is likely to increase transparency for TRACE-eligible securities, FINRA is aware of the potential concern that the dissemination of more recent transaction information may interfere with certain trading strategies and liquidity provision. FINRA requests comment regarding this potential concern, and intends to investigate the issue more closely during the rulemaking process.

Request for Comment

FINRA requests comment on all aspects of the proposal. FINRA requests that commenters provide empirical data or other factual support for their comments wherever possible. FINRA specifically requests comment concerning the following issues.

▶ FINRA proposes to reduce the delay period for Historic TRACE Data from 18 months to six months. Historic TRACE Data does not include masked MPID information. In light of this fact, is a six-month delay sufficient to address concerns regarding the current trading, positions or strategies of particular market participants? Please provide information to support your analysis.

▶ Are there other possible harms associated with reducing the delay period from 18 months to six (in addition to potential information leakage regarding current trading, positions or strategies)?

▶ Would the six-month delay be more detrimental for certain types of TRACE-eligible securities compared to others. Should FINRA consider setting different delay periods for different types of TRACE-eligible securities?

Endnotes

1. FINRA will not edit personal identifying information, such as names or email addresses, from submissions. Persons should submit only information that they wish to make publicly available. *See Notice to Members 03-73* (November 2003) (Online Availability of Comments) for more information.

2. *See* SEA Section 19 and rules thereunder. After a proposed rule change is filed with the SEC, the proposed rule change generally is published for public comment in the Federal Register. Some proposed rule changes take effect immediately upon filing with the SEC. *See* SEA Section 19(b)(3) and SEA Rule 19b-4.

3. Historic TRACE Data is transaction-level data and includes the following data sets: the Historic Corporate Bond Data Set, the Historic Agency Data Set, the Historic Securitized Product Data Set, and the Historic Rule 144A Data Set. Historic TRACE Data originally included only the Corporate Bond and Agency Data Sets; the Securitized Product and Rule 144A Data Sets were added to Historic TRACE Data later as information about transactions in those securities became subject to dissemination. Additional securities may be included in Historic TRACE Data as they become subject to dissemination.

4. *See* Securities Exchange Act Release No. 61012 (November 16, 2009), 74 FR 61189 (November 23, 2009) (Order Approving File No. SR-FINRA-2007-006). *See also Regulatory Notice 10-14* (March 2010).

5. Historic TRACE Data also may include transactions or items of information that were not disseminated previously. For example, Historic TRACE Data includes exact trade volumes, rather than the capped amounts that are disseminated in real-time. The applicable real-time dissemination cap differs depending upon the type of TRACE-eligible security being reported. The caps are $5 million for agency debentures and corporate bonds that are rated investment grade; $1 million for corporate bonds that are rated non-investment grade; $25 million for agency pass-through mortgage-backed securities traded TBA for good delivery; and $10 million for agency pass-through mortgage-backed securities traded TBA not for good delivery, agency pass-through mortgage-backed securities traded in specified pool transactions, and SBA-backed asset-backed securities traded TBA and in specified pool transactions.

   Historic TRACE Data also is available for trade reports dating back to 2002, even for transactions that were not subject to public dissemination at the time. Similarly, while real-time information for specified pool transactions is disseminated based on security characteristics, Historic TRACE Data identifies securities by CUSIP. Historic TRACE Data also includes reports on both the buy- and sell-side of inter-dealer transactions, whereas only sell-side trade reports are subject to real-time dissemination.

6. *See* Securities Exchange Act Release No. 56327 (August 28, 2007), 72 FR 51689 (September 10, 2007) (Notice of Filing of File No. SR-FINRA-2007-006).

7. FINRA notes that the Municipal Securities Rulemaking Board (MSRB) disseminates in real-time the exact par value on all transactions with a par value of $5 million or less, and includes an indicator ("MM+") in place of the exact par value on transactions where the par value is greater than $5 million until the fifth business day. MSRB disseminates the exact par value on all transactions on the fifth day after the trade.

8. FINRA is not proposing any changes to the fields made available in the Historic TRACE Data Sets at this time, and notes that the data will continue to omit any identifying dealer information. Additional information regarding included fields is available in "Historic TRACE Data: Enhanced Historical Time and Sales – Trade Record File Layout" in the technical specifications.

APPENDIX A

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

7000. CLEARING, TRANSACTION AND ORDER DATA REQUIREMENTS, AND FACILITY CHARGES

* * * * *

7700. CHARGES FOR OTC REPORTING FACILITY, OTC BULLETIN BOARD AND TRADE REPORTING AND COMPLIANCE ENGINE SERVICES

* * * * *

7730. Trade Reporting and Compliance Engine (TRACE)

The following charges shall be paid by participants for the use of the Trade Reporting and Compliance Engine ("TRACE"):

(a) through (e) No Change.

(f) Definitions

(1) through (3) No Change.

(4) "Historic TRACE Data" as used in Rule 7730 means historic transaction-level data with elements to be determined from time to time by FINRA in its discretion and as stated in a Regulatory Notice or other equivalent publication. Historic TRACE Data will be delayed a minimum of [18] six months and will not include MPIDs [information]. Historic TRACE Data includes the following Data Sets:

(A) through (D) No Change.

(g) No Change.

* * * * *