Trade Reporting Notice

Trade Reporting Modifier for Trades that Qualify for the Intermarket Sweep Order Exception to the Trade-at Prohibition Under the Tick Size Plan

Effective Date: October 3, 2016

Executive Summary

Effective Monday, October 3, 2016, firms are required to use the existing Intermarket Sweep Order (ISO) trade reporting modifier when reporting trades to a FINRA facility that qualify for the ISO exception to the Trade-at prohibition under the plan to implement a tick size pilot program.

Questions regarding this *Notice* may be directed to:

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Background and Discussion

Tick Size Plan

On May 6, 2015, the Securities and Exchange Commission (SEC) approved a plan filed by FINRA and the other self-regulatory organization (SRO) participants to implement a tick size pilot program.[1] The plan is designed to allow the SEC, market participants and the public to study and assess the impact of increment conventions on the liquidity and trading of the common stocks of small-capitalization companies. FINRA and the other SRO participants are required to comply and, as applicable, enforce compliance by their member firms with the provisions of the plan. FINRA Rule 6191(a) requires firms to comply with the applicable quoting and trading increments for pilot securities under the plan[2] and is effective on October 3, 2016, the implementation date of the plan.

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The pilot will consist of three test groups with 400 securities in each and a control group. Among other restrictions, securities in the third test group (Test Group Three) will be subject to a Trade-at prohibition, whereby trading centers will not be permitted to execute an order for a Test Group Three security at a price equal to a protected bid or protected offer unless one of the enumerated exceptions applies.[3] One such exception is for Trade-at Intermarket Sweep Orders (Trade-at ISO).[4]

Trade-at ISO Trade Reporting Modifier

Rule 6191(a)(7)(B) requires a firm that is relying on an exception to the Trade-at prohibition to include all applicable modifiers in trade reports submitted to a FINRA facility[5] pursuant to Rules 6282, 6380A and 6380B.

To identify Trade-at ISOs, firms must use the existing ISO modifier in Trade Modifier Field 2 (Reason for SEC Rule 611 Exception or Exemption), in accordance with the applicable technical specifications for the FINRA facility to which the firm is reporting.[6] In addition, firms must populate the SEC Rule 611 exception/exemption trade through flag with a value of "yes"; otherwise, Trade Modifier Field 2 cannot be populated (*i.e.*, the system will reject a trade report that has the Trade Modifier Field 2 populated but does not have the SEC Rule 611 exception/exemption trade through flag marked "yes"). Firms should also refer to Attachment A, the Trade Reporting Modifier Chart.

FINRA notes that pursuant to the trade reporting rules, when reporting block transactions using the ISO (outbound) exception under Rule 611 of SEC Regulation NMS, firms must report the execution time and—if different from the execution time—the reference (or ISO) time.[7] The reference time is the time the firm used to determine the ISOs, if any, to route to any better-priced protected quotations (sometimes referred to as the time the firm takes a "snapshot" of the market). While this requirement does not apply expressly to firms reporting trades that qualify for the Trade-at ISO exception under the plan, firms may elect to provide a reference time in addition to the execution time in their trade reports. FINRA reiterates that this additional time field is purely voluntary when reporting Trade-at ISOs, and failure to populate the reference time field for these trades would not constitute a rule violation or result in rejection of the trade report.

Effective October 3, 2016, use of the ISO modifier when reporting Trade-at ISOs to a FINRA facility is mandatory under FINRA rules.[8]

Endnotes

1. *See* Securities Exchange Act Release No. 74892 (May 6, 2015), 80 FR 27514 (May 13, 2015).

2. *See* Securities Exchange Act Release No. 77218 (February 23, 2016), 81 FR 10290 (February 29, 2016) (SR-FINRA-2015-047). Rule 6191 is in effect during a pilot period to coincide with the pilot period for the plan (including any extensions to the pilot period for the plan).

3. *See* Section VI(D) of the plan.

4. *See* Section VI(D) of the plan and Rule 6191 (a)(7)(C).

5. The FINRA facilities that support the reporting of over-the-counter trades in NMS stocks are the Alternative Display Facility, the FINRA/Nasdaq Trade Reporting Facility and the FINRA/NYSE Trade Reporting Facility.

6. *See Trade Reporting Frequently Asked Questions*, FAQ # 100.13, available at *www.finra.org/ industry/trade-reporting-faq#100*, for links to the applicable technical specifications.

7. *See* Rules 6282.03, 6380A.03 and 6380B.03.

8. *See* Rules 6191(a)(7)(B), 6282(a)(4)(K), 6380A(a)(5)(K) and 6380B(a)(5)(K).

ATTACHMENT A

Trade Reporting Modifier Chart

(Updated information appears in italics below)

The chart below illustrates generally how firms should use the modifiers when reporting a transaction that meets a recognized SEC Rule 611 exception or exemption.[1] The chart provides the uniform methodology for reporting trade modifiers; however, the specific data entries used to report trades may vary depending upon the specific platform or system used. Therefore, the chart should be read in conjunction with the applicable system specifications.

The facts and circumstances of the particular trade dictate the appropriate modifier that must be reported in each field. Accordingly, the reporting firm must include in the transaction report all of the information that is pertinent to a particular transaction. To determine what modifiers must be included in a particular transaction report, firms should analyze each column individually in the Trade Reporting Modifier Chart to determine what, if any, modifier is applicable for the transaction that is being reported.

Trade Reporting Information to Be Entered by Reporting Firm					
Applicable Regulation NMS Exception/Exemption	SEC Rule 611 Exception/ Exemption Trade- Through Flag	Settlement Type Field 1[2]	Reason for SEC Rule 611 Exception/Exemption Field 2	Extended Hours/Sold Field 3[3]	SRO Required Detail Field 4[4]
SEC Rule 611(b)(1) (Self Help)	If applicable indicate Yes	Enter applicable settlement modifier	Self Help (Note: for SRO audit trail only-will not be disseminated)	Enter modifier if applicable	Enter modifier if applicable
SEC Rule 611(b)(2) (Not Regular Way)	If applicable indicate Yes	Cash, Next Day or Seller	If applicable, enter other SEC Rule 611 exception/exemption modifier for transaction	Enter modifier if applicable	Enter modifier if applicable
SEC Rule 611(b)(4) (Crossed Market)	If applicable indicate Yes	Enter modifier settlement modifier	If applicable, enter other SEC Rule 611 exception/exemption modifier for transaction	Enter modifier if applicable	Enter modifier if applicable
SEC Rule 611(b)(5) (Intermarket Sweep Order (inbound))	Enter modifier if applicable	Enter modifier if applicable	Inbound Intermarket Sweep Order (Note: This will be disseminated generically as an ISO)	Enter modifier if applicable	Enter modifier if applicable
SEC Rule 611(b)(6) (Intermarket Sweep Order (outbound))	Enter modifier if applicable	Enter modifier if applicable	Outbound Intermarket Sweep Order (Note: This will be disseminated generically as an ISO)	Enter modifier if applicable	Enter modifier if applicable
SEC Rule 611(b)(7) (Benchmark/Derivatively Priced)	If applicable indicate Yes	Enter modifier settlement modifier	Derivatively Priced	Enter modifier if applicable	Prior Reference Price, Weighted Average Price or other modifier as applicable for transaction

Trade Reporting Information to Be Entered by Reporting Firm					
Applicable Regulation NMS Exception/Exemption	SEC Rule 611 Exception/ Exemption Trade- Through Flag	Settlement Type Field 1[2]	Reason for SEC Rule 611 Exception/Exemption Field 2	Extended Hours/Sold Field 3[3]	SRO Required Detail Field 4[4]
SEC Rule 611(b)(9) (Stopped Stock)	If applicable indicate Yes	Enter modifier settlement modifier	Derivatively Priced	Enter modifier if applicable	Stopped Stock (Note: for SRO audit trail only – this will be disseminated as Weighted Average Price)
SEC Rule 611(d) (Qualified Contingent Trades)	If applicable indicate Yes	Enter applicable settlement modifier	Qualified Contingent Trade (Note: for SRO audit trail only – will not be disseminated)	Enter modifier if applicable	Enter modifier if applicable
SEC Rule 611(d) (Sub-Penny Trade-Throughs)	If applicable indicate Yes	Enter applicable settlement modifier	Sub-Penny Trade Through (Note: for SRO audit trail only – will not be disseminated)	Enter modifier if applicable	Enter modifier if applicable
SEC Rule 611(d) (Error Correction)	If applicable indicate Yes	Enter applicable settlement modifier	Error Correction (Note: for SRO audit trail only – will not be disseminated)	Enter modifier if applicable	Enter modifier if applicable
SEC Rule 611(d) (Print Protection)	If applicable indicate Yes	Enter applicable settlement modifier	Print Protection (Note: for SRO audit trail only – will not be disseminated)	Enter modifier if applicable	Enter modifier if applicable
SEC Rule 611(d) (Non-Convertible Preferred Securities)	If applicable indicate Yes	Enter applicable settlement modifier	N/A	Enter modifier if applicable	Enter modifier if applicable
Trade-at Intermarket Sweep Order (inbound)	*Must Indicate Yes*	*Enter applicable settlement modifier*	*Inbound Intermarket Sweep Order (Note: This will be disseminated generically as an ISO)*	*Enter modifier if applicable*	*Enter modifier if applicable*
Trade-at Intermarket Sweep Order (outbound)	*Must Indicate Yes*	*Enter applicable settlement modifier*	*Outbound Intermarket Sweep Order (Note: This will be disseminated generically as an ISO)*	*Enter modifier if applicable*	*Enter modifier if applicable*

1. *See also* Section 400 of the *Trade Reporting Frequently Asked Questions*, available at *www.finra.org/industry/trade-reporting-faq#400.*

2. The full universe of settlement type modifiers that can be used, as appropriate, in the "Settlement Type - Field 1" are found in the applicable technical specifications.

3. The full universe of trade type modifiers that can be used, as appropriate, in the "Extended Hours/Sold – Field 3" are found in the applicable technical specifications.

4. The full universe of trade type modifiers that can be used, as appropriate, in the "SRO Required Detail – Field 4" are found in the applicable technical specifications.