

# Trade Reporting Notice

## “Trade Match” and “Trade Acceptance” Clearing Submissions on FINRA’s Alternative Display Facility

### Executive Summary

Firms that elect to submit clearing-eligible trades to the Alternative Display Facility (ADF) using the Trade Match or Trade Acceptance functionality must identify only a contra party that is another ADF participant with access to the ADF and the ability to view and take action with respect to the submission. In addition, FINRA is announcing the disablement of the automatic lock-in functionality on the ADF as of Monday, October 24, 2016.

Questions regarding this *Notice* may be directed to:

- ▶ FINRA Operations at (866) 776-0800;
- ▶ Brendan Loonam, Director, Business Services, at (212) 858-4203 or [brendan.loonam@finra.org](mailto:brendan.loonam@finra.org); or
- ▶ Lisa Horrigan, Associate General Counsel, Office of General Counsel, at (202) 728-8190 or [lisa.horrigan@finra.org](mailto:lisa.horrigan@finra.org).

### Discussion

Firms using the ADF to report over-the-counter trades in NMS stocks can elect to have their trades submitted by the ADF to the National Securities Clearing Corporation (NSCC) for clearance and settlement. Trades designated for clearing must either be locked in via agreement by both parties to the trade (the Uniform Services Agreement and/or Qualified Special Representative agreement) prior to submission to the ADF, or may be locked in by the system in accordance with FINRA rules.

October 7, 2016

### Key Topics

- ▶ Alternative Display Facility (ADF)
- ▶ Automatic Lock-In
- ▶ Clearing Submissions
- ▶ Trade Acceptance
- ▶ Trade Match
- ▶ Trade Reporting

### Referenced Rules & Notices

- ▶ Rule 7140

To be locked in by the system, Rule 7140(a) describes the functionality offered by the ADF. For “Trade by Trade Match,” in accordance with paragraph (a)(1) of the rule, both parties to the trade submit transaction data and the system performs an on-line match. For “Trade Acceptance,” in accordance with paragraph (a)(2) of the rule, after the reporting party enters its version of the trade into the system, the contra party reviews the submission and either accepts or declines the trade. An acceptance results in a locked-in trade<sup>1</sup>, which will be sent to NSCC. Pursuant to Rule 7140(a)(3), any trade submitted for Trade Acceptance that remains open (*i.e.*, has not been accepted or declined) at the end of its entry day is carried over and automatically locked in by the system and submitted to NSCC at 2:30 p.m. ET on the next business day (T+1).<sup>2</sup>

Reporting firms submitting trades to the ADF using the Trade Match or Trade Acceptance functionality must identify only a contra party that is another ADF participant with access to the ADF and the ability to view and take action with respect to the reporting party’s submission. A list of ADF participants is provided on FINRA’s [website](#).

Reporting firms should be aware that the system does not prevent the entry of a trade against a contra party that is not an ADF participant. Therefore, to prevent the automatic lock-in of trades against a non-ADF participant that does not have access to the ADF, as of October 24, 2016, FINRA will disable the ADF’s automatic lock-in functionality described in Rule 7140(a)(3) until further notice. If an alleged contra party takes no action on a clearing-eligible trade submitted to the ADF for Trade Acceptance, the trade will be carried over and remain open; it will not be automatically locked in and sent to NSCC for clearance and settlement. FINRA will make a subsequent announcement if it elects to enable the automatic lock-in functionality in the future.

FINRA notes that firms that wish to become ADF participants must execute the FINRA Participation Agreement (FPA), which includes a provision acknowledging and agreeing to this requirement for reporting parties. Pursuant to the FPA, reporting parties further agree that if they—inadvertently or otherwise—submit a trade to the ADF for Trade Match or Trade Acceptance against a contra party that is not an ADF participant with access to the ADF, they accept any and all potential liability resulting from the failure of such non-ADF participant to honor the trade.

## Endnotes

1. If the trade is declined by the contra party, the reporting party must cancel the trade in accordance with FINRA rules if it was originally reported for dissemination purposes.
2. Pursuant to Rule 7140(a)(3), the system will carry over any T+22 (calendar day) or older “as/of” trade that remains open, but such trade will not be subject to the automatic lock-in process.