

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 99 SECURITIES AND EXCHANGE COMMISSION File No.* SR - 2016 - * 023
 WASHINGTON, D.C. 20549
 Form 19b-4 Amendment No. (req. for Amendments *)

Filing by Financial Industry Regulatory Authority
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
			Rule		
Pilot	Extension of Time Period for Commission Action *	Date Expires *	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) *	Section 806(e)(2) *
<input type="checkbox"/>	<input type="checkbox"/>
	Section 3C(b)(2) *
	<input type="checkbox"/>

Exhibit 2 Sent As Paper Document	Exhibit 3 Sent As Paper Document
<input type="checkbox"/>	<input type="checkbox"/>

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Proposed Rule Change To Amend the FINRA Rule 6700 Series and the TRACE Dissemination Protocols to Provide for the Dissemination of CMO Transactions

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Last Name *
 Title *
 E-mail *
 Telephone * Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date
 By
 (Name *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

Form 19b-4 Information *

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ Financial Industry Regulatory Authority, Inc. (“FINRA”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend the FINRA Rule 6700 Series and the Trade Reporting and Compliance Engine (“TRACE”) dissemination protocols to provide for dissemination of transactions in an additional type of Securitized Products – specifically, collateralized mortgage obligations (“CMOs”). In addition, FINRA is proposing a corresponding change to Rule 6730 to reduce the reporting period for CMOs from end-of-day to 60 minutes, and also to amend Rule 6730 to simplify the reporting requirements for transactions in CMOs executed prior to issuance. FINRA further proposes technical and conforming changes to the FINRA Rule 6700 Series and Rule 7730 in connection with the changes referenced above.

The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

At its meeting on December 3, 2014, the FINRA Board of Governors authorized the filing of the proposed rule change with the SEC. No other action by FINRA is necessary for the filing of the proposed rule change.

If the Commission approves the proposed rule change, FINRA will announce the operative date of the proposed rule change in a Regulatory Notice to be published no later

¹ 15 U.S.C. 78s(b)(1).

than 90 days following Commission approval. The operative date will be no later than 365 days following publication of the Regulatory Notice announcing Commission approval.

3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

FINRA proposes to amend the Rule 6700 Series and the TRACE dissemination protocols to: (1) provide for the dissemination of transactions in CMOs,² an additional group of Securitized Products³ not yet subject to dissemination; (2) reduce the reporting timeframe for CMOs from end-of-day to 60 minutes; and (3) simplify the reporting requirements for pre-issuance CMO transactions. FINRA also proposes technical and conforming changes to the Rule 6700 Series and Rule 7730.

Background

FINRA requires members to report transactions in any security that meets the

² 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 as defined in paragraph (v), 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”).

³ The term “Securitized Product” is defined in Rule 6710(m) to mean a security collateralized by any type of financial asset, such as a loan, a lease, a mortgage, or a secured or unsecured receivable, and includes but is not limited to an asset-backed security as defined in Section 3(a)(79)(A) of the Exchange Act, a synthetic asset-backed security, and any residual tranche or interest of any security specified above, which tranche or interest is a debt security for purposes of paragraph (a) and the Rule 6700 Series.

definition of “TRACE-Eligible Security”⁴ to TRACE. Most transactions must be reported to TRACE within 15 minutes of the time of execution and are subsequently disseminated.

Securitized Products were the last major group of fixed income securities to become subject to TRACE reporting. Initially, FINRA received reports of transactions in these products for regulatory audit trail purposes only and did not disseminate transaction data. FINRA used the transaction reports it received to study the liquidity and trading characteristics of various types of Securitized Products. Based on its study, FINRA then started a phased approach to disseminating transaction information for certain Securitized Products.

For the first phase, on November 12, 2012, FINRA began disseminating transactions in Agency Pass-Through Mortgage-Backed Securities traded To Be Announced (“TBA”) (“MBS TBA” transactions), which are the most liquid types of Securitized Products.⁵ Next, on July 22, 2013, FINRA began disseminating transactions in Agency Pass-Through Mortgage-Backed Securities and SBA-Backed ABS (as defined in FINRA Rule 6710(bb)) traded in Specified Pool Transactions.⁶ On June 30, 2014,

⁴ Rule 6710 generally defines a “TRACE-Eligible Security” as: (1) a debt security that is U.S. dollar-denominated and issued by a U.S. or foreign private issuer (and, if a “restricted security” as defined in Securities Act Rule 144(a)(3), sold pursuant to Securities Act Rule 144A); or (2) a debt security that is U.S. dollar-denominated and issued or guaranteed by an “Agency” as defined in Rule 6710(k) or a “Government-Sponsored Enterprise” as defined in Rule 6710(n).

⁵ See Securities Exchange Act Release No. 66829 (April 18, 2012), 77 FR 24748 (April 25, 2012) (Order Approving File No. SR-FINRA-2012-020); Regulatory Notice 12-26 (May 2012) and Regulatory Notice 12-48 (November 2012).

⁶ See Securities Exchange Act Release No. 68084 (October 23, 2012), 77 FR 65436 (October 26, 2012) (Order Approving File No. SR-FINRA-2012-042) and Regulatory Notice 12-56 (December 2012).

FINRA began to disseminate information on transactions in TRACE-Eligible Securities effected as Rule 144A transactions, provided that such transactions were in securities that would be subject to dissemination if effected in non-Rule 144A transactions.⁷ And most recently, on June 1, 2015, FINRA began to disseminate transactions in Asset-Backed Securities.⁸ Today, the remaining types of Securitized Products not yet subject to dissemination are CMOs, commercial mortgage-backed securities (“CMBSs”), and collateralized debt obligations (“CDOs”).⁹ CMOs are the largest and most actively traded of these remaining Securitized Products types. In addition, CMOs typically have relatively smaller transaction sizes than those for CMBSs and CDOs.

Current Proposal

FINRA is proposing to expand the dissemination of Securitized Products to include CMOs. Under the proposal, a CMO transaction will be subject either to dissemination immediately upon receipt of the TRACE transaction report, or to aggregate, periodic dissemination, depending on the size of the transaction and the number of transactions in the CMO security during a given period.

⁷ See Securities Exchange Act Release No. 70345 (September 6, 2013), 78 FR 56251 (September 12, 2013) (Order Approving File No. SR-FINRA-2013-029) and Regulatory Notice 13-35 (October 2013).

⁸ See Securities Exchange Act Release No. 71607 (February 24, 2014), 79 FR 11481 (February 28, 2014) (Order Approving File No. SR-FINRA-2013-046) and Regulatory Notice 14-34 (August 2014).

⁹ A “Collateralized Debt Obligation,” or CDO, would be defined in proposed FINRA Rule 6710(ff) to mean a type of Securitized Product backed by fixed-income assets (such as bonds, receivables on loans, or other debt) or derivatives of these fixed-income assets, structured in multiple classes or tranches with each class or tranche entitled to receive distributions of principal and/or interest in accordance with the requirements adopted for the specific class or tranche. A CDO includes, but is not limited to, a collateralized loan obligation, or CLO, and a collateralized bond obligation, or CBO.

Specifically, transactions in CMOs, including transactions effected pursuant to Securities Act Rule 144A, will be subject to aggregate, periodic dissemination on a weekly and monthly basis where the transaction value is \$1 million or more (calculated based upon original principal balance) and where there have been five or more transactions of \$1 million or more in the reporting period reported by at least two different market participant identifiers (“MPIDs”).¹⁰ For the smaller-size transactions – i.e., transactions valued under \$1 million (calculated based upon original principal balance) – FINRA will disseminate trade-by-trade information immediately upon receipt by TRACE.¹¹

The proposal will provide for this approach to CMO dissemination by amending FINRA Rule 6750 (Dissemination of Transaction Information). Rule 6750 currently

¹⁰ For example, if five transactions occurred in a particular CMO security during each of the four weeks in a calendar month and were reported by at least two unique MPIDs, then four weekly reports would be disseminated; in addition, information on those transactions would be included in the aggregate monthly report for that calendar month. If five transactions occurred over the course of a calendar month, but did not occur during a single week, then a weekly report would not be available for that security (but the transaction information would be included in the monthly report provided the transactions were reported by at least two unique MPIDs). For purposes of determining if a CMO security has been reported by at least two different MPIDs, FINRA notes that it would consider an interdealer trade to be reported by one MPID – the sell side dealer – even though the trade is reported by both sides of the transaction.

¹¹ Also in connection with the proposed dissemination of information on CMO transactions, FINRA proposes to amend Rule 7730 (fees for TRACE) to reflect the addition of CMOs to the applicable data sets. Disseminated periodic reports will become available as part of the Securitized Products Data Set and all CMO transactions – even if not previously disseminated upon receipt or as part of a periodic report – will become part of the Historic Securitized Products Data Set in FINRA Rule 7730. Similarly, disseminated periodic reports for transactions in CMOs issued pursuant to Rule 144A will become part of the Rule 144A Data Set, and all Rule 144A transactions in CMOs will become part of the Historic Rule 144A Data Set. The inclusion of this additional data in such data sets will not affect the fees currently in effect.

contains two operative paragraphs – paragraph (a), which provides generally for the dissemination of TRACE-Eligible Securities immediately upon receipt of a transaction report, and paragraph (b), which contains an exception to the general dissemination provision in paragraph (a) and which notes the security or transaction types that are not subject to dissemination. Currently, the remaining Securitized Products – CMOs, CMBSs, and CDOs, are found within paragraph (b) and are therefore not subject to dissemination.

Under the proposal, current paragraph (b) will be replaced with a paragraph that provides specifically for the dissemination of larger-size (\$1 million or more) CMO transactions on a periodic, rather than immediate, basis, provided the transaction occurs in a CMO security that meets the minimum activity threshold described above (i.e., at least five transactions in the period reported by at least two different MPIDs). The exception paragraph, which sets forth the transaction types not subject to dissemination, will be new paragraph (c). It will be revised to note that the only Securitized Products not subject to dissemination are CMBSs, CDOs, and CMOs where the CMO transaction value is \$1 million or more (calculated based upon original principal balance) and the transaction does not qualify for periodic dissemination. However, as noted above, all transactions in CMOs will become part of the historic data sets even if they were not subject to dissemination upon receipt or periodic dissemination.¹²

To facilitate the proposed dissemination of CMOs, the proposal will also amend Rule 6730(a)(3) to reduce the time period for reporting to TRACE transactions in CMOs

¹² See supra note 11.

to TRACE executed on or after issuance.¹³ Currently, these CMO transactions must be reported to TRACE no later than the close of the TRACE system on the date of execution.¹⁴ Under the proposal, paragraph (H) would be added to require that transactions in these CMOs must be reported to TRACE within 60 minutes of execution.¹⁵

Finally, FINRA proposes to modify the reporting timeframe for pre-issuance CMO transactions. FINRA is proposing to amend Rule 6730(a)(3)(C) to provide that transactions in CMOs that are executed before the date of issuance of the security must be reported no later than the first settlement date of the security. Under the current rule, firms generally must report CMO transactions that are executed prior to issuance on the earlier of the business day that the security is assigned a CUSIP, or the date of issuance of the security. FINRA is aware that some firms, particularly small and mid-size firms, have had difficulty in determining with accuracy in a timely manner when the reporting

¹³ As discussed in further detail below, reporting requirements for transactions in a CMO prior to that CMO's issuance are addressed separately in FINRA Rule 6730(a)(3)(C).

FINRA notes that it will also make a technical, clarifying edit to Rule 6730(a)(3) that is otherwise unrelated to this proposal; specifically, FINRA will delete language in Rule 6730(a)(3)(B) that describes the transitional reporting phase for Asset-Backed Securities, since the transitional phase is now complete.

¹⁴ See FINRA Rule 6730(a)(3)(A). As part of this proposal, FINRA is proposing a technical, clarifying change to Rule 6730(a)(3)(A). This paragraph currently is titled "General Reporting Requirements" for Securitized Products, but because only CDOs and CMBSs will remain subject to the paragraph after this proposal becomes effective, FINRA will rename this paragraph to make clear that applies specifically to CDOs and CMBSs.

¹⁵ As with other TRACE-Eligible Securities that are subject to 60-minute reporting, under proposed Rules 6730(a)(3)(H)(iii)-(iv), transactions in CMOs, CMBSs, and CDOs that are executed less than 60 minutes before the TRACE system closes, or after, would need to be reported no later than 60 minutes after TRACE opens the following business day.

obligation has been triggered, due to inconsistencies in communicating the relevant information between underwriters and trading parties. As a result, these firms do not always report trades in these instruments on the earlier of the two dates specified in the current rule. FINRA believes that, because new issuances in CMOs generally settle on the last business day of the month, the amended proposal would provide for a uniform reporting deadline that can be easily ascertained by all firms.

As noted in Item 2 of this filing, if the Commission approves the proposed rule change, FINRA will announce the operative date of the proposed rule change in a Regulatory Notice to be published no later than 90 days following Commission approval. The operative date will be no later than 365 days following publication of the Regulatory Notice announcing Commission approval.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,¹⁶ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. As discussed throughout the filing, FINRA believes that the proposed rule change will promote greater transparency in the marketplace for CMOs. Based on dialogue with a variety of market participants, FINRA believes the information it proposes to disseminate would be valuable to assist in price discovery, determination of execution quality, and, in particular, valuation of securities positions. Furthermore, FINRA believes the proposal strikes an appropriate balance between promoting

¹⁶ 15 U.S.C. 78q-3(b)(6).

transparency and preserving anonymity, which may facilitate larger size trades and liquidity provision. Based on FINRA's ongoing study of the trading characteristics of Securitized Products, FINRA believes this proposal is an important next phase in dissemination that will position FINRA to evaluate whether and how to complete its expansion of dissemination to cover all Securitized Product types.

FINRA further believes that the proposed change to 60-minute trade reporting will facilitate CMO dissemination by ensuring that FINRA is able to receive and disseminate CMO transaction information in a timely manner. Accordingly, FINRA believes this element of the filing will help promote transparency and enhance investor protection and the public interest.

Finally, FINRA believes the proposed change to the reporting timeframe for pre-issuance CMOs will further just and equitable principles of trade by providing greater clarity and promoting compliance with applicable reporting rules.

4. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. FINRA has undertaken an economic impact assessment, as set forth below, to analyze the regulatory need for the proposed rule change, its potential economic impacts, including anticipated costs and benefits, and the alternatives FINRA considered in assessing how to best meet its regulatory objectives.

Need for the Rule

As discussed above, FINRA believes this proposal is necessary and appropriate to further promote transparency in the markets for additional Securitized Products. FINRA

believes the proposed dissemination of transaction information for CMOs would be valuable to assist in price discovery, determination of execution quality, and, in particular, valuation of securities positions. FINRA believes the proposed transition to 60-minute trade reporting for transactions in CMOs executed on or after issuance is necessary to facilitate meaningful dissemination of information for these securities. Finally, FINRA believes the proposed change to the reporting timeframe for transactions in pre-issuance CMOs is necessary to simplify the reporting process, given that some firms, small and medium size firms in particular, may have difficulty in determining with accuracy and in a timely manner when their reporting obligations have been triggered.

Economic Impacts

FINRA believes that enhanced transparency in CMOs will benefit market participants, as discussed above, by contributing to more efficient pricing and better execution quality for market participants and clients. However, the proposed changes may impose direct and indirect costs on market participants; for example, the proposal might impose direct costs associated with more timely reporting of CMO transactions and indirect costs associated with the potential leakage of proprietary information. In the analysis below, we individually assess the impact on market participants of each proposed change – (1) dissemination of CMO transactions, (2) reducing the timeframe for reporting CMO transactions, and (3) simplifying the reporting requirements for pre-issuance CMO transactions.

(1) Dissemination of CMO transactions

The proposed dissemination of CMO transactions will enhance transparency, which should benefit market participants and clients via improved market quality.

However, while enhanced transparency should provide benefits broadly to the marketplace, it may impose indirect costs on certain market participants, like those whose transaction information is subject to dissemination. FINRA is cognizant of the concern that the risk of information leakage could potentially harm market quality if it discourages liquidity provision. Accordingly, FINRA staff considered the potential for indirect costs associated with providing information publicly that might permit competitors to reverse engineer the disseminated data to produce private information about trade participants, their trade positions and possibly their trading strategies.

To investigate whether dissemination, as proposed, could potentially allow market participants to reverse-engineer the identities of broker-dealers or positions, FINRA staff examined the distribution of the number of MPIDs reporting transactions in each CMO CUSIP, over the time period spanning May 13, 2011 to August 14, 2015. Table 1 suggests that trading activity in CMOs, on a per-CUSIP basis, is quite concentrated, with 32,200 CUSIPs – 33.3% of all CMO CUSIPs – in the sample traded by only one MPID over the sample period. These CUSIPs traded by only one MPID are referred to as “concentrated” CUSIPs. There were 64,449 remaining CUSIPs in the sample traded by two or more MPIDs, referred to as “non-concentrated” CUSIPs.¹⁷ CUSIPs are classified

¹⁷ Concentrated CUSIPs have a Herfindahl-Hirschman Index (HHI) of one, while non-concentrated have an HHI that is less than one. Algebraically, HHI is calculated as follows: $HHI = \sum_{i=1}^N s_i^2$ where s_i is the market share of firm i , and there are N total firms in a market. HHI is a succinct measure of market concentration, and it is widely used in analyses of monopoly power, antitrust litigation, and other prominent issues in industrial organization. The HHI of a market can range from 0 to 1 (some publications use 0 to 10,000, but the interpretation is the same after adjusting for scale), where $HHI = 1$ represents a perfectly concentrated market (one firm controls the entire market) and $HHI = 0$ represents a perfectly competitive market (infinitely many firms have infinitesimally small market share).

as concentrated and non-concentrated based on a threshold of one MPID, as it represents cases where the information about firm activity is most concentrated.

Table 1. The Number of Different MPIDs trading in CMO CUSIPs

# of MPIDs	CUSIPs	%
1	32,220	33.3%
2	17,792	18.4%
3	10,573	10.9%
4	6,677	6.9%
5	4,595	4.8%
6	3,511	3.6%
7	2,737	2.8%
8	2,229	2.3%
9	1,903	2.0%
10	1,590	1.6%
11	1,317	1.4%
12	1,128	1.2%
13	955	1.0%
14	869	0.9%
15	753	0.8%
15+	7,820	8.1%
Total	96,669	100%

Table 2 reports trading activity (the number of transactions and trading volume) for the sample by concentrated versus non-concentrated CUSIPs. Trading activity in concentrated CUSIPs represents only 1.73% of transactions, but 15.75% of the trading volume. This suggests that concentrated CUSIPs have relatively larger trade sizes.

Table 2. Aggregate Trading Activity by Concentration

	# of transactions	Volume (\$bil.)
HHI = 1	50,714	\$1,692
HHI < 1	2,879,089	\$9,049
Total	2,929,803	\$10,741

Table 3 reports that the typical concentrated CUSIP trades only about one to two times over the entire sample period. For non-concentrated CUSIPs reported by two or more MPIDs, the typical CMO trades 44.67 times over the sample period.¹⁸ In general, concentrated CUSIPs have on average about half of the trading volume of non-concentrated CUSIPs.

Table 3. Average Trading Activity per CUSIP

		Mean	Median
HHI = 1	# of transactions/CUSIP	1.57	1.00
	Transaction size (\$mil.)	\$33.37	\$10.60
	Volume (\$mil.)	\$52.52	\$19.00
HHI < 1	# of transactions/CUSIP	44.67	10.00
	Transaction size (\$mil.)	\$3.14	\$0.03
	Volume (\$mil.)	\$140.40	\$41.85
Overall	# of transactions /CUSIP	30.31	5.00
	Transaction size (\$mil.)	\$3.67	\$0.03
	Volume (\$mil.)	\$111.11	\$30.67

FINRA staff also investigated the trading activity above and below the proposed threshold for immediate dissemination upon receipt, \$1 million in original principal balance traded. Table 4 reports the frequency of transactions that would have fallen above and below the proposed threshold had they been in place during the sample period, broken down by concentrated and non-concentrated CUSIPs. In the sample, 79.21% (0.36% + 78.85%) of transactions and 1.64% (0.02%+1.62%) of trading volume in CMOs would have been below the proposed threshold, and thus would have been disseminated immediately upon receipt to FINRA under the proposal.

¹⁸ On average, CMOs trade in 10.74 days out of 1,071 days in the sample period.

Table 4. Distribution of Transactions Above and Below Proposed Threshold

	# of transactions	Percent	Volume (\$bil.)	Percent
HHI = 1 Below Threshold	10,526	0.36%	\$1.97	0.02%
HHI = 1 At/Above Threshold	40,188	1.37%	\$1,690.13	15.74%
HHI < 1 Below Threshold	2,310,110	78.85%	\$173.98	1.62%
HHI < 1 At/Above Threshold	568,979	19.42%	\$8,874.67	82.63%
Total	2,929,803	100.00%	\$10,740.75	100.00%

The total number of transactions and the trading volume that would be disseminated under the \$1 million threshold and the minimum five-trade per CUSIP requirement are presented in Table 5. The table shows that approximately 8.65% (6.24%+2.41%) of transactions and 28.63% (16.64%+7.99%) of trading volume in CMOs would be disseminated in weekly and monthly reports.

Table 5. Aggregate Percentage of Transactions by Type and Dissemination with Minimum Two MPID Requirement for Periodic Reports

	Transactions	%	Vol. (\$bil.)	%
Immediate	2,320,636	79.21%	\$176	1.64%
Weekly	182,893	6.24%	\$1,787	16.64%
Monthly	70,528	2.41%	\$858	7.99%
Not dis.	355,746	12.14%	\$7,919	73.73%
Total	2,929,803	100.00%	\$10,741	100.00%

Table 6 reports the average trade characteristics by concentration at the MPID level. As illustrated by the table, 79.29% of an MPID's CMO transactions would be disseminated immediately upon receipt, with 0.18% in concentrated CUSIPs and 79.11% in non-concentrated CUSIPs. Similarly, 11.74% (9.19% + 2.55%) of CMO transactions for the typical MPID would be disseminated via weekly and monthly periodic reports, with all transactions in non-concentrated CUSIPs. Finally, on average, 8.97% of an

MPID's CMO transactions would not be subject to any dissemination under the proposal, with 0.36% of in concentrated CUSIPs and 8.61% in non-concentrated CUSIPs.

Table 6. Average Trading Activity per MPID by Dissemination Frequency and Concentration

	(# of MPIDs = 1,002)			
	% of transactions		% of volume	
	HH =1	HH < 1	HH =1	HH < 1
Immediate	0.18	79.11	0.13	58.17
Weekly	0.00	9.19	0.02	20.46
Monthly	0.00	2.55	0.00	4.31
Not dis.	0.36	8.61	0.85	16.05

This analysis suggests that information leakage may not be a significant issue based on the concentration of trading activity in certain CUSIPs. Tables 5 and 6 confirm that it would be difficult to ascertain significant information about a single MPID's trading strategy from both the real time and periodic dissemination of CMO trades, as less than 1% of trading in concentrated CUSIPs is expected to be disseminated. Moreover, there are no concentrated CUSIPs where the proposed rule would have led to dissemination of all trades by any individual MPID.¹⁹

(2) Reducing the timeframe for reporting CMO transactions

The second proposed change, reducing the reporting timeframe for CMOs from end-of-day to 60 minutes is intended to facilitate timely dissemination of information for these securities. However, FINRA is aware that a narrower reporting window may impose direct costs on firms to the extent that the firms have to modify or upgrade their reporting systems to comply with the reduced time period for transactions in CMOs

¹⁹ 463 MPIDs would have all of their CMO trades disseminated immediately upon receipt; however, none of those trades are in concentrated CUSIPs.

executed on or after issuance.

In a sample of 2,476,666 transactions reported on the day of the execution, the average and median reporting time after execution are approximately 19 minutes and 33 seconds, respectively.²⁰ Approximately 92% of CMO transactions are currently reported to TRACE within 60 minutes. Reports received 60 minutes or more after the transaction execution are significantly larger than those that are reported within 60 minutes.²¹

Of the 974 market participants that reported CMO trades during the sample period, 417 reported all transactions within 60 minutes. Another 400 market participants reported at least 90%, but less than 100% of their CMO transactions within 60 minutes of execution. Finally, 157 market participants reported less than 90% of their transactions within 60 minutes; of these, only six reported all of their transactions more than 60 minutes after execution, but each of the six reported fewer than five trades during the sample period.

This analysis suggests that many market participants will require no change in behavior to meet the proposed rule, and, as such, should face no material costs. A second group of market participants currently meet the proposed reporting standards at least 90% of the time, suggesting that their costs for compliance should also be low. The data indicate that there are a small but material number of market participants that currently do

²⁰ The sample for the analysis of the reporting timeframes excludes 453,137 “as of” trades that were in the original sample, since such trades are reported at least a day after the transaction day and are disseminated with a “late” flag and are subject to a fine.

²¹ Trades that are reported after 60 minutes have an average transaction size of approximately \$9.76 million, whereas the same figure is approximately \$2.76 million for trades that are reported within 60 minutes. The difference of \$7.00 million is statistically significant at the 1% level.

not report in a manner consistent with the proposed rule, but these firms engage in small numbers of transactions in CMO securities. The cost that these firms would be expected to incur as a result of the shorter reporting timeframe would depend on the extent of the modification or upgrade to the reporting systems to stay in compliance with the proposed rule.

(3) Simplifying the reporting requirements for pre-issuance CMO transactions

The final proposed change would impact the reporting timeframe for pre-issuance CMO transactions and is expected to benefit firms, since it is intended to eliminate potential confusion about when the reporting obligation has been triggered. The proposed requirement that transactions in CMOs that are executed before the issuance of the security must be reported no later than the first settlement date provides firms with more time to report the transactions than they have today.

Alternatives Considered

As discussed in detail below, FINRA staff also considered the dissemination of CMBSs and CDOs in addition to CMOs. Likely due to differences in the customers that trade Securitized Products, CMOs typically have relatively smaller transactions sizes than those for CMBSs and CDOs and thus would be more likely disseminated under the thresholds applied in this rule. For example, Table 5 above demonstrates that 79.21% (0.36% + 78.85%) of CMO transactions would have been below the proposed threshold, and thus would have been disseminated immediately upon receipt under the proposal, whereas, FINRA staff found that, under the same thresholds, only 29.51% and 37.92% of CDO and CMBS transactions would have been disseminated, respectively, upon receipt. This observation suggests that differences in average trade characteristics may lead to

different outcomes for dissemination across security types. Therefore, FINRA believes that proceeding with CMO dissemination is a sensible next step, and it will continue to analyze the potential for enhanced transparency for the remaining Securitized Product types.

FINRA staff also assessed whether the five-transaction requirement for periodic dissemination of trades in weekly and monthly reports is reasonable and appropriate based on trading frequency. The staff found that increasing the requirement from five to ten transactions creates a significant shift of transactions from aggregate, periodic dissemination to no dissemination. If the threshold were increased to a minimum of 20 transactions, then approximately 96% of trading volume would not be disseminated.

A higher minimum transaction number threshold may also result in aggregate, periodic dissemination for transactions reported by far fewer market participants. For example, based on the sample data referenced above and assuming a five-transaction threshold for periodic dissemination, 14 MPIDs would have had all of their transactions disseminated weekly and an additional three MPIDs would have had all of their transactions disseminated monthly. However, if the minimum trade threshold were increased to ten, there would only be a single MPID whose transactions would be consistently disseminated in weekly reports, and another single MPID whose transactions would be consistently disseminated via monthly reports.

The analysis implies that increasing the minimum transaction number threshold for periodic dissemination would dramatically reduce the amount of information that is disseminated. In addition, it may actually increase the risk of reverse-engineering the

identity or trading strategies of the single or few MPIDs whose trades would be subject to dissemination under a higher minimum transaction number threshold.

Another alternative that FINRA considered was a 15-minute reporting requirement for CMO transactions, rather than the 60-minute requirement that FINRA proposes in this filing. As noted above, based on sample data that FINRA has analyzed, the median reporting time for CMO transactions is just under 20 minutes. Accordingly, FINRA believes that a 15-minute reporting requirement may impose significantly greater costs than a 60-minute requirement. Notably, FINRA believes that the 60 minute requirement is still expected to provide sufficiently timely transparency to the market. FINRA also notes that the proposed 60-minute requirement for CMOs mirrors the 60-minute requirement currently in place for another type of Securitized Product— agency pass-through mortgage-backed securities traded to be announced not good for delivery.

Finally, with respect to the reporting process for pre-issuance CMOs, FINRA considered requiring that transactions be reported no later than two days prior to the first settlement date. However, FINRA understands that in many cases, particularly for private label securities, the characteristics of a new issue may not be finalized until the first settlement date of the securities. As a result, FINRA is instead proposing that pre-issuance CMO transactions be reported by the first settlement date.

5. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The proposed rule change was published for comment in Regulatory Notice 15-04 (February 2015). Five comments were received in response to the Regulatory Notice.²²

²² See Letters from Letters from the Financial Information Forum, dated April 7, 2015 (“FIF Letter”); Bond Dealers of America, dated April 9, 2015 (“BDA

A copy of the Regulatory Notice is attached as Exhibit 2a. Copies of the comment letters received in response to the Regulatory Notice are attached as Exhibit 2c. The comments are summarized below.

As an initial step, prior to issuing Regulatory Notice 15-04, FINRA staff solicited industry input from several of its industry advisory committees. At this stage, as in the Regulatory Notice, FINRA was contemplating expanding dissemination to all remaining Securitized Products, including CMOs, CMBSs, and CDOs. FINRA was also considering reducing the reporting timeframe for these remaining Securitized Products to 15 minutes. The committees were generally supportive. To the extent the committees raised concerns, they were focused primarily on what an appropriate threshold would be to determine whether transactions are subject to immediate or periodic dissemination. At the time FINRA raised this proposal with the committees, it was proposing immediate dissemination for transactions below a threshold of \$1 million in transaction size, and aggregate periodic reporting for transactions greater than \$1 million, provided there were at least five trade reports in the same security during the applicable reporting period. FINRA committed to vetting these proposed thresholds more completely through the Regulatory Notice comment process.

FINRA then published Regulatory Notice 15-04 in February 2015 and received five comments in response. Like the industry advisory committees, commenters focused primarily on the merits of disseminating transaction information for the remaining

Letter”); Association of Institutional INVESTORS, dated April 10, 2015 (“INVESTORS Letter”); Bloomberg’s Valuation Service, dated April 10, 2015 (“BVAL Letter”); and the Securities Industry and Financial Markets Association, dated April 13, 2015 (“SIFMA Letter”).

Securitized Products, as well as the thresholds proposed for immediate versus aggregate, periodic reporting. Some of the commenters also discussed the elements of the proposal that would have reduced the reporting timeframe for the remaining Securities Products to 15 minutes.

Two of the commenters took different views on the merits of expanding dissemination to include the remaining Securitized Products. The Association of Institutional INVESTORS (“INVESTORS”) strongly favored dissemination because “transparency will be extremely beneficial to all market participants and greatly assist in price discovery and in decreasing price dispersion.”²³ In contrast, the Securities Industry and Financial Markets Association (“SIFMA”) acknowledged that dissemination may contribute to better price formation for additional Securitized Products but expressed its belief that dissemination may negatively impact market liquidity. In SIFMA’s view, liquidity should be prioritized over enhancing price discovery.²⁴

With respect to the specific items of transaction information FINRA proposed in the Regulatory Notice to disseminate, the Financial Information Forum (“FIF”) argued that the information disseminated for the remaining Securitized Products should align with the information disseminated for Asset-Backed Securities. FIF specifically recommended suppressing the contra-party indicator and identifying transactions that meet the definition of a List or Fixed Offering Price Transaction.²⁵ SIFMA similarly

²³ INVESTORS Letter at 1.

²⁴ See SIFMA Letter at 1-2.

²⁵ See FIF Letter at 2. The term “List or Fixed Price Transaction” is defined in Rule 6710(q) to mean a primary market sale transaction sold on the first day of trading of a security, including an Asset-Backed Security as defined in paragraph (cc), but excluding any other Securitized Product as defined in paragraph (m): (i) by a sole

argued that only secondary trades in CMOs should be disseminated, to align dissemination for additional Securitized Products with dissemination for corporate and agency debt and Asset-Backed Securities. SIFMA also expressed concerns about the ability to reverse engineer transactions more easily if last sale price and last sale date information were included in the periodic reports.²⁶

Four of the commenters disagreed with the \$1 million real-time dissemination threshold that FINRA proposed in the Regulatory Notice, although they took opposing views as to whether the threshold would result in too many or too few transactions being subject to real-time dissemination. According to INVESTORS, \$1 million is too low given that the market for Securitized Products is primarily institutional, so INVESTORS recommended a \$5 million threshold instead.²⁷ Another commenter, Bloomberg's Valuation Service ("BVAL") also stated that the \$1 million threshold is too low to provide relevant pricing information to the market, since less than 1% of the market trades below \$1 million, and the trades that do occur below the threshold involve a different buyer base and pricing model.²⁸

On the other hand, two of the commenters believed that the proposed \$1 million threshold was too high. SIFMA stated that the threshold should be lowered from \$1 million to \$100,000 "to ensure only truly retail-sized transactions" are subject to real-

underwriter, syndicate manager, syndicate member or selling group member at the published or stated list or fixed offering price, or (ii) in the case of a primary market sale transaction effected pursuant to Securities Act Rule 144A, by an initial purchaser, syndicate manager, syndicate member or selling group member at the published or stated fixed offering price.

²⁶ See SIFMA Letter at 3.

²⁷ See INVESTORS Letter at 2-3.

²⁸ See BVAL Letter at 1.

time dissemination. According SIFMA, setting the threshold at \$1 million would include inter-dealer trades as well as retail, and disseminating information on both types of transactions could be “misleading” to retail investors. Additionally, SIFMA expressed its belief that disseminating larger-size trades could harm liquidity in an already illiquid marketplace.²⁹ The Bond Dealers of America (“BDA”) echoed the concern that disseminating trades up to \$1 million in value could impact market pricing and liquidity and impact trading strategies.³⁰

Three of the commenters provided views on the proposed five transaction threshold for the dissemination of aggregate periodic reports for larger-size transactions. INVESTORS and BVAL did not believe that there should be any minimum number of transactions required per reporting period to qualify for dissemination, and that such a minimum would restrict the proposal’s usefulness.³¹ In contrast, SIFMA argued that the five transaction minimum was too low, and believed that it should be raised from five to 20, because “[I]liquidity in the securitized products markets will be least impacted by price dissemination if only truly actively traded CUSIPs are captured in the weekly and monthly reports.”³²

One commenter also addressed the proposed reduction of the reporting timeframe to 15 minutes for transactions in the remaining Securitized Products. BDA expressed concern that a reduced reporting timeframe could have a disproportionate impact on

²⁹ See SIFMA Letter at 2.

³⁰ See BDA Letter at 3.

³¹ See INVESTORS Letter at 2-3 and BVAL Letter at 1.

³² See SIFMA Letter at 2-3. This commenter further asked that the proposed aggregate periodic reports not include last price and trade date, to minimize the potential for reverse engineering.

smaller dealers and may result in these products being traded less by dealers and more by banking institutions that do not have to comply with TRACE reporting requirements.

BDA stated that additional Securitized Products typically trade in “odd lot” sizes, where liquidity has traditionally been provided by small to medium size dealers, who would face “significant challenges” complying with a 15-minute reporting requirement.³³

Finally, three of the commenters addressed the element of the proposal that would simplify the reporting process for pre-issuance CMOs, which in the Regulatory Notice would have required reporting no later than two days prior to the first settlement date, with varying levels of support. SIFMA strongly supported the change as proposed.³⁴ BDA expressed support for the proposed change, but recommended that the reporting deadline be moved back further, to settlement minus one day.³⁵ FIF recommended greater relaxation of the reporting timeframe, proposing a settlement date deadline, rather than settlement minus two. According to FIF, information for pre-issuance CMOs “is not consistently available two days prior to the first settlement date.”³⁶

FINRA carefully considered the committee views and written comments. After analyzing this feedback, FINRA believes it is appropriate to proceed with the proposal as described and explained above in the filing, which has been modified from what FINRA proposed in Regulatory Notice 15-04. Based on FINRA’s continued study of the impact of dissemination on TRACE-Eligible Securities, and Securitized Products in particular, in addition to dialogue with a variety of market participants and the feedback received on

³³ See BDA Letter at 2-3.

³⁴ See SIFMA Letter at 3.

³⁵ See BDA Letter at 4.

³⁶ See FIF Letter at 2.

Regulatory Notice 15-04, FINRA believes the proposed dissemination of transaction information for CMOs would be valuable to assist in price discovery, determination of execution quality, and, in particular, valuation of securities positions. FINRA recognizes, however, that CMOs generally are more complex and less fungible than the securities that are currently subject to dissemination. As a result, FINRA believes it is important to calibrate its proposal to provide for tiered dissemination of these products in a way that promotes transparency while minimizing potential negative impacts on liquidity. Importantly, while FINRA has decided not to expand dissemination to CMBSs and CDOs at this time, FINRA believes this proposal is a careful step towards enhanced transparency for these remaining Securitized Product types, and that it will allow FINRA and market participants to consider how best to approach the final phase of dissemination expansion.

In an effort to further calibrate the proposal to provide additional safeguards against the risk of reverse-engineering, FINRA modified the minimum security activity threshold first proposed in Regulatory Notice 15-04 for periodic reporting. The Regulatory Notice proposed to disseminate larger-size transactions (\$1 million or more) on an aggregate periodic basis provided there were five or more transactions in the security during the reporting period. In response to the feedback FINRA received, FINRA is now proposing to disseminate aggregate periodic reports for larger-size transactions provided there are five or more transactions in the security during the reporting period, and further that the transactions must be reported by at least two different MPIDs. FINRA believes that this modified threshold for aggregate periodic reporting will further the interests of transparency while being sensitive to the

confidentiality of positions or trading strategies, particularly in securities that trade in a concentrated market made by just one dealer.

Concerning the specific items of transaction information that FINRA would disseminate for CMOs, FINRA has modified the proposal in part to reflect the input it received from commenters. Specifically, FINRA will remove counterparty information from transactions that are disseminated and will also remove the data fields that it proposed in Regulatory Notice 15-04 for the periodic reports that would have conveyed last sale price, last sale date, customer buy, customer sell, and interdealer prices. FINRA believes these modifications are appropriate to address commenters' concerns about reverse engineering. FINRA has not modified the proposal, however, in response to commenters' suggestion to suppress new issue transactions in CMOs. The definition of List or Fixed Price Transaction does not apply to CMOs. FINRA believes that redefining the term List or Fixed Price Transaction to include CMOs would result in a significantly less effective proposal, according to input FINRA has received from various market participants.

Concerning the reporting timeframe for transactions in CMOs executed on or after issuance, FINRA modified its proposal to allow for 60-minute reporting rather than 15-minute reporting. FINRA believes this change is appropriate to minimize firms' reporting burdens while improving the timeliness in the receipt and dissemination of CMO transaction information. FINRA notes that the proposed 60-minute timeframe is the same as the reporting requirement for other Securitized Products, namely, agency pass-through mortgage-backed securities traded to be announced not for good delivery.

Finally, FINRA has modified its approach to simplifying the reporting process for pre-issuance CMOs from what it proposed in its Regulatory Notice. As noted above, FINRA understands that in many cases, particularly for private label securities, the characteristics of a new issue may not be finalized until the first settlement date of the securities. As a result, FINRA is no longer proposing a reporting deadline two days prior to the first settlement date, but is instead proposing that pre-issuance CMO transactions be reported by the first settlement date.

6. Extension of Time Period for Commission Action

FINRA does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.³⁷

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)

Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

³⁷ 15 U.S.C. 78s(b)(2).

Exhibit 2a. Regulatory Notice 15-04 (February 2015).

Exhibit 2b. List of commenters.

Exhibit 2c. Comments received in response to Regulatory Notice 15-04.

Exhibit 5. Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-FINRA-2016-023)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Increase Transparency For CMO Transactions

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on , Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to amend the FINRA Rule 6700 Series and the Trade Reporting and Compliance Engine (“TRACE”) dissemination protocols to provide for dissemination of transactions in an additional type of Securitized Products – specifically, collateralized mortgage obligations (“CMOs”). In addition, FINRA is proposing a corresponding change to Rule 6730 to reduce the reporting period for CMOs from end-of-day to 60 minutes, and also to amend Rule 6730 to simplify the reporting requirements for transactions in CMOs executed prior to issuance. FINRA further proposes technical

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

and conforming changes to the FINRA Rule 6700 Series and Rule 7730 in connection with the changes referenced above.

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

FINRA proposes to amend the Rule 6700 Series and the TRACE dissemination protocols to: (1) provide for the dissemination of transactions in CMOs,³ an additional group of Securitized Products⁴ not yet subject to dissemination; (2) reduce the reporting

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 as defined in paragraph (v), 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 The term "Securitized Product" is defined in Rule 6710(m) to mean a security collateralized by any type of financial asset, such as a loan, a lease, a mortgage, or

timeframe for CMOs from end-of-day to 60 minutes; and (3) simplify the reporting requirements for pre-issuance CMO transactions. FINRA also proposes technical and conforming changes to the Rule 6700 Series and Rule 7730.

Background

FINRA requires members to report transactions in any security that meets the definition of “TRACE-Eligible Security”⁵ to TRACE. Most transactions must be reported to TRACE within 15 minutes of the time of execution and are subsequently disseminated.

Securitized Products were the last major group of fixed income securities to become subject to TRACE reporting. Initially, FINRA received reports of transactions in these products for regulatory audit trail purposes only and did not disseminate transaction data. FINRA used the transaction reports it received to study the liquidity and trading characteristics of various types of Securitized Products. Based on its study, FINRA then started a phased approach to disseminating transaction information for certain Securitized Products.

For the first phase, on November 12, 2012, FINRA began disseminating transactions in Agency Pass-Through Mortgage-Backed Securities traded To Be

a secured or unsecured receivable, and includes but is not limited to an asset-backed security as defined in Section 3(a)(79)(A) of the Exchange Act, a synthetic asset-backed security, and any residual tranche or interest of any security specified above, which tranche or interest is a debt security for purposes of paragraph (a) and the Rule 6700 Series.

⁵ Rule 6710 generally defines a “TRACE-Eligible Security” as: (1) a debt security that is U.S. dollar-denominated and issued by a U.S. or foreign private issuer (and, if a “restricted security” as defined in Securities Act Rule 144(a)(3), sold pursuant to Securities Act Rule 144A); or (2) a debt security that is U.S. dollar-denominated and issued or guaranteed by an “Agency” as defined in Rule 6710(k) or a “Government-Sponsored Enterprise” as defined in Rule 6710(n).

Announced (“TBA”) (“MBS TBA” transactions), which are the most liquid types of Securitized Products.⁶ Next, on July 22, 2013, FINRA began disseminating transactions in Agency Pass-Through Mortgage-Backed Securities and SBA-Backed ABS (as defined in FINRA Rule 6710(bb)) traded in Specified Pool Transactions.⁷ On June 30, 2014, FINRA began to disseminate information on transactions in TRACE-Eligible Securities effected as Rule 144A transactions, provided that such transactions were in securities that would be subject to dissemination if effected in non-Rule 144A transactions.⁸ And most recently, on June 1, 2015, FINRA began to disseminate transactions in Asset-Backed Securities.⁹ Today, the remaining types of Securitized Products not yet subject to dissemination are CMOs, commercial mortgage-backed securities (“CMBSs”), and collateralized debt obligations (“CDOs”).¹⁰ CMOs are the largest and most actively traded of these remaining Securitized Products types. In addition, CMOs typically have

⁶ See Securities Exchange Act Release No. 66829 (April 18, 2012), 77 FR 24748 (April 25, 2012) (Order Approving File No. SR-FINRA-2012-020); Regulatory Notice 12-26 (May 2012) and Regulatory Notice 12-48 (November 2012).

⁷ See Securities Exchange Act Release No. 68084 (October 23, 2012), 77 FR 65436 (October 26, 2012) (Order Approving File No. SR-FINRA-2012-042) and Regulatory Notice 12-56 (December 2012).

⁸ See Securities Exchange Act Release No. 70345 (September 6, 2013), 78 FR 56251 (September 12, 2013) (Order Approving File No. SR-FINRA-2013-029) and Regulatory Notice 13-35 (October 2013).

⁹ See Securities Exchange Act Release No. 71607 (February 24, 2014), 79 FR 11481 (February 28, 2014) (Order Approving File No. SR-FINRA-2013-046) and Regulatory Notice 14-34 (August 2014).

¹⁰ A “Collateralized Debt Obligation,” or CDO, would be defined in proposed FINRA Rule 6710(ff) to mean a type of Securitized Product backed by fixed-income assets (such as bonds, receivables on loans, or other debt) or derivatives of these fixed-income assets, structured in multiple classes or tranches with each class or tranche entitled to receive distributions of principal and/or interest in accordance with the requirements adopted for the specific class or tranche. A CDO includes, but is not limited to, a collateralized loan obligation, or CLO, and a collateralized bond obligation, or CBO.

relatively smaller transaction sizes than those for CMBSs and CDOs.

Current Proposal

FINRA is proposing to expand the dissemination of Securitized Products to include CMOs. Under the proposal, a CMO transaction will be subject either to dissemination immediately upon receipt of the TRACE transaction report, or to aggregate, periodic dissemination, depending on the size of the transaction and the number of transactions in the CMO security during a given period.

Specifically, transactions in CMOs, including transactions effected pursuant to Securities Act Rule 144A, will be subject to aggregate, periodic dissemination on a weekly and monthly basis where the transaction value is \$1 million or more (calculated based upon original principal balance) and where there have been five or more transactions of \$1 million or more in the reporting period reported by at least two different market participant identifiers (“MPIDs”).¹¹ For the smaller-size transactions – i.e., transactions valued under \$1 million (calculated based upon original principal

¹¹ For example, if five transactions occurred in a particular CMO security during each of the four weeks in a calendar month and were reported by at least two unique MPIDs, then four weekly reports would be disseminated; in addition, information on those transactions would be included in the aggregate monthly report for that calendar month. If five transactions occurred over the course of a calendar month, but did not occur during a single week, then a weekly report would not be available for that security (but the transaction information would be included in the monthly report provided the transactions were reported by at least two unique MPIDs). For purposes of determining if a CMO security has been reported by at least two different MPIDs, FINRA notes that it would consider an interdealer trade to be reported by one MPID – the sell side dealer – even though the trade is reported by both sides of the transaction.

balance) – FINRA will disseminate trade-by-trade information immediately upon receipt by TRACE.¹²

The proposal will provide for this approach to CMO dissemination by amending FINRA Rule 6750 (Dissemination of Transaction Information). Rule 6750 currently contains two operative paragraphs – paragraph (a), which provides generally for the dissemination of TRACE-Eligible Securities immediately upon receipt of a transaction report, and paragraph (b), which contains an exception to the general dissemination provision in paragraph (a) and which notes the security or transaction types that are not subject to dissemination. Currently, the remaining Securitized Products – CMOs, CMBSs, and CDOs, are found within paragraph (b) and are therefore not subject to dissemination.

Under the proposal, current paragraph (b) will be replaced with a paragraph that provides specifically for the dissemination of larger-size (\$1 million or more) CMO transactions on a periodic, rather than immediate, basis, provided the transaction occurs in a CMO security that meets the minimum activity threshold described above (i.e., at least five transactions in the period reported by at least two different MPIDs). The exception paragraph, which sets forth the transaction types not subject to dissemination,

¹² Also in connection with the proposed dissemination of information on CMO transactions, FINRA proposes to amend Rule 7730 (fees for TRACE) to reflect the addition of CMOs to the applicable data sets. Disseminated periodic reports will become available as part of the Securitized Products Data Set and all CMO transactions – even if not previously disseminated upon receipt or as part of a periodic report – will become part of the Historic Securitized Products Data Set in FINRA Rule 7730. Similarly, disseminated periodic reports for transactions in CMOs issued pursuant to Rule 144A will become part of the Rule 144A Data Set, and all Rule 144A transactions in CMOs will become part of the Historic Rule 144A Data Set. The inclusion of this additional data in such data sets will not affect the fees currently in effect.

will be new paragraph (c). It will be revised to note that the only Securitized Products not subject to dissemination are CMBSs, CDOs, and CMOs where the CMO transaction value is \$1 million or more (calculated based upon original principal balance) and the transaction does not qualify for periodic dissemination. However, as noted above, all transactions in CMOs will become part of the historic data sets even if they were not subject to dissemination upon receipt or periodic dissemination.¹³

To facilitate the proposed dissemination of CMOs, the proposal will also amend Rule 6730(a)(3) to reduce the time period for reporting to TRACE transactions in CMOs to TRACE executed on or after issuance.¹⁴ Currently, these CMO transactions must be reported to TRACE no later than the close of the TRACE system on the date of execution.¹⁵ Under the proposal, paragraph (H) would be added to require that transactions in these CMOs must be reported to TRACE within 60 minutes of execution.¹⁶

¹³ See supra note 12.

¹⁴ As discussed in further detail below, reporting requirements for transactions in a CMO prior to that CMO's issuance are addressed separately in FINRA Rule 6730(a)(3)(C).

FINRA notes that it will also make a technical, clarifying edit to Rule 6730(a)(3) that is otherwise unrelated to this proposal; specifically, FINRA will delete language in Rule 6730(a)(3)(B) that describes the transitional reporting phase for Asset-Backed Securities, since the transitional phase is now complete.

¹⁵ See FINRA Rule 6730(a)(3)(A). As part of this proposal, FINRA is proposing a technical, clarifying change to Rule 6730(a)(3)(A). This paragraph currently is titled "General Reporting Requirements" for Securitized Products, but because only CDOs and CMBSs will remain subject to the paragraph after this proposal becomes effective, FINRA will rename this paragraph to make clear that applies specifically to CDOs and CMBSs.

¹⁶ As with other TRACE-Eligible Securities that are subject to 60-minute reporting, under proposed Rules 6730(a)(3)(H)(iii)-(iv), transactions in CMOs, CMBSs, and CDOs that are executed less than 60 minutes before the TRACE system closes, or

Finally, FINRA proposes to modify the reporting timeframe for pre-issuance CMO transactions. FINRA is proposing to amend Rule 6730(a)(3)(C) to provide that transactions in CMOs that are executed before the date of issuance of the security must be reported no later than the first settlement date of the security. Under the current rule, firms generally must report CMO transactions that are executed prior to issuance on the earlier of the business day that the security is assigned a CUSIP, or the date of issuance of the security. FINRA is aware that some firms, particularly small and mid-size firms, have had difficulty in determining with accuracy in a timely manner when the reporting obligation has been triggered, due to inconsistencies in communicating the relevant information between underwriters and trading parties. As a result, these firms do not always report trades in these instruments on the earlier of the two dates specified in the current rule. FINRA believes that, because new issuances in CMOs generally settle on the last business day of the month, the amended proposal would provide for a uniform reporting deadline that can be easily ascertained by all firms.

If the Commission approves the proposed rule change, FINRA will announce the operative date of the proposed rule change in a Regulatory Notice to be published no later than 90 days following Commission approval. The operative date will be no later than 365 days following publication of the Regulatory Notice announcing Commission approval.

2. Statutory Basis

after, would need to be reported no later than 60 minutes after TRACE opens the following business day.

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,¹⁷ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. As discussed throughout the filing, FINRA believes that the proposed rule change will promote greater transparency in the marketplace for CMOs. Based on dialogue with a variety of market participants, FINRA believes the information it proposes to disseminate would be valuable to assist in price discovery, determination of execution quality, and, in particular, valuation of securities positions. Furthermore, FINRA believes the proposal strikes an appropriate balance between promoting transparency and preserving anonymity, which may facilitate larger size trades and liquidity provision. Based on FINRA's ongoing study of the trading characteristics of Securitized Products, FINRA believes this proposal is an important next phase in dissemination that will position FINRA to evaluate whether and how to complete its expansion of dissemination to cover all Securitized Product types.

FINRA further believes that the proposed change to 60-minute trade reporting will facilitate CMO dissemination by ensuring that FINRA is able to receive and disseminate CMO transaction information in a timely manner. Accordingly, FINRA believes this element of the filing will help promote transparency and enhance investor protection and the public interest.

¹⁷ 15 U.S.C. 78q-3(b)(6).

Finally, FINRA believes the proposed change to the reporting timeframe for pre-issuance CMOs will further just and equitable principles of trade by providing greater clarity and promoting compliance with applicable reporting rules.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. FINRA has undertaken an economic impact assessment, as set forth below, to analyze the regulatory need for the proposed rule change, its potential economic impacts, including anticipated costs and benefits, and the alternatives FINRA considered in assessing how to best meet its regulatory objectives.

Need for the Rule

As discussed above, FINRA believes this proposal is necessary and appropriate to further promote transparency in the markets for additional Securitized Products. FINRA believes the proposed dissemination of transaction information for CMOs would be valuable to assist in price discovery, determination of execution quality, and, in particular, valuation of securities positions. FINRA believes the proposed transition to 60-minute trade reporting for transactions in CMOs executed on or after issuance is necessary to facilitate meaningful dissemination of information for these securities. Finally, FINRA believes the proposed change to the reporting timeframe for transactions in pre-issuance CMOs is necessary to simplify the reporting process, given that some firms, small and medium size firms in particular, may have difficulty in determining with accuracy and in a timely manner when their reporting obligations have been triggered.

Economic Impacts

FINRA believes that enhanced transparency in CMOs will benefit market participants, as discussed above, by contributing to more efficient pricing and better execution quality for market participants and clients. However, the proposed changes may impose direct and indirect costs on market participants; for example, the proposal might impose direct costs associated with more timely reporting of CMO transactions and indirect costs associated with the potential leakage of proprietary information. In the analysis below, we individually assess the impact on market participants of each proposed change – (1) dissemination of CMO transactions, (2) reducing the timeframe for reporting CMO transactions, and (3) simplifying the reporting requirements for pre-issuance CMO transactions.

(1) Dissemination of CMO transactions

The proposed dissemination of CMO transactions will enhance transparency, which should benefit market participants and clients via improved market quality. However, while enhanced transparency should provide benefits broadly to the marketplace, it may impose indirect costs on certain market participants, like those whose transaction information is subject to dissemination. FINRA is cognizant of the concern that the risk of information leakage could potentially harm market quality if it discourages liquidity provision. Accordingly, FINRA staff considered the potential for indirect costs associated with providing information publicly that might permit competitors to reverse engineer the disseminated data to produce private information about trade participants, their trade positions and possibly their trading strategies.

To investigate whether dissemination, as proposed, could potentially allow market participants to reverse-engineer the identities of broker-dealers or positions, FINRA staff

examined the distribution of the number of MPIDs reporting transactions in each CMO CUSIP, over the time period spanning May 13, 2011 to August 14, 2015. Table 1 suggests that trading activity in CMOs, on a per-CUSIP basis, is quite concentrated, with 32,200 CUSIPs – 33.3% of all CMO CUSIPs – in the sample traded by only one MPID over the sample period. These CUSIPs traded by only one MPID are referred to as “concentrated” CUSIPs. There were 64,449 remaining CUSIPs in the sample traded by two or more MPIDs, referred to as “non-concentrated” CUSIPs.¹⁸ CUSIPs are classified as concentrated and non-concentrated based on a threshold of one MPID, as it represents cases where the information about firm activity is most concentrated.

Table 1. The Number of Different MPIDs trading in CMO CUSIPs

# of MPIDs	CUSIPs	%
1	32,220	33.3%
2	17,792	18.4%
3	10,573	10.9%
4	6,677	6.9%
5	4,595	4.8%
6	3,511	3.6%
7	2,737	2.8%
8	2,229	2.3%
9	1,903	2.0%
10	1,590	1.6%
11	1,317	1.4%

¹⁸ Concentrated CUSIPs have a Herfindahl-Hirschman Index (HHI) of one, while non-concentrated have an HHI that is less than one. Algebraically, HHI is calculated as follows: $HHI = \sum_{i=1}^N s_i^2$ where s_i is the market share of firm i , and there are N total firms in a market. HHI is a succinct measure of market concentration, and it is widely used in analyses of monopoly power, antitrust litigation, and other prominent issues in industrial organization. The HHI of a market can range from 0 to 1 (some publications use 0 to 10,000, but the interpretation is the same after adjusting for scale), where $HHI = 1$ represents a perfectly concentrated market (one firm controls the entire market) and $HHI = 0$ represents a perfectly competitive market (infinitely many firms have infinitesimally small market share).

12	1,128	1.2%
13	955	1.0%
14	869	0.9%
15	753	0.8%
15+	7,820	8.1%
Total	96,669	100%

Table 2 reports trading activity (the number of transactions and trading volume) for the sample by concentrated versus non-concentrated CUSIPs. Trading activity in concentrated CUSIPs represents only 1.73% of transactions, but 15.75% of the trading volume. This suggests that concentrated CUSIPs have relatively larger trade sizes.

Table 2. Aggregate Trading Activity by Concentration

	# of transactions	Volume (\$bil.)
HHI = 1	50,714	\$1,692
HHI < 1	2,879,089	\$9,049
Total	2,929,803	\$10,741

Table 3 reports that the typical concentrated CUSIP trades only about one to two times over the entire sample period. For non-concentrated CUSIPs reported by two or more MPIDs, the typical CMO trades 44.67 times over the sample period.¹⁹ In general, concentrated CUSIPs have on average about half of the trading volume of non-concentrated CUSIPs.

Table 3. Average Trading Activity per CUSIP

		Mean	Median
HHI = 1	# of transactions/CUSIP	1.57	1.00
	Transaction size (\$mil.)	\$33.37	\$10.60
	Volume (\$mil.)	\$52.52	\$19.00
HHI < 1	# of transactions/CUSIP	44.67	10.00
	Transaction size (\$mil.)	\$3.14	\$0.03

¹⁹ On average, CMOs trade in 10.74 days out of 1,071 days in the sample period.

	Volume (\$mil.)	\$140.40	\$41.85
	# of transactions /CUSIP	30.31	5.00
Overall	Transaction size (\$mil.)	\$3.67	\$0.03
	Volume (\$mil.)	\$111.11	\$30.67

FINRA staff also investigated the trading activity above and below the proposed threshold for immediate dissemination upon receipt, \$1 million in original principal balance traded. Table 4 reports the frequency of transactions that would have fallen above and below the proposed threshold had they been in place during the sample period, broken down by concentrated and non-concentrated CUSIPs. In the sample, 79.21% (0.36% + 78.85%) of transactions and 1.64% (0.02%+1.62%) of trading volume in CMOs would have been below the proposed threshold, and thus would have been disseminated immediately upon receipt to FINRA under the proposal.

Table 4. Distribution of Transactions Above and Below Proposed Threshold

	# of transactions	Percent	Volume (\$bil.)	Percent
HHI = 1 Below Threshold	10,526	0.36%	\$1.97	0.02%
HHI = 1 At/Above Threshold	40,188	1.37%	\$1,690.13	15.74%
HHI < 1 Below Threshold	2,310,110	78.85%	\$173.98	1.62%
HHI < 1 At/Above Threshold	568,979	19.42%	\$8,874.67	82.63%
Total	2,929,803	100.00%	\$10,740.75	100.00%

The total number of transactions and the trading volume that would be disseminated under the \$1 million threshold and the minimum five-trade per CUSIP requirement are presented in Table 5. The table shows that approximately 8.65% (6.24%+2.41%) of transactions and 28.63% (16.64%+7.99%) of trading volume in CMOs would be disseminated in weekly and monthly reports.

Table 5. Aggregate Percentage of Transactions by Type and Dissemination with Minimum Two MPID Requirement for Periodic Reports

	Transactions	%	Vol. (\$bil.)	%
Immediate	2,320,636	79.21%	\$176	1.64%
Weekly	182,893	6.24%	\$1,787	16.64%
Monthly	70,528	2.41%	\$858	7.99%
Not dis.	355,746	12.14%	\$7,919	73.73%
Total	2,929,803	100.00%	\$10,741	100.00%

Table 6 reports the average trade characteristics by concentration at the MPID level. As illustrated by the table, 79.29% of an MPID's CMO transactions would be disseminated immediately upon receipt, with 0.18% in concentrated CUSIPs and 79.11% in non-concentrated CUSIPs. Similarly, 11.74% (9.19% + 2.55%) of CMO transactions for the typical MPID would be disseminated via weekly and monthly periodic reports, with all transactions in non-concentrated CUSIPs. Finally, on average, 8.97% of an MPID's CMO transactions would not be subject to any dissemination under the proposal, with 0.36% of in concentrated CUSIPs and 8.61% in non-concentrated CUSIPs.

Table 6. Average Trading Activity per MPID by Dissemination Frequency and Concentration

	(# of MPIDs = 1,002)			
	% of transactions		% of volume	
	HH =1	HH < 1	HH =1	HH < 1
Immediate	0.18	79.11	0.13	58.17
Weekly	0.00	9.19	0.02	20.46
Monthly	0.00	2.55	0.00	4.31
Not dis.	0.36	8.61	0.85	16.05

This analysis suggests that information leakage may not be a significant issue based on the concentration of trading activity in certain CUSIPs. Tables 5 and 6 confirm that it would be difficult to ascertain significant information about a single MPID's

trading strategy from both the real time and periodic dissemination of CMO trades, as less than 1% of trading in concentrated CUSIPs is expected to be disseminated.

Moreover, there are no concentrated CUSIPs where the proposed rule would have led to dissemination of all trades by any individual MPID.²⁰

(2) Reducing the timeframe for reporting CMO transactions

The second proposed change, reducing the reporting timeframe for CMOs from end-of-day to 60 minutes is intended to facilitate timely dissemination of information for these securities. However, FINRA is aware that a narrower reporting window may impose direct costs on firms to the extent that the firms have to modify or upgrade their reporting systems to comply with the reduced time period for transactions in CMOs executed on or after issuance.

In a sample of 2,476,666 transactions reported on the day of the execution, the average and median reporting time after execution are approximately 19 minutes and 33 seconds, respectively.²¹ Approximately 92% of CMO transactions are currently reported to TRACE within 60 minutes. Reports received 60 minutes or more after the transaction execution are significantly larger than those that are reported within 60 minutes.²²

Of the 974 market participants that reported CMO trades during the sample

²⁰ 463 MPIDs would have all of their CMO trades disseminated immediately upon receipt; however, none of those trades are in concentrated CUSIPs.

²¹ The sample for the analysis of the reporting timeframes excludes 453,137 “as of” trades that were in the original sample, since such trades are reported at least a day after the transaction day and are disseminated with a “late” flag and are subject to a fine.

²² Trades that are reported after 60 minutes have an average transaction size of approximately \$9.76 million, whereas the same figure is approximately \$2.76 million for trades that are reported within 60 minutes. The difference of \$7.00 million is statistically significant at the 1% level.

period, 417 reported all transactions within 60 minutes. Another 400 market participants reported at least 90%, but less than 100% of their CMO transactions within 60 minutes of execution. Finally, 157 market participants reported less than 90% of their transactions within 60 minutes; of these, only six reported all of their transactions more than 60 minutes after execution, but each of the six reported fewer than five trades during the sample period.

This analysis suggests that many market participants will require no change in behavior to meet the proposed rule, and, as such, should face no material costs. A second group of market participants currently meet the proposed reporting standards at least 90% of the time, suggesting that their costs for compliance should also be low. The data indicate that there are a small but material number of market participants that currently do not report in a manner consistent with the proposed rule, but these firms engage in small numbers of transactions in CMO securities. The cost that these firms would be expected to incur as a result of the shorter reporting timeframe would depend on the extent of the modification or upgrade to the reporting systems to stay in compliance with the proposed rule.

(3) Simplifying the reporting requirements for pre-issuance CMO transactions

The final proposed change would impact the reporting timeframe for pre-issuance CMO transactions and is expected to benefit firms, since it is intended to eliminate potential confusion about when the reporting obligation has been triggered. The proposed requirement that transactions in CMOs that are executed before the issuance of the security must be reported no later than the first settlement date provides firms with more time to report the transactions than they have today.

Alternatives Considered

As discussed in detail below, FINRA staff also considered the dissemination of CMBSs and CDOs in addition to CMOs. Likely due to differences in the customers that trade Securitized Products, CMOs typically have relatively smaller transactions sizes than those for CMBSs and CDOs and thus would be more likely disseminated under the thresholds applied in this rule. For example, Table 5 above demonstrates that 79.21% (0.36% + 78.85%) of CMO transactions would have been below the proposed threshold, and thus would have been disseminated immediately upon receipt under the proposal, whereas, FINRA staff found that, under the same thresholds, only 29.51% and 37.92% of CDO and CMBS transactions would have been disseminated, respectively, upon receipt. This observation suggests that differences in average trade characteristics may lead to different outcomes for dissemination across security types. Therefore, FINRA believes that proceeding with CMO dissemination is a sensible next step, and it will continue to analyze the potential for enhanced transparency for the remaining Securitized Product types.

FINRA staff also assessed whether the five-transaction requirement for periodic dissemination of trades in weekly and monthly reports is reasonable and appropriate based on trading frequency. The staff found that increasing the requirement from five to ten transactions creates a significant shift of transactions from aggregate, periodic dissemination to no dissemination. If the threshold were increased to a minimum of 20 transactions, then approximately 96% of trading volume would not be disseminated.

A higher minimum transaction number threshold may also result in aggregate, periodic dissemination for transactions reported by far fewer market participants. For

example, based on the sample data referenced above and assuming a five-transaction threshold for periodic dissemination, 14 MPIDs would have had all of their transactions disseminated weekly and an additional three MPIDs would have had all of their transactions disseminated monthly. However, if the minimum trade threshold were increased to ten, there would only be a single MPID whose transactions would be consistently disseminated in weekly reports, and another single MPID whose transactions would be consistently disseminated via monthly reports.

The analysis implies that increasing the minimum transaction number threshold for periodic dissemination would dramatically reduce the amount of information that is disseminated. In addition, it may actually increase the risk of reverse-engineering the identity or trading strategies of the single or few MPIDs whose trades would be subject to dissemination under a higher minimum transaction number threshold.

Another alternative that FINRA considered was a 15-minute reporting requirement for CMO transactions, rather than the 60-minute requirement that FINRA proposes in this filing. As noted above, based on sample data that FINRA has analyzed, the median reporting time for CMO transactions is just under 20 minutes. Accordingly, FINRA believes that a 15-minute reporting requirement may impose significantly greater costs than a 60-minute requirement. Notably, FINRA believes that the 60 minute requirement is still expected to provide sufficiently timely transparency to the market. FINRA also notes that the proposed 60-minute requirement for CMOs mirrors the 60-minute requirement currently in place for another type of Securitized Product— agency pass-through mortgage-backed securities traded to be announced not good for delivery.

Finally, with respect to the reporting process for pre-issuance CMOs, FINRA considered requiring that transactions be reported no later than two days prior to the first settlement date. However, FINRA understands that in many cases, particularly for private label securities, the characteristics of a new issue may not be finalized until the first settlement date of the securities. As a result, FINRA is instead proposing that pre-issuance CMO transactions be reported by the first settlement date.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The proposed rule change was published for comment in Regulatory Notice 15-04 (February 2015). Five comments were received in response to the Regulatory Notice.²³ A copy of the Regulatory Notice is attached as Exhibit 2a. Copies of the comment letters received in response to the Regulatory Notice are attached as Exhibit 2c. The comments are summarized below.

As an initial step, prior to issuing Regulatory Notice 15-04, FINRA staff solicited industry input from several of its industry advisory committees. At this stage, as in the Regulatory Notice, FINRA was contemplating expanding dissemination to all remaining Securitized Products, including CMOs, CMBSs, and CDOs. FINRA was also considering reducing the reporting timeframe for these remaining Securitized Products to 15 minutes. The committees were generally supportive. To the extent the committees raised concerns, they were focused primarily on what an appropriate threshold would be

²³ See Letters from Letters from the Financial Information Forum, dated April 7, 2015 ("FIF Letter"); Bond Dealers of America, dated April 9, 2015 ("BDA Letter"); Association of Institutional INVESTORS, dated April 10, 2015 ("INVESTORS Letter"); Bloomberg's Valuation Service, dated April 10, 2015 ("BVAL Letter"); and the Securities Industry and Financial Markets Association, dated April 13, 2015 ("SIFMA Letter").

to determine whether transactions are subject to immediate or periodic dissemination. At the time FINRA raised this proposal with the committees, it was proposing immediate dissemination for transactions below a threshold of \$1 million in transaction size, and aggregate periodic reporting for transactions greater than \$1 million, provided there were at least five trade reports in the same security during the applicable reporting period. FINRA committed to vetting these proposed thresholds more completely through the Regulatory Notice comment process.

FINRA then published Regulatory Notice 15-04 in February 2015 and received five comments in response. Like the industry advisory committees, commenters focused primarily on the merits of disseminating transaction information for the remaining Securitized Products, as well as the thresholds proposed for immediate versus aggregate, periodic reporting. Some of the commenters also discussed the elements of the proposal that would have reduced the reporting timeframe for the remaining Securities Products to 15 minutes.

Two of the commenters took different views on the merits of expanding dissemination to include the remaining Securitized Products. The Association of Institutional INVESTORS (“INVESTORS”) strongly favored dissemination because “transparency will be extremely beneficial to all market participants and greatly assist in price discovery and in decreasing price dispersion.”²⁴ In contrast, the Securities Industry and Financial Markets Association (“SIFMA”) acknowledged that dissemination may contribute to better price formation for additional Securitized Products but expressed its

²⁴ INVESTORS Letter at 1.

belief that dissemination may negatively impact market liquidity. In SIFMA's view, liquidity should be prioritized over enhancing price discovery.²⁵

With respect to the specific items of transaction information FINRA proposed in the Regulatory Notice to disseminate, the Financial Information Forum ("FIF") argued that the information disseminated for the remaining Securitized Products should align with the information disseminated for Asset-Backed Securities. FIF specifically recommended suppressing the contra-party indicator and identifying transactions that meet the definition of a List or Fixed Offering Price Transaction.²⁶ SIFMA similarly argued that only secondary trades in CMOs should be disseminated, to align dissemination for additional Securitized Products with dissemination for corporate and agency debt and Asset-Backed Securities. SIFMA also expressed concerns about the ability to reverse engineer transactions more easily if last sale price and last sale date information were included in the periodic reports.²⁷

Four of the commenters disagreed with the \$1 million real-time dissemination threshold that FINRA proposed in the Regulatory Notice, although they took opposing views as to whether the threshold would result in too many or too few transactions being subject to real-time dissemination. According to INVESTORS, \$1 million is too low

²⁵ See SIFMA Letter at 1-2.

²⁶ See FIF Letter at 2. The term "List or Fixed Price Transaction" is defined in Rule 6710(q) to mean a primary market sale transaction sold on the first day of trading of a security, including an Asset-Backed Security as defined in paragraph (cc), but excluding any other Securitized Product as defined in paragraph (m): (i) by a sole underwriter, syndicate manager, syndicate member or selling group member at the published or stated list or fixed offering price, or (ii) in the case of a primary market sale transaction effected pursuant to Securities Act Rule 144A, by an initial purchaser, syndicate manager, syndicate member or selling group member at the published or stated fixed offering price.

²⁷ See SIFMA Letter at 3.

given that the market for Securitized Products is primarily institutional, so INVESTORS recommended a \$5 million threshold instead.²⁸ Another commenter, Bloomberg's Valuation Service ("BVAL") also stated that the \$1 million threshold is too low to provide relevant pricing information to the market, since less than 1% of the market trades below \$1 million, and the trades that do occur below the threshold involve a different buyer base and pricing model.²⁹

On the other hand, two of the commenters believed that the proposed \$1 million threshold was too high. SIFMA stated that the threshold should be lowered from \$1 million to \$100,000 "to ensure only truly retail-sized transactions" are subject to real-time dissemination. According SIFMA, setting the threshold at \$1 million would include inter-dealer trades as well as retail, and disseminating information on both types of transactions could be "misleading" to retail investors. Additionally, SIFMA expressed its belief that disseminating larger-size trades could harm liquidity in an already illiquid marketplace.³⁰ The Bond Dealers of America ("BDA") echoed the concern that disseminating trades up to \$1 million in value could impact market pricing and liquidity and impact trading strategies.³¹

Three of the commenters provided views on the proposed five transaction threshold for the dissemination of aggregate periodic reports for larger-size transactions. INVESTORS and BVAL did not believe that there should be any minimum number of transactions required per reporting period to qualify for dissemination, and that such a

²⁸ See INVESTORS Letter at 2-3.

²⁹ See BVAL Letter at 1.

³⁰ See SIFMA Letter at 2.

³¹ See BDA Letter at 3.

minimum would restrict the proposal's usefulness.³² In contrast, SIFMA argued that the five transaction minimum was too low, and believed that it should be raised from five to 20, because “[l]iquidity in the securitized products markets will be least impacted by price dissemination if only truly actively traded CUSIPs are captured in the weekly and monthly reports.”³³

One commenter also addressed the proposed reduction of the reporting timeframe to 15 minutes for transactions in the remaining Securitized Products. BDA expressed concern that a reduced reporting timeframe could have a disproportionate impact on smaller dealers and may result in these products being traded less by dealers and more by banking institutions that do not have to comply with TRACE reporting requirements. BDA stated that additional Securitized Products typically trade in “odd lot” sizes, where liquidity has traditionally been provided by small to medium size dealers, who would face “significant challenges” complying with a 15-minute reporting requirement.³⁴

Finally, three of the commenters addressed the element of the proposal that would simplify the reporting process for pre-issuance CMOs, which in the Regulatory Notice would have required reporting no later than two days prior to the first settlement date, with varying levels of support. SIFMA strongly supported the change as proposed.³⁵ BDA expressed support for the proposed change, but recommended that the reporting

³² See INVESTORS Letter at 2-3 and BVAL Letter at 1.

³³ See SIFMA Letter at 2-3. This commenter further asked that the proposed aggregate periodic reports not include last price and trade date, to minimize the potential for reverse engineering.

³⁴ See BDA Letter at 2-3.

³⁵ See SIFMA Letter at 3.

deadline be moved back further, to settlement minus one day.³⁶ FIF recommended greater relaxation of the reporting timeframe, proposing a settlement date deadline, rather than settlement minus two. According to FIF, information for pre-issuance CMOs “is not consistently available two days prior to the first settlement date.”³⁷

FINRA carefully considered the committee views and written comments. After analyzing this feedback, FINRA believes it is appropriate to proceed with the proposal as described and explained above in the filing, which has been modified from what FINRA proposed in Regulatory Notice 15-04. Based on FINRA’s continued study of the impact of dissemination on TRACE-Eligible Securities, and Securitized Products in particular, in addition to dialogue with a variety of market participants and the feedback received on Regulatory Notice 15-04, FINRA believes the proposed dissemination of transaction information for CMOs would be valuable to assist in price discovery, determination of execution quality, and, in particular, valuation of securities positions. FINRA recognizes, however, that CMOs generally are more complex and less fungible than the securities that are currently subject to dissemination. As a result, FINRA believes it is important to calibrate its proposal to provide for tiered dissemination of these products in a way that promotes transparency while minimizing potential negative impacts on liquidity. Importantly, while FINRA has decided not to expand dissemination to CMBSs and CDOs at this time, FINRA believes this proposal is a careful step towards enhanced transparency for these remaining Securitized Product types, and that it will allow FINRA and market participants to consider how best to approach the final phase of dissemination expansion.

³⁶ See BDA Letter at 4.

³⁷ See FIF Letter at 2.

In an effort to further calibrate the proposal to provide additional safeguards against the risk of reverse-engineering, FINRA modified the minimum security activity threshold first proposed in Regulatory Notice 15-04 for periodic reporting. The Regulatory Notice proposed to disseminate larger-size transactions (\$1 million or more) on an aggregate periodic basis provided there were five or more transactions in the security during the reporting period. In response to the feedback FINRA received, FINRA is now proposing to disseminate aggregate periodic reports for larger-size transactions provided there are five or more transactions in the security during the reporting period, and further that the transactions must be reported by at least two different MPIDs. FINRA believes that this modified threshold for aggregate periodic reporting will further the interests of transparency while being sensitive to the confidentiality of positions or trading strategies, particularly in securities that trade in a concentrated market made by just one dealer.

Concerning the specific items of transaction information that FINRA would disseminate for CMOs, FINRA has modified the proposal in part to reflect the input it received from commenters. Specifically, FINRA will remove counterparty information from transactions that are disseminated and will also remove the data fields that it proposed in Regulatory Notice 15-04 for the periodic reports that would have conveyed last sale price, last sale date, customer buy, customer sell, and interdealer prices. FINRA believes these modifications are appropriate to address commenters' concerns about reverse engineering. FINRA has not modified the proposal, however, in response to commenters' suggestion to suppress new issue transactions in CMOs. The definition of List or Fixed Price Transaction does not apply to CMOs. FINRA believes that redefining

the term List or Fixed Price Transaction to include CMOs would result in a significantly less effective proposal, according to input FINRA has received from various market participants.

Concerning the reporting timeframe for transactions in CMOs executed on or after issuance, FINRA modified its proposal to allow for 60-minute reporting rather than 15-minute reporting. FINRA believes this change is appropriate to minimize firms' reporting burdens while improving the timeliness in the receipt and dissemination of CMO transaction information. FINRA notes that the proposed 60-minute timeframe is the same as the reporting requirement for other Securitized Products, namely, agency pass-through mortgage-backed securities traded to be announced not for good delivery.

Finally, FINRA has modified its approach to simplifying the reporting process for pre-issuance CMOs from what it proposed in its Regulatory Notice. As noted above, FINRA understands that in many cases, particularly for private label securities, the characteristics of a new issue may not be finalized until the first settlement date of the securities. As a result, FINRA is no longer proposing a reporting deadline two days prior to the first settlement date, but is instead proposing that pre-issuance CMO transactions be reported by the first settlement date.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2016-023 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Robert W. Errett, Deputy Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2016-023. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld

from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2016-023 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁸

Robert W. Errett
Deputy Secretary

³⁸ 17 CFR 200.30-3(a)(12).

Regulatory Notice

15-04

Trade Reporting and Compliance Engine (TRACE)

FINRA Requests Comment on a Proposal to Disseminate Additional Securitized Products and to Reduce the Reporting Time Frame for These Products

Comment Period Expires: April 10, 2015

Executive Summary

FINRA is soliciting comment on a proposal to expand dissemination of TRACE data to include additional Securitized Products, specifically, collateralized mortgage obligations (CMOs), commercial mortgage-backed securities (CMBSs) and collateralized debt obligations (CDOs). FINRA is proposing to reduce the reporting time frame for these additional Securitized Products from end-of-day to 45 minutes and, after nine months, to 15 minutes. FINRA also is proposing to simplify the reporting requirement for pre-issuance CMOs.

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;
- ▶ Elliot Levine, Associate VP & Counsel, Transparency Services, at (202) 728-8405;
- ▶ Racquel Russell, Associate General Counsel, Office of General Counsel (OGC), at (202) 728-8363; or
- ▶ Alexander Ellenberg, Assistant General Counsel, OGC, at (202) 728-8152.

February 2015

Notice Type

- ▶ Request for Comment

Suggested Routing

- ▶ Compliance
- ▶ Fixed Income
- ▶ Legal
- ▶ Operations
- ▶ Systems
- ▶ Trading
- ▶ Training

Key Topics

- ▶ Asset-Backed Securities
- ▶ Collateralized Debt Obligations
- ▶ Collateralized Mortgage-Backed Securities
- ▶ Collateralized Mortgage Obligations
- ▶ Securitized Products
- ▶ Transaction Dissemination
- ▶ Transaction Reporting

Referenced Rules and Notices

- ▶ FINRA Rule 6710
- ▶ FINRA Rule 6730
- ▶ FINRA Rule 7730
- ▶ Regulatory Notice 14-34
- ▶ Securities Act Rule 144A

Action Requested

FINRA encourages all interested parties to comment on the proposal. Comments must be received by April 10, 2015.

Comments must be submitted through one of 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

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

Important Notes: 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.¹

Before becoming effective, a proposed rule change must be authorized for filing with the Securities and Exchange Commission (SEC) by the FINRA Board of Governors, and then must be filed with the SEC pursuant to Section 19(b) of the Securities Exchange Act of 1934 (SEA or Exchange Act).²

Background and Discussion

Expanded Dissemination to Additional Securitized Products

Currently, firms are required to report all transactions in “Securitized Products”³ to TRACE. FINRA disseminates real-time information on transactions in certain “Securitized Products”—particularly Agency Pass-Through Mortgage Backed Securities traded TBA and in Specified Pool Transactions. Beginning on April 27, 2015, FINRA will commence real-time dissemination of an additional subset of Securitized Products, specifically transactions in Asset-Backed Securities.⁴ FINRA is proposing to further expand the list of Securitized Products that are subject to public trade dissemination to include all remaining types of Securitized Products: collateralized mortgage obligations (CMOs),⁵ commercial mortgage-backed securities (CMBSs) and collateralized debt obligations (CDOs)⁶ (collectively referred to as “additional Securitized Products”).

As discussed in greater detail below, these additional Securitized Products generally are more complex and less fungible than the types currently subject to dissemination, and they trade in volumes roughly similar to investment grade corporate debt although with fewer transactions. FINRA is proposing to disseminate trade data for these additional Securitized Products using a two-tiered approach depending upon the size of the transactions. Specifically, FINRA proposes to report trade-by-trade information in real time for transactions valued under \$1 million (calculated based upon original principal value). For transactions valued at \$1 million or more, FINRA would disseminate aggregated transaction information via both weekly and monthly periodic reports, provided that five or more transactions occurred in the security in the period. For example, if five transactions occur in a security during each week of a calendar month, then four weekly reports would be disseminated (one for each week); in addition, the security would be included in the aggregate monthly report for that month. If five transactions occur across a calendar month but not for any single week, then a weekly report would not be available, but the security would be included in the monthly report for that month.

Based on a review of TRACE data from January to December 2013, which is summarized in Table 1 of [Appendix B](#), this approach would have resulted in transparency for 79 percent of reported trades (71 percent would be disseminated in real-time) and 21 percent of dollar volume (1 percent would be disseminated in real-time).⁷ As summarized in Table 2 of [Appendix B](#), FINRA estimates that, on average, information in the weekly reports would cover approximately 100 securities and the monthly reports would cover 700 securities. [Appendix C](#) shows a sample of the intended content of the periodic report. FINRA proposes that after 18 months of experience with the new rule, FINRA would reduce the transaction threshold from five transactions during the period to four transactions, provided no negative impact has been observed. This would increase the availability of pricing information on additional Securitized Products to approximately 200 securities per week and 1,200 securities per month.

Transition to 15-Minute Trade Reporting Time Frame

To facilitate dissemination of transaction information in additional Securitized Products, FINRA proposes to reduce the trade reporting time frame for these securities. Currently, transactions in additional Securitized Products generally must be reported to TRACE no later than the close of TRACE system hours on the date of execution. FINRA proposes to reduce the reporting time frame for the additional Securitized Products in two phases—first to within 45 minutes of a transaction’s execution, and then, after nine months, to within 15 minutes of execution. This proposed phased approach to reducing the reporting period for additional Securitized Products mirrors the transitional approach that FINRA has taken historically.⁸ The intent of the phased approach is to provide firms adequate time to comply with the shorter time frames.

Pre-Issuance CMO Transactions

FINRA proposes to amend Rule 6730 to change the reporting time frame for transactions in CMOs that are executed before the issuance of the security to no later than two business days prior to the first settlement date of the security. Under current Rule 6730, firms generally must report CMO transactions that are executed prior to the issuance of a security on the earlier of the business day that the security is assigned a CUSIP, or the date of issuance of the security. FINRA is aware that some firms, particularly small and mid-size firms, have had difficulty in determining with accuracy in a timely manner when the reporting obligation has been triggered (due to inconsistencies in communicating the relevant information between underwriters and trading parties). As a result, these firms do not always report trades in these instruments on the earlier of the two dates. FINRA believes that, because new issuances in CMOs as a general rule settle on the last business day of the month, the amended proposal would provide for a uniform reporting date that is easily ascertainable by all firms.

Potential Economic Impacts

Economic Baseline

Transactions in additional Securitized Products amounted to \$14.9 billion average daily original principal balance in 2014, representing approximately 7 percent of total original principal balance traded in Securitized Products. The average daily original principal balance traded in additional Securitized Products is roughly the same as that in investment grade corporate bonds, although there are approximately 10 times more trades in the corporate segment than the roughly 2,500 average daily trades in the additional Securitized Products market. The average size of additional Securitized Products transactions, at \$6 million, is significantly larger than that of the investment grade corporate bond market (slightly under \$600,000). Although the CDO and CMBS segments are largely institutional and customer-driven, the CMO segment includes retail-sized activity. In 2014, approximately 52 percent of all CMO customer transactions were less than \$100,000. There are also fewer participants in the additional Securitized Products market compared to the corporate bond market, and trading activity is relatively concentrated among dealers.⁹ In 2014, approximately 700 unique dealers reported at least one transaction in additional Securitized Products, and approximately 160 unique dealers reported at least one trade each day. In contrast, 1,300 dealers reported at least one transaction in corporate bonds, and approximately 500 dealers reported each day. Anecdotally, the same is true for the customer base, with fewer, and typically larger, customers than those buying or selling corporate bonds.

With respect to pre-issuance CMO transactions, in 2014, more than 1,200 CMO deals were issued and added to TRACE, with a total of 6,600 individual securities (tranches), or CUSIPs. More than 27,000 transactions in these securities were executed prior to the issuance of the security, and would have thus benefited from the revised reporting time frames proposed for pre-issuance transactions.

Expanded Dissemination to Additional Securitized Products

FINRA believes, based on dialogue with a variety of market participants, that the proposed dissemination of information for these products would be valuable to assist in price discovery, determination of execution quality, and, in particular, valuation of securities positions.¹⁰ Given the bespoke nature of these products, valuation is of significant importance and is an integral part of pricing and price discovery.

On the other hand, market participants also have expressed concern that the dissemination of trade-by-trade information might disclose trading strategies and positions to competitors given the unique and bespoke nature of these products. Accordingly, based on that dialogue, FINRA believes that disseminating information for transactions of \$1 million or more only for securities that registered a minimum of five trade reports during the period on a periodic and aggregated basis should mitigate these concerns, as more frequently traded securities generally are more widely held and thus help preserve anonymity. As discussed above, based on a review of TRACE data from January through December 2013, the proposal would have resulted in transparency for 79 percent of reported trades (71 percent would be disseminated in real-time) and 21 percent of dollar volume (1 percent would be disseminated in real-time). In addition, based on the same dialogue, FINRA believes concerns regarding “reverse engineering” are not generally directed to smaller transactions and thus propose real-time dissemination of transactions under \$1 million. FINRA requests comments on the appropriateness of this approach. FINRA also encourages commenters to provide information or evidence on whether this approach could create a competitive disadvantage for small firms or firms with certain business models.

In addition to these direct impacts, there may also be indirect economic impacts caused by the proposed approach to dissemination. For example, the increased transparency may potentially impact transaction costs, the willingness of broker-dealers to provide liquidity to their customers, and customers’ willingness to trade. FINRA requests specific comment below on the potential indirect impacts of the proposed dissemination.

There is no anticipated operational impact on member firms as a result of FINRA disseminating transaction information on additional Securitized Products, as member firms already submit this information through TRACE. Regarding the costs for market participants to acquire the disseminated data, the data will be included in the existing Securitized Products Data Set with no changes to the associated fees.¹¹ Thus, existing subscribers to the Securitized Products Data Set will not incur additional costs as a result of the new products included under the proposal. Market participants that do not currently subscribe to the Securitized Products Data Set only would incur costs if they choose to subscribe; however, they would only do so if they determined it was valuable to their business.

Transition to 15-Minute Trade Reporting Time Frame

Currently, all member firms must report information on transactions in additional Securitized Products through TRACE on an end-of-day basis. Therefore, firms already have systems and procedures in place to comply with the current reporting requirement. FINRA recognizes that some firms may incur new costs to make process or technology changes to comply with the phased approach to 15-minute reporting. However, given that many transactions in additional Securitized Products generally are reported within 15 minutes, FINRA estimates that the impact will be limited.¹² FINRA believes the potential costs of this requirement would be further mitigated by the approach the proposal would take, consistent with recent FINRA practice, which would begin with a transitional 45-minute reporting requirement for nine months before moving to the proposed 15-minute requirement. FINRA encourages commenters to provide information on the sources and estimates of potential costs associated with any required process or technology changes.

Pre-issuance CMO Transactions

FINRA believes the proposed change to the reporting time frame for transactions in CMOs that are executed prior to the issuance of the security would benefit firms by providing more certainty around the reporting requirements. As discussed above, under current Rule 6730, some firms (particularly small and mid-size firms) have had difficulty in determining with accuracy in a timely manner when the reporting obligation has been triggered. FINRA believes that, because new issuances in CMOs as a general rule settle on the last business day of the month, the amended proposal would provide for a uniform reporting date that is easily ascertainable by all firms.

FINRA notes that firms involved in this market may incur costs associated with process or technology changes required to comply with the proposal. However, FINRA believes that the proposed requirement is less stringent than the current rule because it provides more time for, and clarity around, reporting pre-issuance transactions in CMOs. FINRA encourages commenters to provide information on the potential costs and cost savings associated with the process or technology changes.

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:

- ▶ How does dissemination of transaction information for additional Securitized Products assist price discovery, execution quality determinations, and valuation for these securities? Are there other benefits to disseminating this information? Are there concerns or potential harms associated with the proposed dissemination to market participants or the marketplace?
- ▶ Is the \$1 million threshold for real-time transaction dissemination appropriate? Would another dollar threshold be more appropriate? If so, please explain. Would another measure (other than a threshold based upon original principal value) be more appropriate?
- ▶ Is the five-transaction minimum for triggering the inclusion of a security in the aggregate weekly and monthly reports sufficient for mitigating concerns regarding information leakage (the number of transactions will be displayed in buckets, *i.e.* “5 to 10 trades”, “11 to 25 trades” and “26+ trades”)? If not, what minimum number of transactions would be preferable?
- ▶ As noted above, after a period of 18 months, FINRA intends to reduce the minimum number of transactions required during a period for inclusion in the aggregate reports from five to four. Are there particular factors or metrics FINRA should consider during this 18-month observatory period?
- ▶ Would the proposed thresholds of \$1 million and five transactions create any competitive disadvantage for small firms or firms with certain business models? What are those competitive disadvantages and are there other approaches that FINRA should consider?
- ▶ Concerning the proposed transition to 15-minute reporting for additional Securitized Products, is a phased approach, as used previously for other Securitized Products, an appropriate approach for this proposal?
- ▶ What are the sources and estimated costs to member firms to make process and technology changes to reduce the trade reporting time frame for the additional Securitized Products?
- ▶ Would the proposed rule changes impose different costs on member firms of different sizes or business models?
- ▶ Are there potential indirect economic impacts of the proposal? For example, would market liquidity, dealer participation or transaction costs be affected by the proposed dissemination of additional Securitized Products? Please provide evidence of the sources and relative size of indirect economic impacts.

- ▶ Regarding the dissemination of transactions in Asset-Backed Securities that will begin on April 27, 2015, as referred to in the discussion above, FINRA decided not to disseminate the contra-party indicator, which identifies whether the trade is with a dealer, a buy from a customer, or a sell to a customer. This was done primarily to mitigate concerns regarding the confidentiality of dealer and customer trading strategies. Are there similar concerns in the CMO, CMBS and CDO markets? Should FINRA consider not disseminating the contra-party indicator for CMO, CMBS and CDO transactions under \$1 million and subject to real-time dissemination under the proposal?
- ▶ With regard to TRACE reporting requirements in most TRACE-Eligible Securities, FINRA requires a determination of whether a transaction meets the definition of a List of Fixed Offering Price Transaction, as defined in Rule 6710(q). Such transactions are required to be reported with an indicator. Currently these requirements do not apply to transactions in Asset-Backed Securities as defined in Rule 6710(m). However, effective April 27, 2015, the requirements will be extended to transactions in Asset-Backed Securities. Should FINRA consider extending these requirements to private label CMOs, CMBSs and CDOs, given their status as non-exempt securities; hence, subject to registration under the Securities Act of 1933?
- ▶ What are the sources and estimated costs to firms to make process and technology changes to change the reporting period for transactions in CMOs that are executed prior to the issuance of the security? What are the benefits? Would this element of the proposal provide greater clarity and facilitate compliance with the rule, as intended?
- ▶ Should the element of the proposal that would modify trade reporting requirements for transactions in CMOs effected prior to issuance also apply to CMBSs or CDOs? Given their status as non-exempt securities, do such transactions occur in a manner similar to that of agency/GSE issued REMICS?

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) (NASD Announces 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. Certain limited types of proposed rule changes, however, take effect upon filing with the SEC. *See* SEA Section 19(b)(3) and SEA Rule 19b-4.
3. Rule 6710 provides that a “Securitized Product” means a security collateralized by any type of financial asset, such as a loan, a lease, a mortgage, or a secured or unsecured receivable, and includes but is not limited to an asset-backed security as defined in Section 3(a)(79)(A) of the Exchange Act, a synthetic asset-backed security, and any residual tranche or interest of any security specified above, which tranche or interest is a debt security for purposes of paragraph (a) and the Rule 6700 Series.
4. “Asset-Backed Security” is defined generally to mean a type of Securitized Product where the Asset-Backed Security is collateralized by any type of financial asset, such as a consumer or student loan, a lease, or a secured or unsecured receivable, and excludes: (i) a Securitized Product that is backed by residential or commercial mortgage loans, mortgage-backed securities, or other financial assets derivative of mortgage-backed securities; (ii) an SBA-Backed ABS traded To Be Announced or in a Specified Pool Transaction; and (iii) collateralized debt, loan and bond obligations. *See also Regulatory Notice 14-34* (August 2014).
5. “Collateralized Mortgage Obligation” (CMO) is defined in FINRA Rule 6710(dd) to mean a type of Securitized Product backed by Agency Pass-Through Mortgage-Backed Securities as defined in Rule 6710(v), 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).
6. A “Collateralized Debt Obligation” (CDO) would be defined in proposed FINRA Rule 6710(ee) to mean a type of Securitized Product backed by fixed-income assets (such as bonds, receivables on loans, or other debt) or derivatives of these fixed-income assets, structured in multiple classes or tranches with each class or tranche entitled to receive distributions of principal and/or interest in accordance with the requirements adopted for the specific class or tranche. A CDO includes, but is not limited to, a collateralized loan obligation (CLO) and a collateralized bond obligation (CBO).
7. FINRA also is proposing to amend Rule 7730 (fees for TRACE) to reflect the addition of these additional Securitized Products to the applicable data sets. Disseminated periodic reports of additional Securitized Products will become available as part of the Securitized Products Data Set and transactions in additional Securitized Products will become part of the Historic Securitized Products Data Set in FINRA Rule 7730. Similarly, disseminated periodic reports of additional Securitized Products issued pursuant to Rule 144A will become part of the Rule 144A Data Set, and Rule 144A transactions in

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- additional Securitized Products will become part of the Historic Rule 144A Data Set. The inclusion of this additional data in such data sets will not involve an additional charge for the Securitized Products Data Set, the Historic Securitized Products Data Set, the Rule 144A Data Set, and the Historic Rule 144A Data Set.
8. *See, e.g., Regulatory Notice 14-34* (August 2014) (describing the phased reduction in the trade reporting timeframe for additional asset-backed securities that will begin to take effect in April, 2015).
 9. The most active 10 firms in each segment capture approximately 56 percent, 74 percent and 76 percent of CMO, CMBS and CDO original principal balance traded, respectively.
 10. The potential benefits of additional transparency in fixed income markets are also evidenced by the academic literature. *See* Bessembinder, Maxwell, and Venkataraman, "Trading Activity and Transaction Costs in Structured Credit Products," (July 2013); *see also* Cici, Gibson, and Merrick, Jr., "Missing the Marks? Dispersion in Corporate Bond Valuations Across Mutual Funds," (July 2011) (concluding, with respect to corporate bonds, that transparency from TRACE dissemination contributed to increased pricing precision).
 11. *See supra* note 7. There is no charge for non-professional real-time display of TRACE data. The current fee structure for the professional TRACE data feed is available on the [FINRA website](#).
 12. In 2014, approximately 65 percent of these additional Securitized Products were reported within 5 minutes, 75 percent within 15 minutes and 81 percent within 45 minutes.

APPENDIX A

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.¹

6000. QUOTATION AND TRANSACTION REPORTING FACILITIES

* * * * *

6700. TRADE REPORTING AND COMPLIANCE ENGINE (TRACE)

* * * * *

6710. Definitions

(a) through (bb) No Change.

(cc) “Asset-Backed Security” means a type of Securitized Product where the Asset-Backed Security is collateralized by any type of financial asset, such as a consumer or student loan, a lease, or a secured or unsecured receivable, and excludes: (i) a Securitized Product that is backed by residential or commercial mortgage loans, mortgage-backed securities, or other financial assets derivative of mortgage-backed securities; (ii) an SBA-Backed ABS as defined in paragraph (bb) traded To Be Announced (“TBA”) as defined in paragraph (u) or in a Specified Pool Transaction as defined in paragraph (x); and (iii) a collateralized debt[, loan and bond] obligation[s] (“CDO”).

(dd) No Change.

(ee) “Collateralized Debt Obligation” (“CDO”) means a type of Securitized Product backed by fixed-income assets (such as bonds, receivables on loans, or other debt) or derivatives of these fixed-income assets, structured in multiple classes or tranches with each class or tranche entitled to receive distributions of principal and/or interest in accordance with the requirements adopted for the specific class or tranche. A CDO includes, but is not limited to, a collateralized loan obligation (“CLO”) and a collateralized bond obligation (“CBO”).

* * * * *

1. Proposed changes are marked against the version of this rule text that will be effective on April 27, 2015.

6730. Transaction Reporting

(a) When and How Transactions are Reported

Each member that is a Party to a Transaction in a TRACE-Eligible Security must report the transaction. A member must report a transaction in a TRACE-Eligible Security within 15 minutes of the Time of Execution, except as otherwise specifically provided below, or the transaction report will be “late.” A member must transmit the report to TRACE during TRACE System Hours.

(1) Through (2) No Change.

(3) Reporting Requirements — Securitized Products

Transactions in Securitized Products must be reported as provided in this paragraph (a)(3).

(A) through (B) No Change.

(C) Collateralized Mortgage Obligation Transactions Before Issuance

Transactions in Securitized Products that are Collateralized Mortgage Obligations (“CMOs”) that are executed before the issuance of the security must be reported [the earlier of:]

[(i) the business day that the security is assigned a CUSIP, a similar numeric identifier or a FINRA symbol during TRACE System Hours (unless such identifier is assigned after 1:00:00 p.m. Eastern Time, and in such case, such transactions must be reported no later than the next business day during TRACE System Hours), or]

[(ii) the date of issuance of the security during TRACE System Hours] no later than two business days prior to the first settlement date of the security.

[In either case, i]f the transaction is reported other than on the date of execution, the transaction report must be designated “as/of” and include the date of execution.

(D) through (G) No Change.

(H) Other Securitized Products

Transactions in CMOs, commercial mortgage-backed securities (“CMBSs”), and CDOs shall be reported as follows:

(i) During the transitional phase for reducing reporting timeframes for CMOs, CMBSs and CDOs (“Transitional Phase”), which shall expire at 11:59:59 p.m. Eastern Time on [insert date], such transactions must be reported as follows:

a. Transactions executed on a business day at or after 12:00:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day no later than 45 minutes after the TRACE system opens.

b. Transactions executed on a business day at or after 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time (standard TRACE System Hours) must be reported within 45 minutes of the Time of Execution, except as provided in paragraph (a)(3)(B)(i)c. below.

c. Transactions executed on a business day less than 45 minutes before 6:30:00 p.m. Eastern Time must be reported no later than 45 minutes after the TRACE system opens the next business day (T+1), and if reported on T+1, designated “as/of” and include the date of execution.

d. Transactions executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time or on a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T+1), no later than 45 minutes after the TRACE system opens, designated “as/of” and include the date of execution.

(ii) After the Transitional Phase expires, transactions in CMOs executed after the issuance of the security, CMBSs, and CDOs must be reported as provided in paragraph (a)(1)(A) through paragraph (a)(1)(D).

(4) through (6) No Change.

(b) through (f) No Change.

* * * * *

6750. Dissemination of Transaction Information**(a) Real-Time Dissemination**

FINRA will disseminate information on all transactions in TRACE-Eligible Securities, including transactions effected pursuant to Securities Act Rule 144A, immediately upon receipt of the transaction report, except as provided in (b) and (c) below.

(b) Periodic Dissemination [Transaction Information Not Disseminated]

FINRA will disseminate aggregated information on transactions in a TRACE-Eligible Security that is a collateralized mortgage obligation (CMO), commercial mortgage-backed security (CMBS) or collateralized debt obligation (CDO) on a weekly and monthly basis, including transactions effected pursuant to Securities Act Rule 144A, where the transaction value is \$1 million or more (calculated based upon original principal balance) and where there have been five or more transactions in the period.

(c) Transaction Information Not Disseminated

FINRA will not disseminate real-time information on a transaction in a TRACE-Eligible Security that is:

(1) through (3) No Change.

(4) a Securitized Product[, except:] that is a CMO, CMBS or CDO where the transaction value is \$1 million or more (calculated based upon original principal balance). Aggregated information on these transactions will be subject to periodic dissemination pursuant to paragraph (b) above.

[(A) an Agency Pass-Through Mortgage-Backed Security;]

[(B) an SBA-Backed ABS; and]

[(C) an Asset-Backed Security.]

* * * * *

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)

(a) through (b) No Change.

(c) Market Data Fees

Real-Time TRACE transaction data disseminated by FINRA comprises the following databases (“Data Set(s)”): corporate bonds (“Corporate Bond Data Set”), Agency Debt Securities (“Agency Data Set”), Securitized Products (“SP Data Set”), and transactions in TRACE-Eligible Securities effected pursuant to Securities Act Rule 144A (“Rule 144A transactions”) (“Rule 144A Data Set”). The “SP Data Set” includes real-time TRACE transaction data and periodic aggregated transaction information for CMOs, CMBSs or CDOs disseminated pursuant to Rule 6750(b). Market data fees are charged for each Data Set. Professionals and Non-Professionals may subscribe to receive one or more Data Sets of Real-Time TRACE transaction data disseminated by FINRA in one or more of the following ways for the charges specified, as applicable. Members, vendors and other redistributors shall be required to execute appropriate agreements with FINRA.

(1) through (2) No Change.

(d) 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 months and will not include MPID information. Historic TRACE Data includes the following Data Sets:

(A) through (B) No Change.

(C) Historic SP Data Set – includes all historic transactions in Securitized Products as defined in Rule 6710(m) reported to TRACE, [if transactions in the type of Securitized Products are subject to real-time dissemination under Rule 6750,] but excludes historic Rule 144A transactions in Securitized Products; and

(D) Historic Rule 144A Data Set – includes all historic Rule 144A transactions reported to TRACE[, except transactions involving a type of TRACE-Eligible Security that is not subject to real-time dissemination under Rule 6750].

(g) No Change.

Exhibit 2b

Alphabetical List of Written Comments

1. Bloomberg (April 10, 2015)
2. John Gidman, Association of Institutional INVESTORS (April 10, 2015)
3. Christopher B. Killian, SIFMA (April 13, 2015)
4. Michael Nicholas, Bond Dealers of America (April 9, 2015)
5. Darren Wasney, Financial Information Forum (April 7, 2015)

Please find below comments on the behalf of BVAL, Bloomberg's Valuation Service:

Limiting dissemination to trades under one million dollars current face, in our view, will provide limited transparency into the market for these asset classes as a whole. These are institutional markets as evidence by the fact that $\leq 1\%$ of this market trades in sizes under \$1MM. Odd-lots trade to a different buyer base and typically trade at a discount to their round-lot counterparts. As such, odd-lot data is not relevant with respect to providing transparency to the broader market and will not be used in our evaluated pricing.

Dissemination of prices on a delay has the potential to be useful as it would allow the market to infer relative value for various structural and collateral characteristics without disclosing real time trading levels. However, restricting this dissemination to bonds with 5 trades over a one month period would heavily restrict its usefulness. Due to this, we do not see it as something impactful from the perspective of a pricing provider.

Please let me know if you have any questions.



April 10, 2015

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

Dear Ms. Asquith:

Re: Trade Reporting and Compliance Engine (TRACE) Request for Comment

The Association of Institutional INVESTORS (“Association”) would like to thank you for the opportunity to respond to the Financial Industry Regulatory Authority’s (“FINRA”) request for comment on a proposal to expand the dissemination of TRACE data (Regulatory Notice 15-04). We would like to use this opportunity to share the Association’s perspectives and outline a set of recommendations on specific aspects of the proposal that may impact the U.S. Commercial Mortgage Backed Securities (“CMBS”) market.

The Association consists of some of the oldest, largest, and most trusted institutional investment advisers. Our clients are primarily institutional investment entities that serve the interests of investors who are the asset owners through public and private pension plans, foundations, trusts, and registered investment companies. Collectively, our member firms provide advisory services to more than 80,000 pension plans, mutual funds, and similar investment entities on behalf of more than 100 million American workers and retirees. Our clients rely on us to prudently manage participants’ retirements, savings, and investments. This reliance is built, in part, upon the fiduciary duty owed to these organizations and individuals. We recognize the significance of this role, and the concerns we raise in this letter are intended to reflect not only the concerns of the Association but also the concerns of the companies, labor unions, municipalities, families, and individuals we ultimately serve.

We strongly favor FINRA’s proposal to further expand the list of Securitized Products that are subject to public trade dissemination. Providing this transparency will be extremely beneficial to all market participants and greatly assist in price discovery and in decreasing price dispersion. The Association sincerely appreciates the efforts that have been undertaken by FINRA to enhance transparency in the Securitized Products marketplace. We believe that over the long

term, this much needed transparency will assist in creating a more sustainable market. In the sections below, we will share our perspectives on the proposal and offer specific recommendations regarding FINRA's proposed two-tiered approach to disseminate trade data.

Benefits of Dissemination of Transaction Information

Currently the price discovery process for Securitized Products is opaque and potentially selective. To illustrate this point, absent a TRACE-like reporting mechanism, the entire buy-side is dependent on dealers to provide pricing context on whichever bonds they choose, when they choose, and to the investment firms they choose. TRACE dissemination has the potential of greatly benefiting the whole market by making pricing information broadly available. Systematic reporting would also:

- Improve the accuracy of the information being shared
- Improve the reliability of bond pricing services that are used by the broad market, and which frequently rely on direct pricing information from dealers
- Increase investor confidence in participating in the market due to enhanced pricing transparency

Recommendations regarding Thresholds for Dollar Amount and Number of Transactions

We understand that FINRA proposes to disseminate trade data using a two-tiered approach:

1. For transactions valued under \$1 million FINRA proposes to report trade-by-trade information in real time.
2. For transactions valued at greater than \$1 million there will be no real-time information. Instead, FINRA would disseminate aggregated transaction information via both weekly and monthly periodic reports, provided that five or more transactions occurred in the security in the period.

The dissemination by TRACE can have a tremendous positive impact on the price discovery of all securities, particularly those less frequently traded. TRACE rules should be designed to ensure that price disclosure information encompasses all securities and is relevant to a large majority of market participants.

We understand that using a \$1 million threshold to determine whether individual trade disclosure is required may help address concerns regarding proprietary trading strategies or investor privacy. However, the Securitized Products market is largely an institutional market, and a \$1 million threshold is too low to be relevant to most participants.

We would also note that any thresholds with respect to the minimum number of transactions required for TRACE reporting will exclude a meaningful portion of trades in Securitized Products and would therefore undermine the goal of the proposed rules. Unlike the Corporate bond, Securitized Products often have very small class sizes that may trade infrequently – some may not even trade more than once or twice annually let alone five times a month.

In view of the observations above, we recommend that the two-tiered approach be modified as follows:

1. FINRA should eliminate the transaction frequency thresholds.
2. For all transactions under \$5 million, trade-by-trade information should be provided on a real time basis and dissemination should include the following data: price, amount of the transaction, type of buyer, and type of seller.
3. For all transactions above \$5 million we recommend a reporting standard that at a minimum discloses trade by trade details including price, type of buyer and type of seller, with individual transaction amounts reported as “\$5M+” on a five day delay. We encourage FINRA to evaluate potential market implications, and, if appropriate, increase this recommended minimum standard to a real time reporting basis.

We also recommend that FINRA closely monitors the market impact after the adoption of the final rules, and maintains an open dialogue with market participants to identify possible shortfalls and make any necessary adjustments.

The Association believes that FINRA’s proposal to further expand the list of Securitized Products subject to public trade dissemination would greatly benefit all market participants – especially in terms of assisting with price discovery and decreasing price dispersion. A consistent, accurate price discovery source that is readily available to all market participants would help strengthen the marketplace over the long term, creating a more sustainable market through business and lending cycles.

We very much appreciate the opportunity to share our perspectives and recommendations with you. We would like to thank you again for your efforts on behalf of the U.S. financial system in creating a more transparent marketplace in Securitized Products. Please do not hesitate to contact me at jgidman@loomissayles.com or (617) 748-1748 or Francisco Paez at fpaez@metlife.com or (973) 647-3055 should you have any questions.

On behalf of the Association of Institutional INVESTORS,



John Gidman
President
Association of Institutional INVESTORS



April 13, 2015

Submitted Via Email to pubcom@finra.org

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

Re: *FINRA Regulatory Notice 15-04: Proposal to Disseminate Additional Securitized Products and to Reduce the Reporting Time Frame for These Products*

Ladies and Gentlemen,

The Securities Industry and Financial Markets Association (“SIFMA”¹) is pleased to respond to FINRA’s request for comment on FINRA’s proposed rule (the “Proposal”) to begin dissemination of data for transactions in other Securitized Products, specifically, collateralized mortgage obligations (“CMOs”), commercial mortgage-backed securities (“CMBs”) and collateralized debt obligations (“CDOs”).²

1. Summary of the Proposal

The Proposal would implement shorter reporting timeframes for various securitized products transactions (initially forty-five minutes for six months, then fifteen minutes), as well as real-time dissemination of trade information. Volume information would be capped at \$1,000,000. For trades below \$1,000,000, FINRA proposes to report trade-by-trade information in real time. For trades above \$1,000,000, FINRA proposes to disseminate aggregated transaction information via both weekly and monthly periodic reports, provided that five or more transactions occurred in the security in the period. The proposal also seeks to revise new issue CMO reporting time from the earlier time that the security is assigned a CUSIP or the date of issuance of the security to no later than two business days prior to the first settlement date of the security.

2. Summary of SIFMA Views

While SIFMA members agree with FINRA that there may be benefits to price discovery as a result of dissemination of trade information regarding other securitized products, we also believe the proposal has the potential to negatively impact market liquidity, as previous proposals have done in the TBA, specified pool and the high-yield markets. We request that FINRA decrease the dissemination cap from \$1,000,000 to \$100,000, increase the transaction threshold for the aggregate reports from five to twenty, only disseminate secondary CMO trades, and

¹ SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA’s mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

² FINRA Regulatory Notice 15-04, available here: http://www.finra.org/sites/default/files/notice_doc_file_ref/Notice_Regulatory_15-04.pdf



remove last price and last trade date from the aggregate reports. We also offer granular comments on the proposal.

3. Maintaining and Enhancing Market Liquidity, Not Enhancing Price Discovery, Should be the Highest Priority

SIFMA members are focused on ensuring continued liquidity of the securitized products markets. We are concerned that price dissemination can harm liquidity as our members believe has happened in the high-yield bond, TBA and specified pool markets. Our concern is that the negative impacts of price dissemination could extend to the CMO, CDO, and CMBS markets as defined in the proposal. SIFMA's buy- and sell-side members have consistently noted impairment of liquidity in the TBA MBS markets since dissemination was introduced in 2012. To summarize, members view the implementation of dissemination of trade information for TBAs as having contributed to an overall decrease in liquidity in this market, due in large part to a decrease in the willingness of market makers to take on risk especially in meaningful size. Market makers are less willing to take on large trades from their buy-side counterparties when the identity of their position becomes immediately known. Similar effects have been noted in other markets subject to dissemination, in particular the MBS specified pool market and the high yield corporate market. In these markets, we believe that the benefits of improvements to price discovery have been outweighed by the cost of decreased liquidity, and we continue to strongly urge FINRA to revise the dissemination paradigm it has created.

4. Dissemination Caps should be Lowered

SIFMA members believe the dissemination threshold should be lowered from \$1,000,000 to \$100,000 to ensure only truly retail-sized transactions securities are subject to real-time dissemination. The lowered threshold should not be detrimental to retail investors since they are generally involved in trade sizes of less than \$100,000.

A primary concern with the \$1,000,000 threshold is that the disseminated information could be misleading to retail investors, particularly in regards to CMOs. When CMOs trade in the inter-dealer market, they trade at larger sizes than is typical for retail transactions. As a CMO is paid down, a bond with an original face of \$1,000,000 can get factored down to as low as \$10,000 and pricing on smaller trades can be different from pricing on larger trades. Therefore pricing information on institutional trades could be misleading to retail investors who are relying on a price reported to TRACE based off the original face.

As FINRA knows, the structure of CMOs and other securitized products can be complex. Structures may contain dozens of tranches, each unique, relatively small, and not necessarily comparable. Unlike corporate or municipal bonds, mortgage-related products have average life variations that are uniquely dependent on mortgage prepayments. This market is already illiquid and disseminating larger sized trades on a per-trade basis will further hinder it. For these reasons, SIFMA members believe \$100,000 is a more appropriate threshold for the dissemination of trade-by-trade information.

5. Aggregate Report Thresholds should be Higher

SIFMA members believe the threshold number of transactions for a CUSIP to appear in a weekly or monthly report should be increased from five transactions to twenty transactions. Liquidity in the securitized products markets will be least impacted by price dissemination if only truly actively traded CUSIPs are captured in the weekly and monthly reports. When considering threshold numbers of transactions, it is important to recognize is that one trade can often lead to many related trades in a very short amount of time, but this does not necessarily signify that a product is widely traded. For example, a client could sell a bond to a dealer who is bidding on behalf of a client. That results in two trades that are related to a single transaction. Indeed, any trade where a dealer is acting as an agent or riskless principal will necessarily involve two trades. Similarly, if to fill a customer order a dealer



needs to source a bond from another dealer, that will involve a minimum of two trades, and could involve three or more (if the other dealer sources the bond from a customer or another dealer). While these situations may involve two or more discrete trades, if they are executed in the same day they really are one linked transaction.³ To further illustrate this point, if (A) Investor A sells \$20,000,000 of CUSIP XYZ to Broker Dealer, and (B) Broker Dealer then resells the same position to Investors B, C, D and E in four \$5,000,000 lots over a period of days (which would be common), then each of the “buys” and “sells” would be disseminated but the dealer is risk managing a single sale transaction. Our members believe that too granular of trade level reporting is likely to have a negative impact on liquidity, without providing materially improved market transparency.

SIFMA members also believe that the transaction threshold should not be reduced from five transactions to four transactions at the end of the 18 month pilot period, for the same reasons mentioned above.

SIFMA also requests that last price and last trade date be excluded from the weekly report. Knowing last price and last trade date could allow for the ability to reverse engineer which firms placed which trades thereby providing a competitive advantage to those firms that are able accurately predict how a firm might trade a certain product. Price discovery can still be attained through the omission of last price while at the same time allowing firms to retain some anonymity and mask trading strategies. For example, the inclusion of average price in the aggregate report would allow for price discovery while also masking most trading strategies. As has been seen with other fixed income products, liquidity tends to suffer once trading strategies can be potentially exposed.

6. Dissemination of “Primary” CMO Trades should be Aligned with other TRACE-Eligible Products

We understand that FINRA does not intend to require reporting firms to designate CMO transactions as either primary or secondary with P1/S1 indicators as is done for corporate bond and agency debt transactions, and as we understand will be the policy for asset-backed securities (“ABS”). Based on our understanding, all CMO trades will be disseminated (subject to other provisions in the proposed rule related to dissemination size caps and aggregate reports). SIFMA members believe the dissemination of CMO trades should mirror the current practice for corporate bonds, agency debt and the planned practice for ABS -- in that only secondary trades be subject to dissemination.

SIFMA members believe that a CMO trade should be considered primary if the transaction is executed pre-first-settlement as well as in instances where a dealer has retained an entire CUSIP and sells it into the market for the first time post-first-settlement date for the issuance. For example, if a CMO has six tranches and five tranches are traded pre-settlement of the deal and the sixth is not sold until post-settlement, for reasons such as lack of liquidity in the market, then all those transactions should be considered primary transactions and not be subject to dissemination.

7. Change to Reporting Time for Pre-Issuance CMO Transactions is Positive

SIFMA engaged FINRA in the past and requested that new issue CMO reporting time be changed since some small and mid-size firms lack the head count and resources to actively monitor all CMO data feeds and in turn might not know if a CUSIP has been issued. SIFMA members welcome the move to revise the reporting time of new issue CMOs and strongly support its implementation.

³ Accordingly, transactions which are subject to FINRA’s proposed rules on matched trades should not count as multiple trades for the purposes of TRACE dissemination.



8. Implementation Date Considerations

We believe one year is an adequate amount of time for firms to prepare for implementation of the proposed changes. We also recommend FINRA publish any technical specifications regarding the proposed changes as far in advance as possible, and further in advance than technical specifications were published for ABS dissemination.

Please contact Chris Killian (ckillian@sifma.org) or Joe Cox (jcox@sifma.org) with any questions or for more information. Thank you for your consideration of our comments.

Regards,

A handwritten signature in blue ink that reads "Chris Killian".

Christopher B. Killian
Managing Director
Securitization



21 Dupont Circle, NW • Suite 750
Washington, DC 20036
202.204.7900
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April 9, 2015

VIA ELECTRONIC MAIL

Marcia E. Asquith
Office of the Corporate Secretary
Financial Industry Regulatory Authority
1735 K Street, NW
Washington, DC 20006-1506

RE: FINRA Regulatory Notice 15-04: FINRA Requests Comment on a Proposal to Disseminate Additional Securitized Products and to Reduce the Reporting Time Frame for These Products

Dear Ms. Asquith:

On behalf of the Bond Dealers of America (“BDA”), I am pleased to submit this letter in response to the Financial Industry Regulatory Authority’s (“FINRA”) Regulatory Notice 15-04 (the “Notice”), requesting comment on a proposal to expand dissemination of TRACE data to include additional Securitized Products, specifically collateralized mortgage obligations (CMOs), commercial mortgage-backed securities (CMBSs), and collateralized debt obligations (CDOs). BDA is the only Washington, DC based group representing the interests of middle-market securities dealers and banks focused on the United States fixed income markets and we welcome this opportunity to present our comments on this Notice.

BDA supports initiatives to increase market transparency, but has concerns with how this proposal would impact market liquidity and quality and the small-to-medium sized dealers who facilitate transactions in these specialized securities. From an operational perspective, BDA is concerned with the proposal’s 15-minute reporting requirement time frame as it relates to these specific fixed-income securities. The securitized products that are the focus of the Notice are, as FINRA notes, more complex than other fixed-income securities. This is especially true from an operational perspective. Additionally, BDA believes that the current regulatory environment is creating uneven burdens across firms of different sizes. Regulatory actions that demand greater investment in technology or compliance personnel have a disproportionate impact on smaller market participants relative to larger market participants. BDA believes that these disproportionate burdens negatively impact market competition and degrade overall market liquidity and quality.

BDA is extremely concerned with the impact of regulatory actions on competition especially related to the ability of smaller dealers to compete.

BDA is concerned with how regulatory transparency initiatives will include requirements that will place disproportionate regulatory burdens on the smaller dealers that are active in these markets. Any action taken to increase market transparency that does not strike the right balance between the impact of greater transparency on liquidity and competition could harm market quality and ultimately investor pricing. This concern is especially acute in relation to the smaller trade sizes that are most frequently traded for the benefit of retail investors by smaller dealers.

The securitized products that are the focus of the Notice typically trade in “odd lot” sizes. Rarely do trades take place in clean, round whole-number quantities. Small-to-medium size dealers have been the traditional liquidity providers in the smaller quantity odd-lot market. Due to the irregular trade quantities, these securities present some unique operational challenges. Specifically, dealers in this market make de minimis trade edits with greater frequency post-execution. Currently, smaller dealers operating in this market spend significant time and resources to ensure accurate trade reporting—in relation to the current, end-of-day TRACE trade reporting requirement. To these liquidity providers, the 15-minute trade-reporting requirement will present significant challenges.

BDA is concerned that the proposal’s 15-minute post-execution reporting requirement does not acknowledge the operational challenges small-to-medium sized dealers currently face specifically with CMO, CMBS, and CDO securities.

The proposal’s 15-minute reporting requirement will increase operational, compliance, and regulatory complexity for a group of securities that are inherently more complicated than most other fixed-income securities from an operational standpoint. While the Notice states there will be “no anticipated operational impact,” BDA is concerned that an unnecessarily tight post-execution reporting time requirement will increase the frequency of small, de minimis trade corrections—made after the expiration of the 15-minute reporting window. This would cause an increase in fines amongst dealers, especially small-to-medium sized dealers with less operational personnel, who make every reasonable effort to comply with the letter and spirit of the trade-reporting requirements.

When the reporting time frame is ultimately reduced to 15 minutes, smaller dealers will face significant challenges consistently reporting trades accurately. This could lead to an unnecessary increase in regulatory fines for late-trade reporting for smaller dealers. Furthermore, dealers may be required to hire additional operational staff to verify odd-lot trade details within the 15-minute window. This may not be economically feasible for certain smaller dealers currently providing liquidity to this market.

BDA urges FINRA to be cognizant of the trade offs between the benefits of increasing transparency relative to the liquidity impacts of creating a bifurcated market with a disproportionate regulatory burden on smaller dealers who are the primary liquidity providers to the retail-focused portion of the market. BDA urges FINRA to provide a market-based rationale for why the 15-minute reporting requirement, as opposed to a longer length-reporting requirement, is the proper requirement for these specific, more complex and operationally-intensive securities.

BDA appreciates the fact that FINRA is proposing a phased-in approach that will reduce the timeframe from 45 minutes to 15 minutes after execution. But, the shift from end of day reporting to the 15 minutes after execution time frame is the reduced reporting timeframe that demands greater study. BDA urges FINRA to move cautiously and consider the value of a longer post-execution reporting timeframe that acknowledges the unique operational challenges that exist in this marketplace, especially for smaller dealers.

BDA requests that FINRA provide a market-based rationale for why the \$1 million transaction-based threshold for real-time reporting represents the optimal balance between any purported benefits from increased transparency and the potential for negative liquidity and pricing issues for retail investors in smaller trade sizes.

In the Notice, FINRA acknowledges—by choosing not to require any dissemination for additional Securitized Products that trade five times or less over a given period—that less transparency is appropriate for transactions of \$1 million or greater in less frequently traded securities. Based on FINRA’s 2013 observation period the criteria outlined in the Notice would not have provided transparency for 21 percent of trades. FINRA notes that this decision is appropriate based on concerns with disclosing trading strategies “given the bespoke nature of these products.”

BDA agrees with FINRA’s description of these securities as “bespoke” and believes that FINRA should provide greater attention to the potential negative market pricing and liquidity impacts that real-time disclosure will have on smaller trade sizes. Real-time reporting for trades of less than \$1 million will impact market pricing and liquidity and impact trading strategies, as dealers will need to be more cognizant of the impact of real-time reporting information impacting the market prices of securities held in inventory. BDA requests that FINRA provide a rationale—as it has done with the choice to constitute the proposal in order to prevent information leakage in less frequently traded securities—for why the \$1 million trade size limit balances market liquidity and retail pricing concerns with the desire to create greater transparency.

BDA believes this proposal could result in increased trading in securitized products by financial institutions that are not required to comply with TRACE reporting requirements.

BDA notes that some participants in these markets are banking institutions that do not have to comply with TRACE reporting requirements. This difference in regulatory

reporting requirements already places dealers at a competitive disadvantage because greater regulatory costs apply to dealers who must report to TRACE.

BDA urges FINRA to contemplate the impact of creating a transparency rule—with an overly burdensome reporting requirement—that would cause non-dealer financial institutions to attain greater market share at the expense of dealers, especially smaller dealers, strictly because dealers are required to report trades. BDA believes a shift in trading to non-reporting institutions would degrade the value of TRACE information dissemination to the marketplace and create a playing field that would illogically favor banking institutions.

BDA believes that the proposed amendments to FINRA Rule 6730 are improvements and would make it easier for smaller dealers to operate in the CMO market.

BDA is supportive of the proposed amendments to FINRA Rule 6730 to change the reporting time frame for pre-issuance CMO transactions. BDA recommends FINRA reduce the reporting timeframe further. BDA believes that a further reduction, to settlement minus one day would provide additional benefits to the market. On settlement minus one day, the CUSIP associated the CMO will be widely known by CMO market participants.

Thank you again for the opportunity to submit these comments.

Sincerely,

A handwritten signature in blue ink that reads "Michael Nicholas". The signature is written in a cursive, flowing style.

Michael Nicholas
Chief Executive Officer

FINANCIAL INFORMATION FORUM

5 Hanover Square
New York, New York 10004

212-422-8568

Via Electronic Delivery

April 7, 2015

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

Re: FINRA Notice 15-04 – FINRA Requests Comment on a Proposal to Disseminate Additional Securitized Products and to Reduce the Reporting Time Frame for These Products

Dear Ms. Asquith,

The Financial Information Forum (FIF)¹ would like to take this opportunity to comment on *FINRA Notice 15-04 - FINRA Requests Comment on a Proposal to Disseminate Additional Securitized Products and to Reduce the Reporting Time Frame for These Products* (“Request for Comment”). We appreciate FINRA’s willingness to seek feedback on the important issues outlined in the notice.

In responding to FINRA’s Request for Comment, FIF is focused on aspects of the Notice with operational or implementation impacts. In summary, FIF recommends the following:

1. Align the proposed changes to collateralized mortgage obligations (CMOs), commercial mortgage-backed securities (CMBSs) and collateralized debt obligations (CDOs) (collectively referred to as “additional Securitized Products”) with those changes that will become effective June 1, 2015 for asset-back securities, specifically with respect to: a) suppressing the contra-party indicator in disseminating transaction details; and b) identifying transactions that meet the definition of a List or Fixed Offering Price Transaction, as defined in Rule 6710(q).
2. Modify the amendment to Rule 6730 to change the reporting time frame for transactions in CMOs that are executed before the issuance of the security to the actual first settlement date of the security, rather than the proposed two business days prior to the first settlement date.
3. Provide the file of TRACE-eligible CUSIPs to facilitate compliance with pre-issuance CMO reporting.

FIF’s perspectives on the proposals in the Request for Comment are discussed in more detail below.

¹ FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the securities industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

Alignment of Changes in Asset-Backed Securities and Additional Securitized Products

FIF members believe the proposed changes to additional Securitized Products should be aligned with certain upcoming changes to dissemination of asset-backed securities outlined in Regulatory Notice 14-34² effective June 1, 2015. The Request for Comment specifically discusses FINRA's decision to not disseminate the contra-party indicator on transactions in asset-backed securities and asks if this same provision should be extended to additional Securitized Products including CMOs, CMBSs and CDOs. Similarly, the Request for Comment discusses use of an indicator in reporting transactions that meet the definition of a "List or Fixed Offering Price". FIF members believe that in both cases, these upcoming asset-backed security provisions should be applied to additional Securitized Products.

Additionally, members believe to optimize use of resources in making these types of changes to internal systems, it would be helpful to have a more comprehensive view of FINRA's plans for future changes across TRACE-eligible product groups. In the interest of efficiency, FIF wishes to know if similar enhancements are planned for other TRACE-reportable security types.

Adjusting Time Frame to the First Settlement Date

FIF members believe Rule 6730 should be amended to change the time frame for reporting CMOs to the actual first settlement date, rather than "no later than two business days prior to the first settlement date", as proposed. This recommendation is based on the fact that firms are dependent on vendors to provide CUSIPs on a timely basis such that they can be entered into a Security Master File needed to facilitate reporting. Practical experience tells us that the information is not consistently available two days prior to the first settlement date. Although in most cases the information necessary to report will be available within the proposed timeframe, firms are concerned that they will be out of compliance in instances where the CMO CUSIPs are not received two days prior to the first settlement date. A rule amendment to report pre-issuance transactions no later than first settlement will increase our members' ability to comply with the Rule.

CUSIP Push to Firms

FIF members believe a file from FINRA detailing CUSIPs and TRACE-eligibility, pushed at least two business days prior to first settlement, would support FINRA's proposal to amend Rule 6730. Typically, most firms are manually searching for a CUSIP on the expected date. Before the CUSIP is available, firms execute trades using a to-be-announced (TBA) CUSIP. If CUSIP data has not yet been received from the vendor, firms are forced to perform a manual reconciliation to match CUSIPs with the temporarily assigned TBA CUSIPs. A file from FINRA containing CUSIP data and corresponding TRACE-eligibility at least two business days prior to first settlement would allow all firms to obtain data simultaneously, and would increase firms' ability to report on a timely basis and avoid potential errors and omissions in reporting pre-issuance CMOs.

Conclusion

FIF would like to thank FINRA for providing the opportunity to comment on the proposed changes. We believe the above recommendations made by FIF members would be beneficial to firms affected by the proposed changes and would help the industry as a whole. We are particularly interested in

² The SEC approved amendments to the Trade Reporting and Compliance Engine (TRACE) rules and dissemination protocols to provide for dissemination of transactions in an additional group of asset-backed securities and to reduce the time frame for reporting such transactions, other than Fixed or List Price and Takedown Transactions.

coordinating future changes more closely, and look forward to working further with FINRA on this and future proposals.

Regards,

A handwritten signature in black ink, appearing to read "Darren", with a stylized, flowing cursive style.

Darren Wasney
Program Manager
Financial Information Forum

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

* * * * *

6000. QUOTATION AND TRANSACTION REPORTING FACILITIES

* * * * *

6700. TRADE REPORTING AND COMPLIANCE ENGINE (TRACE)

6710. Definitions

The terms used in this Rule 6700 Series shall have the same meaning as those defined in the FINRA By-Laws and rules unless otherwise specified. For the purposes of this Rule 6700 Series, the following terms have the following meaning:

(a) through (bb) No Change.

(cc) "Asset-Backed Security" means a type of Securitized Product where the Asset-Backed Security is collateralized by any type of financial asset, such as a consumer or student loan, a lease, or a secured or unsecured receivable, and excludes: (i) a Securitized Product that is backed by residential or commercial mortgage loans, mortgage-backed securities, or other financial assets derivative of mortgage-backed securities; (ii) an SBA-Backed ABS as defined in paragraph (bb) traded To Be Announced ("TBA") as defined in paragraph (u) or in a Specified Pool Transaction as defined in paragraph (x); and (iii) a collateralized debt[, loan and bond] obligation[s] ("CDO").

(dd) through (ee) No Change.

(ff) "Collateralized Debt Obligation" ("CDO") means a type of Securitized Product backed by fixed-income assets (such as bonds, receivables on loans, or other debt) or derivatives of these fixed-income assets, structured in multiple classes or tranches with each class or tranche entitled to receive distributions of principal and/or interest in accordance with the requirements

adopted for the specific class or tranche. A CDO includes, but is not limited to, a collateralized loan obligation (“CLO”) and a collateralized bond obligation (“CBO”).

* * * * *

6730. Transaction Reporting

(a) When and How Transactions are Reported

Each member that is a Party to a Transaction in a TRACE-Eligible Security must report the transaction. A member must report a transaction in a TRACE-Eligible Security as soon as practicable, but no later than within 15 minutes of the Time of Execution, except as otherwise specifically provided below. Transactions not reported within the specified timeframe will be designated as "late." A member must transmit the report to TRACE during TRACE System Hours.

(1) Through (2) No Change.

(3) Reporting Requirements — Securitized Products

Transactions in Securitized Products must be reported as provided in this paragraph (a)(3).

(A) [General Reporting Requirements] Collateralized Debt Obligations and Commercial Mortgage-Backed Securities

Except as provided in paragraphs (a)(3)(B), (a)(3)(C), (a)(3)(D), (a)(3)(E), (a)(3)(F) and (a)(3)(G), transactions in [Securitized Products] collateralized debt obligations (“CDOs”) and commercial mortgage-backed securities (“CMBSs”) executed on:

(i) a business day at or after 12:00:00 a.m. Eastern Time through 5:00:00 p.m. Eastern Time must be reported the same day during TRACE System Hours;

(ii) a business day after 5:00:00 p.m. Eastern Time but before the TRACE system closes must be reported no later than the next business day (T + 1) during TRACE System Hours, and, if reported on T + 1, designated “as/of” and include the date of execution; or

(iii) a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time, or a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T + 1) during TRACE System Hours, designated “as/of” and include the date of execution.

(B) Asset-Backed Securities

Except for transactions in Asset-Backed Securities that meet the definition of List or Fixed Offering Price Transaction or a Takedown Transaction, which shall be reported as provided in paragraph (a)(2), transactions in Securitized Products that are Asset-Backed Securities shall be reported as provided in paragraph (a)(1)(A) through paragraph (a)(1)(D). [as follows:

(i) During the transitional phase for reducing reporting timeframes for Asset-Backed Securities ("ABS Transitional Phase"), which shall expire at 11:59:59 p.m. Eastern Time December 4, 2015, such transactions must be reported as follows:

a. Transactions executed on a business day at or after 12:00:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day no later than 45 minutes after the TRACE system opens.

b. Transactions executed on a business day at or after 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time (standard TRACE System Hours) must be reported within 45 minutes of the Time of Execution, except as provided in paragraph (a)(3)(B)(i)c. below.

c. Transactions executed on a business day less than 45 minutes before 6:30:00 p.m. Eastern Time must be reported no later than 45 minutes after the TRACE system opens the next business day (T + 1), and if reported on T + 1, designated "as/of" and include the date of execution.

d. Transactions executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time or on a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T + 1), no later than 45 minutes after the TRACE system opens, designated "as/of" and include the date of execution.

(ii) After the ABS Transitional Phase expires, Asset-Backed Securities transactions must be reported as provided in paragraph (a)(1)(A) through paragraph (a)(1)(D).]

(C) Collateralized Mortgage Obligation Transactions Before Issuance

Transactions in Securitized Products that are Collateralized Mortgage Obligations ("CMOs") that are executed before the issuance of the security must be reported [the earlier of:

- (i) the business day that the security is assigned a CUSIP, a similar numeric identifier or a FINRA symbol during TRACE System Hours (unless such identifier is assigned after 1:00:00 p.m. Eastern Time, and in such case, such transactions must be reported no later than the next business day during TRACE System Hours), or
- (ii) the date of issuance of the security during TRACE System Hours] no later than the first settlement date of the security.

[In either case, i]f the transaction is reported other than on the date of execution, the transaction report must be designated "as/of" and include the date of execution.

(D) through (G) No Change.

(H) Collateralized Mortgage Obligation Transactions On or After Issuance

Transactions in CMOs executed at or after issuance must be reported as provided in this paragraph (a)(3)(H).

(i) Transactions executed on a business day at or after 12:00:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day no later than 60 minutes after the TRACE system opens.

(ii) Transactions executed on a business day at or after 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time (standard TRACE System Hours) must be reported within 60 minutes of the Time of Execution, except as provided in paragraph (a)(3)(H)(iii) below.

(iii) Transactions executed on a business day less than 60 minutes before 6:30:00 p.m. Eastern Time must be reported no later than 60 minutes after the TRACE system opens the next business day (T + 1), and if reported on T + 1, designated "as/of" and include the date of execution.

(iv) Transactions executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time or on a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T + 1), no later than 60 minutes after the TRACE system opens, designated "as/of" and include the date of execution.

(4) through (6) No Change.

(b) through (f) No Change.

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6750. Dissemination of Transaction Information

(a) Dissemination Upon Receipt

FINRA will disseminate information on all transactions in TRACE-Eligible Securities, including transactions effected pursuant to Securities Act Rule 144A, immediately upon receipt of the transaction report, except as provided in (b) and (c) below.

(b) [Transaction Information Not Disseminated] Periodic Dissemination

FINRA will disseminate aggregated information on certain transactions in collateralized mortgage obligations (“CMOs”), including transactions in CMOs effected pursuant to Securities Act Rule 144A, where the transaction value is \$1 million or more (calculated based upon original principal balance), and where there have been five or more transactions of \$1million or more in the security in the period reported by at least two different market participant identifiers (“MPIDs”), on a weekly and monthly basis.

(c) Transaction Information Not Disseminated

FINRA will not disseminate information on a transaction in a TRACE-Eligible Security that is:

(1) through (3) No Change.

(4) a Securitized Product[, except:] that is: a CMBS; a CDO; or a CMO if the CMO transaction value is \$1 million or more (calculated based upon original principal balance) and the transaction does not qualify for periodic dissemination under paragraph (b) above, except as may be otherwise provided in Rule 7730.

[(A) an Agency Pass-Through Mortgage-Backed Security;]

[(B) an SBA-Backed ABS; and]

[(C) an Asset-Backed Security.]

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

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

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7730. Trade Reporting and Compliance Engine (TRACE)

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(a) through (b) No Change.

(c) Market Data Fees

Real-Time TRACE transaction data disseminated by FINRA comprises the following databases (“Data Set(s)”): corporate bonds (“Corporate Bond Data Set”), Agency Debt Securities (“Agency Data Set”), Securitized Products (“SP Data Set”), and transactions in TRACE-Eligible Securities effected pursuant to Securities Act Rule 144A (“Rule 144A transactions”) (“Rule 144A Data Set”). The “SP Data Set” includes TRACE transaction data for CMOs that is disseminated upon receipt, pursuant to Rule 6750(a), and in periodic aggregated reports pursuant to Rule 6750(b). Market data fees are charged for each Data Set. Professionals and Non-Professionals may subscribe to receive one or more Data Sets of Real-Time TRACE transaction data disseminated by FINRA in one or more of the following ways for the charges specified, as applicable. Members, vendors and other redistributors shall be required to execute appropriate agreements with FINRA.

(1) through (2) No Change.

(d) 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 months and will not include MPID information. Historic TRACE Data includes the following Data Sets:

(A) through (B) No Change.

(C) Historic SP Data Set – includes all historic transactions in Securitized Products as defined in Rule 6710(m) reported to TRACE, if transactions in th[e]at type of Securitized Product[s] are subject to [real-time] dissemination under Rule 6750, but excludes historic Rule 144A transactions in Securitized Products; and

(D) Historic Rule 144A Data Set – includes all historic Rule 144A transactions reported to TRACE, except transactions involving a type of TRACE-Eligible Security that is not subject to [real-time] dissemination under Rule 6750.

(g) No Change.