

MEMO# 31248

June 15, 2018

FINRA Proposes Enhanced TRACE Reporting Requirements for US Treasury Securities

[31248]

June 15, 2018 TO: ICI Members

ICI Global Members SUBJECTS: Fixed Income Securities RE: FINRA Proposes Enhanced TRACE Reporting Requirements for US Treasury Securities

The Financial Industry Regulatory Authority (FINRA) recently filed a proposed rule change with the SEC that would require certain alternative trading systems (ATSs) with a minimum threshold of trading in US Treasury securities to identify non-FINRA member subscribers on reports to FINRA's Transaction Reporting and Compliance Engine (TRACE).[1] This proposal appears to be broadly aligned with ICI's recommendation that regulators obtain more complete information about US Treasury market activity, especially with respect to market intermediaries that are not FINRA members, e.g. proprietary trading firms.[2]

Comments on the proposal are due to the SEC on July 5. If you would like to share your views on the proposal with ICI, please contact George Gilbert at george.gilbert@ici.org. We do not expect to comment on the proposal.

Currently, FINRA members must report secondary market transactions in US Treasury securities to TRACE.[3] This information is for regulatory purposes only and is not disseminated publicly. Consistent with TRACE reporting requirements for other fixed income securities, transactions in US Treasury securities that occur on ATSs must be reported to TRACE by the counterparties, if they are FINRA members, and by the ATS itself (because each ATS is a FINRA member). A significant amount of trading in US Treasury securities on ATSs involves market participants that are not registered as broker-dealers and are otherwise not FINRA members. These entities are treated as customers under FINRA rules and their identity is not reported on TRACE reports made by ATSs.[4]

FINRA's proposal would require an ATS to identify its non-FINRA member subscribers[5] on TRACE reports if the ATS executes transactions in US Treasury securities with non-FINRA member subscribers of \$10 billion or more per month, for any two months in the preceding calendar quarter.[6] An ATS that meets this threshold would be required to provide FINRA a list of its non-FINRA member subscribers. FINRA would assign each non-FINRA member subscriber a unique market participant identifier (MPID) and provide that MPID to each ATS subject to the rule to facilitate the consistent identification of non-FINRA member

subscribers across ATSs and preserve the confidentiality of ATS subscriber lists.

FINRA believes the proposed rule change would enhance the information available to FINRA and the official sector and facilitate a better understanding of US Treasury market structure and liquidity. The additional information will also enhance FINRA's surveillance program for US Treasury securities by increasing the ability to identify potentially manipulative activity.

FINRA intends to announce the effective date of the proposed rule change in a Regulatory Notice that would be published no later than 60 days following SEC approval of the proposal. The effective date would be no later than 180 days following the Regulatory Notice's publication.^[7]

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[Attachment](#)

endnotes

[1] See Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 6730 Relating to ATS Reporting of Transactions to TRACE in US Treasury Securities, *available at* <https://www.sec.gov/rules/sro/finra/2018/34-83393.pdf> (Notice).

[2] See Letter from David W. Blass, General Counsel, ICI, to Brent J. Fields, Secretary, SEC, dated August 15, 2016, *available at* <https://www.ici.org/pdf/30130.pdf>; see also Letter from David W. Blass, General Counsel, ICI, to Office of the Undersecretary for Domestic Finance, Department of the Treasury, dated April 8, 2016, *available at* <https://www.ici.org/pdf/29819.pdf>.

[3] Notice at 2.

[4] ATSs report these trades as generic customer trades and identify the counterparty with a "C" identifier. The identity of FINRA-member counterparties is reported to TRACE, however. See Notice at 3.

[5] According to the Notice, this category includes, but is not limited to banks, hedge funds, and proprietary trading firms. See *id.*

[6] The monthly par value will be computed by aggregating buy and sell transactions. An ATS that becomes subject to these enhanced reporting requirements would need to continue to comply irrespective of whether its volume of executed transactions in US Treasury securities against non-FINRA member subscribers subsequently falls below the proposed \$10 billion threshold.

[7] Regulatory Notices are available on FINRA's website at <http://www.finra.org/>.

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