

MEMO# 23899

October 26, 2009

FINRA Proposes to Expand TRACE to Include Asset-Backed Securities

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TO: FIXED-INCOME ADVISORY COMMITTEE No. 23-09
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 49-09 RE: FINRA PROPOSES TO
EXPAND TRACE TO INCLUDE ASSET-BACKED SECURITIES

The Financial Industry Regulatory Authority ("FINRA") has proposed to designate asset-backed securities, mortgage-backed securities, and other similar securities (collectively, "Asset-Backed Securities") as eligible securities for its Trade Reporting and Compliance Engine ("TRACE"). [\[1\]](#) Although the proposed rule change would expand TRACE to include Asset-Backed Securities, establishing reporting, fee and other requirements for such securities, it would not provide for the public dissemination of the reported information. Instead, FINRA would use the additional transactional information to observe patterns of trading, facilitating oversight and regulation of the Asset-Backed Securities market. [\[2\]](#)

The proposal would define Asset-Backed Securities broadly to include: a security that is defined as such under the Securities and Exchange Commission's Regulation AB, a mortgage-backed security, a collateralized mortgage obligation, a synthetic asset-backed security, or any instrument involving or based on the securitization of mortgages or other credits or assets, including but not limited to a collateralized debt obligation, a collateralized bond obligation, a collateralized debt obligation of Asset-Backed Securities or a collateralized debt obligation of collateralized debt obligations.

It would require reporting of transactions for Asset-Backed Securities transactions by the end of the business day, [\[3\]](#) unless the transaction is executed after 5:00 p.m. In such

cases, the transaction would need to be executed by the end of the next business day. Similarly, transactions executed at any time outside of the TRACE system hours would be required to be reported by the end of the next business day. The proposal also would establish reporting requirements to address situations unique to Asset-Backed Securities, including, for example, the absence of a CUSIP number, the declining principal value as related to the size of a transaction over time, accrued interest in relation to the price of a transaction, and settlement modifiers. Transaction reporting fees for Asset-Backed Securities would be at the same rate currently in effect for corporate bonds. Because the transaction information would not be disseminated, there would not be any market data or, consequently, market data fees.

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endnotes

[1] See SEC Release No. 60860 (October 21, 2009) (“Proposal”), available at <http://www.sec.gov/rules/sro/finra/2009/34-60860.pdf>.

[2] After studying the data for a period of time, FINRA may determine that dissemination of the transaction information for Asset-Backed Securities is appropriate.

[3] The proposal would require reporting of the initial sale of Agency Pass-Through Mortgage-Backed Securities transactions, as that term would be defined in the proposed rule change.