

MEMO# 33028

January 7, 2021

FINRA Requests Comment on Enhancements to TRACE Reporting of Transactions in US Treasury Securities - ICI Member Call on January 15 at 2:00 pm ET

[33028]

January 7, 2021 TO: Fixed-Income Advisory Committee
Money Market Funds Advisory Committee

SEC Rules Committee RE: FINRA Requests Comment on Enhancements to TRACE Reporting of Transactions in US Treasury Securities - ICI Member Call on January 15 at 2:00 pm ET

On December 23, the Financial Industry Regulatory Authority (FINRA), in consultation with the US Department of the Treasury ("Treasury Department") issued Regulatory Notice 20-43, which requests comment on potential enhancements to TRACE reporting of transactions in US Treasury securities ("Request for Comment").^[1] Comments on the Request for Comment, which is summarized below, are due on February 22, 2021.

ICI will have a member call to discuss the Request for Comment and potential ICI comments on Friday, January 15, from 2:00-3:00 pm ET. If you would like to participate in the call, please contact Jennifer Odom at jodom@ici.org and she will send you the Zoom participation information. You may participate in the call by video or by phone.

Background

Since July 2017, FINRA members have been required to report information about most secondary market transactions in US Treasury securities to FINRA's TRACE reporting system.^[2] FINRA makes this data available to the official sector to assist with monitoring and analyzing the US Treasury markets. The reporting obligation applies only to FINRA members,^[3] although FINRA subsequently amended its reporting requirements to require that certain alternative trading systems (ATS) members that trade US Treasury securities must identify non-member subscribers when reporting transactions in US Treasury securities to TRACE.^[4] Information about US Treasury transactions reported to TRACE is not disseminated publicly. The Treasury Department recently recommended that FINRA consider enhancing its reporting requirements regarding transactions in US Treasury securities to provide more insight into activity in the Treasury markets.

Request for Comment

FINRA requests comment on several potential changes to TRACE reporting of transactions in US Treasury securities.

More Granular Execution Timestamps

FINRA Rule 6730 requires FINRA members to report the time of execution for a transaction executed electronically to the finest increment of time captured in the member's system (e.g., millisecond, microsecond) but, at a minimum, in increments of seconds. FINRA requests comment on whether to require members to report transactions executed electronically in US Treasury securities to TRACE in the finest increment of time captured by the firm's execution system but, at a minimum, in increments of a second. FINRA also asks whether, if a member firm executes transactions in US Treasury securities through an external system, the firm should be required to report such transactions to TRACE consistent with the time of execution communicated by the execution venue.

Shortened Trade Reporting Timeframe

FINRA Rule 6730 sets out the timeframes for members to report transactions in US Treasury securities. Transactions in US Treasury securities executed on a business day from midnight until 5 pm must be reported the same day during TRACE system hours. Transactions in US Treasury securities executed after 5 pm but before the TRACE system closes must be reported no later than the next business day (T+1) during TRACE system hours.[\[5\]](#) Transactions in US Treasury securities executed on a business day at or after 6:30 pm up until midnight, or on a weekend, holiday, or other day on which the TRACE system is not open, must be reported on T+1 during TRACE system hours.

FINRA requests comment on whether it should reduce the trade reporting timeframe for US Treasury securities to facilitate more timely availability to regulators of intraday pricing and liquidity information.[\[6\]](#) FINRA is considering amending Rule 6730 to provide that for transactions in US Treasury securities executed:

- On a business day at or after midnight up until 7:59:59 am, member firms would be required to report the trade the same day no later than 60 minutes after the TRACE system opens.
- On a business day at or after 8:00:00 am through 6:29:59 pm, firms would be required to report the trade within 60 minutes of the time of execution, except that, for transactions executed on a business day less than 60 minutes before 6:30:00 pm, firms would be required to report the trade no later than 60 minutes after the TRACE system opens on T+1 (and, if reported on T+1, designated "as/of" with the date of execution).
- On a business day at or after 6:30:00 pm through 11:59:59 pm, or for trades executed on a Saturday, a Sunday, a holiday, or other day on which the TRACE system is not open, firms would be required to report the trade on T+1 no later than 60 minutes after the TRACE system opens (and must designate the trade "as/of" and include the date of execution).

Platform Information and Trading Method

FINRA Rule 6720(c) requires that member ATs obtain a separate market participant identifier (MPID) for purposes of TRACE reporting. FINRA notes that there is significant activity in US Treasury securities through non-ATS fixed income electronic trading

platforms. FINRA therefore requests comment on whether it should require FINRA members, when reporting transactions in US Treasury securities to TRACE, to report information identifying any non-ATS platform on or through which the transaction is executed.[\[7\]](#) FINRA also is considering requiring for all transactions in US Treasury securities reporting of whether the transaction was executed via voice or electronically.[\[8\]](#)

Desk Identifiers

Currently, FINRA member counterparties are identified in TRACE by the MPID submitted in the transaction report. FINRA requests comment on whether it should add a new trading desk or unit identifier field for US Treasury securities reporting to identify the specific desk or unit within a member firm that is executing the transaction.

Clearing Arrangement Indicator

FINRA is considering requiring members to include a new indicator that would identify whether a transaction in a US Treasury security will be centrally or bilaterally cleared. FINRA notes that obtaining this information would support efforts by regulators to learn more about clearing practices and counterparty risk in the Treasury market.

Multi-leg Transaction Modifiers

Currently, FINRA members are required to append a report of a transaction in a US Treasury security that is executed as part of a larger trading strategy with: (a) a .B modifier, if the transaction being reported is part of a series of transactions where at least one of the transactions involves a futures contract; and (b) an .S modifier, if the transaction being reported is part of a series of transactions where one or more legs may not be priced based on the current market. FINRA notes that the scope of usage of the .B modifier is relatively narrow and consistent, but that the .S modifier is used for a wide range of multi-leg transactions, including those that have different implications for how the price of the reported trade should relate to the current market price. FINRA therefore requests comment on whether it should add modifiers to further distinguish various strategies, as well as require reporting of additional information regarding whether the transaction in the US Treasury security is priced at the current market. FINRA lists a variety of trading strategies for which it is initially considering proposing modifiers.[\[9\]](#)

Standardized Price Reporting

FINRA members are required to report the price of a transaction or the elements necessary to calculate the price. FINRA explains that certain US Treasury securities are traded and quoted using different price conventions, such as Treasury bills (which use a discount rate) and floating rate notes (FRNs) (which use a discount margin). FINRA has issued guidance to members that, for these instruments, they may report the price of a transaction as either the discount rate or discount margin, but are still permitted to report the dollar price.[\[10\]](#)

FINRA believes that the lack of consistency in reporting the prices of these transactions may make validation mismatches more likely and reduce the clarity of the resulting data. FINRA therefore requests comment on whether it should further standardize the measure used to report price for these types of US Treasury securities. For example, FINRA is considering whether to require member firms to report the discount rate for transactions in Treasury bills and the discount margin for transactions in FRNs, rather than also being permitted to report the dollar price for transactions in these instruments.

Separate Reporting of ATS Fees

Under FINRA Rules 6730(c) and (d)(1), FINRA members that trade on an ATS may report, as part of the price of the transaction, certain per-transaction fees that an ATS assesses for a transaction. The prices FINRA members report to TRACE may differ, however, depending on the way in which an ATS assesses fees.

FINRA is considering requiring that members report per-transaction ATS fees separately from the price when reporting transactions in US Treasury securities to TRACE. Instead of reflecting any per-transaction fee in the price, members would report the price (exclusive of such fees) and include the ATS fees in a new reporting field.

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endnotes

[1] See Trade Reporting and Compliance Engine (TRACE): FINRA Requests Comment on Enhancements to TRACE Reporting for U.S. Treasury Securities, Regulatory Notice 20-43 (Dec. 23, 2020), *available at* <https://www.finra.org/sites/default/files/2020-12/Regulatory-Notice-20-43.pdf>.

[2] See Reporting Transactions in U.S. Treasury Securities: SEC Approves Rule Change to Require Reporting of Transactions in U.S. Treasury Securities to the Trade Reporting and Compliance Engine (TRACE), Regulatory Notice 16-39 (Oct. 2016), *available at* https://www.finra.org/sites/default/files/notice_doc_file_ref/Regulatory-Notice-16-39.pdf. For a summary of these reporting requirements, *please see* ICI Memorandum No. 30354 (Oct. 26, 2016), *available at* https://www.ici.org/my_ici/memorandum/memo30354. ICI's comment letter on FINRA's 2016 proposal is *available at* <https://www.ici.org/pdf/30130.pdf>. ICI previously commented to the Treasury Department on its request for public comment on the evolution of the Treasury market infrastructure. See Letter to Office of the Under Secretary for Domestic Finance, Department of the Treasury, from David W. Blass, General Counsel, Investment Company Institute, Apr. 8, 2016, *available at* <https://www.ici.org/pdf/29819.pdf>.

[3] FINRA notes that the Board of Governors of the Federal Reserve System has announced that it plans to collect data on secondary market transactions in US Treasury securities from banks and will enter into negotiations with FINRA to potentially act as the Federal Reserve's collection agent for that data. If the Federal Reserve were to do that, any expanded data collection described in the Request for Comment potentially could also apply to banks. In a recent speech, SEC Commissioner Roisman highlighted this regulatory reporting gap and recommended that it be closed promptly. Commissioner Elad L. Roisman, Remarks at U.S. Treasury Market Conference (Sept. 29, 2020), *available at* <https://www.sec.gov/news/speech/roisman-us-treasury-conference-2020-09-29> ("I commend the [Federal Reserve for its] continued commitment to collect trade data from banks. Given the importance of the TRACE data to regulators, it is essential that it provide a complete picture of secondary cash trading. Including trade data from banks will improve Treasury market transparency, address a potential competitive disparity, and allow

regulators to pursue tailored policy initiatives to enhance market oversight.”).

[4] See SEC Approves Amendment to Require Alternative Trading Systems to Identify Non-FINRA Member Subscribers in TRACE Reports for U.S. Treasury Securities, Regulatory Notice 18-34 (Apr. 1, 2019), *available at* <https://www.finra.org/rules-guidance/notices/18-34>.

[5] Trades reported on T+1 must be designated “as/of” and include the date of execution.

[6] FINRA notes that, under Rule 6730, transactions in corporate bonds and agency debt securities generally are required to be reported to FINRA within 15 minutes of the time of execution.

[7] For purposes of the proposal, a “non-ATS trading platform” would include any electronic system that does not meet the definition of an ATS under SEC Regulation ATS, through which multiple parties facilitate orders, request-for-quotes (RFQs), or negotiate the terms of a trade in a US Treasury security. FINRA recognizes that feedback on, and the outcome of, the SEC’s recent proposed amendments to Regulation ATS and its concept release will impact and inform any proposal FINRA may advance in this area. For a summary of the SEC’s proposal and concept release, *please see* ICI Memorandum No. 32795 (Oct. 1, 2020), *available at* https://www.ici.org/my_ici/memorandum/memo32795.

[8] FINRA asks questions regarding what should be considered a “voice” or “electronic” trade for these purposes and whether the definition of “electronic” trade should be used for certain other purposes. See Request for Comment at 11.

[9] See Request for Comment at 7-8.

[10] See TRACE Treasury FAQ 3.5.25, *available at* <https://www.finra.org/filing-reporting/trace/faq#TS>.