

MEMO# 11471

December 16, 1999

NASD PROPOSAL TO CREATE A CORPORATE BOND TRADE REPORTING AND TRANSACTION DISSEMINATION FACILITY

* SEC Release No. 34-42201 (December 3, 1999); 64 FR 69305 (December 10, 1999).
[11471] December 16, 1999 TO: FIXED-INCOME ADVISORY COMMITTEE No. 9-99 RE: NASD
PROPOSAL TO CREATE A CORPORATE BOND TRADE REPORTING AND TRANSACTION
DISSEMINATION FACILITY

The Securities and Exchange Commission has published for comment a proposal by the National Association of Securities Dealers, Inc. (NASD) to establish a corporate bond trade reporting and transaction dissemination facility.* This proposal is designed to improve corporate bond transparency and to create a database of transactions to enable regulators to take a proactive role in supervising the corporate debt market and to better detect fraud and foster investor confidence in the fairness of the corporate debt market. Simultaneously with the effectiveness of the proposed rules governing corporate bond trade reporting, the NASD will eliminate Nasdaq's Fixed Income Pricing System (FIPS). A copy of the SEC's release is attached, and it is summarized below. Under the proposal, beginning in Spring 2000, NASD members would be obligated to report trades to Nasdaq's Trade Reporting and Comparison Entry Service (TRACE) of all secondary transactions in specified U.S. corporate bonds within one hour of trade execution. After an initial six-month period, Nasdaq will disseminate trade reports to the public through market data vendors and the initial one-hour trade reporting time frame will be reduced to 15 minutes. The NASD has proposed that corporate bond trade reported to TRACE include the following information: (1) buy/sell/cross; (2) CUSIP number or NASD symbol; (3) quantity; (4) price – inclusive of mark-up, mark-down and stated commission; (5) contra-party's NASD symbol or "C" for customer; (6) date and time of trade execution; and (7) capacity – principal (with riskless principal reported as principal), agent or agency cross. Under the proposal, the following trade report information would be disseminated to market data vendors for public use: (1) NASD symbol; (2) CUSIP number; (3) date/time of execution of trade; (4) price; (5) yield; and (6) actual quantity of bonds traded. Under the proposal, trade reporting would be mandated for the following corporate debt securities: (1) U.S. dollar denominated debt securities issued by U.S. and private foreign corporations that are registered with the SEC and eligible for book-entry services at Depository Trust Company (DTC); (2) Rule 144A U.S. high-yield debt securities designated as "PORTAL Debt Securities" in Nasdaq's PORTAL Market; and (3) Rule 144A investment grade debt securities eligible for book-entry services at DTC. Bonds that would not be subject to the reporting requirements include: government securities, sovereign or

development bank debt; mortgage or asset backed securities; collateralized mortgage obligations; or money market instruments. In addition to soliciting comment on the proposal generally, the SEC has identified at the end of its release a number of specific issues on which it is soliciting comment, including, among other things: What information should be reported? How immediate should reporting be? Are the proposed methods of reporting price (i.e., inclusive of markups, markdowns, and commissions) appropriate in light of broker-dealer confirmation disclosure obligations for corporate debt transactions under Rule 10b-10? Comments on the NASD proposal are due to the SEC by February 8, 2000. Please provide your comments on the proposal to the undersigned for possible inclusion in the ICI's comment letter by January 10, 2000. My direct number is 202/326-5824 and my email address is amy@ici.org. Amy B.R. Lancellotta Senior Counsel
Attachment

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