

**MEMO# 12921**

December 8, 2000

# **NASD FILES AMENDMENTS TO ITS "TRACE" PROPOSAL RELATING TO THE CREATION OF A CORPORATE BOND TRADE REPORTING AND TRANSACTION DISSEMINATION FACILITY**

[12921] December 8, 2000 TO: FIXED-INCOME ADVISORY COMMITTEE No. 13-00 RE: NASD FILES AMENDMENTS TO ITS "TRACE" PROPOSAL RELATING TO THE CREATION OF A CORPORATE BOND TRADE REPORTING AND TRANSACTION DISSEMINATION FACILITY The Securities and Exchange Commission has published for comment the National Association of Securities Dealers, Inc.'s amendments to its rulemaking proposal that would create a corporate bond trade reporting and transaction dissemination facility.<sup>1</sup> As you may recall, the original NASD proposal, which was issued last year, would require NASD members to submit corporate bond trade reports to Nasdaq's Trade Reporting and Comparison Entry Service ("TRACE"), which would then disseminate certain transaction information to the public via data vendors.<sup>2</sup> The attached Amended Proposal reflects the comments the NASD received on that proposal, including those submitted by the Institute.<sup>3</sup> Comments on the Amended Proposal are due by December 20, 2000. We have scheduled a conference call for Monday, December 11th at 2:00 p.m. to discuss this proposal. If you would like to participate on the call, please contact my assistant, Stephanie Holly at (202) 326-5814. If you are unable to participate but would like to provide comment on the NASD's proposal, please contact me by phone at (202) 326-5923, by fax at (202) 326-5827, or by email at [bsimmons@ici.org](mailto:bsimmons@ici.org) by Wednesday, December 13, 2000 TRACE Ownership, Operation and Governance To address concerns expressed by commenters regarding Nasdaq's role in the TRACE initiative, particularly that it would have an exclusive franchise over the provision of trade comparison services for corporate bond trades, the Amended Proposal clarifies that the NASD, and not Nasdaq, will exercise full ownership and operational control over the TRACE project, including day-to-day administration and the information collection process. Also, to provide 1 Notice of Filing of Amendment Nos. 2 and 3 to Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to the Creation of a Corporate Bond Trade Reporting and Transaction Dissemination Facility and the Elimination of Nasdaq's Fixed Income Pricing System, SEC Release No. 34-43616 (Nov. 24, 2000); 65 Fed. Reg. 71714 (Nov. 29, 2000) (the "Amended Proposal"). 2 See Memorandum to Fixed-Income Advisory Committee No. 9-99, dated December 16, 1999. 3 See Memorandum to Fixed-Income Advisory Committee No. 3-00, dated February 11, 2000. 2the SEC with appropriate regulatory oversight, the NASD proposes to register with the SEC as an exclusive securities information processor ("ESIP") under Section 11A of the Exchange Act.

Further, the NASD will create a new committee, the Bond Transaction Reporting Committee (“BTRC”) that will advise the NASD Board of Governors on issues related to the operation of TRACE, including future NASD proposals to phase in dissemination and the setting of fees for dissemination of real-time TRACE data to the public. The BTRC will also review the effects on liquidity associated with disseminating fixed income transaction information, and will recommend appropriate time frames for public dissemination of smaller, less-actively traded issues.

**Collection and Dissemination of Data** The Amended Proposal will extend the proposed six-month phase-in period for reporting corporate bond transactions to nine months, which would consist of two phases. During Phase I (three-month period), NASD members would report all transactions in TRACE-eligible securities within one hour of trade execution. NASD will immediately disseminate transaction reports to the public via data vendors of all transactions in publicly offered, investment grade corporate bonds having an initial issuance size of \$1 billion or more. Transaction reports in the high yield debt securities denominated as the “FIPS 50” at the time the filing becomes effective will also be disseminated. During this time, the BTRC will assess the impact of TRACE’s transaction dissemination on liquidity, and by the end of Phase I will recommend appropriate dissemination protocols covering certain investment grade bonds. During Phase II (six-month period), NASD members will continue to report all transactions in TRACE-eligible securities within one hour of trade execution. The NASD will disseminate transaction reports to the public via data vendors of all transactions in the top 50% (by dollar volume) of investment grade bonds consistent with the BTRC’s recommendations. Three months after the start of Phase II (six months after the start of TRACE reporting), the one hour reporting time period will be reduced to 15 minutes, and transaction reports in the “FIPS 50” will continue to be disseminated. By the end of Phase II, the BTRC will recommend appropriate dissemination protocols for all remaining TRACE issues eligible for public dissemination.

**Addition of a Yield Value to TRACE Trade Reports** In response to the Institute’s comment that the final rule should include the method by which the NASD proposes to calculate market yield information that it will disseminate, the Amended Proposal includes a yield requirement to TRACE trade reports, which would be determined in conformity with Rule 10b-10 under the Exchange Act. The Amended Proposal notes that this requirement is consistent with firms’ existing requirement to provide this information to customers as part of the transaction confirmation process.

Barry E. Simmons Associate Counsel Attachment 3Attachment (in .pdf format)