

MEMO# 4328

December 15, 1992

NASD PROPOSED REPORTING SYSTEM FOR HIGH YIELD BONDS

December 15, 1992 TO: BOARD OF GOVERNORS NO. 89-92 SEC RULES COMMITTEE NO. 93-92 ACCOUNTING/TREASURERS COMMITTEE NO. 46-92 RE: NASD PROPOSED REPORTING SYSTEM FOR HIGH YIELD BONDS

The SEC is soliciting comments on rules proposed by the NASD that would require NASD members to report transactions in all high yield bonds traded over-the-counter to the NASD for regulatory purposes and require real time trade reporting for 30 to 50 of the most liquid high yield bonds, through a system called the Fixed Income Pricing System ("FIPS"). FIPS is intended to facilitate the collection, processing and dissemination of real-time, firm quotations of high yield bonds and to provide for hourly dissemination of high/low trading ranges and accumulated volume for each bond quoted in the system. A brief summary of certain aspects of the proposal is set forth below. A copy of the SEC's release soliciting comments is attached. Inclusion in FIPS. Under the proposal, the most liquid tier of high yield bonds would be selected for inclusion in FIPS. Issuers of such bonds would not make listing applications; instead, a subcommittee of the NASD's Fixed Income Committee would create a list of the bonds to be included, based on their trading characteristics (e.g., volume, price, name recognition, research following, and industry diversification). Initially, the list would comprise approximately 30 bonds, to be expanded to no less than 50 bonds within one year. Quotation Requirements. NASD members that hold themselves out as brokers or dealers in high yield bonds quoted in the system would be required to participate in FIPS and to transmit their quotations to the system for dissemination to the public. Quotations would be required to be continuous and firm to all members submitting offers to trade at the quoted prices and sizes. Dealers could submit quotes directly or through a broker's broker in order to assure anonymity. Transaction Reporting. The proposal would require members to submit trade reports for all transactions in bonds listed on FIPS within five minutes of execution. The proposal specifies which party in various types of transactions would be required to report the trade. (For example, in transactions between a FIPS dealer and a FIPS broker, the broker would be required to report.) Hourly calculations of high and low trading price ranges and accumulated volume statistics would be disseminated to the public. In addition, NASD members would be required to report information on trades in high yield bonds not included in FIPS to the NASD for surveillance purposes. Such reporting could be done at any time during the trading day, but in any event no later than 5 p.m. eastern time. Market Surveillance. The proposal indicates that the NASD's Market Surveillance department will use quotation and transactional data on high yield bonds to monitor for insider trading, and other possible abuses. The data also will serve as the basis for on-site examinations for violations of the NASD's mark-up policy and reviews of agency commissions, best execution, market manipulation and capital

requirements. * * * * * Comments on the proposal are due no later than December 31, 1992. If there are comments you would like the Institute to consider for inclusion in a comment letter, please contact the Frances Stadler at 202/955-3514 (or, in her absence, Craig Tyle at 202/955-3522) by Monday, December 28. Matthew P. Fink President
Attachment

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