

**MEMO# 15452**

December 13, 2002

## **NASD ISSUES INTERPRETIVE GUIDANCE ON "TRACE" RULES**

[15452] December 13, 2002 TO: FIXED-INCOME ADVISORY COMMITTEE No. 16-02 RE: NASD ISSUES INTERPRETIVE GUIDANCE ON "TRACE" RULES NASD has issued a Notice to Members providing interpretive guidance on its trade reporting and compliance engine ("TRACE") rules.<sup>1</sup> The guidance addresses a number of interpretive issues that have arisen since TRACE began and responds to specific questions NASD has received. The TRACE rules incorporate various amendments that were adopted by the Securities and Exchange Commission over the summer.<sup>2</sup> A copy of NASD's interpretive guidance is attached. The following is a list of the issues covered by NASD's interpretive guidance. 1. The amount of time an NASD member has to resubmit a trade report that was rejected. 2. Whether the clock synchronization rules that apply in OATS apply to TRACE. 3. How an NASD member should report the date and time of execution of a transaction executed on a weekend or a holiday. 4. The day and time an NASD member should use to report a transaction executed overseas. 1 Notice to Members, 02-76 (November 2002). The TRACE rules require NASD members to report corporate debt securities transactions to NASD and subjects transaction information of certain categories of securities to dissemination pursuant to trace. For this purpose, "TRACE-eligible securities" include (1) U.S. dollar denominated debt securities that are depository eligible securities under Rule 11310(d); investment grade or non-investment grade; issued by U.S. and/or foreign private corporations; and (1) registered with the SEC; or (2) issued pursuant to Section 4(2) of the Securities Act of 1933 and purchased or sold pursuant to Rule 144A of the Securities Act. 2 See Exchange Act Release No. 46144 (June 28, 2002), 67 Fed. Reg. 44907 (July 5, 2002). The amendments, among other things, (i) extended the period to report a transaction from 1 hour to 75 minutes; (ii) clarified that securities of a government-sponsored entity (GSE) are not TRACE-eligible securities; and (iii) clarified how to report yield and when yield is not required. NASD previously amended the TRACE rules in December 2000. 2 5. How an NASD member should report a transaction when the market and the TRACE System close early and the transaction is executed after the market closes. 6. Specific instances identified by NASD staff when yield need not be reported. 7. Whether an NASD member may report a yield on which the security is priced and sold, rather than the lower of yield to maturity or yield to call under NASD Rule 6230(c)(13). 8. Whether any of the modifiers has priority over other modifiers described in NASD Rule 6230(d)(4). 9. Whether the NASD has identified instances where the "special price" modifier must be used in a transaction report. 10. Whether there are instances where the special price modifier should not be used. 11. How an NASD member determines "time of execution" when a security is priced based on a yield of another security and that yield is not available at the time the parties decide to engage in a transaction. 12. How an NASD member reports a commission. 13. Circumstances in which an NASD member may rely on the exception in NASD Rule 6230(e)(3) that a transaction executed at a price

“substantially unrelated to the current market for the TRACE-eligible security” is not required to be reported. 14. Applicable reporting requirements for when an NASD member uses a broker’s broker or an inter-dealer broker to execute a TRACE-eligible transaction. 15. Applicable obligations an NASD member has under the TRACE rules to identify new TRACE-eligible securities. 16. Steps an NASD member should take to notify NASD of a new TRACE-eligible security under Rule 6260, when it has not finalized all the information, such as coupon rate and maturity, that is required to be submitted prior to the deadline for notification. Barry E. Simmons Associate Counsel Attachment Attachment (in .pdf format)

---

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.