

MEMO# 34737

December 28, 2022

FINRA Adopts and Proposes Amendments to TRACE Reporting

[34737]

TO: ICI Members

Fixed-Income Advisory Committee

Money Market Funds Advisory Committee SUBJECTS: Fixed Income Securities

Investment Advisers

Trading and Markets RE: FINRA Adopts and Proposes Amendments to TRACE Reporting

Over the last month, FINRA has proposed or adopted three separate reporting requirement changes to the Trade Reporting and Compliance Engine (TRACE). On December 13, 2022, FINRA adopted amendments to require the reporting of transactions in US dollar-denominated foreign sovereign debt securities to TRACE.[\[1\]](#) On December 1, 2022, FINRA adopted amendments related to reporting transactions in US Treasury securities.[\[2\]](#) On November 29, 2022, FINRA proposed changes to reporting delayed Treasury spot trades in corporate debt securities.[\[3\]](#) While the reporting of transactions in US dollar-denominated foreign sovereign debt securities does not require much further discussion, the adopted amendments to reporting US Treasury securities and the proposed amendments for reporting delayed Treasury spot trades in corporate debt securities are discussed in more detail below.

Enhancements to TRACE Reporting for US Treasury Securities

FINRA is amending Rule 6730 to require reporting of transactions in US Treasury securities as soon as practicable, but no later than 60 minutes from the time of execution. The shortened reporting timeframe amendments to Rule 6730 will take effect on May 15, 2023. Specifically, the amendments will require the following reporting timeframes:

- For transactions executed on a business day at or after 12:00:00 a.m. (ET) through 7:59:59 a.m. (ET), reporting should be the same day but no later than 60 minutes after the TRACE system opens;
- For transactions executed on a business day at or after the time the TRACE system opens at 8:00:00 a.m. (ET) through when the TRACE system closes at 6:29:59 p.m. (ET), reporting should be within 60 minutes of the time of execution. There is an exception for transactions executed on a business day less than 60 minutes before 6:30:00 p.m. (ET). Those trades may be reported the same day before the TRACE System closes but must be reported no later than 60 minutes after the TRACE System opens the next business day (T+1). If reported on a T+1 basis, the trade must be

designated “as/of” and include the date of execution; and

- For transactions executed on business days at or after 6:30:00 p.m. (ET) through 11:59:59 p.m. (ET) (or a Saturday, Sunday, a federal or religious holiday, or other days where the TRACE System is not open), reporting should be on the next business day (T+1) but no later than 60 minutes after the TRACE System opens, and designated “as/of” with the date of execution included.

FINRA has also amended Supplementary Material .04 to Rule 6730 to add a time-stamping rule for US Treasury securities trades, requiring members to report the time of execution “to the finest increment of time captured by the execution system” when reporting to TRACE transactions in US Treasury securities executed electronically.[\[4\]](#) FINRA is providing an exception to the new requirements under Supplementary Material .04 for members with “limited trading volume” in US Treasury securities.[\[5\]](#) The time-stamping rule goes into effect on November 6, 2023.

Finally, FINRA is revising its guidance, at TRACE FAQ #3.5.25, to standardize the price format used for reporting transactions in Treasury bills and floating rate notes by requiring all transactions to be reported using the dollar price. Under existing FINRA guidance, members may report the execution price for Treasury bills and floating rate notes as either the discount rate or discount margin, as applicable, or using the dollar price, expressed as a percentage of par. The revisions to TRACE FAQ #3.5.25 will take effect on November 6, 2023.

Proposed Changes to TRACE Reporting for Delayed Treasury Spot Trades in Corporate Debt Securities

Under current TRACE reporting rules, FINRA members must report corporate debt transactions within 15 minutes of execution when the parties agree to terms sufficient to calculate the dollar price of the trade. For delayed Treasury spot trades in corporate debt securities, which occur when market participants trade a corporate debt security based on a spread to a benchmark Treasury security spotted at a later time, parties could decide, for example, to trade a corporate bond at 10:00 a.m. (ET) based on a spread to a specified Treasury security later in the day, such as 3:00 p.m. (ET). Under the current reporting regime, because the dollar price of the trade would not be determined until 3:00 p.m. (ET) when the parties “spot” the spread of the benchmark Treasury security, the trade is not reportable to TRACE until 3:00 p.m. (ET) when the “spotting” process is completed and the final dollar amount is calculated.

In 2020, the SEC’s Fixed Income Market Structure Advisory Committee (FIMSAC) recommended that FINRA amend TRACE reporting rules to increase the transparency of delayed Treasury spot transactions in corporate debt securities because, under current rules, the disseminated price of the transaction may not reflect the market value of the trade at the time of dissemination.[\[6\]](#) FINRA initially proposed changes in July 2020,[\[7\]](#) which received comments and was filed with the SEC as a proposed rule amendment pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 and Rule 19b-4 thereunder.[\[8\]](#) The original proposal sought for entities to report, when reporting the trade to TRACE, a trade modifier that would signal to the market that the trade was for a delayed Treasury spot trade in a corporate debt security. The original proposal did not change the time for which any information had to be reported. This amendment was never adopted[\[9\]](#) and now is being re-proposed in a different form. ICI did not comment on the original proposal.

FINRA is now proposing to amend Rule 6730 to provide for a two-part reporting regime for

delayed Treasury spot trades in corporate debt securities. First, members would be required to report the agreed-upon spread, the associated benchmark Treasury security, and other items of information currently associated with a corporate debt TRACE report (other than the dollar price) as soon as practicable but no later than 15 minutes after the spread is agreed to. Second, members would be required to subsequently report the calculated dollar price as soon as practicable, but no later than 15 minutes after the time the trade is “spotted” to the benchmark Treasury security. Upon receipt of the reports, FINRA would disseminate the reported information immediately, with the stated goal of providing immediate transparency into the volume of the corporate debt trade, the agreed-upon spread, the benchmark Treasury security, and then subsequently the final dollar price of the trade. The comment period for the proposal closes on January 30, 2023.

The current proposal is significantly different than what was originally proposed in 2020. In 2020, nothing about the trade would need to be reported to TRACE until the final dollar amount was agreed to (i.e. the trade was “spotted”). Once the final dollar price was “spotted,” the trade would be reported to TRACE within 15 minutes with a modifier letting market participants know that this was a delayed Treasury spot trade in a corporate debt security. FINRA’s current proposal requires all information other than the final “spotted” price to be reported to TRACE within 15 minutes of agreement. The final price would then subsequently be reported to TRACE within 15 minutes once “spotted.” While ICI does not at this time intend to comment, we are interested in hearing members’ comments and concerns regarding the new proposal and any impact that it may have on order execution quality or data leakage, particularly as it relates to large orders based on a TWAP or VWAP execution style, if applicable.

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Notes

[1] See Regulatory Notice 22-28, FINRA Adopts Amendments to Require Reporting of Transactions in U.S. Dollar-Denominated Foreign Sovereign Debt Securities to TRACE (Dec. 13, 2022), available at <https://www.finra.org/rules-guidance/notices/22-28>. The compliance date is Nov. 6, 2023.

[2] See Regulatory Notice 22-27, FINRA Adopts Enhancements to TRACE Reporting for U.S. Treasury Securities (Dec. 1, 2022), available at <https://www.finra.org/rules-guidance/notices/22-27>.

[3] See Regulatory Notice 22-26, FINRA Requests Comment on Proposed Changes to TRACE Reporting Relating to Delayed Treasury Spot Trades (Nov. 29, 2022), available at <https://www.finra.org/rules-guidance/notices/22-26>.

[4] FINRA considers the relevant execution system to be the system used to execute the US Treasury security transaction being reported to TRACE, regardless of whether the member is using its own internal systems for execution or if the transaction is executed through an external system. For example, if a member executes a transaction in a US Treasury security through an alternative trading system (ATS) or other electronic trading platforms, the

member would be required to report in the finest increment of time captured by such ATS or electronic trading platform (but no finer than a microsecond, in line with TRACE system parameters). FINRA members will not be required to update their system to provide execution timestamps at a finer level of granularity; however, members should ensure that their trade reports reflect the finest increment of time captured by the trade execution system used. FINRA notes that the time stamp should be no longer than one second and no shorter than one microsecond.

[5] New Supplementary Material .07 to Rule 6730 defines a member with “limited trading volume in U.S. Treasury securities” as a member that “executed transactions in U.S. Treasury securities of \$10 million or less in average daily par value, computed by aggregating buy and sell transactions, during the preceding calendar year.” Members relying on the exception must annually confirm that it meets the criteria for the exception.

[6] See Recommendation Regarding Additional TRACE Reporting Indicators for Corporate Bond Trades (Feb. 10, 2020), available at <https://www.sec.gov/spotlight/fixed-income-advisory-committee/fimsac-021020-preliminary-recommendations-regarding-additional-trace-flags.pdf>.

[7] See Regulatory Notice 20-24, FINRA Requests Comment on Proposed Changes to TRACE Reporting Relating to Delayed Treasury Spot and Portfolio Trades (July 16, 2020), available at <https://www.finra.org/rules-guidance/notices/20-24>.

[8] Notice of Filing of Proposed Rule Change to Amend FINRA Rule 6730 to Require Members to Append Modifiers to Delayed Treasury Spot and Portfolio Trades When Reporting to TRACE, Exchange Act Release No. 93699 (Dec. 1, 2021), available at <https://www.sec.gov/rules/sro/finra/2021/34-93699.pdf>.

[9] Notice of Filing of Amendment No. 1 and Order Approving a Proposed Rule Change, as Modified by Amendment No. 1, Relating to TRACE Reporting of Corporate Bond Trades That Are Part of a Larger Portfolio Trade, Exchange Act Release No. 94365 (March 4, 2022), available at <https://www.sec.gov/rules/sro/finra/2022/34-94365.pdf>.