

**MEMO# 35686**

April 24, 2024

# **SEC Institutes Proceedings to Determine Whether to Approve or Disapprove FINRA and MSRB Proposed Changes to Shorten Reporting Timeframes for TRACE-Eligible Securities and Municipal Securities**

[35686]

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TO: ICI Members

Fixed-Income Advisory Committee

Municipal Securities Advisory Committee SUBJECTS: Fixed Income Securities

Investment Advisers

Municipal Securities

Trading and Markets RE: SEC Institutes Proceedings to Determine Whether to Approve or Disapprove FINRA and MSRB Proposed Changes to Shorten Reporting Timeframes for TRACE-Eligible Securities and Municipal Securities

On April 22, 2024, the Securities and Exchange Commission (SEC) issued orders instituting proceedings to determine whether to approve or disapprove proposed rule changes filed, pursuant to Exchange Act Rule 19b-4, by the Financial Industry Regulatory Authority (FINRA) and the Municipal Securities Rulemaking Board (MSRB) to shorten the timeframe from 15 minutes to one minute for reporting trades in certain Trade Reporting and Compliance Engine (TRACE)-eligible securities<sup>[1]</sup> and municipal securities, respectively.<sup>[2]</sup> Comments are due 21 days after publication in the Federal Register, with rebuttal comments due 35 days after publication. As of the date of this email, the notices have not yet been published. At this time, ICI does not intend to submit any additional comment letters as there does not appear to be any material difference between the substance of the orders instituting proceedings and the notices that ICI previously commented on.

## **A. Prior FINRA and MSRB Proposals**

In August 2022, FINRA and MSRB both issued proposals and requested comment regarding reducing the trade reporting timeframe from 15 minutes to one minute for certain

transactions reported to TRACE and the Real-Time Transaction Reporting System (RTRS), respectively.<sup>[3]</sup> On October 3, 2022, ICI filed a comment letter on behalf of members discussing certain concerns with the proposals that many members had.<sup>[4]</sup> The letter recommended that FINRA and MSRB adopt a measured and phased approach in implementing any changes to trade reporting and dissemination, similar to what each has done over the past two decades, and that any shortened trade reporting timeframe should be implemented through an incremental, data-driven approach, with a focus on the impacts, by asset class and transaction size, that reduced reporting times may have on liquidity, market structure, and execution quality. ICI requested that FINRA and MSRB examine the attributes of large trades and trades in less liquid securities that are currently reported later than one minute before requiring a shorter reporting time for these transactions, as the data provided by FINRA and MSRB in the proposals demonstrated large trades and trades in thinly traded securities being reported later than a minute and, according to feedback from ICI's members, are often traded via voice or other non-electronic methods.

On January 19, 2024, the SEC published a notice to solicit comments on the aforementioned proposed rule changes.<sup>[5]</sup> In response to comments received, while still reducing the 15-minute reporting timeframe to one-minute, both FINRA and MSRB amended their proposed rule changes to address market participants' concerns and proposed two new reporting exceptions for (1) member firms with "limited trading activity"; and (2) manual trades. On February 15, 2024, ICI filed a comment letter in response to the notices.<sup>[6]</sup> ICI stated that it appreciated that both FINRA and MSRB had responded to ICI's comments and amended the filings. ICI stated its belief that FINRA's and MSRB's proposed manual trade exception, with a shortened reporting timeframe being implemented in a phased manner over time, is an appropriate balance between shortening reporting timeframes and avoiding disruption to the marketplace or causing undue burdens. However, ICI believes strongly that FINRA and MSRB must provide opportunities for funds, advisers, and other market participants to submit data and comments as the timeframe for reporting manual trades is reduced. To address this issue, ICI recommended that FINRA and MSRB propose for notice and comment each reduced outer limit timeframe for the manual trade exception prior to FINRA or MSRB potentially shortening the reporting timeframe.

## **B. Summary of the SEC's Orders Instituting Proceedings**

In response to comments received, the SEC issued orders instituting proceedings to determine whether to approve or disapprove the FINRA and MSRB proposals.<sup>[7]</sup> While the SEC instituted proceedings due to "the legal and policy issues raised by the proposal", institution of proceedings does not indicate "that the Commission has reached any conclusions with respect to any of the issues involved."<sup>[8]</sup> Rather, the SEC is seeking and is encouraging interested persons to provide comments on the proposed rule changes, in particular, "the Commission is instituting proceedings to allow for additional analysis of, and input from commenters with respect to, the scope and implementation of the proposed exceptions to the one-minute reporting timeframe."<sup>[9]</sup>

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## Notes

[1] FINRA's proposed amendments would affect most transactions in corporate bonds, agency debt securities, asset-backed securities (ABS), and agency pass-through mortgage-backed securities (MBS) traded to-be-announced (TBA) for good delivery (GD). For securities not currently subject to a 15-minute reporting timeframe, such as commercial mortgage-backed securities and collateralized debt obligations, the proposals would not affect those securities' reporting and dissemination requirements.

[2] Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change to Amend FINRA Rule 6730 (Transaction Reporting) to Reduce the 15-Minute TRACE Reporting Timeframe to One Minute, Exchange Act Release No. 100006 (April 22, 2024), available at <https://www.sec.gov/files/rules/sro/finra/2024/34-100006.pdf> ("FINRA Order"); Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change Consisting of Proposed Rule Change to Amend MSRB Rule G-14 to Shorten the Timeframe for Reporting Trades in Municipal Securities to the MSRB, Exchange Act Release No. 100003 (April 22, 2024), available at <https://www.sec.gov/files/rules/sro/msrb/2024/34-100003.pdf> ("MSRB Order").

[3] See FINRA, TRACE Reporting Timeframe, FINRA Regulatory Notice 22-17 (Aug. 2, 2022), available at <https://www.finra.org/rules-guidance/notices/22-17#notice>; MSRB, Request for Comment on Transaction Reporting Obligations under MSRB Rule G-14, MSRB Notice 2022-07 (Aug. 7, 2022), available at <https://www.msrb.org/-/media/Files/Regulatory-Notices/RFCs/2022-07.ashx??n=1>. For ICI's memorandum summarizing the proposals, please see ICI Memorandum No. 34245 (Aug. 9, 2022), available at <https://www.ici.org/memo34245>.

[4] We filed one letter to both FINRA and MSRB. Letter from Sarah A. Bessin, Associate General Counsel, ICI, to Jennifer Piorko Mitchell, Office of the Corporate Secretary, FINRA and Ronald W. Smith, Corporate Secretary, MSRB (Oct. 3, 2022), available at [https://www.finra.org/sites/default/files/NoticeComment/Investment%20Company%20Institute\\_Sarah%20A.%20Bessin\\_10.3.2022\\_22-17.pdf](https://www.finra.org/sites/default/files/NoticeComment/Investment%20Company%20Institute_Sarah%20A.%20Bessin_10.3.2022_22-17.pdf). For ICI's memorandum summarizing the letter, please see ICI Memorandum No. 34301 (Oct. 3, 2022), available at <https://www.ici.org/memo34301>.

[5] Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 6730 (Transaction Reporting) to Reduce the 15-Minute TRACE Reporting Timeframe to One Minute, Exchange Act Release No. 99404 (Jan. 19, 2024), available at <https://www.sec.gov/files/rules/sro/finra/2024/34-99404.pdf>; Notice of Filing of a Proposed Rule Change to Amend MSRB Rule G-14 to Shorten the Timeframe for Reporting Trades in Municipal Securities to the MSRB, Exchange Act Release No. 99402 (Jan. 19, 2024), available at <https://www.sec.gov/files/rules/sro/msrb/2024/34-99402.pdf>. For ICI's memorandum summarizing the notices, please see ICI Memorandum No. 35593 (Jan. 23, 2024), available at <https://www.ici.org/memo35593>.

[6] We filed one letter to both FINRA and MSRB. Letter from Sarah A. Bessin, Associate General Counsel, ICI, to Vanessa Countryman, Secretary, SEC (Feb. 15, 2024), available at <https://www.sec.gov/comments/sr-finra-2024-004/srfinra2024004-429720-1064862.pdf>. For ICI's memorandum summarizing the letter, please see ICI Memorandum No. 35618 (Feb. 15, 2024), available at <https://www.ici.org/memo35618>.

[7] See *supra* note 2.

[\[8\]](#) FINRA Order, *supra* note 2, at 18.

[\[9\]](#) *Id.* at 19.

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