

MEMO# 35802

August 6, 2024

FINRA and MSRB File Amended Proposed Rule Changes with the SEC to Shorten Reporting Timeframes for TRACE-Eligible Securities and Municipal Securities

[35802]

August 06, 2024

TO: ICI Members

Fixed-Income Advisory Committee

Municipal Securities Advisory Committee SUBJECTS: Fixed Income Securities

Investment Advisers

Municipal Securities

Trading and Markets RE: FINRA and MSRB File Amended Proposed Rule Changes with the SEC to Shorten Reporting Timeframes for TRACE-Eligible Securities and Municipal Securities

The Financial Industry Regulatory Authority (FINRA) and the Municipal Securities Rulemaking Board (MSRB) recently filed with the Securities and Exchange Commission (SEC) amended proposed rule changes related to reducing the trade reporting timeframe for certain transactions reported to FINRA's Trade Reporting and Compliance Engine (TRACE) and MSRB's Real-Time Transaction Reporting System (RTRS).[\[1\]](#) Both the FINRA Amendment and the MSRB Amendment propose to increase the "manual trade" exception phase-in period from two years to three years, allowing an additional year for transaction reporting to occur within 10 minutes of execution. Additionally, MSRB proposes to increase its "dealer with limited trading activity" definitional threshold from 1,800 trades to 2,500 trades. Comments are due August 21, 2024. At this time, given the proposed amendments appear responsive to ICI's previous comment letters, ICI does not intend to file a comment letter. Please see the below for a summary of prior FINRA and MSRB proposals and ICI's responding comment letters.

A. FINRA and MSRB Initial Proposals and Request for Comment

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 RTRS.[\[2\]](#) On October 3, 2022, ICI filed a comment letter

on behalf of members discussing certain concerns with the proposals that many members had.^[3] The letter explained that while ICI members are generally in favor of increased transparency in the fixed income markets and more robust reporting that will increase the reliability of publicly available information, many ICI members had concerns regarding the potential effects that broadly reducing the trade reporting timeframe to one minute may have. ICI therefore 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.

B. FINRA and MSRB First Filings with the SEC

In response to comments received, when filing the proposed rule changes with the SEC, both FINRA and MSRB proposed two new exceptions for the one-minute reporting timeline for: (1) member firms with "limited trading activity"; and (2) manual trades.^[4] A member with "limited trading activity" would be defined as a member that, during one of the prior two calendar years, reported to TRACE fewer than 4,000 transactions or reported to the RTRS fewer than 1,800 transactions. Regarding the manual trade exception, for trades that require manual intervention, a 15-minute outer limit would apply for the first year following any implementation date; a 10-minute outer limit would apply for the second year; and a 5-minute outer limit would apply thereafter. The amended rules would require, regardless of the timeframe limit, that transactions be reported as soon as practicable after execution.^[5]

In ICI's subsequent comment letter, ICI stated its belief that the proposed manual trade exception, with a shortened reporting timeframe being implemented in a phased manner over time, was an appropriate balance between shortening reporting timeframes and avoiding disruption to the marketplace or causing undue burdens.^[6] However, ICI continued to strongly believe 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. Importantly, FINRA and MSRB must consider that these rules will not be implemented in isolation, but will be implemented alongside other significant rules that have recently been adopted, such as the shortened securities settlement cycle (T+1), and potentially other rules that have been proposed, such as Regulation Best Execution and rules related to the implementation of the Basel III framework.

C. FINRA and MSRB Amended Filings with the SEC

In response to comments received, FINRA and MSRB filed amendments to the proposed rule change. Both the FINRA Amendment and the MSRB Amendment propose to amend the manual trades exception to provide FINRA and MSRB members with an additional year to transition to the five-minute reporting timeline for manual trades.^[7] Accordingly, the proposed rule changes, as amended, would provide that a FINRA or MSRB member relying on the manual trades exception will be required to report the manual trade as soon as practicable and no later than within 15 minutes of the time of execution (for up to one calendar year from the effectiveness of the proposed amendments), within 10 minutes of the time of execution (for up to three calendar years from the effectiveness of the proposed amendments), and within five minutes of the time of execution (three or more calendar years from the effectiveness of the proposed amendments). The proposed amendments

"will provide FINRA with additional time to assess FINRA members' trade reporting times in connection with manual trades and request comment on the operation of the manual trades exception—and FINRA will be prepared to make adjustments, as necessary, prior to the effectiveness of the five-minute reporting timeframe."^[8] The MSRB Amendment additionally raises MSRB's proposed threshold for its "limited trading activity" exception from 1,800 trades to 2,500 trades.

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Notes

^[1] Notice of Partial Amendment No. 1 to Proposed Rule Change To Amend FINRA Rule 6730 To Reduce the 15-Minute TRACE Reporting Timeframe to One Minute, Exchange Act Release No. 100594, 89 Fed. Reg. 61514 (July 31, 2024), available at <https://www.govinfo.gov/content/pkg/FR-2024-07-31/pdf/2024-16801.pdf> ("FINRA Amendment"); Notice of Filing of Amendment No. 1 to Proposed Rule Change Consisting of Amendments to MSRB Rule G-14 To Shorten the Timeframe for Reporting Trades in Municipal Securities to the MSRB, Exchange Act Release No. 100589, 89 Fed. Reg. 61516 (July 31, 2024), available at <https://www.govinfo.gov/content/pkg/FR-2024-07-31/pdf/2024-16796.pdf> ("MSRB Amendment").

^[2] 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>.

^[3] 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. For ICI's memorandum summarizing the letter, please see ICI Memorandum No. 34301 (Oct. 3, 2022), available at <https://www.ici.org/memo34301>.

^[4] 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 proposals, please see ICI Memorandum No. 35593 (Jan. 23, 2024), available at <https://www.ici.org/memo35593>.

[5] While FINRA has always required trades to be reported "as soon as practicable," this would be a new requirement for MSRB.

[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] FINRA Amendment, *supra* note 1, at 61515 ("In response to these comments, FINRA is amending the proposed rule change to extend the phase-in period for five-minute reporting by one year so that FINRA members would have three years to transition to five-minute reporting for manual trades.").

[8] *Id.* See also MSRB Amendment, *supra* note 1, at 61517-18 ("Furthermore, the MSRB stated that it would monitor the implementation of the proposed rule change and, going forward, would analyze trade data related to the operation of the proposed two new exceptions to, among other things, determine whether the eventual five-minute trade reporting timeframe that would become applicable after two years continues to be feasible and appropriate in light of the empirical data collected through the earlier phases of implementation. The MSRB further explained that it would be prepared to take action to provide appropriate guidance or undertake appropriate modifications in connection with the phase-in of the manual trade exception should circumstances warrant any such action, including, but not limited to potentially filing a proposed rule change to extend the implementation period for the eventual five-minute timeframe for trades with a manual component.").