

Regulatory Notice

12-26

Trade Reporting and Compliance Engine (TRACE)

SEC Approves Amendments to TRACE Reporting Requirements and Dissemination of Agency Pass-Through Mortgage-Backed Securities Traded To Be Announced and Related Fees

Effective Date: November 5, 2012

Executive Summary

The SEC approved amendments to FINRA Rule 6700 Series and TRACE dissemination protocols regarding the reporting and dissemination of transactions in TRACE-eligible securities that are agency pass-through mortgage-backed securities that are traded to be announced (TBA transactions).¹ In addition, the SEC approved amendments to FINRA Rule 7730 regarding TRACE fees to provide for data fees for TBA transaction data. The amendments also include the deletion of the reference to an expired pilot program and minor technical changes. The effective date is November 5, 2012.

The amended rule text is available at www.finra.org/notices/12-26.

Questions regarding this *Notice* may be directed to:

- ▶ Patrick Geraghty, Director, Market Regulation, at (240) 386-4973;
- ▶ Elliot Levine, Associate Vice President and Counsel, Transparency Services, at (202) 728-8405; or
- ▶ Sharon Zackula, Associate Vice President and Associate General Counsel, Office of General Counsel, at (202) 728-8985.

May 2012

Notice Type

- ▶ Rule Amendment

Suggested Routing

- ▶ Compliance
- ▶ Fixed Income
- ▶ Legal
- ▶ Operations
- ▶ Systems
- ▶ Trading
- ▶ Training

Key Topics

- ▶ Agency Pass-Through Mortgage-Backed Securities Traded To Be Announced (TBA)
- ▶ Asset-Backed Securities
- ▶ Dissemination
- ▶ TRACE Fees
- ▶ Transaction Reporting

Referenced Rules & Notices

- ▶ FINRA Rule 6710
- ▶ FINRA Rule 6730
- ▶ FINRA Rule 6750
- ▶ FINRA Rule 7730



Financial Industry Regulatory Authority

Background and Discussion

FINRA amended the TRACE rules and dissemination protocols to provide for the dissemination of agency pass-through mortgage-backed securities traded in TBA transactions, which will significantly increase transparency in the TBA market. FINRA also reduced the reporting periods for TBA transactions to improve the timeliness and value of the transaction information to be disseminated, and incorporated certain other amendments. The substantive amendments to the FINRA rules are as follows:

- ▶ **Dissemination.** FINRA amended Rule 6750(b)(4) to provide for the dissemination of TBA transactions immediately upon receipt of a transaction report. Under TRACE dissemination protocols, TBA transactions for which good delivery may be made (TBA transactions GD) will be disseminated subject to a \$25 million dissemination cap and TBA transactions in products that are not traded for good delivery (TBA transactions NGD) will be disseminated subject to a \$10 million dissemination cap.
- ▶ **Reporting Time Periods.** FINRA amended Rule 6730 to establish requirements for reporting TBA transactions GD and TBA transactions NGD.
 - ▶ **TBA Transactions GD.** FINRA Rule 6730(a)(3)(D)(i) provides that for a pilot program that will expire on May 10, 2013, TBA transactions GD must be reported no later than 45 minutes from the time of execution, subject to minor exceptions for TBA transactions GD executed shortly before the TRACE system closes and when the TRACE system is closed.² After May 10, 2013, FINRA Rule 6730(a)(3)(D)(ii) provides that TBA transactions GD must be reported no later than 15 minutes from the time of execution, subject again to exceptions to the reporting time frames for transactions executed shortly before the TRACE system closes and when the TRACE system is closed.³
 - ▶ **TBA Transactions NGD.** FINRA Rule 6730(a)(3)(E)(i) provides that for a pilot program that will expire on May 10, 2013, TBA transactions NGD must be reported no later than 120 minutes from the time of execution, subject to minor exceptions for TBA transactions NGD executed shortly before the TRACE system closes or when the TRACE system is closed.⁴ After May 10, 2013, FINRA Rule 6730(a)(3)(E)(ii) provides that TBA transactions NGD must be reported no later than 60 minutes from the time of execution, subject again to exceptions to the reporting time frames for transactions executed shortly before the TRACE system closes and when the TRACE system is closed.⁵
- ▶ **Definitions.** FINRA amended Rule 6710(u), the definition of “TBA,” to incorporate the concepts “for good delivery” and “not for good delivery.”
- ▶ **Fees.** FINRA amended Rule 7730 to establish fees for current market data for TBA transactions and aged TBA transaction data (historic TRACE data). The fees are set at the same rate currently in effect for other current TRACE market data and historic TRACE data.⁶

Endnotes

1. See Securities Exchange Act Release No. 66829 (April 18, 2012), 77 FR 24748 (April 25, 2012) (SEC Approval Order of File No. SR-FINRA-2012-020).
2. See FINRA Rule 6730(a)(3)(D)(i)a., c. and d.
3. See Rule 6730(a)(3)(D)(ii), which incorporates by reference Rule 6730(a)(1)(A) through (D).
4. See FINRA Rule 6730(a)(3)(E)(i)a., c. and d.
5. See FINRA Rule 6730(a)(3)(E)(ii)a., c. and d.
6. FINRA also deleted references to a pilot program that expired in Rule 6730 and incorporated minor administrative, technical or clarifying changes to Rule 6730 and Rule 7730.