SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-80685; File No. SR-FINRA-2017-012)

May 16, 2017

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 7730 to Reduce the Delay Period for the Historic TRACE Data Sets Relating to Corporate and Agency Debt Securities

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on May 12, 2017, Financial Industry Regulatory Authority, Inc. ("FINRA") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA.

The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to amend Rule 7730 to reduce the delay period for the Historic TRACE Data Sets relating to corporate and agency debt securities from 18 months to six months.

The text of the proposed rule change is available on FINRA's website at http://www.finra.org, at the principal office of FINRA and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Rule 7730 (Trade Reporting and Compliance Engine (TRACE)), among other things, sets forth the data products offered by FINRA relating to TRACE transaction information and the fees applicable to such products. FINRA's data offerings include both real-time as well as delayed data for most TRACE-Eligible Securities.[3] FINRA's delayed data ("Historic TRACE Data") contains historical transaction-level data for the following TRACE data sets: the Historic Corporate Bond Data Set, the Historic Agency Data Set, the Historic Securitized Product Data Set and the Historic Rule 144A Data Set.[4] Rule 7730 provides that Historic TRACE Data will be delayed a minimum of 18 months and will not include Market Participant Identifier ("MPID") information.[5] The proposed rule change would reduce the delay period applicable to the Historic

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3 Rule 6710 (Definitions) provides that a "TRACE-Eligible Security" is a debt security that is United States dollar-denominated and issued by a U.S. or foreign private issuer, and, if a "restricted security" as defined in Securities Act Rule 144(a)(3), sold pursuant to Securities Act Rule 144A; or is a debt security that is U.S. dollar-denominated and issued or guaranteed by an Agency as defined in paragraph (k) or a Government-Sponsored Enterprise as defined in paragraph (n); or a U.S. Treasury Security as defined in paragraph (p). "TRACE-Eligible Security" does not include a debt security that is: issued by a foreign sovereign or a Money Market Instrument as defined in paragraph (o).

4 Historic TRACE Data originally included only the Corporate Bond and Agency Data Sets; the Securitized Product ("SP") Data Set and the Rule 144A Data Set were added to Historic TRACE Data later as information about transactions in those securities became subject to dissemination. Additional securities may be included in Historic TRACE Data as they become subject to dissemination.

5 The specific data elements provided in the Historic TRACE Data Sets are to be determined from time-to-time by FINRA in its discretion and as stated in a Regulatory Notice or other equivalent publication. See infra note 8.

Corporate Bond Data Set and the Historic Agency Data Set and Rule 144A transactions in corresponding securities (together, "Corporate and Agency Historic TRACE Data"), from 18 months to six months and would retain the criteria that MPIDs not be included.[6]

The Historic TRACE Data provisions and related fees became effective in 2010.[7] Historic TRACE Data provides transaction-level data for all trades reported to TRACE in those classes of TRACE-Eligible Securities that currently are disseminated and includes, among other things, the price, date, time of execution, yield and uncapped volume for each transaction, provided the transaction is at least 18 months old.[8] The 18-month delay period was adopted to

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6 FINRA proposes to retain the current 18-month delay for the Historic SP Data Set. The Historic SP Data Set generally includes information on transactions in asset-backed securities ("ABS"), mortgage-backed securities ("MBS"), and Small Business Administration ("SBA")-backed securities traded To Be Announced ("TBA") and in specified pool transactions, collateralized mortgage-backed securities ("CMBS"), collateralized mortgage obligations ("CMO") and collateralized debt obligations ("CDO"). While transaction information on ABSs, MBSs and TBAs are currently subject to dissemination and CMOs became subject to dissemination on March 20, 2017, FINRA does not yet disseminate transaction information on CMBSs or CDOs. FINRA issued a Regulatory Notice seeking comment on a proposal to disseminate such products. See Regulatory Notice 15-04 (February 2015) (FINRA Requests Comment on a Proposal to Disseminate Additional Securitized Products and to Reduce the Reporting Time Frame for These Products). Once all SPs become subject to dissemination, FINRA will consider whether a delay period of less than 18 months should apply to the Historic SP Data Set.

7 See Securities Exchange Act Release No. 61012 (November 16, 2009), 74 FR 61189 (November 23, 2009) (Order Approving File No. SR-FINRA-2007-006). See also Regulatory Notice 10-14 (March 2010).

8 Historic TRACE Data also may include transactions or items of information that were not disseminated previously. For example, Historic TRACE Data includes exact trade volumes, rather than the capped amounts that are disseminated in real-time. The applicable real-time dissemination cap differs depending upon the type of TRACE-Eligible Security being reported. The caps are $5 million for agency debentures and corporate bonds that are rated investment grade; $1 million for corporate bonds that are rated non-investment grade; $25 million for agency pass-through mortgage-backed securities traded TBA for good delivery; and $10 million for agency pass-through mortgage-backed securities traded TBA not for good delivery, agency pass-through mortgage-backed securities traded in specified pool transactions, and SBA-backed asset-backed securities traded TBA and in specified pool transactions.

address concerns regarding the possibility that the data, though delayed, might be used to identify current trading, positions or the strategies of market participants.[9]

Since implementation, researchers and other non-dealers have been the primary subscribers to Historic TRACE Data. FINRA understands that the lack of usage by dealers is due to the 18-month delay period for transactions included in Historic TRACE Data and market participants have indicated that a reduction in the delay period to six months would make the data more useful.

In response, FINRA is proposing to reduce the delay period applicable to Corporate and Agency Historic TRACE Data from 18 months to six months. FINRA is not aware of any instances of complaints regarding information leakage under the 18-month delay timeframe, and believes that the delay period can be reduced, thereby increasing the utility of the Corporate and Agency Historic TRACE Data to market participants and promoting the goal of increased transparency for TRACE-Eligible Securities.[10] FINRA also believes that a six-month delay will be sufficient to continue to address information leakage concerns.[11]

Historic TRACE Data also is available for trade reports dating back to 2002, even for transactions that were not subject to public dissemination at the time. Similarly, while real-time information for specified pool transactions is disseminated based on security characteristics, Historic TRACE Data identifies securities by CUSIP. Historic TRACE Data also includes reports on both the buy- and sell-side of inter-dealer transactions, whereas only sell-side trade reports are subject to real-time dissemination.

9 See Securities Exchange Act Release No. 56327 (August 28, 2007), 72 FR 51689 (September 10, 2007) (Notice of Filing of File No. SR-FINRA-2007-006). See also Notice to Members 06-32 (June 2006).

10 FINRA is not proposing any changes to the fields made available in the Historic TRACE Data at this time, and notes that the data will continue to omit any identifying dealer information. Additional information regarding included fields is available in “Historic TRACE Data: Enhanced Historical Time and Sales – Trade Record File Layout” in the technical specifications.

11 FINRA notes that the Municipal Securities Rulemaking Board (MSRB) disseminates in real-time the exact par value on all transactions with a par value of $5 million or less, and

If the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 60 days following Commission approval. The effective date will be no later than 120 days following publication of the Regulatory Notice.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,[12] which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest.

FINRA believes that reducing the delay period for the Corporate and Agency Historic TRACE Data will increase the utility of the data to market participants and others, thereby promoting the goal of increased transparency for TRACE-Eligible Securities, while continuing to incorporate a sufficient period of aging to address information leakage concerns.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

Economic Impact Analysis

(a) Need for the Rule

As discussed above, FINRA has received feedback from market participants that the current 18-month delay period may be too long to make Historic TRACE Data useful. Most

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includes an indicator ("MM+") in place of the exact par value on transactions where the par value is greater than $5 million until the fifth business day. MSRB disseminates the exact par value on all transactions on the fifth day after the trade.

12 15 U.S.C. 78o-3(b)(6).

subscribers to Historic TRACE Data have been vendors and research firms; there have been very few member subscribers due to the length of the delay.

(b) Regulatory Objective

The proposed shorter delay period for Historic TRACE Data aims to increase the utility of Historic TRACE Data for market participants and others, thereby promoting the goal of increased transparency for TRACE-Eligible Securities.

(c) Economic Impacts

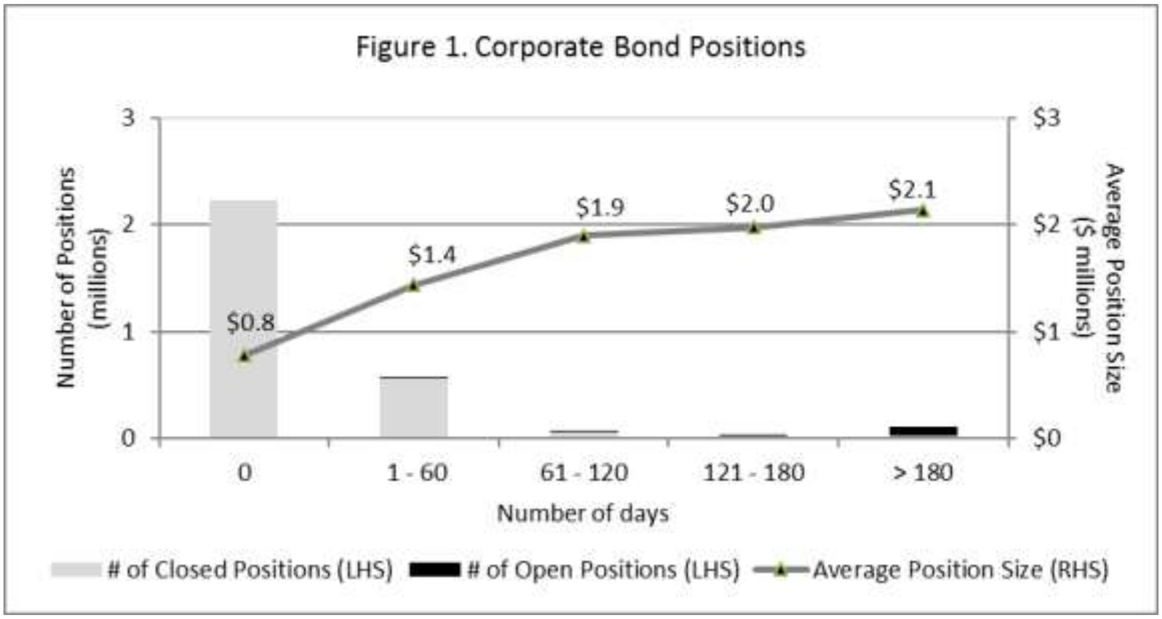
FINRA's existing Historic TRACE Data product provides transaction-level data on an 18-month delayed basis for all transactions that have been reported to TRACE in the classes of TRACE-Eligible Securities that currently are disseminated. As detailed above, FINRA is proposing to reduce the delay period for the Historic TRACE Data Sets relating to Corporate and Agency Debt securities from 18 months to six months.

The proposed rule change would expand the benefits of FINRA's TRACE initiatives by increasing the utility of the Corporate and Agency Historic TRACE Data Sets to market participants, as the proposed reduction in the delay period to six months would make the data more useful.

The proposed rule change will not have any operational impact on firms, as the proposal does not require firms to provide FINRA with any additional data. The purchase of TRACE data products will continue to be optional for members and others. However, FINRA considered the potential for indirect costs regarding possible information leakage due to the reduction in the delay period applicable to the Corporate and Agency Historic TRACE Data Sets from 18 months to six months. To address those concerns and investigate whether the reduction in the delay period poses a risk for reverse engineering of positions, FINRA analyzed daily positions in

12,087 corporate and 10,109 agency bonds, that were issued between March 6, 2012 and February 5, 2014, by using trades between February 6, 2012 and February 5, 2016 that were reported to TRACE by 1,509 market participants.[13]

Figure 1 depicts the average number of days it takes to reverse[14] corporate bond positions and the average position size in the sample.[15]



2,230,676, or approximately 74.5%, of the 2,992,946 daily corporate bond positions in the sample were reversed on the same day (number of days = 0). The average size of the positions in this category was approximately $0.8 million per CUSIP. 21.9% of the trades were reversed between one and 180 days. These trades had an average size of between $1.4 and $2.0 million. The remaining positions, approximately 3.6% of the sample, were reversed after 180

[13] Historic TRACE Data does not include a "List or Fixed Offering Price Transaction" or "Takedown Transaction," as defined in Rule 6710.

[14] To "reverse" a position means entering into a trade on the opposite side of a position that flattens or reverses the position. For example, if long in a specific bond, a reversal would entail a sell trade in an amount that is equal to or greater than the amount of the original position.

[15] Positions that are created in the last six months of the sample period are not included in the sample to prevent a bias in the results.

days (i.e., remained open for longer than 180 days). FINRA notes that the vast majority, approximately 79.2%, of the positions in this category were still open at the end of our sample period (February 5, 2016). The positions that remained open for more than 180 days had an average size of $2.1 million.[16]

642 CUSIPs only had positions that were reversed after 180 days from acquisition. Another 1,402 CUSIPs only had positions that were reversed within 180 days. The remaining 10,043 CUSIPs had both positions that were reversed within 180 days and positions that were reversed after 180 days from acquisition.

FINRA believes that the risk of reverse engineering would be higher for the 642 CUSIPs that only had positions that were still open after 180 days. These CUSIPs were for significantly smaller issues (average issuance amount of approximately $38 million) than the rest of the CUSIPs (an average issuance amount of approximately $315 million). These 642 CUSIPs had an average of seven trades per CUSIP over the sample period, compared to 1,306 trades per CUSIP for the rest of the sample. These CUSIPs also were traded by fewer market participants, an average of 1.3, compared to an average of 42 market participants for the remaining 11,445 CUSIPs. There were only 862 positions in those 642 CUSIPs, with relatively large balances as a proportion to the issuance size, with an average balance-to-issuance size of 32.5%, compared to 0.3% for the remaining CUSIPs. Approximately 15% of the 862 positions were reversed between six and 18 months of acquisition, implying that the reduction in dissemination delay would impact a small portion of the holdings in the sample. This would suggest that the

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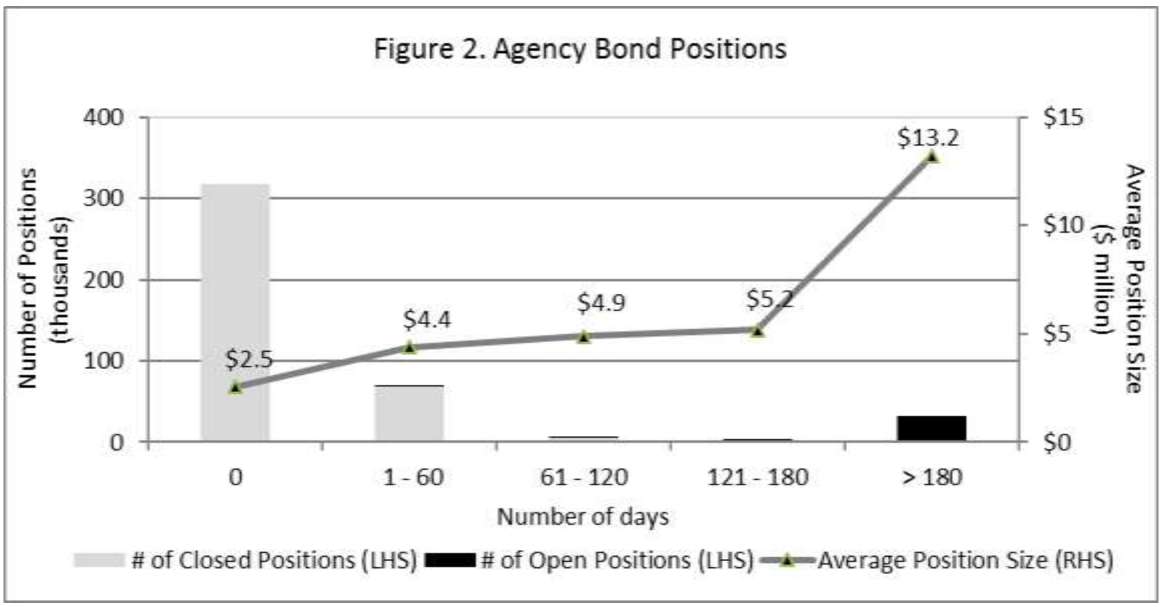
16 The difference in the average size of positions that reversed after 180 days ($2.1 million) and positions that were reversed within 180 days ($0.9 million) is statistically significant at conventional levels.

proposed rule, if it had been in place, would have provided little additional information to the public relative to these positions.

These figures suggest that only a small portion of the corporate positions in the sample are reversed after 180 days of acquisitions. Moreover, only a few CUSIPs had positions with holding periods of more than 180 days, while such positions consisted of less than 0.02% of all daily corporate bond positions in the sample.

Figure 2 depicts the average number of days it takes to reverse agency bond positions and the average position size in the sample.



Of the 425,823 daily agency bond positions, 317,447, or approximately 74.5%, of the sample were reversed on the same day (number of days = 0). The average size of the positions in this category was approximately $2.5 million per CUSIP. Another 18.0% of the trades were reversed between one and 180 days. These trades had an average size of between $4.4 and $5.2 million. The remaining positions, approximately 7.4% of the sample, were still open for more than 180 days. Approximately 92.4%, of the positions in this category were still open at the end of our sample period.[17] The positions that remained open for more than 180 days had an average size of $13.2 million.[18]

764 CUSIPs only had positions that were reversed after 180 days from acquisition. Another 497 CUSIPs only had positions that were reversed within 180 days. The remaining 8,848 CUSIPs had both positions that were reversed within 180 days and positions that were reversed after 180 days from acquisition.

The 764 CUSIPs with positions that were reversed after 180 days were slightly smaller issues (an average issuance amount of approximately $110 million) than the rest of the CUSIPs (an average issuance amount of approximately $125 million). These 764 CUSIPs had an average of 1.7 trades per CUSIP over the sample period, compared to 175 trades per CUSIP for the rest of the sample. These CUSIPs also were traded by fewer market participants, an average of 1.1, compared to an average of 22 market participants for the remaining 9,345 CUSIPs (497+8,848) for positions that were reversed both within and after 180 days of acquisition. There were 816 positions in those 764 CUSIPS, with relatively larger balances (but not as large as those for corporate bonds) as a proportion to the issuance size, with an average balance-to-issuance size of 2.1%, compared to 0.2% for the rest of the position balances (425,007) in the rest of the CUSIPs. Approximately 1% of the 816 positions were reversed between six and 18 months of acquisition, implying that the reduction in dissemination delay would impact a very small portion of the holdings in the agency bond sample.

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17 FINRA staff also notes that approximately 93.3% of the open agency bond positions in the sample were open for more than 180 days as of February 5, 2016.

18 The difference in the average size of positions that reversed after 180 days ($13.2 million) and positions that are reversed within 180 days ($2.8 million) is statistically significant at conventional levels.

These figures suggest that only a small portion of the agency bond positions in the sample were reversed after 180 days of acquisition. Moreover, only a few CUSIPs related to positions with holding periods longer than 180 days, while such positions consisted of less than 0.02% of all daily agency bond positions in the sample.

Based on the empirical evidence in the sample period, FINRA notes that information leakage, due to the reduction in the delay period applicable to the Corporate and Agency Historic TRACE Data Sets from 18 months to six months is a limited risk for smaller issues that are held by a limited number of market participants. As noted above, such issues are, on average, traded very infrequently. As such, the information leakage associated with these issues may be of limited use to market participants. To the extent that such market participants choose not to trade these issues as a result of the proposed dissemination delay, some CUSIPs may experience a decrease in liquidity.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The proposed rule change was published for comment in Regulatory Notice 15-24 (June 2015). Four comment letters were received in response to the Notice.[19] A copy of the Notice is attached as Exhibit 2a. The list of the commenters is attached as Exhibit 2b. Copies of the comment letters received in response to the Notice are attached as Exhibit 2c.

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[19] See Letter from Sean Davy, Managing Director, Securities Industry and Financial Markets Association, to Maria E. Asquith, Corporate Secretary, FINRA, dated August 24, 2015 ("SIFMA"); letter from Michael Nicholas, CEO, Bond Dealers of America, to Maria E. Asquith, Corporate Secretary, FINRA, dated August 24, 2015 ("BDA"); letter from Luis Palacios, Director of Research Services, The Wharton School, to Maria E. Asquith, Corporate Secretary, FINRA, dated September 10, 2015 ("Wharton"); and letter from Carrie Devorah, Founder, The Center for Copyrights Integrity, to Maria E. Asquith, Corporate Secretary, FINRA, dated September 14, 2015 ("CCI").

SIFMA, BDA and Wharton supported the proposed reduction in the delay period for Historic TRACE Data from 18 months to six months. SIFMA noted that, if certain TRACE-Eligible Securities (not currently subject to dissemination) became subject to dissemination – i.e., CMOs, CMBSs and CDOs, FINRA should consider potential information leakage and liquidity issues for such securities prior to including them in Historic TRACE Data with a six-month, reduced delay. SIFMA suggested a phased-in approach to incorporating this subset of TRACE-Eligible Securities that would begin with an 18-month delay and that, ultimately, is reduced to six months once these products are subject to public dissemination. In response to this comment, and as discussed in Section II.A.1. of this filing, FINRA has revised the proposal to reduce the 18-month delay period to six months only for the Historic Corporate and Agency Data; the Historic SP Data Set will continue to be subject to an 18-month delay. FINRA will consider whether reducing the 18-month delay period for the Historic SP Data Set is appropriate once all SPs have become subject to dissemination.[20]

CCI did not support the proposal and, among other things, raised privacy concerns, and stated that any data transmitted online has no privacy.[21] FINRA notes that the Historic TRACE Data product consists of security-focused transaction information, not customer information, and generally is available to any professional or non-professional party that subscribes, executes appropriate agreements and pays the applicable fee. In addition, while Historic TRACE Data includes delayed information for transactions that were not disseminated previously, the vast majority of the data included already has been disseminated publicly. Thus, in the

[20] See supra note 6.

[21] CCI also raised other issues that are not germane to the proposed reduction of the delay period for Historic TRACE Data and that, therefore, are not addressed herein.

unprecedented event of a breach involving Historic TRACE Data, FINRA does not believe this would present a harm to FINRA members or the market.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (https://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2017-012 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2017-012. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2017-012 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[22]

Eduardo A. Aleman
Assistant Secretary

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[22] 17 CFR 200.30-3(a)(12).