

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71147; File No. SR-FINRA-2013-053)

December 19, 2013

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Update the Rules Governing the Alternative Display Facility

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 December 9, 2013, 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 the Substance of the Proposed Rule Change

FINRA is proposing to update the rules governing the Alternative Display Facility (“ADF”) to, among other things, reflect regulatory requirements that have been put into place since the last comprehensive revision of the ADF rules, and to conform the ADF trade reporting rules, to the extent practicable, to current FINRA rules relating to trade reporting to the FINRA Trade Reporting Facilities (“TRFs”).

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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 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

The ADF is a quotation collection and trade reporting facility that provides ADF Market Participants (i.e., ADF-registered market makers or electronic communications networks (“ECNs”))³ the ability to post quotations, display orders and report transactions in NMS stocks for submission to the Securities Information Processors for consolidation and dissemination to vendors and other market participants. In addition, the ADF delivers real-time data to FINRA for regulatory purposes, including enforcement of requirements imposed by Regulation NMS.⁴ A broker-dealer that wishes to become an ADF Trading Center and display its quotations on the ADF must satisfy certain requirements.⁵

In connection with the migration of the ADF to the Multi-Product Platform (“MPP”), FINRA has undertaken a complete review of the ADF rules and has identified a number of rules to be updated. Some of those updates reflect the changes to the ADF’s functionality resulting

³ See Rule 6220(a)(3).

⁴ See 17 CFR 242.600.

⁵ For example, Rules 6220 and 6250(a)(7) require that a broker-dealer must execute and comply with the ADF Certification Record.

from the migration to MPP; other changes reflect regulatory requirements that have been put into place since the last comprehensive revision of the ADF rules, or are designed to enhance ADF operational efficiency. Other changes conform the ADF trade reporting rules, to the extent practicable, to current FINRA rules relating to trade reporting to the FINRA TRFs.⁶ FINRA is also proposing a variety of non-substantive changes to conform or otherwise streamline the ADF rules. These proposed changes are set forth below.

Changes to Reflect Regulatory Changes

Rule 6272 of the ADF rules addresses requirements regarding quotations posted on the ADF. FINRA proposes to revise Rule 6272(a)(2) to modify the quotation pricing obligations for Registered Reporting ADF Market Makers in response to the National Market System Plan to Address Extraordinary Market Volatility (“Limit Up-Limit Down Plan”).⁷ As amended, the rule will specify that the suspension of pricing obligations for ADF Market Makers shall apply during a trading halt except as permitted under the Limit Up-Limit Down Plan.⁸

In Rule 6272(b), FINRA proposes to update the minimum quotation increment for ADF-eligible securities to account for quotations under \$1.⁹ As revised, the rule will provide that the minimum quotation increment for quotations below \$1.00 in all ADF-eligible securities shall be

⁶ FINRA notes that it has submitted proposed rule change SR-FINRA-2013-050, which would, among other things, amend Rules 6282, 7130 and 7140. See Securities Exchange Act Release No. 70924 (November 15, 2013) (sic), 78 FR 71695 (November 29, 2013). FINRA will amend this filing and/or SR-FINRA-2013-050, as necessary, to reflect Commission approval of any of the proposed rule changes.

⁷ See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (SEC File No. 4-631).

⁸ For example, the Limit up-Limit Down Plan provides that “[n]o trades in an NMS Stock shall occur during a Trading Pause, but all bids and offers may be displayed.” Id. at 77 FR 33514.

⁹ Rule 6220 defines an “ADF-eligible security” as an NMS stock as defined in Rule 600(b)(47) of SEC Regulation NMS.

\$0.0001. This provision will enable ADF Participants to submit quotations for issues under \$1 in an increment that is consistent with Rule 612 of Regulation NMS.¹⁰

Voluntary Terminations

FINRA proposes to amend the definition of “Registered Reporting ADF ECN” in Rule 6220(a) to provide additional detail as to how a Registered Reporting ADF ECN may voluntarily terminate its registration.¹¹ As proposed, the rule will state that a Registered Reporting ADF ECN may voluntarily withdraw from participation on the ADF upon providing, through electronic delivery, written notice to FINRA Market Operations of its intention to withdraw as a Registered Reporting ADF ECN, with such withdrawal to be effective upon the first trading day following the issuance of the written notice announcing the Registered Reporting ADF ECN’s intent to withdraw, or such other date as specified in the written notice. This change will provide greater clarity as to how a Registered Reporting ADF ECN may voluntarily terminate its registration, and an efficient means by which this may be accomplished.

Changes to ADF Order Reporting

FINRA also proposes to modify the order reporting requirements set forth in Rule 6250 so that FINRA can more efficiently monitor quoting activity on the ADF on an automated basis. FINRA requires ADF Trading Centers to report order information so that FINRA can have detailed information regarding the origination of orders underlying an ADF Trading Center’s

¹⁰ Rule 612 permits, among other things, quotations in NMS stocks that are less than \$1.00 per share to be priced in increments of \$0.0001. See 17 CFR 242.612(b).

¹¹ Rule 6220 defines a Registered Reporting ADF ECN as “a member of FINRA that is an electronic communications network (“ECN”) that elects to display orders in the ADF. A member shall cease being a Registered Reporting ADF ECN when it has withdrawn or voluntarily terminated its quotations on the ADF or when its quotations have been suspended or terminated by action of FINRA. This term also shall include a FINRA member that is an alternative trading system (“ATS”) that displays orders in the ADF.” As such, this provision would apply to both ECNs and ATSS that display orders in the ADF.

quotation and use that information to enhance its ability to monitor quotation activity on the ADF. Currently, Rule 6250(b) provides that all ADF Trading Centers that display quotations on the ADF must record the information described in paragraphs (b)(1) and (2) for all orders they receive from another broker-dealer via direct or indirect electronic access. Rule 6250(d)(1) defines direct electronic access as the ability to deliver an order for execution directly against an individual ADF Trading Center's best bid or offer and Rule 6250(d)(2) defines indirect electronic access as the ability to route an order through a FINRA member, subscriber broker-dealer, or customer broker-dealer of an ADF Trading Center for execution against the ADF Trading Center's best bid or offer. Accordingly, current Rule 6250 is intended to only apply where the order is being sent to access a displayed quotation. FINRA proposes to amend this provision to clarify the scope of these requirements to require an ADF Trading Center to record the information pursuant to Rule 6250(b)(1) and (2) only if such order results in an execution, a cancellation, a correction or a rejection by the ADF Trading Center. As such, an incoming order that fully posts to the book of that ADF Trading Center will not trigger the reporting requirements under this provision.¹² FINRA is proposing to revise this provision to better reflect the order information necessary for its surveillance programs related to the Firm Quote Rule,¹³ and reduce the reporting of excess information that may over-burden its systems and lead to false

¹² Similarly, if an incoming order is posted to the book of that ADF Trading Center, and is subsequently cancelled, corrected, etc., the order reporting requirements of Rule 6250(b) would not be triggered.

¹³ The Firm Quote Rule provides that "each responsible broker or dealer shall be obligated to execute any order to buy or sell a subject security, other than an odd-lot order, presented to it by another broker or dealer, or any other person belonging to a category of persons with whom such responsible broker or dealer customarily deals, at a price at least as favorable to such buyer or seller as the responsible broker's or dealer's published bid or published offer (exclusive of any commission, commission equivalent or differential customarily charged by such responsible broker or dealer in connection with execution of any such order) in any amount up to its published quotation size." 17 CFR 242.602(b)(2). See also FINRA Rule 5220.

alerts.

FINRA also proposes to make a grammatical change to Rule 6250(a) to better reflect the fact that Registered Reporting ADF ECNs are not obligated to submit two-sided quotes (e.g., the bid and the offer). FINRA also proposes to amend the order information required to be provided to FINRA pursuant to Rule 6250(b) to update the terminology used in the Order Reporting Specifications.¹⁴ As part of these changes, FINRA proposes to update the reporting requirements for Order Time and Order Response Time, which are currently required to be reported in hours, minutes and seconds, so that ADF Trading Centers will report this information in hours, minutes, seconds and milliseconds, if the ADF Trading Center's system captures such information in milliseconds. This change will make these order reporting provisions consistent with the reporting standards being proposed for both the Order Audit Trail System and the Trade Reporting Facilities.¹⁵

FINRA also proposes to add new order reporting requirements in Rule 6250 for orders that are part of an ADF Trading Center's quotation (bid or offer) that is displayed on the ADF. Specifically, FINRA proposes that, for each order that is part of a bid or offer displayed by an ADF Trading Center on the ADF, that ADF Trading Center must record and report to FINRA (1) symbol; (2) side; (3) price; (4) quantity (including displayed quantity); (5) order date and time of

¹⁴ Specifically, FINRA proposes to delete the parentheticals corresponding to the Order Entry Firm and Order Side data elements. FINRA also proposes to replace the reference to Issue Identifier with Symbol, delete the requirement to provide the Order Negotiable Flag and the Trade-or-Move Flag, and delete the reference to ANY. FINRA also proposes to replace the reference to the identifier for the Market Making Firm to the ADF Trading Center; change the reference to "any other modifier" language in Rule 6250(b)(1)(N) (renumbered herein as Rule 6250(b)(1)(L)) to "any other information," and to use Customer Order Handling Instructions as one example of such information; and amend the Order Response requirement of Rule 6250(b)(2)(B) to consist of execute, cancel, correct, or reject.

¹⁵ See FINRA-2013-050, supra note 6.

receipt; (6) order instructions (including order type); (7) internal order identifiers; (8) firm identifiers (including broker order identifier) and capacity information; (9) quote identifier; (10) quote price; (11) quote time; (12) short sale exemption reason, as applicable; and (13) clearing member. In addition, all ADF Trading Centers must also record and report the execution details, if any, of each order that is part of a displayed bid or offer, including (1) date and time of receipt; (2) side; (3) price; (4) quantity (including executed quantity); (5) execution price; (6) order instructions (including order type); (7) internal order identifiers; (8) firm identifiers (including broker order identifier); (9) execution identifier; (10) quote price; (11) quote identifier; and (12) quote time. For purposes of information related to time, an ADF Trading Center must report such information in the finest increment (e.g., milliseconds) that is captured in the ADF Trading Center's system.

This information shall be reported to FINRA in "next day" file submission, with such information reported to FINRA no later than 8:00 a.m. Eastern Time on the day following receipt of the order; provided, however, that an ADF Trading Center must report any of this information to FINRA immediately upon request. These requirements will enable FINRA to ascertain the market participant that is responsible for the order generating a quotation that is displayed on the ADF, which will enhance FINRA's ability to conduct quotation-based surveillance.

Finally, FINRA proposes a technical change to amend the provision in Rule 6250 governing the procedures for reviewing system outages. Currently, the rule requires that a member initiate a review of a system outage by submitting a written request via facsimile or otherwise; as revised, the rule will specify that an ADF Trading Center that seeks review of a system outage shall submit a written request via facsimile, e-mail, personal delivery, courier or overnight mail to FINRA Product Management. This change will make the ADF rules more

internally consistent by conforming the procedures for requesting a review under Rule 6250 to the procedures set forth in Rule 6260(a), which governs the filing of direct or indirect access complaints.

Proposed Conforming Amendments to ADF Trade Reporting Rules

FINRA is proposing to amend Rules 6281 and 6282 and the Rule 7100 Series relating to trade reporting to the ADF to conform those rules, to the extent practicable, to current FINRA rules relating to trade reporting to the TRFs.

First, FINRA is proposing to amend Rule 6281 to (1) expressly provide that members must also comply with the Rule 7100 Series when reporting to the ADF and (2) delete the requirements relating to execution of a Participant Application Agreement and maintenance of the physical security of the equipment as conditions for participation in the ADF, as they are redundant with requirements contained in Rule 7120.

Second, FINRA is proposing to amend Rule 6282(a)(4) to expressly provide that in the event that the rules require multiple modifiers on any given trade report, members are to report in accordance with guidance published by FINRA regarding priorities among modifiers. Members that report in accordance with such guidance will not be in violation of the trade reporting rules for failing to use a particular modifier. This provision conforms to paragraphs (a)(5) of Rules 6380A and 6380B relating to the TRFs. FINRA also is proposing new paragraphs (a)(5) and (6) of Rule 6282 to clarify that the ADF will append or convert, as applicable, the modifiers identified in the rules (i.e., to indicate that a trade was executed outside normal market hours or that a trade was reported late). The proposed paragraphs are identical to paragraphs (a)(6) and (7) of Rules 6380A and 6380B relating to the TRFs.

Third, the ADF will no longer support three party trade reports¹⁶ and therefore, FINRA is proposing to delete paragraphs (c) and (d) of Rule 6282 relating to that function. FINRA is proposing to adopt new paragraph (c), which is identical to paragraph (c) of Rules 6380A and 6380B relating to the TRFs and sets forth the information that must be included in trade reports submitted to the ADF. Proposed paragraph (d) of Rule 7130 sets forth additional information that must be included in trade and clearing reports submitted to the ADF and is identical to paragraph (d) of Rules 7230A and 7230B relating to the TRFs. Proposed Rules 6282(c) and 7130(d) require the same trade information that is currently required under Rule 6282(c) and (d), and do not impose any additional reporting requirements on members. FINRA notes that as part of this proposed change, subparagraph (3) of Rules 6282(c) and (d), which requires that members submit a trade report addendum within 15 minutes of submission of the original trade report to correct or provide some or all of the identified information (e.g., the capacity or short sale indicator), would be deleted. This provision is not included in Rules 6380A and 6380B relating to the TRFs. Consistent with the TRF rules, members will be required to provide all information at the time of submission of the original trade report to the ADF and they will not have additional time to provide information such as the capacity or short sale indicator. Additionally, members already have a continuing obligation to provide full and accurate trade information to FINRA and to correct trade reports, as necessary.¹⁷

Fourth, FINRA is proposing to delete the following from Rule 6282: (1) paragraph (e)(1)(E) (the requirements relating to prior reference price transactions are already included in Rule 6282(a)(4)(G)); and (2) paragraph (g) (there is no designated symbol in the ADF for

¹⁶ A three party trade report is a single trade report that denotes one Reporting Member (i.e., the member with the obligation to report the trade under FINRA's rules) and two contra parties. This functionality had never been used by previous ADF Market Participants.

¹⁷ See, e.g., Rule 7160.

reversals and “as/of” trades, and FINRA is proposing to relocate the requirement relating to use of the special trade and step-out indicators to Rule 7130(d)(13)). FINRA is also proposing to relocate paragraph (h) to Rule 7130(d)(16), which is a more appropriate location for the requirements relating to the clearing functionality of the ADF, and to amend that provision to clarify that members must indicate whether a trade is submitted for comparison or is locked-in via an Automatic Give Up Agreement (“AGU”) or Qualified Special Representative agreement (“QSR”). FINRA notes that these provisions do not appear in Rules 6380A and 6380B relating to the TRFs.

Fifth, FINRA is proposing to adopt new paragraph (h) of Rule 6282 to expressly provide that participants may enter into “give up” arrangements whereby one member reports to the ADF on behalf of another member, provided that participants submit to the ADF the appropriate documentation reflecting the arrangement. Proposed paragraph (h) is identical to Rules 6380A(h) and 6380B(g) relating to the TRFs, and provides that the member with the reporting obligation remains responsible for the transaction submitted on its behalf. Further, both the member with the reporting obligation and the member submitting the trade to the ADF are responsible for ensuring that the information submitted is in compliance with all applicable rules and regulations.

The provisions of Rule 6282 will be renumbered and cross-references will be updated, as necessary.

FINRA is also proposing amendments to the Rule 7100 Series, which addresses trade reporting and clearing through the ADF. First, FINRA is proposing to delete the definition of “Browse” in Rule 7110 and the references to this term in the Rule 7100 Series, as there is not a specific “Browse” functionality offered for the ADF.

In addition, FINRA believes that it is no longer necessary to distinguish among types of ADF participants for purposes of the trade reporting rules and therefore is proposing to delete the definitions of “TRACS ECN,” TRACS Market Maker” and “TRACS Order Entry Firm” in Rule 7110. FINRA is proposing to use the more general term “Participant” and apply the trade reporting and clearing requirements uniformly to all ADF participants. FINRA notes that this approach conforms to the Rule 7200A and 7200B Series relating to the TRFs. Proposed amendments throughout the Rule 7100 Series (for example, Rule 7120(a) and (b)) would delete the references to these terms and incorporate the more general term “Participant.” FINRA notes that the requirements for a “TRACS ECN,” TRACS Market Maker” and “TRACS Order Entry Firm” in Rule 7120 are largely duplicative, with the exception of the provision in Rule 7120(b)(2)(D) that states that if FINRA finds that a TRACS Market Maker’s failure to maintain a clearing arrangement is voluntary, the withdrawal of quotations will be considered voluntary and unexcused pursuant to Rule 6275. FINRA is proposing to relocate this provision to new Rule 6275.01.¹⁸

Second, FINRA is proposing to amend Rule 7120 to conform, to the extent practicable, the participation requirements for members that report and clear transactions through the ADF to the participation requirements for the TRFs under Rules 7220A and 7220B, including amending paragraph (a)(1) and adding proposed new paragraph (b)(3)(B). The proposed amendments are not substantive and impose neither more nor less stringent requirements on FINRA members that participate in the ADF than the current provisions of Rule 7120. FINRA is also proposing to amend Rule 7120(b)(2)(D) to clarify that the rule (which provides that if a Participant fails to

¹⁸ FINRA also is proposing non-substantive amendments to the definitions in Rule 7110 to conform to the definitions in Rules 7210A and 7210B relating to the TRFs. The provisions of Rule 7110 will be renumbered as necessary.

maintain a clearing relationship, it will be removed from the ADF) applies to Participants that are the reporting party or the contra party.¹⁹

Third, FINRA is proposing to amend paragraph (b) and adopt new paragraph (c) of Rule 7130 regarding when and how trade reports are submitted and which party reports, to conform to paragraphs (b) and (c) of Rules 7230A and 7230B relating to the TRFs. The proposed amendments are non-substantive and will not change the reporting requirements for members reporting and clearing trades through the ADF.

Fourth, FINRA is proposing new paragraph (e) of Rule 7130 to cross-reference the requirements for reporting cancelled trades in Rule 6282. This provision is identical to Rules 7230A(f) and 7230B(e) relating to the TRFs. The provisions of Rule 7130 will be renumbered and cross-references will be updated, as necessary.

Fifth, new paragraph (h) of Rule 7130 would provide members the option of including a transaction fee as part of a clearing report submitted to the ADF and is substantively identical to Rule 7230A(h) relating to the FINRA/Nasdaq TRF and Rule 7230B(i) relating to the FINRA/NYSE TRF.²⁰ Pursuant to the proposed rule, members would be required to provide in reports submitted to the ADF, in addition to all other information required to be submitted by any other rule, pricing information to indicate a total per share or contract price amount, inclusive of the transaction fee. As a result, members would submit as part of their report to the ADF: pricing information to indicate a total price inclusive of the transaction fee, which would

¹⁹ This incorporates Rule 7120(b)(3)(D) (which refers to TRACS Order Entry Firms), which will be deleted pursuant to the proposed rule change.

²⁰ FINRA notes that Rule 7230B(i) was adopted pursuant to a proposed rule change that was filed for immediate effectiveness on October 9, 2013. The operative date of the proposed rule change will be announced in a notice and will be at least 30 days following the date of filing. See Securities Exchange Act Release No. 70702 (October 17, 2013), 78 FR 63268 (October 23, 2013) (Notice of Filing and Immediate Effectiveness; File No. SR-FINRA-2013-044).

be submitted by the ADF to NSCC for clearance and settlement; and the price exclusive of the transaction fee, which would be publicly disseminated. The parties to the trade would know both prices – the price reported for public dissemination and the clearance/settlement price.

Sixth, the ADF will offer match functionality, whereby both parties to the trade submit transaction data and the System performs an on-line match. Proposed Rule 7140(a) addresses such functionality and is identical to Rule 7240A(a) relating to the FINRA/Nasdaq TRF. FINRA proposes to renumber the remaining provisions of Rule 7140 accordingly.

Finally, proposed Rule 7170 provides that failure to comply with any of the trade reporting rules may be considered conduct inconsistent with high standards of commercial honor and just and equitable principles of trade, in violation of Rule 2010. The proposed rule is identical to Rules 7270A and 7270B relating to the TRFs. FINRA proposes to re-number current Rule 7170 as Rule 7180.

In addition to the amendments outlined above, FINRA is proposing to make other non-substantive technical amendments to a number of ADF rules to conform, to the extent practicable, to the text of the TRF rules. The chart below identifies the ADF rules for which conforming changes to the rule text are being proposed and the corresponding TRF rules:

ADF Rule	TRF Rule
Rule 6282(a)(5) (renumbered herein as 6282(a)(7))	Rules 6380A(a)(8) and 6380b(a)(8)
Rule 6282(e) (renumbered herein as 6282(d))	Rules 6380A(d) and 6380B(d)
Rule 7130(a)	Rules 7230A(a) and 7230B(a)
Rule 7160	Rules 7260A and 7260B
Rule 7170 (renumbered herein as Rule 7180)	Rules 7280A and 7280B

By conforming the trade reporting requirements for the ADF and TRFs, to the extent practicable, the proposed rule change will promote more consistent trade reporting by members

and a more complete and accurate audit trail. FINRA notes that most of the proposed conforming changes to Rules 6281 and 6282 and the Rule 7100 Series are technical and non-substantive in nature, and FINRA does not believe that any of the proposed changes would require members to make systems changes in order to comply. Furthermore, FINRA members that currently report to one of the TRFs would already be familiar with the rule amendments that are proposed herein.

Changes to ADF and TRAQS Fees

FINRA proposes to amend Rule 7510(a) to assess a new fee for certain corrective transaction charges. Currently, each party to a trade will be assessed a \$0.25 charge for transactions to break, decline, or reverse a trade. To this category of corrective transaction fees, FINRA proposes to add a \$0.25 charge that will be assessed upon each party that cancels or corrects a trade. The purpose of adding this new change is to defray the administrative costs incurred by FINRA in processing corrective transaction charges, including cancel and correct requests.²¹

FINRA also proposes to delete Rule 7530, which assesses a minimum charge of \$5,000 for installation costs associated with connecting to the ADF. This rule also provides that, upon installation, removal, relocation or maintenance of terminal and related equipment, the subscriber

²¹ FINRA notes that, because the submission of a corrective request imposes an administrative cost on FINRA, a party will still be assessed a cancel or correct charge, even if the trade ultimately stands. For example, assume that ABCD submits a trade with counter-party WXYZ, and that the trade is accepted by WXYZ. ABCD then cancels the trade, incurring a \$0.25 cancellation fee. WXYZ takes no further action, such as submitting its own cancellation, so the trade is matched, and the trade goes to the tape and to clearing. Since WXYZ did not submit its own cancellation request, the trade was ultimately not broken; however, FINRA incurred a cost in processing the cancellation request from ABCD regardless of the ultimate outcome of the trade. FINRA thus believes it is appropriate to assess the cancel fee on ADF Market Participants in this scenario.

shall pay charges incurred by FINRA or its subsidiaries above the \$5,000 minimum. FINRA proposes to delete this provision because it is no longer applicable, since the ADF is software-based and there is no hardware to install, remove or relocate. FINRA also proposes to re-number the remaining provisions in the Rule 7500 Series accordingly.

Technical Changes to Conform or Otherwise Streamline ADF Rules

FINRA is proposing a number of technical changes throughout the ADF rules. For example, FINRA is replacing references to “TRACS,” the “TRACS Trade Comparison Service,” and the “TRACS trade comparison feature” with “ADF” or “the System”²² and in several provisions, deleting such references altogether.²³ Similarly, FINRA is replacing references to the “TRACS trade comparison Participant Application Agreement” with “Participant Application Agreement.”²⁴ FINRA also proposes to update the definition of a “CQS security” in Rule 6220(a)(6) to include the current national securities exchanges on which the relevant securities are listed or trade pursuant to unlisted trading privileges, and to make a grammatical change. FINRA proposes to change the definition of the ADF in Rule 6210 to remove unnecessary language from that provision, and to make a grammatical change. FINRA proposes to change certain references throughout the rules from “ADF Operations,” “FINRA ADF

²² FINRA is proposing to use the term “the System” to apply to the ADF, including the trade comparison feature specifically referred to in the current Rule 7100 Series. The proposed change and the proposed definition of “System” in Rule 7110 conforms to the Rule 7200A and 7200B Series relating to the TRFs.

²³ TRACS (now re-named TRAQS) was a component of the ADF, and this change simplifies the rule text without substantively changing the process by which trades are reported or the ADF otherwise operates.

²⁴ This change simply reflects the global deletion of references to TRACS; the actual agreement remains the same.

Operations,” or “TRACS Operations Center” to “FINRA Market Operations” or “FINRA Product Management.”²⁵

In Rule 6220(a)(10), FINRA proposes to revise the definition of “Normal unit of trading” to delete the reference to a “special identifier” appended to the issuer’s symbol if a normal unit of trading is other than 100 shares. This identifier will not be used following migration of the ADF to MPP. FINRA also proposes to delete, in Rule 6272(a)(3), the provision that the National Best Bid and Offer (“NBBO”) is established “by FINRA in accordance with its procedures for determining protected quotations under Rule 600” of Regulation NMS. The ADF will not generate an NBBO upon migration to the MPP; rather, FINRA will use the NBBO as defined in Regulation NMS and as calculated by the Securities Information Processors. Finally, FINRA proposes to modify the time cut-off set forth in Rule 6250(b)(1) and (b)(2) so that the order information that is required to be provided pursuant to this rule shall be provided “no later” than 6:30 p.m. Eastern Time.²⁶

The proposed rule change shall be effective upon Commission approval.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,²⁷ 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, and Section

²⁵ These changes will reflect the official title of the FINRA group that is responsible for the issues that are addressed in these provisions.

²⁶ FINRA is making this change to clarify that, to the extent that such information is available prior to 6:30 p.m. Eastern Time, the ADF Trading Center need not wait until 6:30 p.m. to report that information to FINRA.

²⁷ 15 U.S.C. 78o-3(b)(6).

15A(b)(5) of the Act,²⁸ which requires, among other things, that FINRA rules provide for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system that FINRA operates or controls, and Section 15A(b)(9) of the Act,²⁹ which requires that FINRA rules not impose any burden on competition that is not necessary or appropriate.

FINRA believes that the proposed rule change is consistent with the Act where it makes non-substantive changes that simply update the rules to reflect changes in FINRA departments or systems, or to correct other outdated references. Examples of such changes include (1) changing the reference from TRACS (Trade Comparison Service) to “ADF” or “the System”; (2) replacing the reference from the TRACS trade reporting Participant Application Agreement to the Participant Application Agreement; (3) updating the reference of a “CQS Security”; and (4) changing the references from “FINRA ADF Operations” to “FINRA Market Operations” or “FINRA Product Management,” as applicable. These changes update the relevant rule without affecting the substance of that rule.

FINRA believes that the changes to the rules governing the ADF to reflect recent regulatory changes are also consistent with the Act. These changes, which consist of updating the rules to reference the Limit Up-Limit Down Plan and allowing a minimum quoting increment of less than \$0.01 for quotations below \$1, modify the ADF rules to reflect regulatory initiatives that were previously approved or promulgated by the Commission.³⁰

²⁸ 15 U.S.C. 78o-3(b)(5).

²⁹ 15 U.S.C. 78o-3(b)(9).

³⁰ See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (SEC File No. 4-631) (Limit up-Limit Down adopting release); 17 CFR 242.612(b) (permitting quotations in NMS stocks that are less than \$1.00 per share to be priced in increments of \$0.0001).

FINRA believes that the changes to the rules to delete functionalities that will no longer be available following the migration of the ADF to MPP are also consistent with the Act; specifically, the deletion of the use of a special identifier if the normal unit of trading is other than 100 shares, and the deletion of the provision for calculating the NBBO. Since the functionalities to be deleted are not being currently utilized, and will not be offered on the ADF upon its migration to MPP, FINRA believes that these changes will help ensure that the rules accurately reflect the operation of the ADF upon its migration to the new platform.

FINRA believes that the provision allowing a Registered Reporting ADF ECN to voluntarily terminate its status as an ADF Market Participant is consistent with the Act because it provides a Registered Reporting ADF ECN with the ability to terminate its status, and for FINRA to make any corresponding changes to the operation of the ADF, on an expedited basis, thus providing for the more efficient operation of the ADF. FINRA also notes that this provision is comparable to what is already provided to Registered Reporting ADF Market Makers under the rules.

FINRA believes that the change in Rule 6250 to require order information for only those incoming orders that result in an execution, cancellation, correction or rejection is consistent with the Act because it will result in greater operational and regulatory efficiency. Specifically, this change will allow FINRA to continue to obtain the information necessary to perform the relevant surveillance, while reducing the receipt of excess order information, which over-burdens FINRA systems, imposes unnecessary reporting obligations on ADF participants, and contributes to false surveillance alerts. FINRA believes that conforming the order reporting requirements in Rule 6250 to the Order Reporting Specifications, and requiring that certain of this information be reported in milliseconds if the ADF Trading Center's system captures such information in

milliseconds, updates the Rule to reflect the actual information that is required to be reported, and further aligns the reporting requirements for the ADF with the reporting requirements for OATS and the TRFs. FINRA also believes that the change in Rule 6250 to require order information for orders that form part of displayed bids or offers is also consistent with the Act. Specifically, this provision will enable FINRA to ascertain the market participant that is responsible for the order generating a quotation displayed on the ADF, which will enhance FINRA's ability to conduct certain quotation-based surveillance.

FINRA believes that the changes to the ADF trade reporting requirements to better align to the TRF trade reporting requirements are also consistent with the Act. The proposed rule will promote more consistent trade reporting by members and a more complete and accurate audit trail. Given that most of these changes are technical and non-substantive in nature, FINRA does not believe that any of the proposed changes would require members to make systems changes in order to comply. FINRA also notes that members that currently report to one of the TRFs would already be familiar with the rule amendments that are proposed herein.

FINRA believes that the proposed changes to the ADF fees are consistent with the Act, as they provide for the equitable allocation of reasonable fees. FINRA notes that these fees will only apply to ADF Market Participants, and that the methodology for assessing these fees will apply equally to all ADF Market Participants. FINRA believes that the proposed \$0.25 charge to be assessed upon a party that cancels or corrects a trade is reasonable because this charge will defray the administrative costs incurred by FINRA in processing corrective transaction charges, including cancel and correct requests, which are incurred by FINRA regardless of whether the trade is ultimately broken. FINRA believes this charge is equitable because the methodology for assessing this fee will apply equally to all ADF Market Participants.

FINRA also believes that the deletion of the fees associated with connecting to the ADF is reasonable and equitably allocated because these fees are no longer applicable to any market participant.

FINRA does not believe that any of these changes will impose a significant or unnecessary burden on its members. FINRA notes that the proposed changes are either (1) non-substantive; (2) delete functionalities that will not be available following the migration to the MPP; (3) reflect regulatory changes; (4) conform the ADF rules to other FINRA rules; or (5) otherwise increase the operational and regulatory efficiency of the ADF. To the extent that a number of the changes are non-substantive or, in the case of conforming the ADF trade reporting requirements to the TRF trade reporting requirements, mirror requirements currently applicable to FINRA members, FINRA does not believe that members will be significantly or adversely affected by these changes. To the extent that FINRA is proposing certain changes to reflect regulatory developments, FINRA believes that these changes are narrowly tailored to comply with the applicable regulation or rule. FINRA also believes that certain of the proposed changes, such as the provision to allow for the voluntary termination of registration by a Registered Reporting ADF ECN, may increase operational and regulatory efficiency for FINRA and ADF Market Participants alike.

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. Participation in the ADF is voluntary, and the proposed changes will apply equally to all ADF Market Participants. As discussed above, FINRA does not believe that such changes will significantly impact either ADF Market Participants or other market participants. FINRA also

notes that the proposed rule change is designed to assist FINRA in meeting its regulatory obligations by enhancing its ability to efficiently operate the quotation collection and trade reporting aspects of the ADF and to conduct the relevant surveillance.

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

Written comments were neither solicited nor received.

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 (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2013-053 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-FINRA-2013-053. 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 10:00 a.m. and 3:00 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-2013-053, 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.³¹

Kevin O. Neill
Deputy Secretary

³¹ 17 CFR 200.30-3(a)(12).