

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-65459; File No. SR-FINRA-2011-053)

September 30, 2011

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of Proposed Rule Change to Amend Certain Trade Reporting and Compliance Rules

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 September 22, 2011, the 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 FINRA Rule 6730 regarding reporting a transaction in a TRACE-Eligible Security, other than a transaction in an Asset-Backed Security, on a non-business day, and reporting size (volume), commission and settlement, in order for FINRA to consolidate all TRACE-Eligible Securities transaction processing and data management on a single technology platform, the Multi Product Platform (“MPP”).

The text of the proposed rule change is available on FINRA’s website at <http://www.finra.org>, at the principal office of FINRA, on the Commission’s website at <http://www.sec.gov>, 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

Currently, TRACE-Eligible Securities that are Asset-Backed Securities are processed on FINRA’s enhanced technology platform, MPP.³ FINRA proposes certain amendments to the reporting requirements of Rule 6730 of the Trade Reporting and Compliance Engine (TRACE) rules that will permit FINRA to migrate all other TRACE-Eligible Securities to MPP. The proposed amendments are substantially similar to requirements that currently apply to transactions in Asset-Backed Securities, and will simplify reporting a transaction executed on a holiday or a weekend, the size of a transaction, commission, if charged, and settlement.

FINRA believes that the proposed consolidation of all TRACE-Eligible Securities on MPP will improve TRACE reporting and provide several benefits to broker-dealers. First, the MPP program incorporates more current industry standards, conventions and terms, and the proposed amendments to Rule 6730 to incorporate those standards will clarify and simplify the reporting requirements, and reduce reporting errors and costs. For example, when quoting, trading and recording positions in books and records, generally, the size (volume) of a

³ “TRACE-Eligible Security” and “Asset-Backed Security” are defined in, respectively, Rule 6710(a) and Rule 6710(m).

transaction or a position is stated as the total par or principal value, which is how size (volume) of a TRACE transaction would be reported on MPP.⁴ The proposed amendments should reduce the incidences of data “translations” made by a broker-dealer when transaction data is both recorded in internal firm systems and reported to TRACE, and therefore should reduce operational complexities and reporting errors and fees, improve compliance, and reduce system-related costs. Second, MPP will provide broker-dealers a wider range of options for reporting, most notably providing support for the Financial Information eXchange (“FIX”) protocol. Third, MPP provides enhanced functionality for the management of TRACE data. Broker-dealers will be able to access TRACE-Eligible Securities data with greater ease and more quickly, including obtaining real-time intra-day data changes or additions. Fourth, standardizing most of the reporting requirements for TRACE-Eligible Securities and consolidating all TRACE-Eligible Securities on a single improved platform will allow broker-dealers to maintain one interface for all TRACE reporting, which should permit broker-dealers to reduce the operational complexity of reporting, improve the accuracy overall of their TRACE reporting, and eliminate costs associated with maintaining multiple technology platforms.

The proposed amendments to Rule 6730 regarding reporting a transaction executed on a holiday or a weekend, the size (volume) of a transaction, commission, if charged, and settlement are discussed below. In addition, the proposed rule change includes minor administrative, technical and clarifying changes.

TRACE-Eligible Securities Transactions Executed on a Non-Business Day

⁴ Similarly, the proposed change in Rule 6730 regarding settlement, which would require reporting of the actual date of settlement and delete the use of modifiers that are required currently in many instances, may simplify reporting settlement.

Currently, as set forth in Rule 6730(a)(1)(D) and Rule 6730(a)(2)(B), transactions in TRACE-Eligible Securities, except Asset-Backed Securities, that are executed on a weekend, holiday or other day when the TRACE system is not open must be reported the next business day (T + 1), designated “as/of,” and are subject to two unique requirements. First, the date of execution (“Trade Date”) reported to TRACE is not the actual date the trade was executed; instead, a member must report as the Trade Date the day (i.e., T + 1) that the report must be timely submitted. Second, the execution time reported must be “12:01:00 a.m. Eastern Time” (“00:01:00”), instead of the actual Time of Execution.⁵ The two requirements were established at the inception of TRACE because, at that time, the TRACE system did not recognize any day on which the TRACE system is closed as a valid Trade Date, and the two requirements allow FINRA to distinguish transactions in TRACE-Eligible Securities executed on non-business days from all other reported transactions.

FINRA has enhanced the TRACE system to recognize, for all types of TRACE-Eligible Securities, any calendar date as a valid Trade Date.⁶ Accordingly, FINRA proposes to amend Rule 6730(a)(1)(D) and Rule 6730(a)(2)(B) to delete in both provisions the two unique requirements, which are no longer necessary, and to require members to report transactions executed on non-business days in the same manner that transactions executed after or before TRACE System Hours on business days are reported currently.⁷ FINRA also proposes to

⁵ “Time of Execution” is defined in Rule 6710(d). Also, when the reporting method used includes a “special price memo” field, the member must enter the actual date of execution and Time of Execution in such field.

⁶ Previously, FINRA modified the TRACE system to recognize any calendar date as a valid Trade Date, but only as to transactions in Asset-Backed Securities. (See Securities Exchange Act Release No. 64364 (April 28, 2011), 76 FR 25385 (May 4, 2011) (order approving File No. SR-FINRA-2011-012).) The rule changes became effective on May 16, 2011. (See Regulatory Notice 11-20 (May 2011).)

⁷ “TRACE System Hours” is defined in Rule 6710(t).

combine Rule 6730(a)(1)(B) and Rule 6730(a)(1)(D) as renumbered amended Rule 6730(a)(1)(D), and delete current Rule 6730(a)(1)(B). In addition, FINRA proposes to reorganize the reporting requirements in Rule 6730(a)(1)(A) through Rule 6730(a)(1)(C) in chronological order and to incorporate minor technical changes.⁸

Size (Volume), Commission and Settlement Terms

FINRA also proposes amendments to the technical requirements for reporting the size (volume) of a transaction, the commission, if any, and the settlement of transactions in TRACE-Eligible Securities, other than Asset-Backed Securities.

Currently, FINRA requires members to report the size (volume) of a transaction in a TRACE-Eligible Security, other than an Asset-Backed Security, by reporting the number of bonds.⁹ For example, a sale of corporate bonds or Agency Debt Securities having a par or principal value of \$10,000 is reported as a sale of 10 bonds.¹⁰ FINRA proposes to amend Rule 6730(c)(2) and Rule 6730(d)(2) to require a member to report the size of such transactions using the total par value or principal value traded, rather than the number of bonds.¹¹

FINRA proposes a similar change to the reporting of commissions. Under current Rule 6730(c)(11) and Rule 6730(d)(1), in those cases where a commission is charged in a transaction in a TRACE-Eligible Security, the commission must be reported “stated in points per bond (e.g.,

⁸ The reporting requirements now set forth in Rule 6730(a)(1)(C) will be set forth in Rule 6730(a)(1)(A), and Rule 6730(a)(1)(A) will be renumbered as Rule 6730(a)(1)(B), except the requirement relating to transactions executed less than 15 minutes before the TRACE System closes will be set forth separately as Rule 6730(a)(1)(C).

⁹ See Rule 6730(c)(2) and Rule 6730(d)(2).

¹⁰ “Agency Debt Security” is defined in Rule 6710(l).

¹¹ Previously, FINRA adopted similar provisions for reporting the size (volume) of transactions in Asset-Backed Securities that do not amortize. (See Securities Exchange Act Release No. 61566 (February 22, 2010), 75 FR 9262 (March 1, 2010) (order approving File No. SR-FINRA-2009-065).) The rule changes became effective on May 16, 2011. (See Regulatory Notice 11-20 (May 2011).)

for corporate bonds, 1 point equals \$10.00 per bond).”¹² FINRA proposes to amend Rule 6730(c)(11) and Rule 6730(d)(1) to require members to report the total dollar amount of the commission, rather than the points per bond.¹³

FINRA also proposes to simplify the requirements for reporting the settlement of a TRACE-Eligible Security transaction. Currently, as provided in Rule 6730(d)(4)(B)(i), if a transaction, other than a transaction in an Asset-Backed Security, will not settle on T + 3, a member must report the settlement using one of three modifiers.¹⁴ To streamline the requirements regarding settlement, new Rule 6730(c)(12) will require a member simply to report the date of settlement.¹⁵ In addition, FINRA proposes to delete Rule 6730(d)(4)(B), which sets forth the three settlement modifiers that will no longer be used in TRACE reporting, and references to such modifiers in Rule 6730(d)(4)(C). FINRA also will renumber Rule 6730(d)(4)(C), Rule 6730(d)(4)(D) and Rule 6730(d)(4)(E) accordingly.¹⁶

¹² Rule 6730(d)(1).

¹³ Previously, FINRA adopted similar provisions for reporting a commission in a transaction in an Asset-Backed Security. (See Securities Exchange Act Release No. 61566 (February 22, 2010), 75 FR 9262 (March 1, 2010) (order approving File No. SR-FINRA-2009-065).) The rule changes became effective on May 16, 2011. (See Regulatory Notice 11-20 (May 2011).)

¹⁴ Current Rule 6730(c)(12) will be renumbered as Rule 6730(c)(13). If a trade will not settle on T + 3, the three modifiers that are used to indicate the day the transaction will be settled are “.c” (date of execution), “.nd” (T + 1), or “.sNN” (settlement on a date other than the date of execution, T + 1 or T + 3).

¹⁵ Previously, FINRA adopted a similar requirement in connection with transactions in Asset-Backed Securities. (See Securities Exchange Act Release No. 61566 (February 22, 2010), 75 FR 9262 (March 1, 2010) (order approving File No. SR-FINRA-2009-065) and Securities Exchange Act Release No. 64364 (April 28, 2011), 76 FR 25385 (May 4, 2011) (order approving File No. SR-FINRA-2011-012)). The rule changes in both rule filings became effective on May 16, 2011. (See Regulatory Notice 11-20 (May 2011).)

¹⁶ Rule 6730(d)(4)(C), Rule 6730(d)(4)(D) and Rule 6730(d)(4)(E) will be renumbered, respectively, as Rule 6730(d)(4)(B), Rule 6730(d)(4)(C) and Rule 6730(d)(4)(D).

Finally, FINRA proposes minor technical amendments to Rule 6730(a) through (d), including amendments to Rule 6730(b)(2) and Rule 6730(c)(7) to delete redundant or unnecessary text and Rule 6730(d)(2) to clarify existing text.

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 180 days following publication of the Regulatory Notice announcing 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,¹⁷ 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 the proposed rule change will facilitate more timely and accurate reporting of the terms of transactions in TRACE-Eligible Securities for the protection of investors and in furtherance of the public interest.

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.

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.

¹⁷ 15 U.S.C. 78o-3(b)(6).

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 shall: (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-2011-053 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-2011-053. 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 Web site (<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 the filing will also 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 No. SR-FINRA-2011-053 and should be submitted on or before [insert date 21 days from date of publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁸

Elizabeth M. Murphy
Secretary

¹⁸ 17 CFR 200.30-3(a)(12).