

## Trace Reporting and Compliance Engine (TRACE)

### SEC Approves Amendments to FINRA Rule 6730(d) (2) Requiring Firms to Report Factor in Asset-Backed Securities Transactions Executed in Agency Capacity and Subject to Commission Charges

Effective Date: July 22, 2013

#### Executive Summary

The SEC approved amendments to FINRA Rule 6730(d)(2) to require firms to report to TRACE the factor for each transaction in an asset-backed security (ABS) (except an ABS traded To Be Announced (TBA)),<sup>1</sup> in the limited instances when firms effect such transactions as agent and charge a commission.<sup>2</sup> The effective date is July 22, 2013.

The amended rule text is set forth in Attachment A.

Questions regarding this *Notice* may be directed to:

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#### April 2013

##### Notice Type

- ▶ Rule Amendment

##### Suggested Routing

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

##### Key Topics

- ▶ Asset-Backed Securities
- ▶ Factor
- ▶ To Be Announced (TBA)
- ▶ Transaction Reporting

##### Referenced Rules & Notices

- ▶ FINRA Rule 6710
- ▶ FINRA Rule 6730
- ▶ FINRA Rule 6750
- ▶ Regulatory Notice 12-56

## Background and Discussion

Currently, under FINRA Rules 6730(c)(2) and (d)(2), firms must report the size of transactions in TRACE-eligible securities,<sup>3</sup> including certain ABS, by reporting the total par or principal value of the debt securities traded. However, in a transaction in an ABS that is backed by mortgages or other assets that amortize over the life of the security (*i.e.*, an amortizing ABS), instead of reporting the total par or principal value, a firm reports two items from which the size is calculable: (1) the original face value of the transaction; and (2) the factor, but only if the factor used to execute the transaction is not the most current factor that is publicly available at the time of execution of the transaction (a non-conforming factor).<sup>4</sup>

FINRA amended FINRA Rule 6730(d)(2) to modify the requirement for reporting the size of a limited number of ABS transactions and to restate the current requirements. The modified requirement is set forth in FINRA Rule 6730(d)(2)(B)(iv) and requires a firm to report the factor to TRACE for every transaction in an ABS (except TBA transactions) in the limited instances when the firm effects that ABS transaction as agent and charges a commission. The amendment is necessary to ensure the accuracy of the disseminated price of an ABS transaction,<sup>5</sup> which, if traded on an agency basis and subject to a commission charge, is calculated using the factor, the price and other information reported by a firm that is party to the transaction.

FINRA also restated the current requirements of FINRA Rule 6730(d)(2) as paragraphs (d)(2)(A), (d)(2)(B)(i), (d)(2)(B)(ii) and (d)(2)(B)(iii). Paragraph (d)(2)(A) restates the current requirement that a firm report the total par value or principal value of a transaction in a TRACE-eligible security, except an ABS transaction. Paragraph (d)(2)(B), which applies to ABS transactions, restates the current requirements that a firm report:

- ▶ in paragraph (d)(2)(B)(i), for an ABS transaction traded TBA, the original face value of the security;
- ▶ in paragraph (d)(2)(B)(ii), for a transaction in an amortizing ABS (other than a TBA transaction), the original face value of the security and, if a member used a factor to execute the transaction that was not the most current factor publicly available at the time of execution, also the factor (except for those ABS transactions executed in agency capacity and subject to the new requirement in FINRA Rule 6730(d)(2)(B)(iv)); and,
- ▶ in paragraph (d)(2)(B)(iii), for a transaction in an ABS not subject to amortization, the total par value, principal value or original face value (except for those ABS transactions executed in agency capacity and subject to the new requirement in FINRA Rule 6730(d)(2)(B)(iv)).

## Endnotes

1. See FINRA Rule 6710(m) for the definition of asset-backed security; FINRA Rule 6710(u) for the definition of To Be Announced; and, as discussed below, FINRA Rule 6710(w) for the definition of factor.
2. See Securities Exchange Act Release No. 69037 (March 5, 2013), 78 FR 15790 (March 12, 2013) (SEC Order Approving File No. SR-FINRA-2012-052).
3. See FINRA Rule 6710(a) for the definition of TRACE-eligible security.
4. As provided in FINRA Rule 6710(w), factor means the decimal value representing the proportion of the outstanding principal value or remaining face amount of a pool of assets underlying a security to the original principal value or original face amount of such assets.
5. Specified pool transactions are subject to dissemination beginning on July 22, 2013. See Securities Exchange Act Release No. 68084 (October 23, 2012), 77 FR 65436 (October 26, 2012) (SEC Order Approving File No. SR-FINRA-2012-042 regarding a proposal to disseminate agency pass-through mortgage-backed securities traded in specified pool transactions and SBA-backed ABS traded TBA and in specified pool transactions) and [Regulatory Notice 12-56](#) (announcing July 22, 2013, as the effective date of SR-FINRA-2012-042). FINRA also notes that transactions in additional ABS market segments may be disseminated under FINRA Rule 6750 in the future.

## Attachment A

New language is underlined; deletions are in brackets.

### 6730. Transaction Reporting

(a) through (c) No Change.

#### **(d) Procedures for Reporting Price, Capacity, Volume**

(1) No Change.

(2) Size (Volume)

##### (A) General

For a transaction in a TRACE-Eligible Security, except an Asset-Backed Security,  
[R]report the total par value or principal value of the security [bonds] traded.

##### (B) Asset-Backed Securities

(i) For a transaction in an Asset-Backed Security traded To Be Announced (“TBA transaction”), report the original face value of such security.

(ii) For a transaction, other than a TBA transaction, in an Asset-Backed Security that is subject to amortization [amortizing Asset-Backed Securities where par value is not used to determine the size (volume) of a transaction], report the original face value of such security and, if a member uses a Factor to execute the transaction that is not the most current Factor publicly available at the Time of Execution, report the Factor used, except as provided in subparagraph (iv) below regarding certain transactions executed in an agency capacity.

(iii) For a transaction in an Asset-Backed Security[ies] that does not amortize, report the total par value, [or] principal value or original face value of such security, except as provided in subparagraph (iv) below regarding certain transactions executed in an agency capacity.[of the transaction.]

(iv) For a transaction, other than a TBA transaction, in an Asset-Backed Security that is executed in an agency capacity and subject to a commission charge, report the original face value of such security and the Factor used to execute the transaction.

(3) and (4) No Change.

••• **Supplementary Material:** -----

**.01 Scope of Factor Reporting Requirement.** For transactions, other than TBA transactions, in Asset-Backed Securities executed in an agency capacity and subject to a commission charge, members must report the Factor for every such transaction, including a transaction where the Factor is 1.0.

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