

TRACE Reporting of U.S. Treasury Securities

FINRA Reminds ATS Subscribers and ATSS of the April 13, 2019, Effective Date for Disaggregated Transaction Reporting

Summary

FINRA is reminding firms that, after April 12, 2019, member subscribers on an alternative trading system (ATS) and ATSSs will be required to report to TRACE each transaction in U.S. Treasury securities executed in trading sessions on an ATS on a disaggregated basis.

Questions regarding this *Notice* should be directed to:

- ▶ Joseph Schwetz, Senior Director, Market Regulation (MR), at (240) 386-6170 or by email at joseph.schwetz@finra.org;
- ▶ Russell Kemp, Associate Director, MR, at (240) 386-5081 or by email at russell.kemp@finra.org; or
- ▶ for legal and interpretive questions, Racquel Russell, Associate General Counsel, Office of General Counsel, at (202) 728-8363 or by email at racquel.russell@finra.org.

Background and Discussion

On July 10, 2017, members began reporting transactions in U.S. Treasury securities to TRACE.¹ In advance of the July 10 implementation date, members expressed concerns regarding their ability to accurately report transactions in U.S. Treasury securities that were executed on an ATS in discrete trading sessions (sometimes referred to as “work-up sessions”). These concerns arose because trades executed in trading sessions may involve more than one market participant (on one or both sides of the market), and the ATS usually confirms resulting executions through an aggregated trade message sent by the ATS to its subscribers (e.g., a single message aggregating all orders executed for each subscriber in a security during the session). The ATS and

January 25, 2019

Notice Type

- ▶ Guidance

Suggested Routing

- ▶ Compliance
- ▶ Fixed Income
- ▶ Legal
- ▶ Trading

Key Topics

- ▶ TRACE-Eligible Securities
- ▶ Trade Reporting
- ▶ U.S. Treasury Securities

Referenced Rules

- ▶ FINRA Rule 6730

member subscribers use these aggregated trade messages for TRACE trade reporting purposes.² Because Rule 6730 requires members to report separately each individual trade that occurs in a trading session, members expressed a need for additional time to complete the systems changes necessary to disaggregate trade reporting by the July 10, 2017, effective date for reporting transactions in U.S. Treasury securities to TRACE.

To assist members in their compliance efforts, on June 23, 2017, FINRA filed a proposal to, on a temporary basis, adopt Supplementary Material .06 to Rule 6730 (Temporary Exception for Aggregate Transaction Reporting of U.S. Treasury Securities Executed in ATS Trading Sessions) to permit members to report trades that occurred in U.S. Treasury securities executed within discrete ATS trading sessions on an aggregate, rather than individual, basis.³ The relief granted afforded members flexibility concerning the number of transactions reported and the price reported, as well as the time of execution reported to TRACE.⁴

The relief provided by Rule 6730.06 originally was scheduled to expire on July 10, 2018. However, members requested additional time to complete necessary systems changes and testing to comply with Rule 6730. Therefore, on April 16, 2018, FINRA provided a one-time, nine-month extension to permit aggregated trade reporting to continue through April 12, 2019, while member ATSS performed the development work necessary to report individual execution information, including the development of an additional data feed to deliver execution-level information to subscribers and vendors.⁵ FINRA also understood that member subscribers required additional time to update their systems to consume the new execution information to be provided by the ATSS and to systematically incorporate this information in their TRACE reporting to FINRA. In the filing, FINRA stated that it expects that necessary testing of the new functionality will commence well in advance of the extended date of April 12, 2019, but at a minimum, no later than January 12, 2019.

In its 2017 filing, FINRA also provided an example of how trade reporting for transactions executed in a work-up session will need to change for both subscribers and ATSS after the end of the exception.⁶ For ease of reference, the example is provided as **Attachment A** to this *Notice* and FINRA encourages firms to review the example as they update their systems.

FINRA is reminding members—both ATS subscribers and ATSS—of these deadlines. After April 12, 2019, member ATSS and member ATS subscribers will be required to comply with Rule 6730 by separately reporting each individual trade that occurs during a trading session, as well as the actual time and price at which each individual trade is executed.

Endnotes

1. See Securities Exchange Act Release No. 79116 (October 18, 2016), 81 FR 73167 (October 24, 2016) (Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of File No. SR-FINRA-2016-027). See also [Regulatory Notice 16-39](#) (October 2016).
2. For additional information on the types of trading sessions that may occur on ATSS and on the operation of the exception in varying trade reporting scenarios, see Securities Exchange Act Release No. 81018 (June 26, 2017), 82 FR 29956 (June 30, 2017) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2017-023).
3. *Id.*
4. Specifically, the exception provided that ATSS and member subscribers are permitted to report transactions in U.S. Treasury securities executed within discrete trading sessions by submitting a transaction report reflecting the aggregate amount of a U.S. Treasury security purchased (sold) to another party during a single trading session at the average price of such transactions, with the time of execution communicated by the ATS, irrespective of the number of trades in the trading session. *Id.*
5. See Securities Exchange Act Release No. 83098 (April 24, 2018), 83 FR 18866 (April 30, 2018) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Extend the Temporary Exception That Permits Aggregate Reporting for Certain ATS Transactions in U.S. Treasury Securities).
6. See *supra* note 2.

Attachment A

Example of required trade reporting by ATSS and subscribers of transactions executed in a work-up session after April 12, 2019

Assume that the following events occur in an ATS trading session:

Trade No.	Time	Subscriber	Buy/Sell	Amount (in millions)
	11:34:02.000	Subscriber A	Sell	\$25
1	11:34:03.155	Subscriber B	Buy	\$10
2	11:34:03.483	Subscriber C	Buy	\$15
	11:34:04.003	Subscriber D	Sell	\$10
3	11:34:05.002	Subscriber E	Buy	\$5
4	11:34:05.877	Subscriber B	Buy	\$5
	11:34:07.877	Trading Session Closes		

At the end of the trading session, the ATS provides each subscriber with an aggregate trade message indicating the subscriber's aggregate activity during the trading session (including, for example, an aggregate size and average price). The trade messages contain a single time of execution (*e.g.*, the time the trading session closed), rather than the actual time at which each respective trade was executed during the trading session. The temporary exception permits the subscriber and ATS to use the aggregate size and average price information contained in the trade message for purposes of TRACE reporting. The temporary exception also permits all parties to use the time of execution contained in the ATS's trade message, rather than the actual time the parties executed the individual transactions.

After April 12, 2019, members must comply with existing TRACE reporting requirements in Rule 6730 and must submit trade reports for the following transactions executed in a trading session, including the actual price and time of execution for each trade:

Trade No.	TRACE Reports	Quantity (in millions)	Time of Execution
1	Subscriber A sell to ATS	\$10	11:34:03.155
	ATS buy from Subscriber A	\$10	11:34:03.155
	ATS sell to Subscriber B	\$10	11:34:03.155
	Subscriber B buy from ATS	\$10	11:34:03.155
2	Subscriber A sell to ATS	\$15	11:34:03.483
	ATS buy from Subscriber A	\$15	11:34:03.483
	ATS sell to Subscriber C	\$15	11:34:03.483
	Subscriber C buy from ATS	\$15	11:34:03.483
3	Subscriber D sell to ATS	\$5	11:34:05.002
	ATS buy from Subscriber D	\$5	11:34:05.002
	ATS sell to Subscriber E	\$5	11:34:05.002
	Subscriber E buy from ATS	\$5	11:34:05.002
4	Subscriber D sell to ATS	\$5	11:34:05.877
	ATS buy from Subscriber D	\$5	11:34:05.877
	ATS sell to Subscriber B	\$5	11:34:05.877
	Subscriber B buy from ATS	\$5	11:34:05.877