**To:** John Senior (ABC Head of Trading)

**From:** Lisa LeFever (ABC Fixed Income Compliance Officer)

**Date:** November 13, 2017

**RE:** FINRA Rule 6700

**ABC Broker Dealer FINRA Rule 6700 TRACE Reporting Rules Policies and Procedures**

ABC Broker Dealer (“ABC”) adheres to a strict policy of full compliance with the reporting requirements of FINRA Rule 6700 TRACE Reporting Rules as they pertain to certain corporate bond transactions effectuated by traders at ABC. Each trader at ABC is responsible for reporting all TRACE-reportable trades to TRAQS within the specified time period and with all necessary information in conformity with the Rule. Traders must have an understanding of the TRACE rules and are encouraged to review the rule and these policies as necessary.

**The full text of the rule can be found here**: http://finra.complinet.com/en/display/display\_viewall.html?rbid=2403&element\_id=4399&record\_id=5481&filtered\_tag=

**I. INTRODUCTION**

FINRA Rule 6700 Trade Reporting and Compliance Engine (TRACE) was enacted to increase transparency in the corporate debt market. It requires trades in TRACE-eligible securities be reported to the FINRA TRAQS system within the specified time period dictated in the rules. The FINRA TRAQS system records trade information on TRACE-reportable securities reported by all “TRACE Participants” and disseminates such trade information to the public.

**II. WHAT TRADES ARE SUBJECT TO THE TRACE REPORTING RULES?**

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| **RELEVANT TERMS** | **MEANING** | **IMPLICATIONS FOR ABC** |
| “**TRACE** **Participant**" | Means any FINRA member that reports transactions to the TRACE system, directly or indirectly. | As a TRACE Participant, ABC is subject to the mandatory TRACE Reporting Rules and traders must report when execute trades in TRACE-Eligible Securities. |
| “**Party to a Transaction**" | Means an introducing broker-dealer, if any, an executing broker-dealer, or a customer. "Customer" includes a broker-dealer that is not a FINRA member. | Traders must report when they participate in trades, i.e. are a “Party to a Transaction,” in an eligible security, even if the other party is also a reporting firm. |
| “**Reportable TRACE Transaction**" | Means any transaction in a TRACE-Eligible Security  Except: (1) a transaction that is not reported as specified in Rule 6730(e); and (2) a sale from an issuer to an underwriter(s) or initial purchaser(s) as part of an offering. | Trades executed by the corporate trading desk at ABC that involve TRACE-eligible are “Reportable TRACE Transactions,” meaning that they must be reported subject only to limited exceptions. |
| “**TRACE-Eligible Security**” | Mean a debt security that is U.S. dollar-denominated  ***AND***: (1) issued by a U.S. or foreign private issuer, and, if a "restricted security" sold pursuant to Rule 144A;  (2) issued or guaranteed by an Agency or a Government-Sponsored Enterprise ; or (3) a U.S. Treasury Security. | TRACE-Eligible securities include public and private corporate bonds (investment grade, high yield and convertible corporate debt). All transactions in these type of bonds by traders at ABC will require forethought and timely reporting. |
| "**TRACE-Eligible Security**" ***DOES NOT*** include a debt security that is issued by a foreign sovereign or a Money Market Instrument. | A “**Money Market Instrument**” means, other than a U.S. Treasury Security, a debt security that at issuance has a **maturity of one calendar year or less**, or, if a discount note issued by an Agency, or a Government-Sponsored Enterprise, as defined in paragraph (n), a maturity of one calendar year and one day or less. | Traders at ABC will need to be mindful of the maturity timeline of the bonds it trades. |
| “**Collateralized Debt Obligation**” (“CDO”) | Means a type of Securitized Product backed by fixed-income assets (such as bonds, receivables on loans, or other debt) or derivatives of these fixed-income assets, structured in multiple classes or tranches with each class or tranche entitled to receive distributions of principal and/or interest in accordance with the requirements adopted for the specific class or tranche. A CDO includes, but is not limited to, a collateralized loan obligation (“CLO”) and a collateralized bond obligation (“CBO”). | Transactions in CDOs must be reported subject to the timely reporting requirements discussed below in Part III. |
| “**Investment Grade**” | Means a TRACE-Eligible Security that, if rated by only one nationally recognized statistical rating organization ("NRSRO"), is rated in one of the four highest generic rating categories; or if rated by more than one NRSRO, is rated in one of the four highest generic rating categories by all or a majority of such NRSROs; provided that if the NRSROs assign ratings that are evenly divided between (i) the four highest generic ratings and (ii) ratings lower than the four highest generic ratings, FINRA will classify the TRACE-Eligible Security as Non-Investment Grade for purposes of TRACE. If a TRACE-Eligible Security is unrated, for purposes of TRACE, FINRA may classify the TRACE-Eligible Security as an Investment Grade security. FINRA will classify an unrated Agency Debt Security as defined in paragraph (l) as an Investment Grade security for purposes of the dissemination of transaction volume. | Transactions in TRACE-eligible securities that are investment grade must be reported to FINRA TRAQS. |
| “**Non-Investment Grade**” | Means a TRACE-Eligible Security that, if rated by only one NRSRO, is rated lower than one of the four highest generic rating categories; or if rated by more than one NRSRO, is rated lower than one of the four highest generic rating categories by all or a majority of such NRSROs. Except as provided in paragraph (h), if a TRACE-Eligible Security is unrated, FINRA may classify the TRACE-Eligible Security as a Non-Investment Grade security. | Non-investment grade bonds will not need to be reported to FINRA TRAQS. |

**The following trades shall not be reported:**

* + Transfers of TRACE-Eligible Securities for the sole purpose of creating or redeeming an instrument that evidences ownership of or otherwise tracks the underlying securities transferred (e.g., an exchange-traded fund).
  + Transactions in TRACE-Eligible Securities that are listed on a national securities exchange, when such transactions are executed on and reported to the exchange and the transaction information is disseminated publicly.
  + Transactions where the buyer and the seller have agreed to trade at a price substantially unrelated to the current market for the TRACE-Eligible Security (e.g., to allow the seller to make a gift).
  + Provided that a data sharing agreement between FINRA and NYSE related to transactions covered by this Rule remains in effect, transactions in TRACE-Eligible Securities that are executed on a facility of NYSE in accordance with NYSE Rules 1400, 1401 and 86 and disseminated publicly by NYSE.
  + Transfers of securities made pursuant to an asset purchase agreement (APA) that is subject to the jurisdiction and approval of a court of competent jurisdiction in insolvency matters, provided that the purchase price under the APA is not based on, and cannot be adjusted to reflect, the current market prices of the securities on or following the effective date of the APA.
  + Bona fide repurchase and reverse repurchase transactions involving TRACE-Eligible Securities.
  + Auction Transactions.

**III. WHEN MUST THE TRADES BE REPORTED?**

These policies and procedures are aimed at promoting compliance with the timely reporting requirements of Rule 6700. The Rule requires TRACE-reportable trades to be reported to FINRA TRAQS “as soon as practicable” but no later than 15 minutes after the “Time of Execution” (exceptions are detailed below) or else the report will be deemed “late.”[[1]](#footnote-1) Continuous late reports could subject the firm to penalties.[[2]](#footnote-2) However, FIRNA takes into account that the manual reporting mechanisms used to report trades is slower than automated trade reporting systems.

Reports must also be reported to TRACE during “TRACE System Hours,” which are the hours the TRACE system is open (8:00:00 a.m. Eastern Time to 6:29:59 p.m. Eastern Time on business days, unless otherwise announced by FINRA). Trades that are executed outside of TRACE System Hours must be reported according to the timeline below.

**ABC TRACE-Eligible Trade Reporting Timeline**

* **Transactions Executed During TRACE System Hours**: Reported Immediately (within 15 minutes of the trade)
* **Transactions Executed At or After 12:00:00 A.M. Through 7:59:59 A.M. Eastern Time on a Business Day:** Must be Reported on that Day, no later than 15 minutes after the TRACE system opens (8:15 am)
* **Transactions Executed After TRACE System Hours or on Non-Business Days (including federal or religious holidays and other days the TRACE system is closed)** : Must be reported the next business day (T + 1), no later than 15 minutes after the TRACE system opens, designated "as/of" and include the date of execution.
* **Transactions Executed Less Than 15 Minutes Before TRACE System Closes on a Business Day**: Transactions executed less than 15 minutes before 6:30pm on a business day must be reported no later than 15 minutes after the TRACE system opens the next business day (T + 1), and if reported on T + 1, designated "as/of" and include the date of execution.

**Transactions in CDOs must be reported**:

(i) a business day at or after 12:00:00 a.m. Eastern Time through 5:00:00 p.m. Eastern Time must be reported the same day during TRACE System Hours;

(ii) a business day after 5:00:00 p.m. Eastern Time but before the TRACE system closes must be reported no later than the next business day (T + 1) during TRACE System Hours, and, if reported on T + 1, designated "as/of" and include the date of execution; or

(iii) a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time, or a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T + 1) during TRACE System Hours, designated "as/of" and include the date of execution.

**IV. HOW WILL TRADES BE REPORTED?**

ABC has determined that the Bloomberg Trading System Trade Order Management System (“TOMS”) will be the front-end system utilized to process all trades that are executed in corporate bonds. When executing a trade through the TOMS systems, each corporate bond trader at ABC will follow the following steps when executing trades through the TOM system:

**ABC TRACE-Eligible Trade Reporting Procedure**

**Step 1**: Determine if trade is in a TRACE-eligible security (see Part II above)

**Step 2**: Execute trade

**Step 3**: Enter transaction details into TOM system, including the time of execution, whether it was a Buy or Sell, the amount bonds, the price of the transaction and other relevant trade information as indicated in TRACE rules (see Part V below)

**Step 4**: Double check that all the necessary information is entered correctly

**Step 5**: Hit the [OK] button to approve the trade details as official records

**Step 6**: If a transaction is TRACE-reportable, a trader must perform an additional step by hitting a button within TOMS titled [Report to TRAQS] for all trades that are TRACE-reportable

**V. TRADE INFORMATION TO BE REPORTED**

Each TRACE trade report must contain the following information:

* CUSIP number or similar numeric identifier or a FINRA symbol;
* Size (volume) of the transaction
* Price of the transaction (or the elements necessary to calculate price, which are contract amount and accrued interest)
* Buy/Sell symbol;
* Date of Trade Execution ("as/of" trades only);
* Time of Execution;
* Date of settlement;
* Contra-party's identifier (MPID, customer, or a non-member affiliate, as applicable);
* Capacity — Principal or Agent (with riskless principal reported as principal);
* Reporting side executing broker as "give-up" (if any);
* Contra side Introducing Broker in case of "give-up" trade;
* The commission (total dollar amount), if applicable;

**ABC Broker Dealer Written Supervisory Procedures (WSPs) on FINRA Rule 6700**

The head of corporate trading at ABC will ensure that the traders at ABC report all of their TRACE-reportable activities to FINRA TRAQS and in a timely manner in compliance with the policies and procedures set forth herein. The Supervisor shall review and compare trade reports provided by the TOMS system and FINRA and note any inconsistencies.

**Purpose**: To review and ensure all TRACE-reportable activities by corporate bond traders at ABC are properly reported under FINRA Rule 6700

**Reviewed by**: John Senior, head of trading and supervisor for corporate bond trading at ABC Broker Dealer

**Frequency**: Weekly

**Resource**: All available trade reporting documentation from TOMS and FINRA TRAQS

**Procedures**: On a weekly basis, the supervisor will review the trading and reporting activity from FINRA and TOMS, comparing and determining whether all TRACE-eligible trades were reported to FINRA TRAQS and if they were recorded in the proper timeframe. The supervisor may consult with the Compliance Department if necessary.

**Documentation**: The supervisor will sign and date the trading log and make any notations as necessary.

**Escalation**: The designated supervisor will review all relevant trade and reporting activity to determine if trades were properly reported and if there is violation, the supervisor will consult with the trader and if necessary, escalate to the Compliance Department. Any issues in reporting activity may subject traders to disciplinary actions or additional educational and training obligations.

1. “**Time of Execution**” means “the time when the Parties to the Transaction agree to all terms of the transaction that are sufficient to calculate the dollar price of the trade.” [↑](#footnote-ref-1)
2. *See* FINRA Rule 6730(f). “A pattern or practice of late reporting without exceptional circumstances may be considered conduct inconsistent with high standards of commercial honor and just and equitable principles of trade, in violation of Rule 2010.” [↑](#footnote-ref-2)