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BDA Submits Comment Letter: FINRA Proposal to Expand TRACE Dissemination to Additional Securitized Products.

Today, BDA submitted a comment letter to FINRA in response to its request for comment on a proposal to expand dissemination of TRACE data to include an additional group of securitized products. The BDA's letter can be accessed here.

Proposal Executive Summary:

FINRA is soliciting comment on a proposal to expand dissemination of TRACE data to include "additional Securitized Products" defined as CMOs, CMBSs, and CDOs. FINRA is also proposing to reduce the reporting time frame for these "additional Securitized Products" from end-of-day to 45 minutes and, after nine months, to 15 minutes after the transaction. FINRA also is proposing to simplify the reporting requirement for pre-issuance CMOs.

FINRA proposes to amend Rule 6730 to change the reporting time frame for transactions in CMOs that are executed before the issuance of the security to no later than two business days prior to the first settlement date of the security. Under current Rule 6730, firms generally must report CMO transactions that are executed prior to the issuance of a security on the earlier of the business day that the security is assigned a CUSIP, or the date of issuance of the security.

FINRA is proposing a two-tiered approach for dissemination of transaction information.

- For transactions of $1M or less FINRA proposes requiring real-time price dissemination

For transactions of $1M or more FINRA proposes:

- Weekly and monthly dissemination of aggregate transaction information when 5 or more transactions occur in any given week of a month
- Monthly dissemination of aggregate transaction information when 5 or more transactions occur in a given month but 5 trades do not occur in any single week.

BDA's letter focuses on the following topics and questions:

- The unique operational challenges that exist in these more complex securities and how a 15 minute reporting time frame will increase operational and regulatory challenges, especially for smaller dealers.
- The letter requests a market-based rationale that justifies the proposal's $1m real-time dissemination threshold, noting that the proposed limit may not strike the proper balance between transparency, liquidity, and retail investor pricing.
- The letter requests a further amendment to Rule 6730 to reduce the reporting time frame to 1 day prior to the first settlement day as opposed to the proposal's 2 day prior to the first settlement day proposed amendment.
- The letter notes that due to the activity of some non-dealer financial institutions in these markets there is not a level playing field from a regulatory reporting standpoint.

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