



Financial Industry Regulatory Authority

Sharon K. Zackula
Associate Vice President and
Associate General Counsel

Direct: (202) 728-8985
Fax: (202) 728-8264

November 10, 2011

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: File No. SR-FINRA-2011-053: Response to Comments

Dear Ms. Murphy:

On September 22, 2011, Financial Industry Regulatory Authority, Inc. ("FINRA") filed with the Securities and Exchange Commission ("SEC" or "Commission") proposed rule change SR-FINRA-2011-053, which proposes 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"). On October 6, 2011, the SEC published the proposed rule change for comment in the Federal Register.¹ The Commission received two comments in response to the proposed rule change.² The issues raised by the commenters relating to the proposed rule change are summarized and responded to below.

Background

Currently, transactions in TRACE-Eligible Securities that are Asset-Backed Securities must be reported through MPP. All other TRACE-Eligible Securities (i.e., corporate

¹ See Securities Exchange Act Release No. 65459 (September 30, 2011), 76 FR 62128 (October 6, 2011) (Notice of Filing of SR-FINRA-2011-053). The comment period closed on October 27, 2011.

² See Letter from Suzanne H. Shatto, to Elizabeth Murphy, dated October 20, 2011 ("Shatto Letter"), and Letter from Christopher Killian, Securities Industry and Financial Markets Association ("SIFMA"), to Elizabeth Murphy, dated October 27, 2011 ("SIFMA Letter").

bonds and Agency Debt Securities) are reported through a legacy TRACE technology. Firms that report transactions in Asset-Backed Securities to TRACE have incorporated the MPP interface in their firm systems, processes and procedures. FINRA will transfer the reporting and data management functions for TRACE-Eligible Securities currently reported through the legacy TRACE technology (i.e., corporate bonds and Agency Debt Securities) to the MPP (the “MPP migration”). The MPP migration necessitates amending four reporting requirements in FINRA Rule 6730 currently applicable to corporate bonds and Agency Debt Securities to conform such provisions to requirements that are consistent with the MPP.

Comments

One commenter expresses general support for the proposed rule change, but raises concerns that FINRA’s announced intention to implement the proposed rule change and the MPP migration on February 6, 2012, will not provide firms adequate time properly to develop and test firms’ systems, processes and procedures for reporting corporate bonds and Agency Debt Securities to TRACE through MPP.³ According to the commenter, FINRA’s plan to implement the proposed rule change and the MPP migration on February 6, 2012 raises concerns because many firms put in place year-end information technology “code freezes,” which will make it difficult to engage in development or testing for some portion of December 2011 and/or January 2012.⁴ In addition, the commenter states that at or near year-end 2011, firms intend to allocate information technology resources to certain industry initiatives⁵ and changes needed in

³ See SIFMA Letter. SR-FINRA-2011-053 provides that 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, and that the effective date will be no later than 180 days following publication of the Regulatory Notice announcing Commission approval. However, FINRA announced that the implementation date is scheduled to be February 6, 2012 in several communications with members (e.g., an industry conference call, the “TRACE Phone-In Workshop: Multi Product Platform (MPP),” on October 21, 2011, from 12:00 p.m. – 1:00 p.m. (the “MPP Workshop”), and the publication of TRACE FIX and TRACE CTCI specifications for the MPP migration on October 3, 2011).

⁴ See SIFMA Letter, pp. 1 - 2.

⁵ See SIFMA Letter, p. 2. The commenter refers to systems changes to address the Treasury Market Practices Group (“TPMG”) Agency Debt and Agency MBS Fails Charge Trading Practice and “various Fixed Income Clearing Corporation Mortgage-Backed Securities division projects.”

connection with the SEC's "Large Trader Initiative."⁶ The commenter notes that although such technology projects present the same concerns as the MPP migration (*i.e.*, making technology changes in proximity to year-end), the projects were announced "far earlier than final rules will be available for the MPP conversion . . . , and are already in progress."⁷ The commenter states that the ability of firms to properly test and build their systems will be enhanced when FINRA makes available final specifications for TRACE reporting, for receiving real-time TRACE data, for other systems or technology involved in TRACE reporting, and for the final version of the web user guide.⁸ In light of the above, the commenter requests that the MPP migration and the proposed rule changes be implemented not earlier than the end of the first quarter of 2012.⁹

In response, FINRA believes that the February 6, 2012 implementation date for the proposed rule change and the MPP migration provides firms sufficient time to take the steps necessary to make system and procedural changes, test and successfully convert to MPP for reporting corporate bonds and Agency Debt Securities to TRACE. As noted above, MPP is already a part of some firms' interface with TRACE as transaction reporting in Asset-Backed Securities is effected through MPP. In addition, FINRA has provided and will continue to provide the technical specifications in a timely manner to permit members to take the steps necessary to prepare for the MPP migration and the implementation of the proposed rule change. On October 3, 2011, FINRA published specifications that members need to migrate TRACE reporting of the relevant securities to MPP (*i.e.*, the specifications for TRACE Financial Information eXchange ("FIX") and TRACE Computer-To-Computer Interface ("CTCI") regarding reporting formats). On November 1, 2011, for firms that receive real-time TRACE data, FINRA published the specifications needed to modify systems

⁶ See SIFMA Letter, p. 2. See Securities Exchange Act Release No. 64976, July 27, 2011, 76 FR 46960, August 3, 2011 (File No. S7-10-10) (Approval of Final Rule) (The "Large Trader Initiative" refers to a new rule, Securities Exchange Act Rule 13h-1, adopted pursuant to Section 13(h) of the Securities Exchange Act of 1934. Among other things, the rule defines "large traders," requires large traders to register with the SEC by December 1, 2011, and establishes new recordkeeping, reporting and monitoring requirements that apply to broker-dealers doing business with large traders. The recordkeeping, reporting and monitoring requirements become effective on April 30, 2012.)

⁷ See SIFMA Letter, p. 2.

⁸ See SIFMA Letter, p. 2. The commenter refers to specifications for TRACE FIX, TRACE CTCI, BTDS, ATDS, API and revisions to the TRAQs web user guide.

⁹ See SIFMA Letter, p. 2.

to continue to receive such TRACE data (*i.e.*, the specifications for the corporate bond data feed and the Agency Debt Securities data feed, referred to as, respectively, BTDS and ATDS). In the near future, FINRA intends to publish information regarding revisions to the TRACE website (*i.e.*, the revised web user guide) and specifications for accessing information on TRACE-Eligible Securities (*i.e.*, specifications for API). Moreover, FINRA has provided and will continue to give guidance and assistance to members to prepare for the MPP migration and the rule changes.¹⁰ FINRA has consulted with members and responded to member requests for clarification, and will continue to reach out to fixed income market participants to insure an effective and efficient transition to MPP.¹¹ In connection with testing, FINRA recognizes that a reasonable test period will facilitate efficient implementation of the proposed rule change and intends to provide firms appropriate testing opportunities. On November 4, 2011, FINRA informed members of the schedule for testing, including dates for the test environment and target dates for production tests, and FINRA will continue to work with members to provide sufficient opportunities to test systems before the MPP migration and proposed rule change are implemented.

Finally, FINRA believes that the migration of corporate bonds and Agency Debt Securities to MPP should not be delayed in light of the significant benefits that MPP offers regarding the processing of transactions and the management of important TRACE data. For example, the management of all TRACE data in MPP will eliminate certain operational inefficiencies that firms expressed concerns about in the past. Among other things, consolidating all TRACE reporting within MPP allows for one standard interface and message format. In addition, the MPP migration will permit FINRA to provide members a continuously updated TRACE Issue List and Daily List for all TRACE-Eligible Securities.¹² In light of the above, FINRA believes

¹⁰ See, e.g., the MPP Workshop, at n. 3, supra, which FINRA organized to discuss the MPP migration and answer member questions.

¹¹ For example, the commenter requests clarification regarding how an amendment or cancellation of a trade initially reported to the legacy TRACE system should be reported after corporate debt and Agency Debt Securities are migrated to the MPP and the legacy TRACE system is terminated. See SIFMA Letter, p. 3. FINRA staff specifically addressed this trade reporting issue and other trade reporting questions during the MPP Workshop on October 21, 2011.

¹² This is an enhancement to TRACE reporting technology that members have requested for several years. See, e.g., Letter to Elizabeth M. Murphy, Secretary, SEC, from Randolph C. Snook, SIFMA, dated November 18, 2009 commenting on SR-FINRA-2009-065 (SIFMA commented that FINRA should develop a methodology for more rapidly updating the TRACE Issue Master and/or the TRACE Daily List and communicating such updates to members

that the February 6, 2012 date of implementation provides firms sufficient time to prepare for the MPP migration and the proposed rule change, and implementation should not be delayed.

The same commenter requests that FINRA permit the legacy TRACE system to run in parallel with the FIX protocols and revised CTCI protocols (which are both used in connection with MPP) to enable firms to address unforeseen trade reporting issues.¹³ FINRA is not able to support simultaneously the legacy and updated reporting formats to provide firms the ability to run old and revised protocols in parallel. However, if a firm has a system-related issue during the MPP migration, FINRA advises the firm to notify the appropriate department in FINRA.¹⁴

Also, the commenter asks FINRA to provide guidance regarding the reporting of certain bonds with sinking funds.¹⁵ FINRA is engaged in an ongoing review of issues raised by the MPP migration, and will address this and other specific trade reporting questions prior to the MPP migration in its usual and periodic communications with members (e.g., during TRACE Phone-In Workshops, and in the publication of TRACE user's guide, FINRA Trade Reporting Notices and technical specifications, among others).

The second commenter comments upon issues that are not responsive to the issues raised in the proposed rule change.¹⁶ FINRA will not respond to the comments, which are not germane to the proposed rule change.

* * * * *

intraday, noting that if FINRA improved the processes for such updates, including providing intraday notification to members of new TRACE-Eligible Securities (or those not previously included in the TRACE Issue Master), members would be able to more efficiently and timely report to TRACE.)

¹³ See SIFMA Letter, p. 2.

¹⁴ Members that have system-related issues that adversely affect the member's ability to comply with its obligations under the TRACE rules should notify FINRA's Department of Market Regulation at bondreporting@finra.org when the system-related issues occur and when such issues are resolved.

¹⁵ See SIFMA Letter.

¹⁶ See Shatto Letter.

Ms. Elizabeth M. Murphy

November 10, 2011

Page 6

FINRA believes that the foregoing responds to the material issues raised by the commenter to this rule filing. If you have any questions, please contact me at (202) 728-8985; email: sharon.zackula@finra.org. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

A handwritten signature in black ink, appearing to read "Sharon K. Zackula". The signature is fluid and cursive, with a large initial "S" and "Z".

Sharon K. Zackula
Associate Vice President and
Associate General Counsel