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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-84366; File No. SR-FINRA-2018-030]

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Order Approving Proposed Rule Change to Amend FINRA Rule 7730 to Remove Computer-to-Computer Interface as a Technological Option for TRACE Reporting

October 4, 2018

I. Introduction

On August 15, 2018, the Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to modify the technological connectivity options available to member firms for reporting transactions to the Transaction Reporting and Compliance Engine (“TRACE”). The proposed rule change was published for comment in the Federal Register on August 23, 2018.³ The Commission received no comments on the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposal

FINRA has proposed to amend Rule 7730 (Trade Reporting and Compliance Engine (TRACE)) to remove Computer-to-Computer Interface (“CTCI”) as a technological means of connectivity for use in reporting transactions to TRACE. CTCI was made available for TRACE reporting purposes at TRACE’s inception. FINRA added Financial Information eXchange (“FIX”) as a protocol for transaction reporting to TRACE for securitized products in 2011 and

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 83868 (August 17, 2018), 83 FR 42741 (“Notice”).

for corporate and agency debt securities in 2012. FINRA has represented that approximately two thirds of member firms with direct connections, and half of the service bureaus, have migrated from CTCI to FIX.⁴ FINRA believes that the migration to FIX will continue for member firms and service bureaus as it is an immediately available and viable alternative to CTCI, and that removing CTCI as a connectivity option will reduce operational overhead and risk for FINRA.⁵

Accordingly, FINRA has proposed to amend Rule 7730 to remove CTCI as a means of connectivity for members to report transactions to TRACE, leaving three currently available options: (i) web browser access; (ii) FIX line access; or (iii) indirectly via third-party vendors (e.g., service bureaus).⁶ Member firms that currently use CTCI will be able to migrate at any point throughout the implementation period, during which FINRA will engage in outreach with the industry to provide information and assistance in connection with the migration.⁷ The operative date for the rule change will be February 3, 2020.⁸

III. Discussion and Commission Findings

After careful consideration, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities association.⁹ In particular, the Commission finds that the proposed rule

⁴ See id.

⁵ See id.

⁶ See FINRA Rule 7730.

⁷ See Notice, 83 FR at 42741. FINRA stated that, in addition to general industry outreach, FINRA will contact each member firm that directly reports to TRACE via CTCI by e-mail and telephone to provide information and assistance in connection with the migration. See id. at n. 8.

⁸ See id. at 42741.

⁹ In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

change is consistent with Section 15A(b)(6) of the Act,¹⁰ which requires, among other things, that FINRA rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest.

While Section 15A(b)(6) sets out principles to which the rules of a national securities association must adhere, it does not prescribe specific technological requirements for carrying out those principles. Thus, in a situation where an association requires information from its members to carry out its self-regulatory and market oversight functions, the association generally has discretion over establishing the means by which its members may be required to provide that information. Currently, FINRA supports four technological protocols for its members to report transactions to TRACE. FINRA has proposed to discontinue supporting one of those four protocols, CTCI. The Commission believes that such action is a reasonable exercise of FINRA's discretion, for the following reasons.

First, FINRA will continue to support three other technological protocols for reporting transactions to TRACE: FIX, web browser, and via third-party vendor. Second, FIX already is utilized by approximately half of the third-party vendors and two-thirds of member firms with direct reporting capability, and with the increase in the percentage of TRACE transactions reported via FIX there has been a concomitant decrease in CTCI usage.¹¹ Third, supporting three instead of four reporting protocols would conserve FINRA resources and has some potential for reducing operational risks.¹² Fourth, FINRA is taking reasonable steps to assist member firms

¹⁰ 15 U.S.C. 78o-3(b)(6).

¹¹ See Notice, 83 FR at 42741.

¹² See id. at 42741.

that currently use CTCI and must transition to other reporting protocols. FINRA has stated that it will contact each such firm to offer assistance in connection with the migration, and is allowing over a year—until February 3, 2020—for affected firms to complete the migration.¹³ The Commission has no reason to believe that this proposal will impose undue burdens on FINRA member firms; the Commission notes that no comments on the proposal were submitted.

For these reasons, the Commission believes the proposed rule change is consistent with the Act.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁴ that the proposed rule change (SR-FINRA-2018-030) is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

Eduardo A. Aleman,
Assistant Secretary.

¹³ See id. at n.8.

¹⁴ 15 U.S.C. 78s(b)(2).

¹⁵ 17 CFR 200.30-3(a)(12).

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