

Introduction

The Firm has elected to engage in the trading of corporate fixed income securities issued by public and private corporations. Therefore, in the course and scope of engaging in a fixed income securities business, the Firm will act in accordance with FINRA Rule Series 6700 and other relevant rules and regulations as set forth herein.

Note: The Firm has very limited corporate bond activity. In the event that the Firm engages in TRACE eligible securities transactions, the clearing firm (NFS) will report on our behalf.

12.01 General Supervision of Fixed Income Trading

The Firm will create and implement effective procedures for the supervision of customer accounts and orders relating to the trading of fixed income securities. In order to properly supervise all activities associated with fixed income securities, the Firm shall designate an appropriately qualified principal (or principals) to supervise such activities, as well as identify all related responsibilities involving the supervision of the Firm's fixed income trading business.

12.02 Trade Reporting and Compliance Engine ("TRACE")

The SEC approved proposed rules that will require FINRA member firms to report OTC secondary market transactions in eligible fixed income securities to FINRA, in addition to requiring the dissemination of certain transaction reports. Prices on these trades are then shown to the investing public, subject to certain restrictions and limitations, for purposes of ascertaining comparability.

As a result, FINRA developed the Trade Reporting and Compliance Engine (TRACE) in order to facilitate this mandatory reporting. All broker/dealers who are FINRA member firms have an obligation to report eligible secondary market, over-the-counter transactions in corporate bonds to TRACE under an SEC-approved set of rules. The implementation date for TRACE was July 1, 2002.

Key Definitions

The following is a brief list of some of the key definitions as they apply to the Trade Reporting and Compliance Engine ("TRACE") in accordance with FINRA Rule 6710 (formally NASD Rule 6210):

Trade Reporting and Compliance Engine ("TRACE"). The automated system developed by the NASD that, among other things, accommodates reporting and dissemination of transaction reports where applicable in TRACE-eligible securities.

TRACE-eligible security.

All United States dollar denominated debt securities that are depository eligible securities under Rule 11310(d); Investment Grade or Non-Investment Grade; issued by United States and/or foreign private issuers; and: (1) registered under the Securities Act; or (2) issued pursuant to Section 4(2) of the Securities Act and purchased or sold pursuant to Securities Act Rule 144A. The term "TRACE-eligible security" excludes debt issued by government-sponsored entities, mortgage- or asset-backed securities, collateralized mortgage obligations, and money market instruments. For purposes of the Rule 6700 Series, the term "money market" instrument means a debt security that at issuance has a maturity of one year or less (Ref. Notice 09-24)

Reportable TRACE Transaction. Any secondary market transaction in a TRACE eligible security except transactions exempt from reporting as specified in Rule 6730(e)

transactions in TRACE-eligible securities that are listed on a national securities exchange registered under section 6 of the Securities Exchange Act of 1934, when such transactions are executed on, and reported to the exchange and the transaction information is disseminated publicly, or transactions in any TRACE-eligible security that is listed and quoted on NASDAQ, rather than only convertible debt securities, provided that the other two requirements for the exemption are also present (i.e., the transaction is reported to NASDAQ and the information is publicly disseminated). (Ref. Notice 07-61)

Parties to the transaction. A customer, in addition to an introducing broker/dealer, if any, and an executing broker/dealer. Also, for the purposes of FINRA Rule 6710(e), "customer" includes a broker/dealer that is not a FINRA member. (Ref. NTM 03-12)

TRACE Participant. Any FINRA member firm that directly or indirectly reports transactions to the TRACE system.

Investment Grade. Any TRACE-eligible security rated by a nationally recognized statistical rating organization in one of its four highest generic rating categories.

Non-Investment Grade. Any TRACE-eligible security that is unrated, non-rated, split-rated (where one rating falls below Investment Grade), or otherwise does not meet the definition of Investment Grade.

Split-rated. Any Investment Grade or a Non-Investment Grade security that is assigned ratings by multiple nationally recognized statistical rating organizations for an Investment Grade security, are not in the same generic Investment Grade rating category, or, for a Non-Investment Grade security, are not in the same generic Non-Investment Grade rating category. (NTM 04-65; effective September 3, 2004)

Participation in TRACE

In accordance with FINRA Rule 6720 (formally NASD Rule 6220), member participation in TRACE for trade reporting purposes is mandatory. Such mandatory participation obligates the Firm to submit transaction reports in TRACE-eligible securities in conformity with FINRA Rule 6700 Series (formally NASD Rule 6200 Series).

Participation in TRACE is contingent upon the TRACE Participant's initial and continuing compliance with the following requirements:

- Execution of, and continuing compliance with, a TRACE Participant application agreement and all applicable rules and operating procedures of FINRA and SEC; and
- Maintenance of the physical security of the equipment located on the premises of the TRACE Participant to prevent unauthorized entry of information into TRACE.

As a TRACE Participant, the Firm shall notify FINRA of non-compliance with, or changes to, any of the aforementioned participation requirements.

Participation Obligations in TRACE

A TRACE Participant, the Firm may begin to input and validate all relevant trade information in TRACE-eligible securities once FINRA has received and executed the Firm's TRACE Participant application agreement. TRACE Participants may access the service via an FINRA-approved facility during the hours of operation.

Clearing Obligations

As a TRACE Participant, the Firm understands that in the event that it fails to maintain a clearing arrangement, it shall be removed from the TRACE system until such time as a clearing arrangement is re-established and notice of such arrangement is provided to FINRA. If, however, FINRA finds that the Firm's failure to maintain a clearing arrangement is voluntary, the withdrawal will be considered voluntary and unexcused.

12.03 Securities Classifications for TRACE Reporting Rules

Transactions/Securities Subject to Mandatory Trade Reporting

- Fixed income transactions that must be reported under the new TRACE Rules are those OTC secondary market transactions involving a "TRACE-eligible security";
- The term "TRACE-eligible security" means all United States dollar denominated debt securities that are depository-eligible securities; Investment Grade and Non-Investment Grade (as defined in the TRACE Rules); issued by United States and/or foreign private corporations; and: (1) registered with the SEC; or (2) issued pursuant to Section 4(2) of the Securities Act of 1933 (Securities Act) and purchased or sold pursuant to Rule 144A under the Securities Act;
- The term "TRACE-eligible security" specifically excludes debt securities that are not depository eligible; sovereign debt; development bank debt; mortgage- or asset-backed securities, collateralized mortgage obligations, and money market instruments.

The following classes of securities are subject to TRACE reporting rules:

- Investment grade debt (including Rule 144A/DTC-eligible issues);
- High yield and unrated debt of the U.S. companies foreign private companies (including Rule 144A/DTC-eligible issues);
- Medium term notes;
- Convertible debt;
- Capital trust companies;
- Equipment trust companies;
- Floating rate notes;
- Global bonds issued by U.S. companies and foreign private companies.

The following classes of securities are not subject to TRACE reporting rules:

- Non-U.S. dollar denominated securities;
- Debt securities that are not depository-eligible;
- Sovereign debt;
- Development bank debt;
- Debt of Government-sponsored entities that including agency bonds;
- Mortgage- or asset-backed securities;

- Collateralized mortgage obligations;
- Money market instruments.

Implementation Strategy

The designated principal of the Firm will review trade blotters for mandatory trade reporting in accordance with TRACE reporting rules. All relevant documentation shall be properly recorded as evidence of review.

12.04 Trade Reporting Obligations in TRACE

FINRA members are obligated to report both sides of every transaction in eligible corporate bonds. TRACE will accept the trade reports of reporting firms or their designated third-party reporting intermediaries. The reporting party is determined as follows:

<u>Transaction Parties</u>	<u>Reporting Obligation</u>
Two FINRA members	The Buy and Sell sides
An FINRA member and a non-NASD member	The FINRA member
An FINRA member and a customer	The FINRA member

Note: FINRA member firms cannot qualify each other as “customers.” Only an end customer (a non-FINRA member institution or retail account) can be designated “C” (for Customer) in the trade report.

Reporting Transaction Information

It is the Firm’s policy that each TRACE trade report shall contain the following information:

- CUSIP number or FINRA symbol;
- Transaction price (or the elements necessary to calculate price, which are contract amount and accrued interest);
- Number of bonds;
- A transaction symbol indicating buy or a sell order;
- Date of Trade Execution(as/of trades only);
- Contra-party’s identifier;
- Capacity -Principal or Agent (with riskless principal reported as principal);
- Time of trade execution;
- Reporting side executing broker as “give-up” (if any);
- Contra side Introducing Broker in case of “give-up” trade;
- Stated commission;
- Trade modifiers as required by TRACE rules or the TRACE users guide; and

- Yield as required by SEC Rule 10b-10 (See Note below)

Note: Regarding the lower of yield to call or yield to maturity, the Firm is not required to report yield when the TRACE-eligible security is a security that is in default, a security for which the interest rate is floating; a security for which the interest rate will be or may be increased (e.g., certain "step-up bonds") or decreased (e.g., certain "step-down bonds") and the amount of increase or decrease is an unknown variable; a pay-in-kind security ("PIK"); any other security where the principal or interest to be paid is an unknown variable or is an amount that is not currently ascertainable, or any other security that the Association designates if the Association determines that reporting yield would provide inaccurate or misleading information concerning the price of, or trading in, the security. When yield is not reported and the reporting method chosen provides a "memo" field, the reason must be stated in the "memo" field.

Reporting Agency Transactions

In order to capture a complete audit trail for regulatory use, agency transactions need to be reported in the same way that principal transactions are reported. What this means is that if the firm acts as agent for a customer, the trade reports members must submit will "look" like they stood between the customer and the contra party.

Another aspect to be careful of is the calculation of yield for agency transactions. The yield members report must be inclusive of commissions charged, which is in line with what is done for customer confirmations. The yield is a corollary of price. The general understanding with regard to agency trades is that you "Buy Plus Commission" and "Sell Less Commission". It is the customer that is buying plus the commission, but the TRACE trade reports are always from the FINRA member's point of view. Therefore, when members incorporate the commission charged into the price for yield calculation, they must SUBTRACT the commission on BUY trade reports, and ADD the commission on SELL trade reports. This makes sense, because when the customer is Buying, a member firm is Selling, based on the way the reports must be made.

Transaction Reporting Time Requirements

Each member that is a Party to a Transaction in a TRACE-Eligible Security must report the transaction. A member must report transaction information within 15 minutes of the Time of Execution, except as otherwise provided below, or the transaction report will be "late." The member must transmit the report to TRACE during TRACE System Hours.

Members have an ongoing obligation to report transaction information promptly, accurately, and completely. The member may employ an agent for the purpose of submitting transaction information; however, the primary responsibility for the timely, accurate, and complete reporting of transaction information remains the non-delegable duty of the member obligated to report the transaction. A member may be required to report as soon as practicable to the Market Regulation Department on a paper form, the transaction information required under Rule 6230 if electronic submission into TRACE is not possible. Transactions that can be reported into TRACE, including transactions executed on a Saturday, Sunday or holiday as provided in (a)(4) above, and trades that can be submitted on the trade date or on a subsequent date on an "as/of" basis, shall not be reported on a paper form.

Transactions in TRACE-Eligible Securities That Occur in Connection with Options, Credit Default Swaps (CDSs), Other Swaps or Similar Instruments

Currently, the TRACE System accepts reports on transactions in TRACE-eligible securities resulting from the exercise or settlement of an option or a similar instrument, or the termination or settlement of a CDS, other type of swap or a similar instrument (collectively, Derivative-Related

Transactions). As amended, FINRA Rule 6730 exempts such Derivative-Related Transactions from the TRACE reporting requirements. FINRA determined that Derivative-Related Transactions should be exempt from TRACE reporting because the information regarding price (and yield) being reported to FINRA and disseminated to the public does not reflect currently negotiated transaction prices. Further, reporting and dissemination of certain Derivative-Related Transactions does not foster price discovery and may contribute to investor confusion. In addition, because prices from Derivative-Related Transactions do not contribute to price discovery, the costs of continuing to require such reporting, including potential investor confusion, support exempting such transactions from TRACE reporting and dissemination.

In a related amendment to Rule 6710(c), FINRA simplified the defined term, "reportable TRACE transaction," to exclude generally any transaction exempted under Rule 6730(e).

Because such Derivative-Related Transactions will no longer be reported, FINRA rescinded *NTM 05-77* (November 2005), which provides guidance regarding the reporting of such transactions to TRACE. *NTM 05-77* is rescinded effective December 13, 2007 (Notice 07-61; Dec. 2007)

Procedures for Reporting Price, Capacity, Volume

For principal transactions, the member firm must report the price, which must include the mark-up or mark-down. (However, if a price field is not available, report the contract amount and the accrued interest.) For agency transactions, report the price, which must exclude the commission. (However, if a price field is not available, report the contract amount and the accrued interest.)

For agency and principal transactions, the member firm must report the actual number of bonds traded, with \$1,000 par value equal to 1 bond. If a bond has a par value of less than \$1,000 ("baby bond") or the par value is not an even multiple of \$1,000, report the fractional portion of \$1,000 in decimals.

For in-house cross transactions, the member firm must report two transactions, which are the member's purchase transaction and the member's sale transaction.

Non-Reportable Transactions

The following types of transactions shall not be reported:

- Transactions that are part of a primary distribution by an issuer;
- Transactions in 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, and transactions in convertible debt securities that are listed and quoted on Nasdaq, when such transactions are reported to Nasdaq and the transaction information is disseminated publicly; and
- 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.

Pricing Disclosure in the Fixed Income Markets

SEC Approves Amendments to Require Mark-Up/ Mark-Down Disclosure on Confirmations for Trades With Retail Investors in Corporate and Agency Bonds

The SEC approved amendments to FINRA Rule 2232 (Customer Confirmations) that require member firms to disclose additional transaction-related information to retail customers for trades in certain fixed income securities. Specifically, amended Rule 2232 requires a member to disclose the amount of mark-up or mark-down it applies to trades with retail customers in corporate or agency debt securities if the member also executes an offsetting principal trade in the same security on the same trading day. The amended rule also requires members to disclose two additional items on all retail customer confirmations for corporate and agency debt security trades: (1) a reference, and a hyperlink if the confirmation is electronic, to a web page hosted by FINRA that contains publicly available trading data for the specific security that was traded, and (2) the execution time of the transaction, expressed to the second.

Mark-Up Disclosure Requirements

New Rule 2232(c) requires members to disclose to a non-institutional customer the amount of mark-up or mark-down the customer paid for a trade in a corporate or agency debt security, if the member also executes one or more offsetting principal trades in the same security on the same trading day which in the aggregate meet or exceed the size of the customer trade. FINRA notes that a disclosure obligation under Rule 2232(c) could be triggered by an offsetting principal trade executed by a member's affiliate. Specifically, if a member's offsetting principal trade is executed with a broker-dealer affiliate and did not occur at arm's length, the member is required to "look through" to the time and terms of the affiliate's trade to comply with the rule.

Methods to Calculate and Disclose Mark-Ups

Members need to calculate the mark-up that is disclosed on a customer confirmation from the prevailing market price (PMP) for the security, consistent with existing FINRA Rule 2121 (Fair Prices and Commissions) and the supplementary material thereunder, particularly Supplementary Material (Additional Mark-Up Policy for Transactions in Debt Securities, Except Municipal Securities). Members may base their mark-up calculations for confirmation disclosure purposes on the information they have available to them as a result of reasonable diligence at the time they input relevant transaction information into systems to generate confirmations.

Members can engage third-party service providers to facilitate mark-up disclosure consistent with Rule 2232; however, members retain compliance responsibility and are expected to exercise due diligence and oversight over third party relationships. Members may also choose to automate their mark-up disclosure calculation process according to reasonable, consistently applied policies and procedures, if consistent with Rule 2121.

Where mark-up disclosure is provided on customer confirmations, Rule 2232(c) requires firms to express the disclosed mark-up as both a dollar amount and a percentage of PMP. Members may include accompanying language to provide explanation of mark-up-related concepts, or a member's particular methodology for calculating mark-ups, provided such statements are accurate. However, members may not label mark-ups as "estimated" or "approximate" figures.

Requirement to Disclose a Reference or Link to Security-Specific Trade Data

For all trades with non-institutional customers in corporate and agency debt securities, whether mark-up disclosure is triggered or not, new Rule 2232(e) requires members to provide a reference, and a hyperlink if the confirmation is electronic, to a web page hosted by FINRA that contains TRACE publicly available trading data for the specific security that was traded, along with a brief description of the type of information available on that page.

Time of Execution Disclosure Requirement

Rule 2232(e) further requires members to disclose the time of execution, expressed to the second, for all non-institutional customer trades in corporate and agency debt securities. As with the URL requirement, trade time disclosure is required even in cases where mark-up disclosure is not triggered. Providing

customers with the time of execution will assist them in identifying their individual trade when accessing the TRACE publicly available information. (Regulatory Notice 17-08; effective on May 14, 2018)

Amendments to TRACE Reporting Rule to Require Identification of Portfolio Trades

FINRA has adopted amendments to Rule 6730 to require members to append a new portfolio trade modifier when reporting corporate bond trades that are part of a portfolio trade to TRACE. Specifically, new paragraph (d)(4)(H) of Rule 6730 requires that a member must append the portfolio trade modifier if reporting a transaction in a corporate bond:

1. executed between only two parties;
2. involving a basket of corporate bonds of at least 10 unique issues; and
3. for a single agreed price for the entire basket.

Members must append qualifying transaction reports with the portfolio trade modifier beginning on May 15, 2023. FINRA will disseminate the transaction immediately upon receipt. FINRA will make specifications available at least 270 days in advance of the May 15, 2023, effective date. (Ref. Regulatory Notice 22-12; May 24, 2022)

Implementation Strategy

Our clearing firm submits TRACE reporting on behalf of the Firm.

12.05 Review of TRACE System Alerts and Daily Lists

TRACE System Alerts

System Alerts are messages generated to quickly notify you of system and market warnings. System Alerts will notify you of system-related issues, such as system open, early close, and administrative broadcast messages, as well as trading-related issues, such as halts, etc., on a particular security. The System Alerts page is reached by clicking on the Alerts menu option on the menu bar. The resulting page will list all the alert messages broadcasted for the current date.

Daily Lists

The Daily List is a summary of the additions, deletions, and symbol changes made to the TRACE securities master file on a given day. This can give you a “heads up” on changes in your trade reporting responsibilities. Clicking on the Daily List menu item will take you directly to the most recent Daily List available. You can view previous Daily Lists by clicking on the yearly links at the upper-right part of the page.

Implementation Strategy

A representative of the clearing firm (NFS) will review TRACE System Alerts for system-related issues, administrative broadcast messages, and trading-related issues, as well as Daily Lists for a summary of the additions, deletions, and symbol changes made to the TRACE securities master file on a given day in accordance with TRACE reporting rules.

12.06 “Give Up” Arrangements (GUs) vs. Automatic Give-Up Arrangement (AGUs)

Differences between a “Give Up” and an AGU

A "Give Up" trade report is reported by one FINRA Member on behalf of another FINRA Member who had a reporting responsibility. In order to do this, "Give-Up" agreements are required for every firm for which the reporting firm will submit. A simple example of a Give-Up would be a clearing firm that reports on behalf of its correspondent firms. The clearing firm reports the trade, but "gives up" the name of the correspondent in the Give-Up field. The trade report will be considered to have come from the correspondent for regulatory and billing purposes.

An Automatic Give-Up, or AGU, is a trade report representing both sides of a transaction. Alternative Trading Systems (ATs) and Electronic Communications Networks (ECNs), and even clearing firms have the ability to match buy and sell orders, and create "locked-in" executions ready for settlement that require no further comparison by the involved parties. ATs and ECNs that are FINRA members (as opposed to those registered as an exchange) have the ability to report on behalf of multiple parties using a single trade report to TRACE and indicate that the trade is "locked-in" by using the AGU flag. A clearing firm that executes a trade with one of its correspondents can likewise submit a "locked-in" trade, since the clearing firm clears the trade for the correspondent. In order to do this, "Give-Up" agreements (GUs and AGUs are covered by the same agreement) are required for every firm for which the ATS/ECN or clearing firm will submit trade reports. Depending on the scenario, a "One-sided" or "Two-sided" AGU can be submitted.

Implementation Strategy

In accordance with audit trail requirements, any transactions in TRACE-eligible securities that occur between a correspondent firm and clearing firm must be reported by both firms under each firm's own TRACE Market Participant ID (MPID), or by the clearing firm on the correspondent firm's behalf, under a pre-signed FINRA/TRACE Give-Up Agreement.

Therefore, in the event that the Firm maintains a clearing arrangement, and since the Firm's clearing firm has the ability to report on behalf of the Firm as disclosed on the TRACE Participation Agreement and other supplemental clearing firm documentation, the clearing firm will put the MPID of the firm that it is reporting for (or "giving-up") in the give-up field. In this case, the clearing firm will submit one report through TRACE to cover the buy side and another to cover the sell side of the transaction.

The following general information should be entered on the TRACE Trade Entry screen:

- Side (buy/sell)
- Quantity
- CUSIP Symbol
- Price;
- Yield
- Overflag for Price and Yield
- Principal/Agent Capacity
- Commission
- Contra MPID
- Execution time
- Modifier
- Your Give Up
- Your Clearing #
- Contra Give Up (AGU Only)
- Contra Clearing # (AGU Only)
- Automatic Give Up (AGU Only)
- As-Of / Reversal
- Branch Sequence #
- Contra Branch Sequence # (AGU Only)
- Memo

- Special Price Flag / Memo (Required if applicable)

For a Simple Give-up arrangement, the clearing firm will complete the following information on the TRACE Trade Entry screen:

- enter the MPID of the Firm in the “give-up” field;
- Mark the trade as a Buy or Sell, based on whether the Firm bought or sold;
- Marks the P/A indicator as either Principal or Agent, depending on what capacity the Firm acted; and
- Enter any modifiers that applied to the Firm.

The designated principal will monitor TRACE information and reporting activities between the Firm (as Correspondent) and its designated clearing firm. The relevant clearing documentation details the TRACE reporting obligations and authorizes the clearing firm to report TRACE reportable securities to FINRA on behalf of the Firm in accordance with TRACE rules and TRACE reporting technical specifications and any subsequent amendment or modification thereto.

Additionally, and to the extent reasonable, the designated principal will monitor TRACE reporting information via the FINRA TRACE Web site (<https://www.finratrace.org>) and the dissemination of transaction information through the Bond Trade Dissemination Service (BTDS) feed (<http://www.finra.org/Industry/ContentLicensing/TRACE/p005592>) to ensure accuracy of information and provide additional supervisory oversight for compliance purposes. Alternatively, the clearing firm handling the Firm’s TRACE reporting responsibilities may also generate reports necessary to monitor such TRACE reporting information, in which case a review of those reports will suffice. All relevant documentation relating to any actual or perceived violations of TRACE rules will be properly recorded as evidence of review and resolution.

12.07 Accepted and Rejected Trade Reports

Accepted Trades

When a trade report is submitted, TRACE will validate the transaction and, if accepted, will return a confirmation message in the status line located at the top of the entry page. The confirmation message will return a TRACE Control #, CUSIP, FINRA Symbol, and the description of the issue. You should ensure that the information displayed is correct. If the information is not correct, you may Cancel or Modify (No/Was) the transaction through the Trade Scan screen. Cancel and No/Was can only be performed on transactions submitted to TRACE today. Transactions submitted on previous days must be canceled using a Reversal, or modified using a Reversal / Resubmission combination.

Rejected Trades

If the trade is rejected after submitting the trade entry, TRACE will return up to five different error codes in the status line located at the top of the entry page. All originally entered data will remain on the Trade Entry page for editing. The Firm may re-submit the transaction after making the necessary corrections.

FINRA recognizes that some members may be using a reporting technology that does not immediately relay a message to the member that a transaction report has been rejected. Thus, members may be unaware for a substantial part of the 45-minute reporting period that they must resubmit the trade report. Accordingly, in these circumstances, as a general rule, FINRA expects that members will correct and resubmit rejected trade reports as soon as practicable, but not later than 90 minutes from the time of execution. ("45-Minute Extension"). However, there are three

scenarios when a member may NOT rely on the 45-Minute Extension. The scenarios are set forth below:

- If a member executes a trade less than 45 minutes before the closing of the TRACE System (on or after 5:45:01 p.m. Eastern Time through 6:29:59 p.m. Eastern Time), under FINRA Rule 6730(a) (1) (formally NASD Rule 6230(a)(1)), the member has the option to report the transaction to TRACE the same day, or the next day that the TRACE System is open, within 45 minutes of the opening. In both of these scenarios, a member is not entitled to rely on the 45-Minute Extension to comply with the obligation to timely report.
- If the member reports the transaction to TRACE before the TRACE System closes and the transaction report is rejected, the member must report the transaction the next day the TRACE System is open, within the first 45 minutes that the System is open in order for the report to be timely. The 45-Minute Extension does not apply in these circumstances.
- If the member opts to first file the transaction report on the next business day that the TRACE System is open, and the transaction report is rejected, the member must correct and resubmit the transaction report as soon as possible and not later than one hour after the TRACE System opens. The 45-Minute Extension does not apply in these circumstances.
- If a member executes a trade when the TRACE System is closed, the member is required under FINRA Rule 6730(a)(2) through (4) (formally NASD Rule 6230(a)(2) to report the transaction the first day that the TRACE System is open, within 45 minutes. If the transaction report is rejected, the member must correct and resubmit a transaction report as soon as possible, but not later than one hour after the TRACE System opens. In this case also, the member has 45 minutes to report the transaction and is granted only an additional 15 minutes to comply with its reporting obligation. In addition, the 45-Minute Extension does not apply (Ref. NTM 03-58)
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Implementation Strategy

The designated principal of the Firm will review all daily accepted or rejected trades through the TRACE system. In the event that trade is rejected after submitting the trade entry, the designated principal will monitor for transactions that were re-submitted. All relevant documentation shall be properly recorded as evidence of review.

12.08 Dissemination of Transaction Information

In accordance with FINRA Rule 6750 (formally NASD Rule 6250), FINRA will disseminate information on all transactions in TRACE-eligible securities immediately upon receipt of the transaction report, except those transaction pursuant to Rule 144A as referenced below. (Ref. NTM 06-01; Effective Date January 9, 2006)

Rule 144A

FINRA will not disseminate information on a transaction in a TRACE-eligible security that is effected pursuant to Rule 144A under the Securities Act of 1933 (Ref. NTM 06-01; Effective Date January 9, 2006)

Note: FINRA has amended FINRA Rule 6750 (formally NASD Rule 6250) to eliminate all provisions for delayed dissemination and provide that information on all transactions in TRACE-eligible securities, except transactions executed pursuant to Rule 144A, be disseminated immediately. Therefore, broker/dealers that execute and report transactions in TRACE-eligible securities that are subject to dissemination delays under current subparagraphs (a)(1) and (2) and (b)(2)(A) and (B) of FINRA Rule 6750 (formally NASD Rule 6250) prior to the effective date of the amendments, FINRA will look to the date that the trade was executed and reported to determine the applicable dissemination protocol. Information about these transactions will not be disseminated until the period of delay has run. For broker/dealers that execute transactions in TRACE-eligible securities that are subject to dissemination delays under FINRA Rule 6750 (formally NASD Rule 6250) as referenced above prior to the effective date of the amendments, but report such transactions on or after the effective date, FINRA will look to the date that the transactions were reported to determine the applicable dissemination protocol, with the result that the information will be disseminated immediately upon receipt (Ref. NTM 06-01; Effective Date January 9, 2006)

Managing Underwriter Obligation to Obtain CUSIP

In accordance with *FINRA Rule 6760 (formally NASD Rule 6260)*, in order to facilitate trade reporting and dissemination of secondary transactions in TRACE-eligible securities, the member that is the managing underwriter or the members that are the group of underwriters of a distribution or offering, excluding a secondary distribution or offering, of a debt security that, upon issuance will be a TRACE-eligible security ("new issue"), must obtain and provide information to the TRACE Operations Center as required below. If a managing underwriter is not appointed, the group of underwriters must provide the information required under this rule. The information must be provided by facsimile or e-mail.

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For such new issues, the managing underwriter or group of underwriters must provide to the TRACE Operations Center: (1) the CUSIP number; (2) the issuer name; (3) the coupon rate; (4) the maturity; (5) whether Rule 144A applies; (6) a brief description of the issue (e.g., senior subordinated note, senior note); and, (7) information, as determined by FINRA, to implement the provisions of Rule 6250(a) and such other information FINRA deems necessary to properly implement the reporting and dissemination of a TRACE-eligible security, or if any of items (2) through (7) has not been determined, such other information as FINRA deems necessary. The managing underwriter or group of underwriters must obtain the CUSIP number and provide it and the information listed as (2) through (7) not later than 5:00 p.m. Eastern Time on the business day preceding the day that the registration statement becomes effective, or, if registration is not required, the day before the securities will be priced. If an issuer notifies a managing underwriter or group of underwriters, or the issuer and the managing underwriter or group of underwriters determine, that the TRACE-eligible securities of the issuer shall be priced, offered and sold the same business day in an intra-day offering under Rule 415 of the Securities Act of 1933 or Section 4(2) and Rule 144A of the Securities Act of 1933, the managing underwriter or group of underwriters shall provide the information not later than 5:00 p.m. Eastern Time on the day that the securities are priced and offered, provided that if such securities are priced and offered on or after 5:00 p.m. Eastern Time, the managing underwriter or group of underwriters shall provide the information not later than 5:00 p.m. Eastern Time on the next business day. The managing underwriter or group of underwriters must make a good faith determination that the security is a TRACE-eligible security before submitting the information to the TRACE Operations Center.

12.09 NSCC Specifications and Systems Interface to TRACE System

In an effort to achieve improved price transparency for OTC corporate bonds, FINRA has mandated reporting of interdealer (street side) and customer OTC corporate bond trades to its TRACE system.

FINRA, in an attached Letter on TRACE dated June 1, 2001, includes a specially developed reporting interface between NSCC and FINRA.

As outlined in *Important Notice A #5240* dated March 19, 2001, NSCC will streamline participants' trade submission to TRACE via an automated interface with FINRA. The NSCC developed the interface at the request of participants to accommodate compliance requirements with the trade-reporting mandate imposed by FINRA. NSCC's application eliminates the need for duplicate participant trade submission of street side trades and leverages existing data communications links to facilitate the reporting of customer trades. The NSCC corporate bond reporting flow will be similar to the process currently utilized for the reporting of municipal trades to the MSRB. In the event such an arrangement is applicable, one of the following reporting mechanisms may apply:

Reporting Mechanisms

Member firms will be able to choose from among several different mechanisms in order to meet their reporting obligations:

- Members may report directly through a computer-to-computer interface (CTCI). This method requires a dedicated line using the TCP/IP network protocol. It will be possible to send TRACE CTCI messages over an existing line that a member firm may use at this time to communicate with various Nasdaq reporting systems;
- Members may report manually through a secure Web-based application provided by FINRA.
- Vendors and service bureaus will be able to provide a reporting service for their clients by developing a CTCI interface and reporting on behalf of their clients;
- FINRA and the National Securities Clearing Corp. ("NSCC") have agreed that members may forward transaction reports to the NSCC, which will forward them to FINRA. NSCC and FINRA have developed a set of transaction layouts that build upon the layouts used by NSCC for Street-side transactions and upon the customer layouts used by the MSRB for municipal customer transaction reporting. The NSCC interface will allow members to transmit initial transaction reports for T-date and "as of" transactions; however, cancellations and corrections must be reported through the FINRA Web browser. The NSCC interface will also support regulatory reporting for those transactions not clearing/settling through NSCC (e.g., cash trades).

Implementation Strategy

In consideration of the reporting of interdealer (street side) and customer OTC corporate bond trades to the TRACE system, the clearing firm (NFS) has elected to forward transaction reports to the NSCC, which will forward them to FINRA. The NSCC interface will allow members to transmit initial transaction reports for T-date and "as of" transactions; however, cancellations and corrections must be reported through the FINRA Web browser. The NSCC interface will also support regulatory reporting for those transactions not clearing/settling through NSCC.

12.10 Compliance with TRACE Reporting Requirements

Compliance with Reporting Obligations

The Firm acknowledges that any pattern or practice of late reporting without exceptional circumstances may be considered conduct that is inconsistent with high standards of commercial honor and just and equitable principles of trade, in violation of FINRA Rule 2010 (formally NASD Rule 2110).

Therefore, pursuant to SEC Rule 10b-5 and FINRA Rule 2010 (formally NASD Rule 2110), no employee of the Firm shall directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange,

- Employ any device, scheme, or artifice to defraud;
- Make any untrue statement of a material fact or to omit to state a material fact; and
- Engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security;

Implementation Strategy

The designated principal will continuously monitor reported trades for TRACE eligible securities for any patterns or practice of reporting late trades through the TRACE system. All relevant documents referencing such a review shall be signed as evidence of completion.

Clock Synchronization Requirements

In accordance with FINRA Rule 6753 (formally NASD Rule 6953), Synchronization of Member Business Clocks, all members with an obligation under any FINRA rule to record the date and time of any event (such as the time of execution of a transaction under TRACE FINRA Rule 6710 (formally NASD Rule 6210(d)) and FINRA Rule 6730 (formally NASD Rule 6230(c)) must synchronize their business clocks, including computer system clocks and mechanical clocks. The clock synchronization requirements apply to all members with a time-reporting obligation under any FINRA Rule, and therefore apply to all members in reporting under the TRACE Rules. (Ref. NTM 02-76)