

TRACE Reporting: An Expanding Scope with Increasing Complexity & Enforcement

The growing need for a full, end-to-end reconciliation and validation process for FINRA's TRACE Reporting

Background

With the addition of new modifiers (e.g., S and H), proposed enhancements for Treasuries (see [Regulatory Notice 20-43](#)), and proposals to expand into other debt securities (see [Regulatory Notice 19-25](#)), FINRA has made it clear that firms should expect both the scope and complexity of TRACE Reporting to grow for many years to come. Another trend that's expected to continue is FINRA's enforcement activity against firms for TRACE Reporting violations, exhibited by a steady stream of disciplinary actions and hefty fines over the past year, particularly for recidivist firms. In addition, an SEC Enforcement Action last September involving only fixed income Blue Sheets highlighted the continued importance and increasing scrutiny of Blue Sheets for debt securities – particularly given that debt securities are not currently in scope for CAT or Blue Sheets retirement.

What does this mean for firms?

With firms reporting more transactions (across multiple product types) to TRACE and embedding increasingly complex logic to populate required modifiers / flags on TRACE reports, it's imperative that firms implement comprehensive control frameworks to continuously reconcile and validate their TRACE Reporting. For clearing firms, this also includes leveraging TRACE Reporting for cross-report validation with Blue Sheets and Rule 10b-10 confirmations provided to customers.

As with other daily reporting obligations, n-Tier's view is that periodic or sampling-based reviews are no longer adequate and that cross-report comparisons are essential, particularly as regulators devote more and more resources to data reconciliation and validation. A single issue, such as a missing modifier or flag, can go undetected for months and lead to an inquiry / self-report and potential enforcement action.

How n-Tier Can Help

n-Tier's daily, automated controls for TRACE Reporting are designed to ensure:

- All reportable transactions are reported to TRACE, particularly in securities pending setup / eligibility at FINRA.
- Transaction details are accurate and applicable modifiers / flags are populated.
- Transactions with the "non-member affiliate-principal transaction indicator" have a corresponding / offsetting transaction (e.g., for back-to-back workflows with affiliates).
- Execution (confirmation) times captured in VCONs are not earlier than the execution time reported to TRACE – a common FINRA examination tactic.
- Execution time differences (both > and < 15 minutes) and other differences (e.g., modifiers) with other dealers are identified.
- Detection of changes or deviations in TRACE reports (e.g., modifiers) and source data (e.g., presence of new trading books).
- Blue Sheet data is aligned with TRACE Reporting (for TRACE-eligible securities).
- Rule 10b-10 confirmations are aligned with TRACE Reporting (for TRACE-eligible securities).
- FINRA's Report Cards are consumed for analysis and linkage with the reconciliation and validation processes.

n-Tier's solution for TRACE Reporting can also be leveraged for MSRB Reporting and IIROC's MTRS Reporting.

Who We Are

n-Tier is an innovative financial technology company that couples deep industry expertise with a unique software platform to help institutions minimize the risks and costs associated with regulatory reporting.

Phone

646-846-3555

Email

sales@ntierfs.com

Online

www.ntierfs.com