

FINANCIAL INFORMATION FORUM

May 16, 2024

By electronic mail

Financial Industry Regulatory Authority, Inc.

1735 K Street, NW

Washington, DC 20006

Attn: Brendan Loonam, Senior Director, Transparency Services

Nawreen Sattar, Associate General Counsel, Office of General Counsel

Re: Implementation of the March 22, 2024 FINRA Trade Reporting Notice on Upcoming Trade Reporting Enhancements for Fractional Share Transactions

Dear Mr. Loonam and Ms. Sattar,

The members of the Financial Information Forum (“FIF”) appreciate the opportunity to provide input on the Trade Reporting Notice published by the Financial Industry Regulatory Authority (“FINRA”) on March 22, 2024, titled “Advance Notice: Upcoming Trade Reporting Enhancements for Fractional Share Transactions” (the “Trade Reporting Notice”).¹ According to the Trade Reporting Notice:

FINRA is planning to implement enhancements to the FINRA Facilities to support the reporting of fractional share quantities, which require associated updates to FINRA’s trade reporting guidance, as described in greater detail below. These enhancements are being made in coordination with the Unlisted Trading Privileges (UTP) and Consolidated Tape Association (CTA) Securities Information Processors (SIPs) to facilitate the dissemination of fractional share quantities for NMS stocks.²

In connection with the FINRA Trade Reporting Notice, the Securities Information Processors (“SIPs”) for the CTA (Consolidated Tape Association) Plan and the UTP (Unlisted Trading Privileges) Plan published updates to their respective technical specifications to provide for the receipt and dissemination of

¹ Trade Reporting Notice, Advance Notice: Upcoming Trade Reporting Enhancements for Fractional Share Transactions (Mar. 22, 2024) (“Trade Reporting Notice”), available at <https://www.finra.org/sites/default/files/2024-03/Trade-Reporting-Notice-032224.pdf>.

² Id. at 2.

trades with fractional share quantities.³ FINRA further notes in the Trade Reporting Notice that “Changes to FINRA’s Trade Data Dissemination Service (TDDS) data feed will be implemented in tandem with the ORF changes”⁴

FIF members support the initiative by FINRA to provide for the reporting of fractional share trades to the NYSE/FINRA and the Nasdaq/FINRA Trade Reporting Facilities (collectively, the “TRF”) and to the FINRA OTC Reporting Facility (the “ORF”). FIF members also support the initiative by the CTA and UTP Plan Participants to provide for the dissemination of fractional share trades through their respective SIPs. In this letter, FIF members provide input on the implementation process proposed by FINRA in the Trade Reporting Notice.

A. Reporting of fractional share trades to the TRF and ORF

Planned changes described in the Trade Reporting Notice

In the Trade Reporting Notice, FINRA describes the planned changes for TRF and ORF reporting:

Upon implementation of the enhancements to the FINRA Facilities to support fractional share reporting, FINRA will add a new “Fractional Share Quantity” field in addition to the existing “Quantity” field. Members will continue to populate the Quantity field as they do today using whole numbers (with fractional amounts either rounded up or truncated, as described above). However, for a transaction with a fractional component, members will also be required to populate the new Fractional Share Quantity field by entering the entire quantity of the trade, including the fractional component up to six digits after the decimal.

The Fractional Share Quantity field must remain blank for trades with whole number quantities (no fractional component). Therefore, members that do not engage in fractional trading will not have to make any reporting changes.⁵

During a call with FIF representatives on April 5, 2024, FINRA representatives explained that one reason for FINRA creating an additional field for reporting fractional share quantities -- as opposed to FINRA replacing the current quantity field with a quantity field that allows for reporting of fractions -- is to ensure that the many FINRA members that do not trade fractional shares are not required to update their current TRF and ORF reporting.

³ See, for example: CTS Consolidated Tape System Multicast Output Binary Specification, Version 2.10 (Mar. 28, 2024), available at https://www.ctaplan.com/publicdocs/ctaplan/CTS_Pillar_Output_Specification.pdf; CTS Consolidated Tape System Participant Input Binary Specification, Version 2.7 (Mar. 28, 2024), available at https://www.ctaplan.com/publicdocs/ctaplan/CTS_Pillar_Input_Specification.pdf; UTP Data Feed Services Specification, Version 2.0a, Revised - Fractional Share Trade Reporting Enhancement (Apr. 2024), available at [UTP Data Feed Services Specification \(utpplan.com\)](https://www.utpplan.com/Data_Feed_Services_Specification_(utpplan.com)); and UTP Participant Input Specification, Version 2.0a, Revised - Fractional Share Trade Reporting Enhancement (Apr. 2024), available at [UTP Participant Input Specification \(utpplan.com\)](https://www.utpplan.com/UTP_Participant_Input_Specification_(utpplan.com)).

⁴ Trade Reporting Notice, at 4 n.3.

⁵ Id. at 2.

Providing a single field to report quantity

Many FIF members believe that the most efficient approach would be to provide for one quantity field that would allow firms to report quantity either as a whole number (for a whole share trade) or as a decimal (for a fractional share trade). During the April 5 call noted above, FINRA representatives stated that FINRA was unlikely to adopt this approach given FINRA’s objective to ensure that the FINRA members that do not trade fractional shares are not required to update their current TRF and ORF reporting. Subsequent to the April 5 call, FIF members have discussed potential approaches for reporting fractional shares that would meet this objective stated by FINRA.

Reporting a quantity of 1 for trades that are less than one share

FIF members have significant concerns with the current TRF and ORF requirement for firms to report a quantity of 1 for trades that are less than one share. This reporting creates significant confusion and additional complexity for industry members and provides no regulatory benefit. The current approach also requires firms to report inaccurate data to FINRA. If FINRA were to redesign the TRF and ORF reporting systems, it would not provide for this approach for reporting. This approach is purely a response to historical technical limitations of the TRF and ORF reporting systems, as the TRF and ORF reporting systems were not initially designed to process fractional share trades.

While this reporting continues to be problematic, FINRA has understandably not mandated a change given the technical work that this would impose on industry members. However, given that industry members that trade fractional shares will now be required to upgrade their TRF and ORF reporting, now is the appropriate time to address this issue.

Potential alternative approaches that would allow for accurate reporting in the quantity field

In this sub-section, FIF members suggest that FINRA consider potential alternative approaches that would allow for accurate reporting of the quantity field for trades that are less than one share. We present below two potential approaches for how this could be implemented. Each of these alternative approaches also would achieve the stated objective of FINRA to ensure that the FINRA members that do not trade fractional shares are not required to update their current TRF and ORF reporting.

The best way to illustrate the approaches proposed by FIF members is to reference the reporting examples from the Trade Reporting Notice. Table 1 illustrates the reporting approach proposed in the Trade Reporting Notice.

Table 1

Executed Quantity	TRF/ORF Quantity Field (current field; will still be reportable)	TRF/ORF Fractional Share Quantity Field (new field)
100.5	100	100.5 [or 100.500000]
.5	1	.5 [or .500000]

Executed Quantity	TRF/ORF Quantity Field (current field; will still be reportable)	TRF/ORF Fractional Share Quantity Field (new field)
100.57327899	100	100.573278
1/3	1	.333333
10	10	[blank]

Table 2 illustrates one potential alternative reporting approach for FINRA to consider.

Table 2

Executed Quantity	TRF/ORF Quantity Field (current field; will still be reportable)	TRF/ORF Fractional Component Field (new field)
100.5	100	.5
.5	0	.5
100.57327899	100	.573278
1/3	0	.333333
10	10	.0

Table 3 illustrates a second potential alternative reporting approach for FINRA to consider.

Table 3

Executed Quantity	TRF/ORF Quantity Field (current field; will still be reportable)	TRF/ORF Fractional Share Quantity Field (new field)
100.5	100	100.5
.5	0	.5
100.57327899	100	100.573278
1/3	0	.333333
10	10	10.0

These alternative approaches are similar to the approach proposed by FINRA in the Trade Reporting Notice, but these alternative approaches address the historical problem of firms having to report a quantity of 1 for trades that are less than one share. Under all three approaches, a firm that only trades in whole shares would not need to make any changes to its TRF or ORF reporting (see, for example, the TRF/ORF Quantity Field in the last row of each table).

There are various potential formatting approaches for the proposed fractional fields in Tables 2 and 3. For example, for Table 2, reporting could include a decimal and optional trailing zeroes, or reporting could exclude a decimal and require that trailing zeroes be reported. For Table 3, trailing zeroes could be permitted in the same manner as set forth in Table 1. With respect to the proposed alternative approaches, FIF members request confirmation that the TRF/ORF Quantity Field would be able to accept a value of 0.

Reporting the TRF Fractional Share Quantity field for whole share trades

If FINRA decides to maintain the current mandate for firms to report a quantity of 1 for trades that are less than one share, FIF members request that firms, for whole share trades, be permitted (but not required) to report the actual share quantity in the TRF Fractional Share Quantity. For example, in the scenario illustrated in the last row in Table 1, a firm should be permitted to report a quantity of 10 in the Fractional Share Quantity field (in addition to reporting this value in the Quantity field).

Further discussion between FINRA and industry members

FIF members recommend that FINRA engage in further discussion with industry members on the potential alternative approaches described above and other potential approaches for reporting.

B. Request for guidance on clearing quantity

The Trade Reporting Notice is focused on the reporting of executed quantity to the TRF and ORF for trade dissemination purposes. Regardless of the approach that FINRA ultimately adopts for reporting fractional shares to the TRF and ORF, it is important for FINRA to provide written clarification (for example, through FAQs) as to how the reporting of fractional share quantities would impact clearing. For example, FINRA could take the examples from the tables above (which are based on the FINRA Trade Reporting Notice) and explain how FINRA would determine the clearing quantity for each example.

The Trade Reporting Notice includes the following statement: “Thus, any trade report submitted to FINRA Facilities with a fractional share component and reported as clearing, will be rejected.”⁶ If a trade execution has both a whole share component and a fractional share component, would the reporting firm be able to submit a single tape and clearing report with FINRA referencing the fractional share quantity field for dissemination and referencing the quantity field for trade settlement?

C. Implementation phases

FIF members have various concerns about the proposed implementation process. First, Footnote 7 of the Trade Reporting Notice provides that “FINRA may phase implementation of the fractional share reporting enhancements, for example to begin reporting for NMS stocks at an earlier date than for OTC Equity Securities.”⁷ If FINRA were to require fractional share reporting for NMS stocks prior to fractional share reporting for OTC equity securities, every industry member that trades fractional shares would need to code its reporting systems, on a temporary basis, to apply one logic for TRF reporting and a different logic for ORF reporting. Further, these industry members would then be required to update their reporting logic for ORF reporting at a later date.

A second concern for industry members is the proposed simultaneous implementation of the trade reporting changes and the required changes for firms processing data from the SIPs. Because the proper implementation of the SIP changes is dependent upon the proper implementation of the TRF and ORF

⁶ Id. at 4 n.5.

⁷ Id. at 4 n.7.

reporting changes, FIF members believe that the approach that best minimizes implementation risk is to implement the TRF and ORF changes prior to the SIP changes. FIF members also believe that risk can be reduced by implementing the SIP changes prior to implementing the proposed changes for processing of OTC equity trades received from the FINRA Trade Data Dissemination Service (“TDDS”).

To address the points above, FIF members recommend the following phases for implementation:

- Phase 1: fractional share reporting to the TRF and ORF
- Phase 2: changes to processing of SIP data
- Phase 3: changes to processing of TDDS data.

This approach would require additional work for FINRA because there would be an interim period during which FINRA would be receiving fractional share data through the TRF and ORF but continuing to only provide whole share quantities to the SIPs and TDDS.

FIF members would like to engage in further discussions with FINRA representatives to discuss potential implementation approaches. The objectives of these discussions would be to achieve the most efficient implementation of fractional share reporting and ensure appropriate management of the potential operational risks.

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Please contact me at howard.meyerson@fif.com after you and your colleagues have had the opportunity to review the comments and questions set forth above.

Very truly yours,

/s/ Howard Meyerson

Howard Meyerson
Managing Director, Financial Information Forum