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BROKER-DEALER

FINRA Requests Comment on Proposed Pilot Program to Study Changes to Corporate Bond Block Trade Dissemination

On April 12, the Financial Industry Regulatory Authority (FINRA) published a regulatory notice (the "Notice") requesting comment on a proposed pilot program to study proposed changes regarding corporate bond block trade dissemination based upon recommendations by the Fixed Income Market Structure Advisory Committee (FIMSAC) of the Securities and Exchange Commission. The changes are aimed at improving corporate bond block trade dissemination—mainly, by increasing block liquidity without imposing significant costs on market participants. Currently, FINRA's Trade Reporting and Compliance Engine (TRACE) provides information to the marketplace regarding corporate bonds and other debt securities. It is intended that the pilot program will study FIMSAC's recommendations to determine whether such recommendations can enhance current TRACE protocols.

The pilot program is expected to last one year and is designed to study two primary changes recommended by the FIMSAC:

1. an increase to the current dissemination caps for large corporate bond trades; and
2. a 48-hour dissemination delay for trades above the proposed caps.

The Notice discusses, among other items, current TRACE protocols, the FIMSAC recommendations, a description of the pilot program, an analysis of the pilot program's economic impacts and questions for comment on the pilot program. The comment period expires on June 11.

The Notice is available here.

SEC Approves FINRA Rule Change to Permit the Use of Electronic Signatures for Discretionary Accounts

The Securities and Exchange Commission has approved a proposed rule change to amend Financial Industry Regulatory Authority (FINRA) Rule 4512 (Customer Account Information) (the "Amended Rule"). For discretionary accounts, member firms are currently required to maintain a record of the dated, manual signature of each named, natural person authorized to exercise discretion in such accounts. The Amended Rule will allow for the use of electronic signatures in connection with discretionary accounts. A valid electronic signature would be any electronic mark that clearly identifies the signatory and is otherwise in compliance with the E-Sign Act, the guidance issued by the SEC relating to the E-Sign Act, and the guidance provided by FINRA staff through interpretive letters. The Amended Rule is consistent with the requirements of Securities Exchange Act of 1934 Rule 17a-3(a)(17)(ii) relating to discretionary accounts, which does not prescribe the type of signature that must be obtained from an authorized individual.

In addition, the Amended Rule clarifies that it applies only to discretionary accounts maintained by member firms for which associated persons of such firms are authorized to exercise discretion.

The Amended Rule goes into effect on May 6. FINRA's Regulatory Notice is available here.

DERIVATIVES

See "CFTC to Hold an Open Commission Meeting on April 23" in the CFTC section.

CFTC

CFTC to Hold an Open Commission Meeting on April 23

The Commodity Futures Trading Commission will host an open meeting at 10:00 a.m. on Tuesday, April 23, at which it expects to cover the following topics:

1. notice of proposed rulemaking regarding amendments to regulations on certain swap data depository and swap data reporting requirements;
2. notice of proposed rulemaking regarding amendments to derivatives clearing organization general provisions and Core Principles;
3. requirements applicable to swap dealers and major swap participants under UK law following a no-deal Brexit;
4. final rule amending regulations to conform to FAST Act provisions on privacy of consumer financial information; and
5. certification of the NIFTY 50 Index futures contract listed on the NSE IFSC Limited to be offered and sold to persons in the United States.

The meeting will be held at the CFTC's Washington, DC headquarters and is open to the public. More information is available here.

BREXIT/UK DEVELOPMENTS

See "CFTC to Hold an Open Commission Meeting on April 23" in the CFTC section.

FCA Extends Notifications Deadline for Temporary Permission Regime to May 30

On April 12, the UK Financial Conduct Authority (FCA) published amended directions, dated April 11, on notifications regarding the temporary permissions regime (TPR). Although the deadline for Brexit has been agreed upon by the United Kingdom and the 27 remaining EU member states as being no later than October 31, the amended directions extend the deadline for firms to notify the FCA if they wish to enter the TPR from April 11, to May 30. The TPR will go into effect upon Brexit taking effect, if there is no transition period (as reported in the January 11, 2019 edition of the *Corporate & Financial Weekly Digest*).

The five amended directions apply to:

1. EEA firms with passporting rights and Treaty firms;
2. EEA UCITS and EEA alternative investment funds (AIFs); and
3. EEA authorized payment institutions, EEA registered account information service providers and EEA authorized electronic money institutions.

The FCA has updated its TPR webpage for inbound passporting EEA firms and funds in order to reflect the notification window extension. The webpage states that any fund managers that wish to update their notification because of the extended deadline, should send an email, with their firm's reference number, to the FCA by the end of May 16.

The FCA also updated its guide for fund managers on how to notify the FCA of the full list of inbound passporting EEA investment funds they wish to continue marketing in the United Kingdom following Brexit.

The FCA's updated webpage is available here and its updated guide is available here.

The FCA's amended directions for:

1. EEA firms with passporting rights and Treaty firms is available here;
2. EEA UCITS funds is available here;
3. EEA AIFs is available here;
4. EEA authorized payment institutions and EEA registered account information service providers is available here; and
5. EEA authorized electronic money institutions is available here.

FCA Publishes Market Watch Newsletter on Transaction Reporting Issues and Market Conduct

On April 17, the UK Financial Conduct Authority (FCA) published issue 59 of its *Market Watch* newsletter. In this issue, the FCA details its findings on the implementation of the revised Markets in Financial Instruments Directive (MiFID II) and the Market Abuse Regulation (MAR).

The topics and related examples of issues are:

1. Transaction reporting observations: The FCA's Markets Reporting Team has identified a variety of issues concerning data quality when firms submit reports of transactions they have executed. Key areas of concern and related examples in the FCA's newsletter are:

    a. systems and controls—some market participants may not be aware that they can request samples of their transaction reporting data, or may not be conducting sufficiently thorough reconciliation;
    b. reporting trade price, time and venue—the FCA continues to see errors in transaction reports when UK clocks transition to and from British Summer Time, as well as errors driven by inaccurate clock synchronization;
    c. party identifiers—a number of firms have misreported the buyer as the seller and vice versa;
    d. instrument reference data—some trading venues and systematic internalizers do not always submit instrument reference data within the timeframe required; and
    e. errors and omissions—some firms failed to cancel, correct and resubmit corrected transaction reports to the FCA.

    The FCA advises investment firms, trading venues and approved reporting mechanisms to take note of the FCA's observations and ensure that they have appropriate arrangements in place.

2. Telephone recording and retention: Some firms have not properly ensured that conversations are being recorded, even though they have installed telephone-recording systems. The FCA reminds firms of the importance of ensuring that they have systems in place to record telephone conversations. Firms also are reminded that they may find it valuable to use telephone recordings as part of their market abuse surveillance program.

3. Use of client codes: Some trading venues have not collected the full client identification code when an order is received. The FCA reminds firms that inaccurate transaction and order data affects the FCA's ability to maintain the integrity of UK financial markets, which is one of its statutory objectives.

Market Watch 59 is available here.

For additional coverage on financial and regulatory news, visit *Bridging the Week*, authored by Katten's Gary DeWaal.

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BREXIT/UK DEVELOPMENTS

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