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FINANCIAL MARKETS LITIGATION AND ENFORCEMENT ADVISORY

FINRA Proposes Trade Reporting Requirements for OTC Options Transactions

September 7, 2022

The Financial Industry Regulatory Authority (FINRA) released Regulatory Notice 22-14, which proposes to establish new trade reporting requirements for certain over-the-counter (OTC) options transactions. Listed options are traded through registered options exchanges, while OTC options are traded directly by the parties to the option contract. In some instances, OTC options have terms that are identical or substantially similar to a listed option (there can be both OTC and listed options on the same underlying security).

While FINRA has access to data on all listed options transactions, there is currently no requirement to report all OTC options transactions even where the OTC options are virtually identical to listed options. Firms are required to report certain data for large positions in both OTC and listed options under Rule 2360 (large options positions reporting (LOPR)). FINRA has inferred from LOPR data that OTC options trading activity is significant and explains in the Notice that available LOPR data on OTC transactions does not identify critical data points that would be helpful for surveillance purposes, including the price and time of individual transactions.

FINRA has, therefore, proposed requiring firms to report OTC options transactions that are puts or calls on listed underlying securities. The proposal is limited to options with terms that are identical or substantially similar to listed options. FINRA's proposal would require firms to report a trade in an OTC option where:

- there is a listed option on the same underlying security or the OTC option is overlying one or more US-listed securities;
- the option type is a put, a call or an option type related to a put or a call; and
- the exercise style is one of the following: American, European, Asian, Cliquet or Binary.

For OTC options trades that fit the above criteria, firms would be required to report the time and date of execution, the option strike price and expiration date, among other data points. Under FINRA's proposed rule, firms would be required to submit OTC options trades in batch form on a daily basis for both new and amended trades. In the event of an error in reporting, firms would have five days to correct the OTC trade report, which is consistent with the correction timeframe in the LOPR system. Firms also would be required to report when the option is exercised. At this time, FINRA does not anticipate publicly disseminating collected OTC options transaction data.

As a reminder, FINRA is accepting comments on this proposal through September 20. Regulatory Notice 22-14 and public comments submitted to date are available here.

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9/7/22