

What Is A TRF And Why Are They Important?

Evolution of Markets

The Philadelphia Stock Exchange, founded in 1790, is the oldest stock exchange in the United States. Roughly thirty years later, in 1817, the New York Stock Exchange was formally established, and, nearly 154 years after that, in 1971, the National Association of Securities Dealers Automated Quotations (Nasdaq) became the world's first electronic stock exchange. Much has changed over the more than 200 years of exchanges operating in the United States, but one thing has remained constant: The purpose of exchanges is to bring together those who need capital with those who are looking to invest in a fair and equitable manner.

However, as the marketplace expanded with trading between broker-dealers and the introduction of Alternative Display Facilities (ADFs), the market needed a mechanism to provide reliable and efficient trade data to all investors to continue to support a fair marketplace.

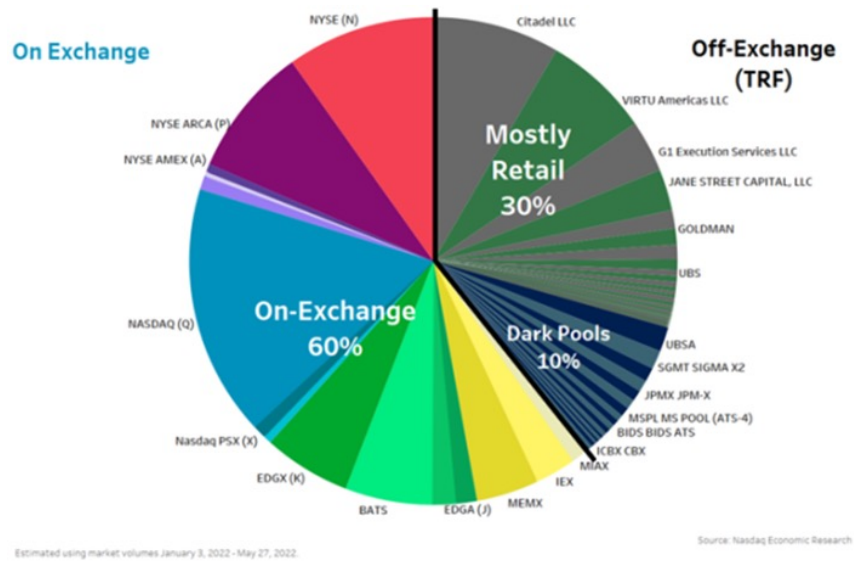
What is a TRF?

TRF stands for Trade Reporting Facility, and they were created in the early 2000s as a venue for ADFs to report trades to satisfy regulatory obligations. In the United States, brokers executing away from the exchanges must report their trades to one of the three active TRFs: FINRA/Nasdaq TRF Carteret, FINRA/Nasdaq TRF Chicago, and FINRA/NYSE TRF.

Each TRF provides a means for trade reporting, however, the FINRA/Nasdaq TRFs also provide other valuable features such as real-time trade reporting and reconciliation, automatic trade submission to Security Information Processors (SIP), trade compliance monitoring tools, and front-end trade management software. All these tools, in addition to fee structure and transactional credits, lead to the conclusion that the FINRA/Nasdaq TRFs are the predominant partner in the TRF space, and therefore increase the attractiveness of Nasdaq's proprietary products as they are a component of top of book feeds such as Nasdaq Basic and Nasdaq Last Sale.

Why are TRFs so important?

The mandate to report off-exchange trades to a TRF is crucial in today's markets, given the high percentage of trading off-exchange which, as shown in the chart below, is around 40% of total trading volume..

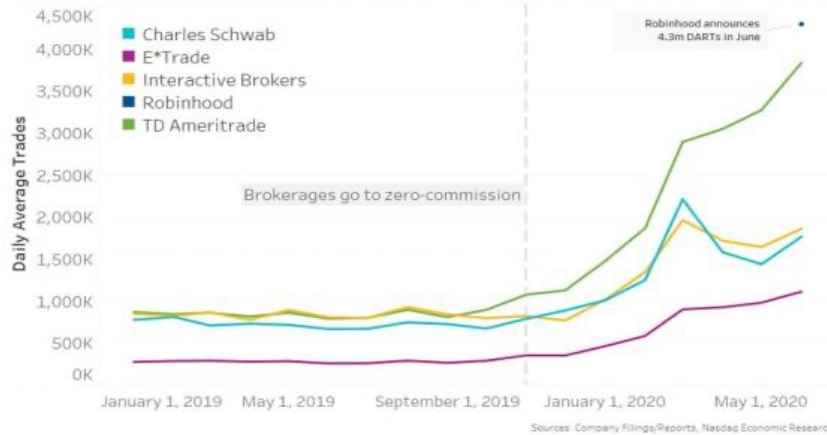


* <https://www.nasdaq.com/articles/the-third-annual-interns-guide-to-the-market-structure-galaxy>

To fully understand the value in off-exchange visibility, we must first understand the two major sub-divisions of off-exchange trading: dark pools and retail wholesalers. Dark pools are a type of alternative trading system (ATS) that gives investors the opportunity to place large “block” orders without signaling their position to the public market, allowing them to participate in the market without creating drastic swings due to the size of the order. Retail wholesalers focus on large internalization of order flow from the retail market. Given the trend of increased retail order flow, in part driven by the COVID pandemic, zero commission and fractional shares, as visualized below, it is easy to understand the need to access this retail flow. Another interesting point to consider when evaluating the value of off-exchange trading is the concentration of off-exchange trading within the retail market. Retail trading orders are often very small (in dollars) and are concentrated in smaller-cap stocks. Depending on the stock, off-exchange volume could be as high as 50% or higher.

Daily Average Trades by Major Retail Brokerages

Notes: E*Trade definition of DARTs adjusted in November 2019 to reflect all customer-directed trades. Schwab monthly value estimated from weekly client trading activity report (13 weeks). Schwab value includes revenue, asset-based, and other trades (See The Charles Schwab Corporation Recent Client Trading Activity Report for more detail). Interactive Broker values based on Monthly Brokerage Metrics report. TD Ameritrade values based on latest Monthly Metrics report. Data from January 2019 through June 2020.



* <https://www.nasdaq.com/articles/the-calm-during-the-storm%3A-an-unusual-summer-of-trading-2020-08-13>

What does this mean for me and my market data provider?

Nasdaq is the leader in the TRF data space, when compared to the remaining TRF (NYSE), as stated above. Nasdaq proprietary products, through Nasdaq Basic and Nasdaq Last Sale, provide the trades reported in the jointly operated TRFs with FINRA: FINRA/Nasdaq TRF Carteret, and FINRA/Nasdaq TRF Chicago, which together account for around 35% of the total volume traded in the United States, as compared to FINRA/NYSE TRF, which is typically below 10%. CBOE does not currently operate a TRF. Nasdaq's continued offering in the TRF space strengthens the value of Nasdaq proprietary products.

Next Steps:

If you have any questions around our data offerings, please reach out to our Account Management team at dataapac@nasdaq.com. In conjunction, a list of frequently asked questions regarding the TRF can be found [here](#).

