

FINANCIAL INFORMATION FORUM

5 Hanover Square
New York, New York 10004

212-422-8568

October 22, 2014

Mr. Stephen Luparello
Director, Division of Trading and Markets
Securities and Exchange Commission
100 F Street, NE,
Washington, DC 20549-1090

Mr. David Shillman
Associate Director, Division of Trading and Markets
Securities and Exchange Commission
100 F Street, NE,
Washington, DC 20549-1090

Re: Rule 605/606 Enhancements from a Retail Perspective

Dear Mr. Luparello and Mr. Shillman,

The Financial Information Forum (FIF)¹ would like to take this opportunity to provide recommendations regarding Rule 605 and Rule 606 in order to make these disclosures more useful to the retail marketplace. In developing these recommendations the FIF Rule 605/606 Working Group (“FIF”) sought to address changes in market structure as well as the need for even stronger transparency for the retail investor. The objective of these recommendations is to allow for meaningful comparison and analysis of Rule 605 and Rule 606 data from the retail perspective.

The remainder of this document outlines recommendations for modifications to Rule 605 and Rule 606 followed by recommendations to increase the accessibility of these statistics for retail investors.

Rule 605 Recommendations

Modify definition of “Categorized by Order Size” (Rule 600(b)(10)) to include Odd-Lots

FIF recommends expanding the definition of “Categorized by Order Size” to include a separate category from 1 – 99 shares to allow for reporting of odd-lots. While odd lots may not represent a high percentage of executed share volume, they do represent a high percentage of incoming executed order volume. FIF members believe retail investors account for a notable portion of odd-lot trades in the marketplace and support the idea of enhancing transparency in this area.

¹ FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the financial technology industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

Segregate Immediate or Cancel (IOC) Orders from Rule 605 Execution Quality Statistics

The definition of a “Covered Order” as stated in Rule 600(b)(15) states that covered orders include “any market order or any limit order (including immediate-or-cancel orders).” FIF supports the inclusion of immediate or cancel orders in Rule 605 statistics but believes that IOC orders should be reported separately from other covered orders. IOC orders typically represent institutional order flow and may skew the statistics from a retail perspective. By segregating IOC orders in Rule 605 reporting firms would be able to better understand the role of IOC orders in a market center’s execution quality statistics. While this would increase the number of columns in the Rule 605 report, we believe this would enhance the ability to provide a more meaningful comparison across market centers.

Add “Quoted Spread” as a Metric to Rule 600 Definitions and Rule 605 Data Elements

FIF recommends the addition of “Quoted Spread” to the definitions in Rule 600(b) as well as a required data element in Rule 605(a). Quoted Spread would be defined as the prevailing National Best Bid or Offer (“NBBO”) at the time a market center receives an order. By adding this statistic to Rule 605 reports, those researching would have the ability to calculate effective over quoted spread (EQ) as well as spread capture metrics.

Add “Enhanced Liquidity” as a Metric to Rule 600 Definitions and Rule 605 Data Elements

FIF recommends the addition of “Enhanced Liquidity” to the definitions in Rule 600(b) as well as a required data element in Rule 605(a). Enhanced Liquidity would be defined as follows: For marketable orders with size greater than the available shares displayed at NBBO at the time a market center receives an order, the total number of shares executed at or better than the NBBO / Total number of shares displayed at NBBO at the time a market center receives an order.

Address Time Stamp Concerns in Conjunction with Required Changes to Clock Synchronization

FIF recognizes that there is no standardized way to assign an NBBO for orders received during the same second when the NBBO changes multiple times within a second. FIF believes that addressing this issue will go a long way to improving the consistency of Rule 605 statistics. Once time stamp granularity to the millisecond is an industry requirement as mandated in Rule 613², FIF recommends that Rule 605 adopt a standardized approach that requires market centers to reference the NBBO from the closest millisecond prior to the receipt of a covered order. We believe updates would be required to Rule 605 FAQs as well as the required data elements of Rule 605.

Additional Discussion Topics

FIF has also discussed the inclusion of options in Rule 605 statistics. While the group believes execution quality statistics on options would be useful, additional discussion is required in order to determine the best approach to reflect the unique nature of the options market (e.g., differences in quoting increments based on the penny pilot).

² Rule 613 requires clock synchronization four months after the effectiveness of the CAT NMS Plan. It is our understanding that timestamps will be to the millisecond with a clock synchronization requirement within 50 milliseconds.

Rule 606 Recommendations

Modify Rule 606(a) to divide NMS Stock data into Two Separate Sections – S&P 500 Stocks and Other Exchange-Listed Stocks

With the introduction of automated trading centers and smart order routing as a result of Regulation NMS, order routing practices are no longer based on listing market. FIF recommends creating new sections based on categorizations that are more meaningful to retail investors, specifically S&P 500 Stocks and Other Exchange-Listed Stocks.

Modify Rule 606(a) to include New Section for non-NMS Stocks (“OTC Equity Data”)

While a small percentage of order flow, retail brokers receive a disproportionate number of questions on OTC equities compared to the size of the OTC equity market. FIF recommends adding a section on OTC Equities in order to increase transparency with respect to OTC Equity routing practices.

Limit the Use of the Other Category

Currently every order that is not a market or limit order falls into the “Other” bucket. FIF believes there is an opportunity to increase transparency on order routing practices by making the following changes:

- **Remove market open/close orders from the “Other” category and list separately:** Market Open/Close Orders would be defined as orders executed at a market opening price or a market closing price.
- **Remove stop orders from the “Other category” and list separately:** Stop/Stop on Quote³ orders would be defined as orders submitted with stop prices based on either last sale or quotes. We would expect the Stop/Stop on Quote order category to include stop and stop limit orders.
- **Place Odd Lots in the appropriate category as opposed to the “Other” Category:** Based on order attributes, odd lots would fall into the market, limit, market open/close, stop/stop on quote, or other category.

See Figure 1 for a sample layout of enhanced Rule 606 reporting.

Consistently Identify Routing Destination

In order to improve consistency and allow for comparison across Rule 606 reports, FIF recommends the following measures:

- Need to establish a consistent naming convention for consolidators and other routing destinations.
- For options, destination should be defined as the destination where the BD routes an order as opposed to where the execution occurred (e.g., reporting the consolidator as opposed to the exchange where order was executed).

Inclusion of FAQs and Definitions

To assist retail investor understanding of Rule 606 and proposed enhancements, FIF also recommends the inclusion of a set of FAQs and definitions to explain each data element.

³ See FINRA Rule 5350 , Supplementary Material .01

Figure 1. Sample Rule 606 Enhanced Layout

S&P 500 Stocks

Venue	Total (%)	Supporting Data				
		Market Orders	Limit Orders	Open/Close Orders	Stop/Stop on Quote Orders	Other Orders
Total						
A						
B						
C						
D						

Other Exchange-Listed Stocks

Venue	Total (%)	Supporting Data				
		Market Orders	Limit Orders	Open/Close Orders	Stop/Stop on Quote Orders	Other Orders
Total						
A						
B						
C						
D						

OTC Equities

Venue	Total (%)	Supporting Data		
		Market Orders	Limit Orders	Other Orders
Total				
A				
B				
C				
D				

Listed Options

Venue	Total (%)	Supporting Data		
		Market Orders	Limit Orders	Other Orders
Total				
A				
B				
C				
D				

Improving Accessibility of Rule 605 and Rule 606 Data for Retail Investors

While Rule 605 and Rule 606 reports are publically accessible, there is not a central repository of this information that allows for comparative analysis geared towards the retail investor. FIF recommends that the SEC include publicly available Rule 605 and 606 data as part of its data visualization tool⁴. We believe industry averages or aggregate statistics could be calculated based on Rule 605 data. Additionally, the inclusion of FAQs and definitions provides the opportunity to increase retail investor understanding of order routing and execution quality statistics.

We appreciate the opportunity to share our recommendations to date. The FIF Rule 605/606 WG continues its discussions and we look forward to further dialogue with the Commission in the coming months.

Regards,



Manisha Kimmel
Managing Director
Financial Information Forum

cc: The Honorable Mary Jo White, Chairman
The Honorable Luis A. Aguilar, Commissioner
The Honorable Daniel J. Gallagher, Commissioner
The Honorable Kara M. Stein, Commissioner
The Honorable Michael S. Piwowar, Commissioner

Daniel M. Gray, Senior Special Counsel, Division of Trading and Markets
Theodore Venuti, Senior Special Counsel, Division of Trading and Markets
Gregg E. Berman, Associate Director, Office of Analytics and Research

⁴ <http://www.sec.gov/marketstructure/datavis.html#.VDu5YhY0-uk>