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Securities and Exchange Commission  
100 F St. NW  
Washington, DC 20549-9303  
[Rule-comments@sec.gov](http://Rule-comments@sec.gov)

File No. S7-11-10

Dear Securities and Exchange Commission:

Here are my comments on the proposed consolidated audit trail:

Our market regulators have a duty to monitor trading in order to detect violations such as inside trading, wash sales, and so forth. Our regulators also need a better understanding of market functioning in order to be able to understand phenomena such as the “flash crash” of May 6, 2010.

Regulators need to know two basic things. 1) who placed orders and traded, and 2) how they placed orders and traded. The basic purpose of the proposed consolidated audit trail is to develop this information.

**Four billion dollars is too much. The regulatory needs can be met in a much cheaper manner.**

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<sup>1</sup> I am also a public member of the boards of the Edga and Edgx exchanges. These comments reflect my own views and not necessarily those of the Edga or Edgx exchanges or Georgetown University.

I worked extensively with OATS data and NASDAQ trade report data during my time as a Visiting Academic Fellow at the NASD. It is my opinion that the regulatory needs can be met in a far more cost effective manner than the current proposal with some minor extensions to existing data feeds.

**Trader IDs should be added as a nonpublic field to the trade reports.**

The industry reports trades to the consolidated tape through the SROs. It would be relatively simple and cheap to add four fields to each trade report that would contain the account numbers of the buyer and seller and the Market Participant Identifier (MPID) for the original order entry firms. For example, in addition to time, ticker, quantity, and the other data currently in the trade report feed, the trade reports would contain the MPIDs of the firms that originated the buy and sell orders, along with account numbers for the ultimate customers.

These identifying fields would be nonpublic fields that would go only to FINRA and the SEC. FINRA and the SEC would then have real time data on who executed trades. Data vendors and the general public would NOT get to see these feeds. When a suspicious pattern is encountered, it would be fairly simple for the regulators to acquire further information about the customer from the brokerage firm.

**OATS should be modified and extended to all NMS stocks.**

The trade reports only indicate that a trade took place. Such reports with trader identification information would be sufficient for identifying insider trading suspects. However, it would not be sufficient to identify other types of market manipulation such as quote stuffing.

The Commission noted in the release that there are holes in OATS reporting, such as when an order is routed to an exchange. It is easy to fix this hole by requiring exchanges to report to OATS as well. Additional fields should be included to identify the customer placing the order, identical to the trader ID fields in the trade reporting. The time stamps should be extended to milliseconds if not microseconds, and the clock synchronization rules need to be tightened.

The reporting infrastructure for OATS is already in place. It would be fairly simple to extend OATS reporting to all NMS stocks as well as other financial instruments. I suspect that most responding firms have a line of code in their internal reporting software that says "IF this is a NASDAQ stock, THEN report to OATS". All that is needed is to modify that line to report additional items to OATS.

FINRA is already the repository of the OATS data, so there is no need for the creation of an additional repository.

**Order type is essential in the data.**

I was dismayed to read that the Commission does not think that order types and special handling instructions are needed for the order data. This information is essential for any attempts to use the order

data to reconstruct the state of the limit order book at any point in time. That the Commission would even think of not including requests for this information demonstrates a shocking lack of understanding of the markets.

**End of day is good enough for the OATS data.**

While the OATS data are extremely useful for understanding market behavior and for searching for various violations, these data are not really needed for real-time surveillance. Real-time surveillance is generally focused on the question of whether or not some change needs to be take place immediately, such as halting a stock pending a news announcement. The extensive OATS data regarding the handling of individual orders are more useful for economic analysis and enforcement activities and do not need to be reported in real time.

**Why create a new NMS plan? A new NMS plan is unnecessary.**

I do not understand why a new NMS plan is needed for this, given all of the governance issues with NMS plans. The Commission can get most of what it needs with a few tweaks to the existing trade reports and by extending OATS to cover all NMS stocks and executions at exchanges.

**Academic research should be permitted.**

Academic researchers should be permitted to access the data with appropriate safeguards to protect the privacy of customer information. The data will undoubtedly permit a better understanding of the markets. Permitting scholars to work with the data will help to promote understanding of the markets and this will lead to better policy decisions and thus more fair and orderly markets.

Respectfully submitted,

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