



November 12, 2013

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Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File Number SR-FINRA-2013-042
Proposed rule changes to FINRA Rule 4552 and amendments to FINRA Rules 6160, 6170, 6480 and 6720

Dear Ms. Murphy,

The Security Traders Association (“STA”) welcomes the opportunity to comment on proposed rule changes (“ATS Filing”) to: (i) FINRA Rule 4522 to require each alternative trading system (“ATS”) to report to FINRA weekly volume information and number of trades regarding securities within the ATS; and (ii) amend FINRA Rules 6160, 6170, 6480, and 6720 to require each ATS to acquire and use a single, unique market participant identifier (“MPID”) when reporting information to FINRA. FINRA will make the reported volume and trade count information for equity securities publically available on its website.

The STA is an organization comprised of individuals who are involved in the trading of financial securities. Our members represent many of the business models in the financial services sector, including full and discount service broker dealers, agency only broker dealers, asset managers, exchanges and ATSS. Because of the diversity within our membership we are uniquely qualified to provide insight and comments on the ATS Filing. The STA uses a Committee structure to vet issues amongst its various constituencies to create bottom-up consensus. With regard to the ATS Filing, the STA utilized its Institutional Committee, which is comprised solely of traders from institutional asset managers, and Trading Issues Committee: Equities, which is comprised of individuals from broker dealers with varying business models. We highlight these points because the views expressed in this letter include those from a broad spectrum of market participants who are both contributors to and potential users of the information the ATS Filing is seeking to obtain and disseminate in the public domain.



Over the course of our eighty year history, the STA has written comment letters and special reports on market structure issues. This library of material provides STA an historical perspective on market structure and serves as a vital resource when formulating views on current issues. The STA has long held the position that markets evolve and that by following basic principles to drive future market structure, the promise of the National Market System (“NMS”) on behalf of investors can be fulfilled.

General Comments:

A. Retrospective review

There are certain questions in the ATS Filing which cannot be answered due to the lack of empirical evidence available. Rule making based on empirical data is a fundamental principle STA believes in and we therefore recommend that a second comment period, 12 months after an implementation date, be part of a final ATS Filing. A comment period 12 months after an implementation date would allow market participants to provide informed input based on empirical data.

Some of the specific items that would be better addressed in a second, post- implementation comment period which cannot be definitively answered at this time include the following questions:

- Has the rule change enhanced FINRA’s regulatory and surveillance efforts by obtaining information gathered under the ATS Filing?
- Is the rule imposing minimal burdens or costs on firms? In particular those firms who operate multiple ATSs?
- Should firms who operate an ATS continue to be required to provide reports on trade information FINRA receives real-time via that firm’s unique MPID?
- Have the disclosure timeframes resulted in damaging information leakage to investors?
- Would shorter reporting and disclosure timeframes contribute positively to overall market efficiencies in such areas as liquidity, cost and the dampening of unnecessary volatility?



- Are the terms and conditions of the charging model, if any, consistent with its stated goals?

Adding a retrospective review with the characteristic of a second, post-implementation comment period would better ensure the goals of the ATS Filing are achieved.

B. Regulatory Induced Transparency

When transparency is driven by regulatory mandates versus market forces, it is critical for regulators to balance the explicit costs of gathering, verifying and disseminating the information which contributes or detracts to transparency, as well as the implicit costs that may arise through a change in behavior by market participants. Transparency is not free and seeking full, real-time transparency should not be a goal for a regulator. Transparency should be measured by how it contributes, or detracts, from liquidity, costs of trading and volatility.

C. Support for the ATS Filing with specific areas of input

STA commends FINRA for undertaking this initiative to provide a uniform framework for reporting volumes executed on an ATS. We recognize that FINRA in its role as a regulator is uniquely positioned to obtain this information and verify its content. The combination of the standardization and veracity of the information best ensures the data is viewed as credible in the public domain and with all authorities responsible for overseeing the financial markets.

STA supports the goals and general approach of the ATS Filing, however, there are specific areas where we offer input in the spirit of seeing the ATS Filing has the best opportunity to succeed in the short and long term, while avoiding unnecessary costs to the industry.

These areas include:

- Requiring firms to provide the aforementioned reports to FINRA over an extended period of time is duplicative of the information available to FINRA in the reporting regime created by the ATS Filing.
- Initially, reporting information time periods should be uniform for all securities and disseminated with a high level of detail on a conservative time frame.



- Changes to time periods for reporting and disseminating trade information, along with the levels of granularity in trade data, should be considered after a second comment period twelve months after the implementation.
- Harmonizing the reporting requirements and dissemination of all Trade Reporting Facility (“TRF”) volumes should be a goal of regulatory authorities.
- Terms and conditions by which FINRA be allowed to charge for the information obtained under the ATS Filing need more vetting.

1. Requiring firms to provide the aforementioned reports to FINRA over an extended period of time is duplicative of the information available to FINRA in the reporting regime created by the ATS Filing.

The ATS Filing requires firms who operate an ATS to obtain a unique market participant identifier (“MPID”) to report volumes by total shares and number of trades done within their ATS. Under such a reporting regime, FINRA, as operator of the Trade Reporting Facility (“TRF”) will receive the trade information sought under the ATS Filing on a real time basis. Consolidating this information into a final form suitable for dissemination will require a new work flow for FINRA. It is reasonable to expect that FINRA will want to verify the accuracy of the information obtained through a consolidating process. STA believes that requiring firms who operate an ATS to provide reports similar to those FINRA seeks to design on its own, is a reasonable approach in verifying information. However, STA believes that once FINRA has received verification on the accuracy of its reports, the impacted firms should no longer be required to produce such reports to FINRA. Allowing this requirement to exist creates unnecessary costs because the information is duplicative.

2. Initially, time periods for reporting information should be uniform for all securities and disseminated with a high level of detail on a conservative time frame.

- a. Reporting volumes.

Today, the firms who would be subject to the reporting requirements of the ATS Filing are gathering and disseminating, in varying degrees, the trade information which would be required



by the ATS Filing. These firms gather and disseminate trade information for reporting Rules 605 and 606 under the Order Handling Rules, as well as to certain third-party, private enterprise firms who then bundle the information and sell it under varying terms. In these arrangements, the reporting firms produce their monthly trade information based on all securities. STA believes that the reporting requirements under the ATS Filing should be consistent with this industry practice to avoid costs associated with creating and monitoring new work flows.

We therefore recommend that firms report their monthly volumes in all securities to FINRA within 7 business days after the last settlement date of each month. We believe seven (7) business days would account for holidays which could shorten a reporting window.

b. Dissemination of information

Assuming firms are allowed to report monthly trade information within seven (7) business days of the last settlement date of each month, STA believes that a uniform standard for disseminating the information gathered under the ATS Filing be two calendar weeks from the reporting deadline. In our view, a two calendar week delay should avoid a possibility of damaging trade information leakage of large orders.

c. Trade detail

Initially, trade detail, both share volumes and number of trades should be publicized at a high level: total shares and total trades by security for the month by ATS.

3. Changing any time periods for reporting and disseminating trade information and the levels of granularity in the trade data should be considered after a second comment period or retrospective review.

STA believes the time periods for reporting and disseminating trade information, along with the level of granularity outlined in our comments, are suitable for an initial implementation. However, STA believes a secondary comment period will be integral in judging whether the desired goals of the ATS Filing are being achieved with respect to the initial reporting and disseminating time periods and the granularity of trade detail. We therefore recommend the initial time periods and granularity be reviewed twelve (12) months after an implementation date. Changes at that time will be based on empirical data.



4. Harmonizing the reporting requirements and dissemination of all TRF and exchange “dark volumes” volumes should be the goal of regulatory authorities.

As stated previously, STA commends FINRA for undertaking this initiative to provide a uniform framework for reporting ATS volumes. We also recognize that FINRA in its role as a regulator is uniquely positioned to obtain this trade information and verify its content. The combination of standardization and verification, coupled with making it available to all investors, will contribute to investor confidence and foster more efficient markets. Given the fact that ATSs contribute to a portion of all volume reported to the TRF, while also recognizing that FINRA has limited regulatory authority over other participants who report trades to the TRF, STA recommends that the Securities and Exchange Commission design a plan which would harmonize the reporting and dissemination of all “dark” trade activity regardless of whether it trades on or off exchange.

5. Terms and conditions by which FINRA be allowed to charge for the information obtained under the ATS Filing need more vetting.

There is meaningful support amongst market participants that FINRA, with its unique regulatory position and ability to standardize and verify the information, be the entity which collects and disseminates information under the ATS Filing. In addition, market participants acknowledge that FINRA will incur costs for taking information it will receive on a real time basis, and consolidating and disseminating that information into the public domain in such a way that it can be interpreted and digested in a productive way. It is also reasonable for FINRA to recoup these costs.

However, there is not a consensus among market participants regarding the terms and conditions by which FINRA would charge for the data. One reason for this is that there is not an understanding of the goals FINRA in charging for reports generated from the information obtained under the ATS Filing.

If the goal is to strictly recoup the costs associated with the ATS Filing, then market participants are more apt to accept the terms and pricing set forth in the ATS Filing so long as these terms and conditions are reviewed 12 months after implementation.

If the goal is to earn a return on any capital committed to ATS Filing, then we respectfully ask that the ATS Filing not move forward until a means which allows for private sector involvement be designed.



D. Conclusion

STA is supportive of FINRA undertaking this initiative. Our comments and criticisms are in a spirit of best ensuring the ATS Filing succeeds both initially and long term, with a fair cost to firms and a low risk to unintended negative consequences.

STA believes that a retrospective review with a second comment period will improve the likelihood the ATS Filing achieves its stated goals and expedite its initial design. Furthermore, STA believes that if a retrospective review was proposed in the initial ATS Filing, market participants with minor differences of opinion would be more apt to resolve or settle such differences by allowing empirical data, which is only available at a later date, to design the final outcome of the rule.

Empirical evidence, rather than theory or conjecture, should determine a rule's design. Unfortunately, such evidence is not always available during the initial comment period of a proposed rule. STA therefore recommends that all regulatory entities involved in rulemaking implement some form of retrospective review in all new rule filings.

Sincerely yours,

A handwritten signature in black ink that reads "Thomas M. Carter". The signature is written in a cursive style with a large, prominent "T" and "C".

Thomas M. Carter
Chairman of the Board

A handwritten signature in black ink that reads "James Toes". The signature is written in a cursive style with a large, prominent "J" and "T".

James Toes
President & CEO