FACT SHEET

Regulation SCI: Proposed Expansion and Updates

The Securities and Exchange Commission proposed amendments to expand the scope of entities subject to Regulation Systems Compliance and Integrity (SCI) and to update several of the regulation's requirements. These proposed amendments are designed to take account of the evolution of technology and trading since the regulation's adoption in 2014 and to continue to help ensure the capacity, integrity, resiliency, availability, and security of the technology infrastructure of the U.S. securities markets.

Why This Matters

Regulation SCI was adopted in 2014 to strengthen the technology infrastructure of the U.S. securities markets. Regulation SCI applies to certain entities (SCI entities) with respect to their automated and similar systems (SCI systems) that directly support any one of six key securities market functions—trading, clearance and settlement, order routing, market data, market regulation, or market surveillance—as well as systems (indirect SCI systems) that, if breached, would be reasonably likely to pose a security threat to SCI systems. These systems include those outsourced to third parties.

Application of Regulation SCI to a broader range of entities, together with updates to account for heightened cybersecurity risks, wider use of cloud service providers, and increasingly complex and interconnected nature of SCI entities' systems, should help ensure that the technology infrastructure of the U.S. securities markets remains robust, resilient, and secure.

How This Rule Would Apply

SCI entities today include self-regulatory organizations, such as national securities exchanges, registered clearing agencies, registered securities associations, and the Municipal Securities Rulemaking Board; alternative trading systems meeting volume thresholds with respect to National Market System (NMS) stocks and non-NMS stocks; exclusive disseminators of consolidated market data; certain competing consolidators of market data meeting a gross revenue threshold; and certain exempt clearing agencies.

Regulation SCI currently requires SCI entities to, among other things: have comprehensive policies and procedures reasonably designed to ensure that their systems have levels of capacity, integrity, resiliency, availability, and security adequate to maintain operational capability and promote the maintenance of fair and orderly markets; take appropriate corrective action in response to systems issues; provide notices and reports to the Commission designed to facilitate oversight of securities market technology; disseminate information about systems issues to affected parties; conduct an annual review of

compliance with Regulation SCI (SCI review); conduct coordinated business continuity and disaster recovery (BC/DR) testing; and make, keep, and preserve records.

The proposed amendments would expand the definition of "SCI entities" to include:

- Registered security-based swap data repositories;
- Broker-dealers registered with the Commission under Section 15(b) that exceed a total assets threshold or a transaction activity threshold in NMS stocks, exchange-listed options, U.S Treasury securities, or Agency securities; and
- All clearing agencies exempted from registration.

The proposed amendments would also update and strengthen Regulation SCI, including to:

- Specify that an SCI entity's required policies and procedures include:
    - An inventory, classification, and lifecycle management program for SCI systems and indirect SCI systems;
    - A program to manage and oversee third party providers, including cloud service providers, that provide or support SCI or indirect SCI systems.
    - BC/DR plans that address the unavailability of any third party provider without which there would be a material impact on critical SCI systems;
    - A program to prevent unauthorized access to SCI systems and information therein; and
    - Identification of current SCI industry standards with which each such policy and procedure is consistent, if any;
- Amend the definition of "systems intrusion" to include additional types of cyber events and threats, which is intended to capture cybersecurity events such as certain distributed denial-of-service attacks, and require notification of systems intrusions to the Commission without delay;
- Update the SCI review to specify that objective personnel assess the risks to covered systems, internal control design and operating effectiveness, and third-party provider management risks and controls, and require penetration testing at least annually;
- Specify that SCI entities include key third-party providers in annual BC/DR testing; and
- Update Regulation SCI's recordkeeping provisions and Form SCI consistent with these amendments.

Additional Information:

The public comment period will remain open until 60 days after the date of publication of the proposing release in the Federal Register.