

SEC Order Handling Disclosure Proposal ([S7-14-16](#)) Overview

STA Open Call

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Topics to Discuss

- Proposed Definition of Retail and Institutional Orders
- Institutional Order Handling Disclosure Proposed Requirements
- Retail Order Handling Disclosure Proposed Requirements

Definition of Retail and Institutional Order

- *Retail Order* renamed from original Rule 600 definition of “customer order” with same definition - means an order to buy or sell an NMS security that is not for the account of a broker-dealer, but shall not include any order for a quantity of a security having a market value of at least \$50,000 for an NMS security that is an option contract and a market value of at least \$200,000 for any other NMS security.
- *Institutional order* means an order to buy or sell an NMS stock that is not for the account of a broker or dealer and is an order for a quantity of an NMS stock having a market value of at least \$200,000.
- Other definitions considered in filing:
 - Different thresholds based on trading volume
 - Require customers to identify their orders as institutional
- Other considerations
 - Alternate definitions
 - De minimis exemption?

Institutional Order Handling Disclosure

- Reporting Structure
 - Customer Request: Monthly data, prior six months; upon request within seven days
 - Public Report: Aggregate Data, Monthly data produced quarterly; three year retention (for 605 and retail 606 as well)
 - Format – XML Schema and PDF (See draft spec at https://www.sec.gov/files/draft_order_handling_data_technical_specification.pdf)
- Requirement to document and keep updated methodology for determining strategy type – aggressive, neutral, passive
- Required Information per report (Public and Customer same fields)
 - Shares sent to the broker-dealer
 - Shares executed by the broker-dealer as principal
 - Institutional orders exposed by the broker-dealer through actionable indications of interest, and the venues to which they were exposed
- Venue-specific information on next pages (Public and Customer same fields)

Institutional Order Disclosure Sample

December 2015

Summary

Total Shares Sent to Broker/Dealer	Total Number of Shares Executed as Principal	Total Orders Exposed (Actionable IOI)
133,293,840.000	53,889.000	231

Actionable IOI Exposed Venues

Venues
The Nasdaq Stock Market LLC (DNAS)
B. Riley Exec and Cling (BREC)

Order Routing Venues

Venue	Strategy	Total Shares Routed	Total Shares Routed Marked IOC	Total Shares Routed that were further Routable	Average Order Size Routed	Total Shares Executed	Fill Rate	Average Fill Size	Average Net Execution Fee (or Rebate)	Total Shares Executed at Midpoint	Percentage of Shares Executed at Midpoint	Total Shares Executed that were Priced at the Near Side	Percentage of Total Shares Executed that were Priced at the Near Side	Total Shares Executed that were Priced at the Far Side	Percentage of Total Shares Executed that were Priced at the Far Side	Total Number of Shares that Provided Liquidity	Percentage of Executed Shares that Provided Liquidity	Average Duration of Orders that Provided Liquidity	Average Net Execution Rebate (or Fee Paid) for Shares that Provided Liquidity	Number of Shares that Removed Liquidity	Percentage of Executed Shares that Removed Liquidity	Average Net Execution Fee (or rebate received) for Shares that Removed Liquidity
BATS Exchange, Inc (BATS)		37,674,872.000	21,233,797.000	31,099,782.000	1,255.829	2,792,800.000	24.6792	515,000.000	5,575.2700	2,431,950.000	87.0000	230,302.000	20.2605	130,548.000	20.2605	955,745.000	51.0000	1	27.7166	1,837,055.000	49.0000	5,488.1100
	Passive	15,220,760.000	380,519.000	12,937,646.000	1,522.076	153,700.000	1.0098	176,000.000	-445.7300	133,719.000	87.0000	2,397.000	11.4405	17,548.000	11.4405	146,015.000	95.0000	1	4.2344	7,685.000	5.0000	23.0550
	Neutral	11,953,184.000	10,877,397.000	8,606,292.000	1,195.138	1,254,200.000	10.5763	172,000.000	1,896.3000	1,074,570.000	85.0000	94,815.000	7.5000	94,815.000	7.5000	644,742.000	51.0000	1	18.5975	619,458.000	49.0000	1,858.3740
	Aggressive	10,500,928.000	9,975,881.000	9,585,844.000	1,050.093	1,374,900.000	13.0931	167,000.000	4,124.7000	1,223,661.000	89.0000	133,090.000	1.3200	18,149.000	1.3200	164,988.000	12.0000	1	4.7847	1,209,912.000	88.0000	3,629.7360
EDGS Exchange, Inc (EDGX)		37,674,872.000	21,233,797.000	31,099,782.000	1,255.829	2,792,800.000	24.6792	515,000.000	5,575.2700	2,431,950.000	87.0000	230,302.000	20.2605	130,548.000	20.2605	955,745.000	51.0000	1	27.7166	1,837,055.000	49.0000	5,488.1100
	Passive	15,220,760.000	380,519.000	12,937,646.000	1,522.076	153,700.000	1.0098	176,000.000	-445.7300	133,719.000	87.0000	2,397.000	11.4405	17,548.000	11.4405	146,015.000	95.0000	1	4.2344	7,685.000	5.0000	23.0550
	Neutral	11,953,184.000	10,877,397.000	8,606,292.000	1,195.138	1,254,200.000	10.5763	172,000.000	1,896.3000	1,074,570.000	85.0000	94,815.000	7.5000	94,815.000	7.5000	644,742.000	51.0000	1	18.5975	619,458.000	49.0000	1,858.3740
	Aggressive	10,500,928.000	9,975,881.000	9,585,844.000	1,050.093	1,374,900.000	13.0931	167,000.000	4,124.7000	1,223,661.000	89.0000	133,090.000	1.3200	18,149.000	1.3200	164,988.000	12.0000	1	4.7847	1,209,912.000	88.0000	3,629.7360

Source: SEC Division of Economic Research and Analysis - <https://www.sec.gov/files/rule606files.zip>

Institutional Order Handling Disclosure Fields by Venue/Strategy (1 of 2)

Information on Order Routing Column Headings

- Total shares routed
- Total shares routed marked immediate or cancel
- Total shares routed that were further routable
- Average order size routed

Information on Order Execution Column Headings

- Total shares executed
- Fill rate (shares executed divided by the shares routed)
- Average fill size
- Average net execution fee or rebate (cents per 100 shares, specified to four decimal places)
- Total number of shares executed at the midpoint
- Percentage of shares executed at the midpoint
- Total number of shares executed that were priced on the side of the spread more favorable to the institutional order
- Percentage of total shares executed that were priced at the side of the spread more favorable to the institutional order
- Total number of shares executed that were priced on the side of the spread less favorable to the institutional order
- Percentage of total shares executed that were priced on the side of the spread less favorable to the institutional order

Institutional Order Handling Disclosure Fields by Venue/Strategy

Information on Orders that Provided Liquidity Column Headings

- Total number of shares executed of orders providing liquidity
- Percentage of shares executed of orders providing liquidity
- Average time between order entry and execution or cancellation, for orders providing liquidity (in milliseconds)
- Average net execution rebate or fee for shares of orders providing liquidity (cents per 100 shares, specified to four decimal places)

Information on Orders that Removed Liquidity Column Headings

- Total number of shares executed of orders removing liquidity
- Percentage of shares executed of orders removing liquidity
- Average net execution fee or rebate for shares of orders removing liquidity (cents per 100 shares, specified to four decimal places)

New Requirements for BDs Routing Retail Orders

- Calculate whether limit orders are marketable or non-marketable based on market data at time of order receipt
- Calculate net aggregate payments on a monthly basis for quarterly reporting – total dollar amount and per share
- Specifies that discussion of “material aspects” of relationship with significant venues to include “a description of any terms of such arrangements, written or oral, that may influence a broker’s or dealer’s order routing decision including, among other things:
 - Incentives for equaling or exceeding an agreed upon order flow volume threshold, such as additional payments or a higher rate of payment;
 - Disincentives for failing to meet an agreed upon minimum order flow threshold, such as lower payments or the requirement to pay a fee;
 - Volume-based tiered payment schedules; and
 - Agreements regarding the minimum amount of order flow that the broker-dealer would send to a venue.”
- Break out Rule 606 reporting by month in quarterly report
- Changes apply to both sections of Rule 606 reports, e.g., NMS Stocks and Options
- Group by NMS Stocks instead of broken out by listing market
- Provide 606 reports in XML and PDF format (See draft spec [here](#).) including customer requested reports
- Post report for 3 years

Retail Order Disclosure Sample – Public Report

December

NMS Stocks:

Summary

Non-Directed Orders (%)	Market Orders (%)	Marketable Limit Orders (%)	Non-Marketable Limit Orders (%)	Other Orders (%)
13.60	0.00	1.10	1.00	97.90

Venues

Venue	Orders (%)	Market Orders (%)	Marketable Limit Orders (%)	Non-Marketable Limit Orders (%)	Other Orders (%)	Net Payment Paid/Received for Market Orders(USD)	Net Payment Paid/Received for Market Orders(cents per hundred)	Net Payment Paid/Received for Marketable Orders(USD)	Net Payment Paid/Received for Marketable Orders(cents per hundred)	Net Payment Paid/Received for Non-Marketable Orders(USD)	Net Payment Paid/Received for Non-Marketable Orders(cents per hundred)	Net Payment Paid/Received for Other Orders(USD)	Net Payment Paid/Received for Other Orders(cents per hundred)
New York Stock Exchange LLC. (NYSE)	39.80	36.70	10.00	39.00	29.50	1,000	0.0021	1,000	0.0021	1,000	0.0021	1,000	0.0021
NYSE Arca, Inc. (ARCA)	11.70	1.10	10.00	2.40	11.70	1,000	0.0021	1,000	0.0021	1,000	0.0021	1,000	0.0021

Material Aspects:

New York Stock Exchange LLC. (NYSE):

The Firm's affiliate BRCO, is a market maker on the NYSE. Accordingly, the Firm may share indirectly in any profits generated (or that have been generated) from the execution of client orders by BRCO on the exchange, including those that are routed to the exchange

NYSE Arca, Inc. (ARCA):

The Firm's affiliate, BRCO, is a lead market maker and a remote market maker in equities and options on ARCA. Accordingly, the Firm may share indirectly in any profits generated (or that have been generated) from the execution of client orders by the Firm on the exchange, including those that are routed to the exchange

Source: SEC Division of Economic Research and Analysis - <https://www.sec.gov/files/rule606files.zip>

Retail Order Disclosure Sample – Customer Request

B. Roker - Customer Retail Routing Report

Generated on Tue Apr 05 2016 18:55:48 GMT-0400 (Eastern Daylight Time)

For C. Schtumer

Reporting Period 2015-12-15 to 2016-06-15

Orders

Order ID	Type	Venue	Date (UTC)
5049232997	Non-Directed	MXPT	2016-04-01 22:55:48
		MXPT	2016-04-01 22:55:49
9080289134	Non-Directed		
148427393	Directed	NYSE	2016-04-01 22:55:49
		NYSE	2016-04-01 22:55:50
3192665	Directed	TYSX	2016-04-02 03:02:52
3719384	Directed	TYSX	2016-04-02 03:02:53
3719385	Directed	TYSX	2016-06-12 03:02:53

- No change to required content of disclosure or requirement to inform customer annually of availability of information
- New requirement is format of disclosure using Commission-provided XML schema and PDF renderer

Source: SEC Division of Economic Research and Analysis - <https://www.sec.gov/files/rule606files.zip>

Appendix – Relevant Definitions

- Order Routing Strategy
 - A *passive order routing strategy* is one that emphasizes the minimization of price impact over the speed of execution of the entire institutional order;
 - A *neutral order routing strategy* is one that is relatively neutral between minimization of price impact and the speed of execution of the entire institutional order;
 - An *aggressive order routing strategy* is one that emphasizes the speed of execution of the entire institutional order over minimization of price impact.
- *Actionable indication of interest* means any indication of interest that explicitly or implicitly conveys all of the following information with respect to any order available at the venue sending the indication of interest: (i) Symbol; (ii) Side (buy or sell); (iii) A price that is equal to or better than the national best bid for buy orders and the national best offer for sell orders; and (iv) A size that is at least equal to one round lot.
- *Orders providing liquidity* means orders that were executed against after resting at a trading center.
- *Orders removing liquidity* means orders that executed against resting trading interest at a trading center.
- “*marketable limit order*” is any buy order with a limit price equal to or greater than the national best offer at the time of order receipt, or any sell order with a limit price equal to or less than the national best bid at the time of order receipt. (17 CFR 242.600(b)(39))
- “*non-marketable limit order*” to mean “any limit order other than a marketable limit order”