

**STA Open Call – December 11, 2018 – Call Notes¹
Implementation of Amendments to Rules 605 & 606**

Chris Bok, FIF & Son-Mi Lee, FIF

John Roeser, Associate Director, SEC Division of Trading & Markets

Ted Venuti, Assistant Director, SEC Division of Trading & Markets

Opening Remarks – Jim Toes, STA

Senate Banking Oversight Hearing on the SEC

Senate Banking Committee met in open session to conduct a hearing titled: Oversight of the U.S. Securities & Exchange Commission. Jay Clayton, Chairman, SEC was the only witness. [LINK](#)

SEC Commissioner Hester Peirce

SEC Commissioner will address STA Chicago's, STAC, Mid-Winter Meeting on Wed. Jan 16th [LINK](#)

2019 STA Sponsorship

In 2018, more than 160 firms sponsored at least one (1) STA Affiliate conference. As firms plan their 2019 budgets, please take the time to learn about STA sponsorship [LINK](#)

Executive Summary – Jim Toes

On Nov 2, 2018, the SEC amended Rules 605 & 606 under Reg NMS to require additional disclosures by broker-dealers to customers regarding the handling of their orders. The intent of these amended rules is to provide more detailed and standardized information to customers—with a focus on institutional customers—thereby allowing a more effective assessment of how broker-dealers are carrying out their best execution obligations and the impact of a broker-dealer's order routing decisions on the quality of their executions. The compliance date May 20, 2019. The final rule is over 300 pages, please send us questions at sta@securitytraders.org, we will get back to you with a reply.

Here this evening to provide guidance on questions by the industry on the Implementation of Amendments to Rules 605 & 606 is John Roeser, Associate Director, SEC Division of Trading & Markets & Ted Venuti, Assistant Director, SEC Division of Trading & Markets².

Questions (on the call)

Clock Start Date

More clarity is required with respect to when Broker-Dealers subject to SEC Rule 606 must begin recording amended rule 606 obligations (*i.e.* will Broker-Dealers be required to begin retention of 606 data on May 20th, 2019?). **Response:** The SEC staff confirmed that the compliance date of 606(b) information is May 20th, but will consider recommending it be moved to the beginning of the third quarter.

¹ This brief is meant for informational purposes only and therefore should not be considered legal advice. STA's goal is to raise awareness on industry developments and encourage dialogue.

² The STA notes that SEC expressed views do not necessarily reflect the views of the Commission, the Commissioners, or other members of the Commission's staff.

Specific to the quarterly reports, since the compliance date for Rule 606 begins on May 20, 2019. Because May 20th falls in the middle of the 2nd quarter, are Broker-Dealers expected to report all 2nd quarter activity 30 days after the quarter ends? Alternatively, would Rule 606, despite the May 20th compliance date, require Broker-Dealers to begin their revised 606 reporting responsibilities during the beginning of the 3rd quarter? **Response:** The SEC Staff has not yet determined the expectations of firms regarding when the quarterly reporting of revised order handling information will begin.

De minimis exemption

May firms operating multiple branches exclude the Not Held order flow from the Branch system under the de minimis exemption? **Response:** There is no branch exemption under Rule 606.

Marketability vs. Non-Marketability - for options & equities

At what point does the measurement of marketability v. non-marketability begin (i.e. does it begin at the parent order)? **Response:** Under revised Rule 606, the measure of marketability will begin at the child order level (order routed to market)

Definition of Venue for options & equities

What is the intended definition of venue. I.e does the definition of a venue include exchanges and market makers and/or broker dealers? **Response #1:** With regard to not held order flow (i.e. actionable IOIs) sent to a venue, the definition of venue will include 1) Broker Dealers; 2) Market Centers; 3) non-Broker-Dealer external liquidity providers (i.e. any entity the broker is sending IOIs to) 4) Institutional Customers. Further, if a firm sends multiple IOIs to institutional customers, firms may aggregate all IOIs. **Response #2:** About held order flow, the definition of venue includes any trading center an order could be routed to for execution (i.e. broker dealer, exchanges). **Response #3:** Specific to the quarterly reports, the definition of venue will remain the same as the prior rule.

Fees & Rebates on Orders Executed by SOR of Another Broker-Dealer

If Broker-Dealer A has discretion over how an order that is routed and executed through a Smart Order Router housed at Broker-Dealer B, is Broker-Dealer A required to provide the look-through information on how the order was treated on Broker-Dealer A's customer-specific report (Is Broker-Dealer A required to provide the look-through information on how the order was treated on Broker-Dealer B's Smart Order Router to the customer? **Response:** Broker-Dealer A is responsible for acquiring and including on their customer report the look-through information from Broker-Dealer B's Smart Order Router.

Payment for Order Flow Arrangements – Tiering Levels

Are firms expected to report tiering levels they do not nor did not hit? I.e. firms who do not sign a Retail – Attestation do not know their tiering level until after the volume calculation used for determining tiers is done. How should these firms report in situations when a reporting deadline occurs and they do not know their tier? **Response:** Firms are expected to describe the arrangements and the different levels that exist and how it applies to the orders submitted to the venue.

