

STA Open Call – March 13, 2019 – Call Notes¹

Rule 606: Getting Closer

Mark Davies, S3

Rule 606 Infographic [LINK](#)

Opening Remarks – Jim Toes, STA

STA Comment Letters

Since the last Open Call, STA has filed three (3) comment letters on: SEC No-Action Letters on MiFID II, Senate Banking on Capital Formation and House Subcommittee on Diversity & Inclusion. [LINK](#)

STA Washington DC Trip

STA will be meeting with: SEC Division of Investment Management, Division of Trading & Markets, Commissioners Hester Peirce and Elad Roisman, and FINRA. Discussion Document [LINK](#)

FINRA ATS Working Report

STA continues to engage and challenge FINRA on its *High Broker-Affiliated ATS Order Routing Associated with Lower Fill Rates, Higher Costs*. [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. The compliance date is May 20, 2019.

Presentation – Mark Davies, S3

Q1# Why is the SEC amending Rule 606(a)(1) and creating new reporting requirements Rule 606(b)(3)?

The SEC appears to be interested in finding out if rebates and fees affect the routing decisions that a firm makes, and if those decisions are in conflict with the firm's best execution mandates.

Q2# Who does it apply to?

Any broker dealer that handles customer order flow. If a firm handles **held customer** NMS equity orders or if a firm handles **customer** NMS options orders less than \$50,000. If a firm handles **not held** customer flow, they are required to produce an in-depth 606 report when requested by customers (subject to two de minimis exceptions).

Q3# How is the new Rule 606(a)(1) different?

For **held** equity orders: Broken out by Market, Marketable Limit, Non-Marketable Limit, Other and will include: Fees and Rebates paid to/by immediate downstream destination.

Q4# What is the new 606(b)(3)?

Customer Requested. Includes information sections about Orders executed as principal, exposed to Actionable IOIs, Routed and Executed; Including IOCs, Further Routable, Fill Rate, Spread side, add/remove liquidity, net fees/rebates, order lifetime

Q5# What are the areas the industry is requesting and waiting on guidance from the SEC on?

- When does a firm have discretion?
- What downstream information will Introducing BD need from Executing BDs?
- Treatment and interpretation of IOI's
- Definition of Venue and certain calculations on listed options

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.