



SIFMA Board Committee on Equity Market Structure

Recommendations as of
July 10, 2014

Table of Contents

Market Complexity	1
Access Fees	1
Number of Trading Venues.....	1
Order Types	1
Message Traffic.....	1
Kill Switches	1
Market Data Dissemination	2
Addressing Speed and Content Differentials.....	2
Governance and Transparency	2
Transparency & Disclosure	3
Retail Transparency & Disclosure	3
Institutional Transparency & Disclosure.....	3

Market Complexity

Access Fees

- The fees for accessing quotes at market centers should either be significantly reduced or eliminated. As a first step, the cap on access fees should be lowered to no higher than 5 cents/100 shares. Accordingly, the SEC should amend Rule 610 of Regulation NMS to implement that reduction.

Number of Trading Venues

- The displayed quotations of a market center should be protected under Regulation NMS only if the market center executes a specified aggregate trading volume over a sustained period of time. In this regard, the SEC should amend the definition of “protected quotation” under Regulation NMS so that it applies only to the displayed quotations of a market center with one percent (1%) or more of the average daily dollar volume in all NMS stocks over a period of three consecutive calendar quarters. A market center would lose its protected quotation status if its volume fell below 1% for three consecutive calendar quarters.
- The standards for identifying automated quotations should be updated to reflect the reality of today’s markets. In this regard, the SEC should amend the definition of the term “automated quotation” to provide that it must be executable within a millisecond, in contrast with current SEC guidance that allows for a one second execution time.

Order Types

- The SEC should review the use and interaction of existing order types to ensure that all market participants have equivalent information about them. In this regard, the SEC should conduct a review to determine whether certain order types contribute to or create activity that otherwise should be discouraged (e.g., excessive message traffic, routing based on rebate capture). Exchanges also should amend their rules to provide transparency on available order types, including fill rates and typical usage of each order type offered.

Message Traffic

- The SEC should take steps to discourage excessive message traffic (measured through order to fill ratios) that is not the result of providing meaningful liquidity to the marketplace. In this regard, mechanisms designed to minimize or prevent excessive message traffic should take into account and recognize that higher volumes of message traffic may be the result of bona fide trading behavior (e.g. market making activities).

Kill Switches

- Kill switches at the various exchanges should use standardized protocols and methodology. In addition, Regulators, exchanges, and industry members should work toward developing a centralized kill switch mechanism.

Addressing Speed and Content Differentials

- As a fundamental principle, market pricing information from all sources – including the Securities Information Processors (“SIPs”), direct feeds provided by the exchanges, and pricing that can be derived from execution data – should be distributed to users at the same time.
 - In the immediate term, the SEC should direct the SIP Plan Participants (i.e., the exchanges and FINRA) to make the necessary investment to improve the SIP infrastructure, particularly improvements to connectivity and data aggregation, so that the SIPs provide the fastest commercially available services for data aggregation and distribution.
 - Over time, the central SIP structure should be eliminated and replaced with commercially competitive Market Data Aggregators (“MDAs”), which could be any commercial entity that meets established standards for operation, including exchanges (or groups of exchanges) as well as traditional financial technology vendors. Each MDA would distribute an NBBO and the other informational data currently distributed by the SIPs.
- Each market that reports to the SIPs should be required to enter into a service level agreements (“SLA”) with performance criteria it must maintain in order to remain connected to the SIPs (e.g., millisecond timestamps on all messages and executions, timestamp comparison deltas, out of sequence updates, duplicate messages, latency, outstanding heart beats). If a market center does not satisfy the SLA, then the SIP operator should be permitted to disconnect that market’s session and zero out its quotes.
- Market centers should use consistent sources of data to update their order books to minimize the ability of users to calculate order book updates faster than the NBBO can be updated in that market center.

Governance and Transparency

- The existing NMS Plan structure for the SIPs is ineffective and should be modified. The SIPs (and ultimately the MDAs) should be governed by a single NMS Plan with a central Market Data Plan Operating Committee (“MDP Committee”). The MDP Operating Committee should include direct industry participation and public representation, with full voting rights, replacing the current SIP Operating and Advisory Committees structure. The industry members of the MDP Committee should include at least one representative from each of the following constituencies:
 - a Broker-Dealer with a substantial retail base
 - a Broker-Dealer with a substantial institutional base
 - an ATS
 - a Retail Investor
 - an Institutional Investor
 - a Data Vendor
- The members of the MDP Committee should have equal representation from SRO members and industry members. In addition, the MDP Committee should include “public” members who are not associated with any SRO or industry participant. The industry and public members of the MDP Committee would be required to consent to SEC jurisdiction in the same way that officers and directors of SRO holding companies do now.
- The SIPs (and ultimately the MDAs) should operate with much greater transparency than the SIPs do now. In this regard, the Commission should direct the SROs to amend the NMS Plans governing market data to provide public disclosure commensurate with their roles as utilities critical to the integrity of market infrastructure. At a minimum, this increased transparency should include public disclosures of operations, accounting, statistics and performance metrics, and technology audits.

Retail Transparency & Disclosure

- Regulators should direct broker-dealers to provide public reports of order routing and execution quality metrics that are geared toward retail investors. The reports should include relevant information in a uniform format that is easy to understand, and they should be updated and published on regularly occurring schedule.
- The information to be included in the reports should be leveraged from metrics currently reported pursuant to Rule 605, and examples would include:
 - Percent of Shares Improved
 - Average Price Improvement
 - Net Price Improvement Per Share
 - Effective/Quoted Spread Ratio
- Broker-dealers should consider the utility of reporting additional detail about payment for order flow arrangements, while taking into account that payment for order flow disclosures are already provided in four instances: at account opening, on an annual basis, on customer confirms, and on Rule 606 reports.

Institutional Transparency & Disclosure

- All Alternative Trading Systems (ATS) should publish the Form ATS and make their forms available on their websites.
- FINRA should expand the disclosure requirements under its Rule 4552 beyond ATSs to include all off-exchange broker venues (e.g., market makers and internalizers).
- The SEC should direct the Exchanges to provide standardized disclosure with respect to order routing, order type interaction, and execution volume carried out by displayed orders, partially displayed/partially undisplayed orders, and fully undisplayed orders.
- Regulators should direct broker-dealers to provide institutional clients with standardized venue execution analysis reports. SIFMA will work with other industry groups to develop consistent industry templates. Examples of the types of information (per venue) that should be incorporated into these reports are:
 - Percentage of Orders Executed
 - Average Ordered and Executed
 - Fill Rates – Overall, Taken, Added, and Routed
 - Percentage Executed Displayed and Undisplayed
- Regulators should direct broker-dealers to publish on their websites, on a monthly basis, a standardized disclosure report that provides an overview of key macro issues that are of interest to clients. Examples of the types of information to be included in that report are:
 - Venues Accessed
 - Order types used on Exchanges
 - Order types supported on the broker-dealer's ATS (if applicable)
 - Fill Rates (including internalization numbers if applicable)
 - Location of ATS/Co-location footprint
 - Market Data Structure (e.g. direct feeds subscriptions)