



June 5, 2015

**Via Electronic Mail ([rule-comments@sec.gov](mailto:rule-comments@sec.gov))**

Brent J. Fields  
Secretary  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-1090

Re: File No. SR-CTA/CQ-2015-01; S7-24-89

Dear Mr. Fields:

The Securities Industry and Financial Markets Association (“SIFMA”)<sup>1</sup> submits this letter in response to the proposed amendments to the Consolidated Tape Association Plan, Consolidated Quotation Plan, and Joint Self-Regulatory Organization Plan Governing the Collection, Consolidation, and Dissemination of Quotation and Transaction Information for Nasdaq-Listed Securities Traded on Exchanges on an Unlisted Trading Privilege Basis (collectively the “SIP Plans”), which govern the operation of the Securities Information Processors (“SIPs”). The amendments to the SIP Plans filed with the Securities and Exchange Commission (“Commission”) propose to require the plan participants (*i.e.*, the national securities exchanges and FINRA) to include timestamp information in the trade-report and bid-and-offer information they submit to the SIP processors.

Last year, SIFMA issued recommendations on equity market structure, which included a recommendation that each market that reports to the SIPs should be required to enter into a service level agreement 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).<sup>2</sup> SIFMA supports the proposed amendments to the SIP Plans as a step toward enriching the SIPs with enhanced data. However, we have suggestions for clarification of certain aspects of the proposals, as described below. In addition, we believe the need for clarification of this proposal

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<sup>1</sup> SIFMA is the voice of the U.S. securities industry, representing the broker-dealers, banks and asset managers whose 889,000 employees provide access to the capital markets, raising over \$2.4 trillion for businesses and municipalities in the U.S., serving clients with over \$16 trillion in assets and managing more than \$62 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

<sup>2</sup> See SIFMA Equity Market Structure Recommendations (July 10, 2014), available at <http://www.sifma.org/workarea/downloadasset.aspx?id=8589949840>.

is yet another indication of the need to reform the governance of the SIPs (and of other NMS Plans) to provide industry representatives with direct voting participation in the plans.

## **I. Clarification Requested Regarding Proposed Timestamp Definitions**

Currently, the existing SIP Plans require that plan participants collect and transmit to each respective plan processor select quotation and trading information, such as: the identification of the security, the price and size of bids and offers, and the number of shares and execution price in a transaction. The proposed amendments to the SIP Plans would require the following additional information in connection with trade and quotation reporting:

- In the case of a national securities exchange, the time of the transaction or quotation is to be reported to the SIPs, as identified in the exchange's "matching engine publication timestamp."
- In the case of FINRA: for trade reporting, the time of execution that a FINRA member reports to a FINRA trade reporting facility is to be reported to the SIPs; and for quotation reporting, the quotation publication timestamp that the bidding or offering member reports to the FINRA quotation facility is to be reported to the SIPs, all in accordance with FINRA rules.
- In addition, if the FINRA trade reporting facility or quotation facility provides a proprietary feed of trades or quotes reported by the facility to the SIPs, then the FINRA facility shall also furnish the SIPs with the time of the transmission as published on the facility's proprietary feed.<sup>3</sup>

These changes lead to specific comments. First, the term "matching engine publication timestamp" should be more clearly defined so that it is consistently and uniformly defined across exchanges. In addition, the SIP Plans should require that the FINRA trade reporting and quotation facilities furnish the SIPs with a timestamp for any and all intermediate processing steps between the reporting facilities and the SIPs. The SIP Plans also should be amended to provide that the SIPs will make centralized determinations on whether a trade is out of sequence or last sale eligible.

### **a. Proposed Timestamp Definitions Should Clearly Reflect Underlying Matching Engine and Order Book Events**

The SIP Plans should require exchanges to report transaction and quotation information at a consistent, clearly established point in time. However, the proposed amendments provide

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<sup>3</sup> See Securities Exchange Act Release No. 74909 (May 8, 2015), 80 FR 27764 (May 14, 2015) ("CTA/CQ Plan"); see also Securities Exchange Act Release No. 74910 (May 8, 2015), 80 FR 27713 (May 14, 2015) ("UTP Plan").

only that the time of the transaction or quotations to be reported by a national securities exchange is the time identified in the exchange's "matching engine publication timestamp."<sup>4</sup> The term "matching engine publication timestamp" is not defined in the SIP Plans or in the proposals, and it is not a recognized term of usage. In our view, the transaction time to be reported to the SIPs should be the timestamp applied when the trade is executed in the exchange's matching engine, and the quotation time should be the timestamp applied when the quotation is added to the exchange's order book. The proposed amendments to the SIP Plans lack the necessary clarity to ensure that timestamp data is sourced and reported in a consistent manner across exchanges. For instance, the exchanges could differ as to how they define or interpret "matching engine publication timestamp," with one exchange reporting the time a transaction is executed in its matching engine, and another exchange reporting it as the time in which the transaction is submitted to the applicable message queues for downstream consumption. Ultimately, the timestamp reported by the exchange should reflect the actual underlying matching engine event; it should not reflect any internal processing that may occur at the exchange prior to submission to the SIPs.

**b. Proposed Amendments Should Require FINRA's Facilities to Disseminate Trade and Quotation Processing Timestamps**

The proposed amendments should provide clarity on the timestamp information that FINRA would be required to provide to the SIPs. Under the proposal, any FINRA proprietary feed of the trades or quotes reported by the FINRA trade reporting facility or quotation facility to the SIPs would be required to furnish the SIPs with the time of the transmission as published on the proprietary feed.<sup>5</sup> In addition to this requirement, the amendments to the SIP Plans should require the FINRA trade reporting facility or quotation facility to provide to the SIPs the timestamp when the trade or quote was processed by the FINRA facility regardless of whether the facility offers a proprietary feed.

**c. The SIPs Should Determine "Out of Sequence" and "Not Last Sale Eligible" Trades**

With the additional timestamp information proposed, the SIP Plans should provide expressly that the SIPs are responsible for market-wide determinations of whether a trade is reported out of sequence. As we previously stated in our comments regarding FINRA's proposal to identify over-the-counter ("OTC") equity trades reported more than two seconds after execution as "out of sequence" and "not last sale eligible," SIFMA believes that the SIPs should make market-wide determinations if transactions are out of sequence by comparing the incoming transaction's execution time against the execution time of the most recent transaction that was

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<sup>4</sup> *Id.*

<sup>5</sup> *Id.*

last sale eligible and published.<sup>6</sup> SIFMA continues to urge FINRA and the SIPs to work together to incorporate the necessary functionality as part of the current efforts to expand the SIPs' message header formats.

## **II. NMS Plan Governance**

The need for clarification of the basic issue of the amendments highlights the need to include industry members directly in the governance process through representation on the operating committees of the SIP Plans. The existing governance structure of NMS Plans is no longer effective, suffers from a lack of transparency and insulated governance, and has not sufficiently managed conflicts of interest. As we have stated previously, the NMS Plans should include direct representatives from the industry (both broker-dealers and asset managers) and the public, and those independent representatives should have voting power on the operating committees of the NMS Plans. These changes would make the governance of the NMS Plans consistent with the statutory "fair representation" requirements governing the self-regulatory organizations ("SROs") themselves. In addition, these steps would help assure that the underlying processors operate for the benefit of the public good, not just for the benefit of the participating SROs. There is *nothing* in the Exchange Act, or the applicable rules thereunder, that would prohibit industry members from fully participating in the governance of any NMS Plan, with rights equivalent to the SROs in the administration of each NMS Plan's affairs.

The SROs frequently remind SIFMA that indirect industry participation in NMS Plan governance is available through advisory committee membership. However, the advisory committee structure has been unsuccessful. Advisory committee members are given no substantive voice in the operation of NMS Plans, their role is without authority, and there is no mechanism for them to elicit or report feedback from the broad constituencies that depend on the proper functioning of the NMS plans. In addition, the SROs conduct much of their meaningful business in executive session, from which advisory committee members are excluded. This lack of a substantive participation by advisory committee members and the industry generally, has resulted in conflicts of interest – as evidenced through questionable voting practices with respect to the management and operation of NMS Plan processors –, inferior technology underlying the utilities designed to benefit all market participants, and a pattern of system issues that directly impact the operation and effectiveness of the market generally. Accordingly, SIFMA believes that it is imperative that governance structure of NMS Plans be reformed to include independent representatives from both the industry and general public.

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<sup>6</sup> See Letter from Theodore R. Lazo, Managing Director and Associate General Counsel, SIFMA to Marcia E. Asquith, Financial Industry Regulatory Authority dated February 20, 2015.

Mr. Brent J. Fields  
Securities and Exchange Commission  
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We appreciate the Commission's consideration of our comments in response to the proposed amendments to the SIP Plans. If you have any questions, please contact either me (at 202-962-7383 or [tlazo@sifma.org](mailto:tlazo@sifma.org)) or Timothy Cummings (at 212-313-1239 or [tcummings@sifma.org](mailto:tcummings@sifma.org)).

Sincerely,



Theodore R. Lazo  
Managing Director and  
Associate General Counsel

cc: The Honorable Mary Jo White, Chair  
The Honorable Luis A. Aguilar, Commissioner  
The Honorable Daniel M. Gallagher, Commissioner  
The Honorable Michael S. Piwowar, Commissioner  
The Honorable Kara M. Stein, Commissioner

Stephen Luparello, Director, Division of Trading and Markets  
Gary Goldsholle, Deputy Director, Division of Trading and Markets  
David S. Shillman, Associate Director, Division of Trading and Markets