

ATS Order Reporting Requirements

SEC Approval of FINRA Rule 4554 (Alternative Trading Systems—Recording and Reporting Requirements of Order and Execution Information for NMS Stocks)

Implementation Date: November 7, 2016

Executive Summary

Effective November 7, 2016, new FINRA Rule 4554 requires alternative trading systems (ATSs) to submit additional order information to FINRA.

The rule text is available in the online FINRA Manual.

Questions regarding this *Notice* should be directed to:

- ▶ Shelly Bohlin, Vice President, Market Regulation, at (240) 386-5029 or by email at Shelly.Bohlin@finra.org; or
- ▶ Andrew Madar, Associate General Counsel, Office of General Counsel, at (202) 728-8056 or by email at Andrew.Madar@finra.org.

Background and Discussion

Under the current Order Audit Trail System (OATS) rules (Rule 7400 Series), ATSs¹ are required to record and report order-related information to FINRA. To further enhance FINRA's ability to more fully reconstruct an ATS's order book and better perform order-based surveillance—including layering, quote spoofing and mid-point pricing manipulation surveillance—FINRA proposed, and the SEC approved, Rule 4554 (Alternative Trading Systems—Recording and Reporting Requirements of Order and Execution Information for NMS Stocks), which requires ATSs to report additional ATS-specific data elements in existing OATS reports for orders in NMS stocks.

Rule 4554 sets forth four categories of additional reporting requirements: (1) data to be reported by all ATSs at the time of order receipt; (2) data to be reported by all ATSs at the time of order execution; (3) data to be reported

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Notice Type

- ▶ New Rule

Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Systems
- ▶ Trading

Key Topics

- ▶ Alternative Trading Systems
- ▶ Order Audit Trail System
- ▶ Order Book Reporting

Referenced Rules & Notices

- ▶ FINRA Rule 4554
- ▶ FINRA Rule 6220
- ▶ FINRA Rule 7400 Series
- ▶ Rule 300(a)(1) of SEC Regulation ATS

by ATSs that display subscriber orders; and (4) data specific to ATSs that are registered as ADF Trading Centers. The new requirements apply to order and execution information for NMS stocks.

Specifically, Rule 4554 requires that all ATSs report the following information on all orders received:

- ▶ whether the ATS displays subscriber orders outside of the ATS;
- ▶ if the ATS displays subscriber orders outside of the ATS, whether subscriber orders are displayed to subscribers only, or are distributed for publication in the consolidated quotation data;
- ▶ whether the ATS is an ADF Trading Center as defined in FINRA Rule 6220;
- ▶ whether the order can be routed away from the ATS for execution;
- ▶ whether there are any counter-party restrictions on the order;
- ▶ a unique identifier representing the specific order type (other than market and limit orders that have no other special handling instructions);
- ▶ the National Best Bid or Offer (NBBO) (or relevant reference price) in effect at the time of order receipt and the timestamp of when the ATS captured the effective NBBO (or relevant reference price);² and
- ▶ the market data feed the ATS used to obtain the NBBO (or relevant reference price).³

To allow FINRA to map the unique identifier to a specific order type as noted above, an ATS must provide FINRA with a list of all of its order types 20 days before such order types become effective, and, if the ATS makes any subsequent changes to its order types, 20 days before such changes become effective.

Rule 4554 also requires that all ATSs report the following information when reporting the execution of an order to OATS:

- ▶ the NBBO (or relevant reference price) in effect at the time of order execution;
- ▶ the timestamp of when the ATS captured the effective NBBO (or relevant reference price); and
- ▶ the market data feed used by the ATS to obtain the NBBO (or other reference price).⁴

This information above must be reported to FINRA no later than 8:00 a.m. Eastern Time on the calendar day following receipt of the order in the ATS in an electronic form as prescribed by FINRA.

In addition to the information listed above, Rule 4554 requires that ATSs that display orders outside the ATS report the following information for each order:

- ▶ whether the order is hidden or displayable;
- ▶ display quantity;
- ▶ reserve quantity, if applicable;

- ▶ displayed price;
- ▶ the price entered; and
- ▶ the time of order modification and the applicable new display price or size, if the matching engine re-prices a displayed order or changes the display quantity of a displayed order.

For ATSS that are ADF Trading Centers, Rule 4554 also requires that these ATSS report the following information:

- ▶ the quote identifier provided to the ADF if a change to the displayed size or price of an order resulted in a new quote being transmitted to the ADF; and
- ▶ a new quote identifier if an order held by the ADF Trading Center becomes associated with a quote identifier based on an action by the matching engine related to different order(s).

FINRA Rule 4554 will become effective on November 7, 2016. To enable FINRA to map an order identifier to a specific order type upon the effective date of the rule, all ATSS must provide FINRA with a list of their current order types no later than October 19, 2016.

Endnotes

1. Rule 4554 defines an ATS as any alternative trading system, as defined in Rule 300(a)(1) of SEC Regulation ATS, that has filed a Form ATS with the SEC and that is required to report pursuant to FINRA's Order Audit Trail System and equity trade reporting rules.
2. An ATS would comply with the requirement to report the NBBO capture time by reporting the time that the matching engine referenced the NBBO in order to determine how to further process or execute an order.
3. The new rule included a requirement to report a sequence number for new orders. However, FINRA anticipates submitting a proposed rule change to the SEC that would require ATSS to provide a sequence number for all OATS event types. Therefore, FINRA is deferring the implementation of this requirement to report a sequence number for new orders.
4. For purposes of reporting the market data feed used by the ATS to obtain the NBBO (or other reference price), if the ATS uses a data feed that differs from the data feed that was reported on its ATS data submission, the ATS must notify FINRA via email of the fact that an alternative source was used, identify the alternative source, and specify the date, time and securities for which the alternative source was used.