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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2016 - * 010
Amendment No. (req. for Amendments *)

Filing by Financial Industry Regulatory Authority

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * ☑ Amendment * ☐ Withdrawal ☐

Section 19(b)(2) * ☑ Section 19(b)(3)(A) * ☐ Section 19(b)(3)(B) * ☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule
- ☐ 19b-4(f)(1)
- ☐ 19b-4(f)(2)
- ☐ 19b-4(f)(3)
- ☐ 19b-4(f)(4)
- ☐ 19b-4(f)(5)
- ☐ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐ Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Proposed Rule Change to Adopt FINRA Rule 4554 (Alternative Trading Systems - Recording and Reporting Requirements of Order and Execution Information for NMS Stocks)

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Andrew Last Name * Madar

Title * Associate General Counsel

E-mail * andrew.madar@finra.org

Telephone * (202) 728-8056 Fax (202) 728-8264

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 02/29/2016

By Stephanie M. Dumont

(Name *)

(Title *)

Senior Vice President and Director of Capital Markets Policy

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Stephanie Dumont,

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information *

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act" or "SEA"),[1] Financial Industry Regulatory Authority, Inc. ("FINRA") is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change to adopt Rule 4554 to require alternative trading systems ("ATSs") to submit additional order information to FINRA.

The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

At its meeting on September 19, 2014, the FINRA Board of Governors authorized the filing of the proposed rule change with the SEC. No other action by FINRA is necessary for the filing of the proposed rule change.

FINRA will announce the effective date of the proposed rule change no later than 90 days following Commission approval. The effective date will be no later than 180 days following Commission approval. An ATS will be required to provide FINRA with a list of all its order types prior to the date that the ATS will begin reporting information pursuant to this Rule, which date shall be set forth in a Regulatory Notice published by FINRA following Commission approval.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

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[1] 15 U.S.C. 78s(b)(1).

FINRA is proposing to adopt Rule 4554 to require ATSs to report additional order information to FINRA. While ATSs already submit order information to FINRA that is required by the Order Audit Trail System ("OATS") rules, there is additional order information not currently required to be reported to OATS, such as order re-pricing events (e.g., changes to an order that is pegged to the National Best Bid or Offer ("NBBO")) and order display and reserve size information, that, if available to FINRA, would greatly enhance FINRA's ability to perform certain order-based surveillance, including layering, quote spoofing and mid-point pricing manipulation surveillance, by enabling FINRA to more fully reconstruct an ATS's order book. FINRA therefore is proposing to require ATSs to report additional ATS-specific data elements in existing OATS reports for orders in NMS stocks. ATSs would be required to report this information to FINRA consistent with current OATS reporting requirements (no later than 8:00 a.m. Eastern Time on the calendar day following receipt of the order in an electronic form as prescribed by FINRA).

As described in more detail in Section 5, FINRA initially solicited comment on this proposal in Regulatory Notice 14-51.[2] Based on concerns raised by commenters about potential burdens associated with the original proposal, FINRA has revised the original proposal to narrow some aspects of the order information required to be reported while still enhancing FINRA's ability to reconstruct an ATS's order book for surveillance purposes. The proposal sets forth four categories of 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 by ATSs that display subscriber

[2] See Regulatory Notice 14-51 (November 2014).

orders; and (4) data specific to ATSs that are registered as ADF Trading Centers. The proposed requirements would apply to order and execution information for NMS stocks.[3]

Proposed Order Receipt Reporting Requirements Applicable to All ATSs That Trade NMS Stocks

The first category of proposed changes applies to all ATSs when reporting the receipt of an order to OATS. Specifically, the proposed rule would require each ATS to indicate on all orders received whether it displays subscriber orders outside of the ATS (other than to alternative trading system employees).[4] This requirement will enable FINRA to distinguish between ATSs that display orders outside the ATS, either to subscribers or through consolidated quote data ("display ATS") and ATSs that do not display orders outside the ATS ("non-display ATS").[5] A display ATS would also indicate whether the order book is displayed to subscribers only, or distributed for publication in the consolidated quotation data. Each ATS would also be required to identify whether it is an ADF Trading Center as defined in FINRA Rule 6220. An ATS would make these determinations on a general basis, but would provide this information through flags submitted on every order event. Each ATS also would be required to identify whether a specific order can be routed away from the ATS for execution, and

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3 See 17 CFR 242.600(b)(47).

4 The proposed requirements apply to 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 is subject to FINRA's OATS and equity trade reporting rules. See 17 CFR 242.300(a)(1).

For purposes of this rule, the term "order" includes a broker-dealer's proprietary quotes that are transmitted to an ATS.

5 If an ATS meets the applicable volume thresholds, it is required to make its best bid and best offer available for publication in the consolidated quotation data. See 17 CFR 242.301(b)(3).

whether there are any counter-party restrictions on the order. ATSs would also be required to provide FINRA with a unique identifier representing the specific order type other than market and limit orders that have no other special handling instructions. In order for FINRA to map the identifier to a specific order type, an ATS will also be required to provide FINRA with a list of all of its order types twenty days before such order types become effective, and if the ATS makes any subsequent changes to its order types, twenty days before such changes become effective.[6]

An ATS also would be required to report, for all orders, the 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); as part of this report, the ATS must identify the market data feed it used to obtain the NBBO (or relevant reference

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[6] In a Regulatory Notice announcing the implementation of this proposal, FINRA will provide a deadline prior to the implementation date by which current ATSs must initially submit lists of their existing order types to FINRA.

FINRA notes that, under current Rule 301(b)(2)(ii) of Regulation ATS, ATSs are required to file an amendment on Form ATS at least 20 calendar days prior to implementing a material change to the operation of the ATS. See 17 CFR 242.301(b)(2)(ii). In the adopting release for Regulation NMS, the Commission noted that a material change to the operation of the ATS would include any change to: the operating platform of the ATSs, the types of securities traded, or the types of subscribers. The Commission also noted that ATSs implicitly make materiality decisions in determining when to notify their subscribers of changes. See Securities Exchange Act Release No. 40760 (December 8, 1998) 63 FR 70844, 70864 (December 22, 1998). Under a proposed rule that would alter the reporting requirements for ATSs that trade NMS stocks, an ATS would be required to amend its effective form at least 30 calendar days prior to the date of implementation of a material change to the operations of the ATS or to the activities of the broker-dealer operator or its affiliates that are subject to disclosure on the form. The Commission stated that a scenario that is likely to implicate a material change to the operations of an ATS would likely include the introduction or removal of a new order type on the ATS. See Regulation of NMS Stock Alternative Trading Systems, Securities Exchange Act Release No. 76474 (November 18, 2015), 80 FR 80998, 81027-28 (December 28, 2015).

price).[7] FINRA believes that there may be some time difference, however small, between the time that an ATS receives an order and places it on the order book, and the time that the ATS records the NBBO. Reporting both fields will enable FINRA to ascertain if the NBBO changed between the time of order receipt and the time the ATS captured the effective NBBO.

If, for any reason, the ATS uses an alternative feed to the one 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(s), time(s) and securities for which the alternative source was used. Finally, each ATS would be required to provide the sequence number assigned to the order event by the ATS's matching engine.

Proposed Order Execution Reporting Requirements Applicable to All ATSs That Trade NMS Stocks

The second category of proposed changes applies to all ATSs when reporting the execution of an order to OATS. Specifically, each ATS must record and report the NBBO (or relevant reference price) in effect at the time of order execution, and the timestamp of when the ATS captured the effective NBBO (or relevant reference price). An ATS must identify the market data feed used by the ATS to obtain the NBBO (or other reference price). If for any reason, the ATS uses an alternative feed than the one that was reported on its ATS data submission, the ATS must notify FINRA via email of

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[7] An ATS may use a relevant reference price other than the NBBO if, for example, it pegs to the primary market for a security or pegs to the Protected Best Bid or Offer.

the fact that an alternative source was used, identify the alternative source, and specify the date(s), time(s) and securities for which the alternative source was used.

Proposed Reporting Requirements Applicable to Display ATSs That Trade NMS Stocks

The third category of changes applies only to display ATSs and requires that those ATSs report the following additional order receipt information: (1) whether the order is hidden or displayable; (2) display quantity; (3) reserve quantity, if applicable; (4) displayed price; and (5) the price entered. If the matching engine re-prices a displayed order or changes the display quantity of a displayed order, the ATS must report the time of such modification and the applicable new display price or size.

The initial proposal applied these requirements to both display and non-display ATSs and would have required reporting of all changes to the price and size of orders, whether or not displayed. Commenters raised concerns with these proposed requirements, especially those related to non-displayed orders, because they would have required ATSs to record and report information that they indicated that they do not currently capture.[8] While FINRA understands the additional burdens associated with

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[8] FINRA notes that ATSs are currently required to capture and maintain several categories of order-specific information for both displayed and non-displayed orders. For example, ATSs are required to capture the time an order was received, the number of shares to which the order applies, any limit or stop price prescribed by the order, any instructions to modify or cancel the order, the time the order was executed, the price at which the order was executed, and the size at which the order was executed. See 17 CFR 242.302(c).

Similarly, ATSs are currently required to report a variety of order-specific information to FINRA via OATS. For example, upon receipt of an order, a member must report the number of shares to which the order applies, any limit or stop price prescribed in the order, special handling requests, and the time at which the order is received. See Rule 7440(b). Upon the modification or execution of an order, the member must report the time of modification or execution, whether

reporting this information, FINRA believes it is important that FINRA receive this information for display ATSs because the pricing and size changes are being displayed to others and FINRA needs to have an accurate, time sequenced audit trail to reconstruct the displayed market. Therefore, rather than requiring that all ATSs report changes to the price and size of orders as set forth in the initial proposal, FINRA is proposing that only those ATSs that display subscriber orders report changes to the price or size of a displayed order. FINRA believes that this information is particularly relevant to display ATSs, and that this requirement will enhance FINRA's surveillance of displayed ATSs while not imposing undue reporting burdens on non-display ATSs.

Proposed Reporting Requirements Applicable to ATSs that are ADF Trading Centers That Trade NMS Stocks

Finally, FINRA is proposing to require that ATSs that are ADF Trading Centers report information in addition to the requirements for all ATSs and display ATSs described above. Specifically, under the proposed rule, if a change to the displayed size or price of an order resulted in a new quote being transmitted to the ADF, the ADF Trading Center would be required to report the quote identifier provided to the ADF. In addition, an ADF Trading Center would be required to provide 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), (e.g., another order is cancelled making the order being held the best priced order in the matching engine). The following example illustrates the operation of this last provision:

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the order was fully or partially executed, the number of unexecuted shares remaining if the order was only partially executed, and the execution price. See Rule 7440(d).

10:00:01 a.m.: ATS receives order #7896 to buy 500 shares of XYZ at $10.

10:00:02 a.m.: ATS receives order #8521 to buy 500 shares of XYZ at $10.

10:00:03 a.m.: ATS submits a quote to the ADF to buy 1,000 shares of XYZ at $10, and assigns the quote ID of #1234.

The ATS would be required to report the quote ID of #1234 with orders #7896 and #8521 so that FINRA would be able to identify the specific orders that were represented in quote ID #1234.

10:00:20 a.m.: Order #7896 to buy 500 shares at $10 is cancelled.

10:00:21 a.m.: The ATS must update its bid to reflect the cancellation of order #7896. Since quote ID #1234 reflected the now-cancelled order, the ATS must assign a new quote identifier when it updates its bid to reflect the cancellation of order #7896.

10:00:22 a.m.: The ATS updates its quote on the ADF to buy 500 shares of XYZ at $10, and assigns the quote ID of #5678.

The ATS will be required to submit a report to OATS for order #8521 to reflect the new quote ID of #5678 now associated with the order. This report is necessary so that FINRA is able to identify the specific order that is represented in quote ID #5678.

The proposed requirements for ADF Trading Centers largely replicate the requirements applicable to ADF Trading Centers that were proposed in Regulatory Notice 14-51. In response to comments, however, FINRA modified the types of identifiers that ADF Trading Centers are required to report to FINRA. As proposed in Regulatory Notice 14-51 proposal, ADF Trading Centers were required to report, for each order that is part of the displayed bid or offer, the unique identifier that the ADF Trading Center assigned to the order. ADF Trading Centers were also required to report the quote identifier that it provided to the ADF. In this proposal, FINRA is requiring that an ADF Trading Center report the quote identifier that it provided to the ADF if a new order is transmitted to the ADF, or a new quote identifier even when there is no change in the order itself (e.g., another order is cancelled making the order being held the best-priced order in the matching engine). These requirements will enable FINRA to identify all orders that make up a specific quote displayed on the ADF, thereby enhancing

surveillance of the ADF, while not unduly burdening ATSs that are ADF Trading Centers by requiring them to submit their own internal identifiers.

As noted in Item 2 of this filing, FINRA will announce the effective date of the proposed rule change no later than 90 days following Commission approval. The effective date will be no later than 180 days following Commission approval.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,[9] which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 15A(b)(9) of the Act,[10] which requires that FINRA rules not impose any burden on competition that is not necessary or appropriate.

FINRA believes that this proposed rule change is consistent with the Act because it will greatly enhance FINRA's ability to surveil activity occurring within an ATS, and by extension FINRA's ability to surveil for potentially abusive algorithmic trading activity more generally across markets. For example, to effectively conduct quotation-based surveillance such as layering and quote spoofing, FINRA needs access to comprehensive order information and to the identity of firms that are generating ATS quotations. The proposed rule change would address such information gaps and would provide FINRA with additional information that can be integrated into FINRA's surveillance patterns to support alert generation and analysis. In addition, the proposed

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9 15 U.S.C. 78o-3(b)(6).

10 15 U.S.C. 78o-3(b)(9).

rule change would also increase FINRA's ability to detect the use of a display or non-display ATS by a market participant to further a wide range of other potential market-specific and cross-market manipulative activities that market participants may engage in by placing orders or executing trades on the ATS itself or across multiple ATSs or exchanges. FINRA believes that applying this proposal to NMS stocks is consistent with the Act because the potentially abusive trading activity that the proposal is designed to detect, including, but not limited to, layering, quote spoofing, and mid-point pricing manipulation within ATSs and across markets is of particular concern with respect to NMS stocks.[11] While some of the data required to be reported under the proposed rule change may be captured as part of the Consolidated Audit Trail ("CAT"), FINRA strongly believes that gaps in ATS order book data must be addressed in the near-term, weighing the burdens to firms and the necessity of the change, to ensure effective surveillance of ATSs and by extension abusive algorithmic trading activity more generally across markets. FINRA therefore believes that this ATS reporting requirement should not be delayed due to the future implementation of CAT.[12] To the extent this proposed rule change requires the reporting of information that will also be captured by the CAT, FINRA would sunset the rule upon the implementation of the CAT requirement.

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11 FINRA notes that OATS reporting requirements apply to OTC equity securities, as defined in Rule 6420, in addition to NMS stocks.

12 By its terms, Rule 613 of Regulation NMS, which sets forth the requirements for the CAT, will not require all broker-dealers to report to CAT until three years after the CAT plan is approved. See 17 CFR 242.613 (a)(3)(vi).

4. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed changes will apply equally to all similarly situated ATSs. FINRA also notes that the proposed rule change is designed to assist FINRA in meeting its regulatory obligations by enhancing its ability to efficiently surveil activity occurring within ATSs and across markets.

Economic Impact Assessment

The purpose of the proposed rule change is to enhance FINRA's surveillance of potential abusive trading activity, including, but not limited to, layering, quote spoofing, and mid-point pricing manipulation within ATSs and across markets. Specifically, the proposal requires ATSs to report additional order information to FINRA, such as specific order types, and whether an order can be routed away from the ATS for execution, so that FINRA has the relevant information to reconstruct an ATS's order book for surveillance purposes.

For purposes of this rule proposal, FINRA defines the economic baseline as the current regulatory reporting requirements of an ATS to FINRA. Currently, each ATS has the same reporting requirements to FINRA related to OATS that apply to all FINRA members.[13] For instance, these obligations accrue when an ATS acts as a party to a securities transaction, such as matching buy and sell orders from its subscribers.

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[13] In addition to the OATS reporting requirements, ATSs were required to calculate their volume information pursuant to Rule 4552 through January 31, 2016, and were required to report this data to FINRA by February 9, 2016. FINRA began calculating ATS volume data based on trade reports on February 1, 2016.

Currently, ATSs do not have to notify FINRA of any amendments or additions to existing order types. FINRA requires each member, including an ATS, to associate its order types with one of the existing special handling codes defined in the OATS technical documentation. This association is not perfect, as the conditions on a specific order type offered by a firm or ATS may differ from the approximately 70 special handing codes identified in OATS. [14]

FINRA does not believe that this proposed rule change will impose a significant burden on its member firms that are ATSs. Given the level of order activity generated on ATSs, ATSs currently report a significant amount of order information to OATS. The proposed rule change would require an ATS to supplement its current submissions with the additional information described herein using the existing OATS gateway. In so doing, the proposal minimizes duplication with OATS reporting and the potential impact on ATSs, while providing FINRA with the necessary order information to perform more comprehensive order-based surveillance of ATSs and the market as a whole. FINRA does not believe that this proposed rule change would require ATSs to generate significant new information relating to orders; rather it would require ATSs to report information already compiled as part of operating their order books, and for which the ATSs are already obligated to capture under Regulation ATS.[15] In addition, as described above, FINRA has revised the proposal as published in Regulatory Notice 14-51 so that

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14 See "OATS Reporting Technical Specifications" at http://www.finra.org/sites/default/files/OATSTechSpec_01112016.pdf for a full list of special handling codes

15 See 17 CFR 242.302.

FINRA will obtain order information that will enhance its surveillance of ATS activity, while not imposing undue reporting requirements on ATSs.

FINRA expects that there will be approximately 42 ATSs that will be impacted by the rule change, where they will be required to report additional information at the time of the order receipt and order execution. Of those, five are identified as display ATSs, and therefore will be subject to additional reporting requirements at the time of the order receipt such as whether the order is hidden or displayable, display quantity, reserve quantity, displayed price and price entered.[16] However, based on a series of communications with a sample of ATSs, FINRA understands that ATSs already collect and store such information, including the NBBO at the time of the order receipt and execution.

FINRA also acknowledges that ATSs may incur some costs associated with updating their reporting systems to reflect the new requirements introduced by this rule proposal. However, some of the reporting requirements under this Rule, such as an indicator whether the order can be routed away from the ATS and display size, have already been implemented due to the National Market System Plan to Implement a Tick Size Pilot Program[17], and reporting additional data fields are expected to create marginal reporting costs for member firms that are ATSs. Therefore, the proposed rule change is not expected to create an unnecessary burden on member firms that are ATSs.

As of February 2016, there are no ATSs that are also ADF Trading Centers and

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16 Of the five ATSs that are display ATSs, one ATS is an ECN that displays quotes on an exchange.

17 See Securities Exchange Act Release No. 74892 (May 6, 2015), 80 FR 27514 (May 13, 2015) (File No. 4-657).

the requirements on reporting quote identifiers would not be applicable to the approximately 42 ATSs that are active at time of the writing of this filing.

Pursuant to Section 19(b)(1) of the Act[18] and Rule 19b-4 thereunder[19], exchanges have to file with the SEC when they intend to eliminate, amend and add to the existing order types, modifiers and related references. The proposed rule change introduces similar pre-use reporting requirements for ATSs which currently have no such reporting requirements to FINRA, and hence would impose comparable obligations between execution venues as it relates to the introduction of new order types.[20]

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

This proposal, in addition to another proposal involving OATS order reporting, was published for comment in Regulatory Notice 14-51 (November 2014).[21] Five comments were received in response to the Regulatory Notice.[22] A copy of Regulatory

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18 15 U.S.C. 78s(b)(1).

19 17 CFR 240.19b-4.

20 FINRA notes that, under current Rule 301(b)(2)(ii) of Regulation ATS, ATSs are required to file an amendment on Form ATS at least 20 calendar days prior to implementing a material change to the operation of the ATS. See 17 CFR 242.301(b)(2)(ii)

21 The OATS non-member reporting proposal also described in Regulatory Notice 14-51 is not reflected in the current proposed rule change; consequently, comments on that proposal are not addressed.

22 See Letter from Mark Holder, Managing Director, UBS Securities LLC, to Marcia E. Asquith, Secretary, FINRA dated Feb. 26, 2015 ("UBS Letter"); Letter from Theodore R. Lazo, Managing Director and Associate General Counsel, Securities Industry and Financial Markets Association, to Marcia E. Asquith, Secretary, FINRA dated Feb. 24, 2015 ("SIFMA Letter"); Letter from Manisha Kimmel, Managing Director, Financial Information Forum, to Marcia E. Asquith, Secretary, FINRA dated Feb. 20, 2015 ("FIF Letter"); Letter from John A.

Notice 14-51 is attached as Exhibit 2a. A list of comment letters received in response to Regulatory Notice 14-51 is attached as Exhibit 2b, and copies of the five comment letters that addressed the proposed rule change are attached as Exhibit 2c.

As proposed in Regulatory Notice 14-51, ATSs would be required to report additional order information that is not currently captured in OATS, which would enable FINRA to better recreate the full ATS order book. This would include all events and order attributes that would change the ATS's system quantity (the number of shares of an order, whether displayed or undisplayed, that can currently execute within the ATS), the displayed quantity, highest (buy orders) or lowest (sell orders) price at which the order may be executed, and the displayed price for an order. As initially proposed, an ATS also would have been required to provide, for every order, the associated OATS identifier, which would link information about that order to the related information and full lifecycle reported to OATS. That proposal would have applied to any ATS that accounted for more than 0.25% of consolidated market share in any security over a one-month period. Once an ATS had exceeded the threshold for one security, it would have been required to report order information for all securities for which the ATS receives an order. As proposed, an ATS that triggered the reporting requirement would have had to fall under the 0.25% threshold and remain there for six months before being relieved of its reporting obligation.

McCarthy, General Counsel, KCG Holdings, Inc., to Marcia E. Asquith, Secretary, FINRA dated Feb. 20, 2015 ("KCG Letter"); Letter from Howard Meyerson, General Counsel, Liquidnet Inc., to Marcia E. Asquith, Secretary, FINRA dated Feb. 20, 2015 ("Liquidnet Letter").

While some of the commenters supported the overall goal of increased surveillance of ATSs and increased transparency of ATS operations,[23] all the commenters opposed some aspect of the proposal, with commenters primarily criticizing the proposed requirement that ATSs report re-pricing events for pegged orders. Multiple commenters argued that this part of the proposal would require ATSs to record and generate information that they do not currently capture.[24] Commenters noted that an ATS may not necessarily re-price an order due to a change in the NBBO, especially if it does not display or route orders to other market centers.[25] Commenters noted that the proposal, and particularly the requirement to report re-pricing events for pegged orders, would generate a substantial number of new OATS records, which would place an additional burden on ATSs and might create latency.[26] Liquidnet noted that midpoint pegged orders constitute all of its order flow, and that reporting re-pricings of pegged orders would impose a heavy reporting burden on it.[27] Commenters stated that the new requirements might also necessitate the creation of real-time OATS generation, rather than end-of-day batching.[28]

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23 See KCG Letter at 4; SIFMA Letter at 2; UBS Letter at 1.

24 See FIF Letter at 2, KCG Letter at 4-5; SIFMA Letter at 3; UBS Letter at 2.

25 See FIF Letter at 2; KCG Letter at 4; UBS Letter at 2. One commenter suggested that some of the stated goals of the proposal, e.g., detection of spoofing and layering, may not be applicable to ATSs that do not display or route orders. See FIF Letter at 3.

26 See FIF Letter at 2; KCG Letter at 4; SIFMA Letter at 3-4.

27 See Liquidnet Letter at 2.

28 See FIF Letter at 2; KCG Letter at 5; UBS Letter at 3.

Several commenters also stated that the proposal should be modified to reflect the differences between exchanges and ATSs. Commenters noted that ATSs may use variants of price/time priority, and may also allow subscribers to opt out of executing against certain order flow.[29] As a result, it may appear that an ATS is not executing against available interest. Commenters also noted that the proposal should be modified to reflect the fact that not all ATSs operate similarly, e.g., order handling and execution methodologies may differ among ATSs.[30]

FIF recommended that the proposed 0.25% volume threshold should be modified so that it is consistent with the current fair access threshold of Regulation ATS (ADV of five percent or more of the aggregate average daily share volume) or the Regulation SCI ATS threshold.[31] Liquidnet noted that FINRA already has access to NBBO data and suggested an alternative whereby the ATS could report, in connection with the execution of a midpoint pegged order, the BBO that the ATS referenced to derive its execution price.[32] UBS suggested enhancing existing OATS order attributes, rather than the current proposal, e.g., the addition of special handling codes.[33]

After the close of the comment period, FINRA engaged in discussions with representatives of several ATSs to better understand their concerns with the proposal and

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29 See FIF Letter at 3; SIFMA Letter at 3.

30 Id.

31 See FIF Letter at 2. FIF also suggested that any changes to order reporting should not be undertaken through OATS but through changes to the functionality of CAT. Id. at 3.

32 See Liquidnet Letter at 2.

33 See UBS Letter at 3.

to solicit input on possible alternatives to the proposal. In response to commenters and in furtherance of those discussions, FINRA has amended the proposal in several respects as noted above in Item 3(a). The most significant change is the removal of the requirement for non-displayed ATSs to report changes in price or size, including changes to pegged orders each time the pegging price changes. Based on the comment letters and FINRA's subsequent discussions with several ATSs, such events generally would not be created by an ATS matching engine unless a new order on the opposite side of the market that is eligible to execute against that resting order is received and can match against the resting order. Consequently, the initial requirement to report re-pricing events would have required ATSs to create such events for the specific purpose of reporting to FINRA. FINRA believes that removing the requirement to report changes to price or size for non-displayed ATSs responds to commenters' concerns that the proposal is complex, will significantly impact members' OATS reporting practices, and will require members to create information that they do not currently capture. At the same time, FINRA believes that the revised proposal still enhances FINRA's surveillance capabilities by requiring ATSs that display subscriber orders to report this information. FINRA believes that this information is particularly relevant to display ATSs, and that FINRA does not currently possess this information.

FINRA has also amended the proposal to remove the volume-based threshold that would trigger the reporting requirements. FINRA believes that removing the reporting threshold will increase the number of ATSs that report the proposed order information, and by extension increase FINRA's ability to enhance its surveillance of trading and order activity occurring on or through ATSs. At the same time, FINRA notes that

removing the proposed reporting threshold should not significantly impact the reporting status of most ATSs, since the majority of ATSs would have satisfied the proposed reporting requirement. To the extent that FINRA is distinguishing among ATSs in setting forth reporting requirements, FINRA believes that a more useful distinction is between non-display and display ATSs, as it is currently proposing.

6. Extension of Time Period for Commission Action

FINRA does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.[34]

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)

Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 2a. Regulatory Notice 14-51 (November 2014)

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[34] 15 U.S.C. 78s(b)(2).

Exhibit 2b. List of comments received in response to Regulatory Notice 14-51.

Exhibit 2c. Comments received in response to Regulatory Notice 14-51.

Exhibit 5. Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-FINRA-2016-010)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Adopt FINRA Rule 4554 (Alternative Trading Systems - Recording and Reporting Requirements of Order and Execution Information for NMS Stocks)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on , Financial Industry Regulatory Authority, Inc. ("FINRA") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to adopt FINRA Rule 4554 to require alternative trading systems ("ATSs") to submit additional order information to FINRA.

The text of the proposed rule change is available on FINRA's website at http://www.finra.org, at the principal office of FINRA and at the Commission's Public Reference Room.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

FINRA is proposing to adopt FINRA Rule 4554 to require ATSs to report additional order information to FINRA. While ATSs already submit order information to FINRA that is required by the Order Audit Trail System ("OATS") rules, there is additional order information not currently required to be reported to OATS, such as order re-pricing events (e.g., changes to an order that is pegged to the National Best Bid or Offer ("NBBO")) and order display and reserve size information, that, if available to FINRA, would greatly enhance FINRA's ability to perform certain order-based surveillance, including layering, quote spoofing and mid-point pricing manipulation surveillance, by enabling FINRA to more fully reconstruct an ATS's order book. FINRA therefore is proposing to require ATSs to report additional ATS-specific data elements in existing OATS reports for orders in NMS stocks. ATSs would be required to report this information to FINRA consistent with current OATS reporting requirements (no later than 8:00 a.m. Eastern Time on the calendar day following receipt of the order in an electronic form as prescribed by FINRA).

As described in more detail in Item C, FINRA initially solicited comment on this proposal in Regulatory Notice 14-51.[3] Based on concerns raised by commenters about potential burdens associated with the original proposal, FINRA has revised the original proposal to narrow some aspects of the order information required to be reported while still enhancing FINRA's ability to reconstruct an ATS's order book for surveillance purposes. The proposal sets forth four categories of 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 by ATSs that display subscriber orders; and (4) data specific to ATSs that are registered as ADF Trading Centers. The proposed requirements would apply to order and execution information for NMS stocks.[4]

Proposed Order Receipt Reporting Requirements Applicable to All ATSs That Trade NMS Stocks

The first category of proposed changes applies to all ATSs when reporting the receipt of an order to OATS. Specifically, the proposed rule would require each ATS to indicate on all orders received whether it displays subscriber orders outside of the ATS (other than to alternative trading system employees).[5] This requirement will enable FINRA to distinguish between ATSs that display orders outside the ATS, either to subscribers or through consolidated quote data ("display ATS") and ATSs that do not

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3 See Regulatory Notice 14-51 (November 2014).

4 See 17 CFR 242.600(b)(47).

5 The proposed requirements apply to 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 is subject to FINRA's OATS and equity trade reporting rules. See 17 CFR 242.300(a)(1).

For purposes of this rule, the term "order" includes a broker-dealer's proprietary quotes that are transmitted to an ATS.

display orders outside the ATS ("non-display ATS").[6] A display ATS would also indicate whether the order book is displayed to subscribers only, or distributed for publication in the consolidated quotation data. Each ATS would also be required to identify whether it is an ADF Trading Center as defined in FINRA Rule 6220. An ATS would make these determinations on a general basis, but would provide this information through flags submitted on every order event. Each ATS also would be required to identify whether a specific order can be routed away from the ATS for execution, and whether there are any counter-party restrictions on the order. ATSs would also be required to provide FINRA with a unique identifier representing the specific order type other than market and limit orders that have no other special handling instructions. In order for FINRA to map the identifier to a specific order type, an ATS will also be required to provide FINRA with a list of all of its order types twenty days before such order types become effective, and if the ATS makes any subsequent changes to its order types, twenty days before such changes become effective.[7]

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6 If an ATS meets the applicable volume thresholds, it is required to make its best bid and best offer available for publication in the consolidated quotation data. See 17 CFR 242.301(b)(3).

7 In a Regulatory Notice announcing the implementation of this proposal, FINRA will provide a deadline prior to the implementation date by which current ATSs must initially submit lists of their existing order types to FINRA.

FINRA notes that, under current Rule 301(b)(2)(ii) of Regulation ATS, ATSs are required to file an amendment on Form ATS at least 20 calendar days prior to implementing a material change to the operation of the ATS. See 17 CFR 242.301(b)(2)(ii). In the adopting release for Regulation NMS, the Commission noted that a material change to the operation of the ATS would include any change to: the operating platform of the ATSs, the types of securities traded, or the types of subscribers. The Commission also noted that ATSs implicitly make materiality decisions in determining when to notify their subscribers of changes. See Securities Exchange Act Release No. 40760 (December 8, 1998) 63 FR 70844, 70864 (December 22, 1998). Under a proposed rule that would alter the

An ATS also would be required to report, for all orders, the 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); as part of this report, the ATS must identify the market data feed it used to obtain the NBBO (or relevant reference price).[8] FINRA believes that there may be some time difference, however small, between the time that an ATS receives an order and places it on the order book, and the time that the ATS records the NBBO. Reporting both fields will enable FINRA to ascertain if the NBBO changed between the time of order receipt and the time the ATS captured the effective NBBO.

If, for any reason, the ATS uses an alternative feed to the one 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(s), time(s) and securities for which the alternative source was used. Finally, each ATS would be required to provide the sequence number assigned to the order event by the ATS's matching engine.

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reporting requirements for ATSs that trade NMS stocks, an ATS would be required to amend its effective form at least 30 calendar days prior to the date of implementation of a material change to the operations of the ATS or to the activities of the broker-dealer operator or its affiliates that are subject to disclosure on the form. The Commission stated that a scenario that is likely to implicate a material change to the operations of an ATS would likely include the introduction or removal of a new order type on the ATS. See Regulation of NMS Stock Alternative Trading Systems, Securities Exchange Act Release No. 76474 (November 18, 2015), 80 FR 80998, 81027-28 (December 28, 2015).

8 An ATS may use a relevant reference price other than the NBBO if, for example, it pegs to the primary market for a security or pegs to the Protected Best Bid or Offer.

Proposed Order Execution Reporting Requirements Applicable to All ATSs That Trade NMS Stocks

The second category of proposed changes applies to all ATSs when reporting the execution of an order to OATS. Specifically, each ATS must record and report the NBBO (or relevant reference price) in effect at the time of order execution, and the timestamp of when the ATS captured the effective NBBO (or relevant reference price). An ATS must identify the market data feed used by the ATS to obtain the NBBO (or other reference price). If for any reason, the ATS uses an alternative feed than the one 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(s), time(s) and securities for which the alternative source was used.

Proposed Reporting Requirements Applicable to Display ATSs That Trade NMS Stocks

The third category of changes applies only to display ATSs and requires that those ATSs report the following additional order receipt information: (1) whether the order is hidden or displayable; (2) display quantity; (3) reserve quantity, if applicable; (4) displayed price; and (5) the price entered. If the matching engine re-prices a displayed order or changes the display quantity of a displayed order, the ATS must report the time of such modification and the applicable new display price or size.

The initial proposal applied these requirements to both display and non-display ATSs and would have required reporting of all changes to the price and size of orders, whether or not displayed. Commenters raised concerns with these proposed requirements, especially those related to non-displayed orders, because they would have required ATSs to record and report information that they indicated that they do not

currently capture.[9] While FINRA understands the additional burdens associated with reporting this information, FINRA believes it is important that FINRA receive this information for display ATSs because the pricing and size changes are being displayed to others and FINRA needs to have an accurate, time sequenced audit trail to reconstruct the displayed market. Therefore, rather than requiring that all ATSs report changes to the price and size of orders as set forth in the initial proposal, FINRA is proposing that only those ATSs that display subscriber orders report changes to the price or size of a displayed order. FINRA believes that this information is particularly relevant to display ATSs, and that this requirement will enhance FINRA's surveillance of displayed ATSs while not imposing undue reporting burdens on non-display ATSs.

Proposed Reporting Requirements Applicable to ATSs that are ADF Trading Centers That Trade NMS Stocks

Finally, FINRA is proposing to require that ATSs that are ADF Trading Centers report information in addition to the requirements for all ATSs and display ATSs described above. Specifically, under the proposed rule, if a change to the displayed size

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9 FINRA notes that ATSs are currently required to capture and maintain several categories of order-specific information for both displayed and non-displayed orders. For example, ATSs are required to capture the time an order was received, the number of shares to which the order applies, any limit or stop price prescribed by the order, any instructions to modify or cancel the order, the time the order was executed, the price at which the order was executed, and the size at which the order was executed. See 17 CFR 242.302(c).

Similarly, ATSs are currently required to report a variety of order-specific information to FINRA via OATS. For example, upon receipt of an order, a member must report the number of shares to which the order applies, any limit or stop price prescribed in the order, special handling requests, and the time at which the order is received. See Rule 7440(b). Upon the modification or execution of an order, the member must report the time of modification or execution, whether the order was fully or partially executed, the number of unexecuted shares remaining if the order was only partially executed, and the execution price. See Rule 7440(d).

or price of an order resulted in a new quote being transmitted to the ADF, the ADF Trading Center would be required to report the quote identifier provided to the ADF. In addition, an ADF Trading Center would be required to provide 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), (e.g., another order is cancelled making the order being held the best priced order in the matching engine). The following example illustrates the operation of this last provision:

> 10:00:01 a.m.: ATS receives order #7896 to buy 500 shares of XYZ at $10.
>
> 10:00:02 a.m.: ATS receives order #8521 to buy 500 shares of XYZ at $10.
>
> 10:00:03 a.m.: ATS submits a quote to the ADF to buy 1,000 shares of XYZ at $10, and assigns the quote ID of #1234.
>
> The ATS would be required to report the quote ID of #1234 with orders #7896 and #8521 so that FINRA would be able to identify the specific orders that were represented in quote ID #1234.
>
> 10:00:20 a.m.: Order #7896 to buy 500 shares at $10 is cancelled.
>
> 10:00:21 a.m.: The ATS must update its bid to reflect the cancellation of order #7896. Since quote ID #1234 reflected the now-cancelled order, the ATS must assign a new quote identifier when it updates its bid to reflect the cancellation of order #7896.
>
> 10:00:22 a.m.: The ATS updates its quote on the ADF to buy 500 shares of XYZ at $10, and assigns the quote ID of #5678.
>
> The ATS will be required to submit a report to OATS for order #8521 to reflect the new quote ID of #5678 now associated with the order. This report is necessary so that FINRA is able to identify the specific order that is represented in quote ID #5678.

The proposed requirements for ADF Trading Centers largely replicate the requirements applicable to ADF Trading Centers that were proposed in Regulatory Notice 14-51. In response to comments, however, FINRA modified the types of identifiers that ADF Trading Centers are required to report to FINRA. As proposed in Regulatory Notice 14-51 proposal, ADF Trading Centers were required to report, for

each order that is part of the displayed bid or offer, the unique identifier that the ADF Trading Center assigned to the order. ADF Trading Centers were also required to report the quote identifier that it provided to the ADF. In this proposal, FINRA is requiring that an ADF Trading Center report the quote identifier that it provided to the ADF if a new order is transmitted to the ADF, or a new quote identifier even when there is no change in the order itself (e.g., another order is cancelled making the order being held the best-priced order in the matching engine). These requirements will enable FINRA to identify all orders that make up a specific quote displayed on the ADF, thereby enhancing surveillance of the ADF, while not unduly burdening ATSs that are ADF Trading Centers by requiring them to submit their own internal identifiers.

If the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change no later than 90 days following Commission approval. The effective date will be no later than 180 days following Commission approval.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,[10] which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 15A(b)(9) of the Act,[11] which requires that FINRA rules not impose any burden on competition that is not necessary or appropriate.

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10 15 U.S.C. 78o-3(b)(6).

11 15 U.S.C. 78o-3(b)(9).

FINRA believes that this proposed rule change is consistent with the Act because it will greatly enhance FINRA's ability to surveil activity occurring within an ATS, and by extension FINRA's ability to surveil for potentially abusive algorithmic trading activity more generally across markets. For example, to effectively conduct quotation-based surveillance such as layering and quote spoofing, FINRA needs access to comprehensive order information and to the identity of firms that are generating ATS quotations. The proposed rule change would address such information gaps and would provide FINRA with additional information that can be integrated into FINRA's surveillance patterns to support alert generation and analysis. In addition, the proposed rule change would also increase FINRA's ability to detect the use of a display or non-display ATS by a market participant to further a wide range of other potential market-specific and cross-market manipulative activities that market participants may engage in by placing orders or executing trades on the ATS itself or across multiple ATSs or exchanges.

FINRA believes that applying this proposal to NMS stocks is consistent with the Act because the potentially abusive trading activity that the proposal is designed to detect, including, but not limited to, layering, quote spoofing, and mid-point pricing manipulation within ATSs and across markets is of particular concern with respect to NMS stocks.[12] While some of the data required to be reported under the proposed rule change may be captured as part of the Consolidated Audit Trail ("CAT"), FINRA strongly believes that gaps in ATS order book data must be addressed in the near-term, weighing the burdens to firms and the necessity of the change, to ensure effective

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12 FINRA notes that OATS reporting requirements apply to OTC equity securities, as defined in Rule 6420, in addition to NMS stocks.

surveillance of ATSs and by extension abusive algorithmic trading activity more generally across markets. FINRA therefore believes that this ATS reporting requirement should not be delayed due to the future implementation of CAT.[13] To the extent this proposed rule change requires the reporting of information that will also be captured by the CAT, FINRA would sunset the rule upon the implementation of the CAT requirement.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed changes will apply equally to all similarly situated ATSs. FINRA also notes that the proposed rule change is designed to assist FINRA in meeting its regulatory obligations by enhancing its ability to efficiently surveil activity occurring within ATSs and across markets.

Economic Impact Assessment

The purpose of the proposed rule change is to enhance FINRA's surveillance of potential abusive trading activity, including, but not limited to, layering, quote spoofing, and mid-point pricing manipulation within ATSs and across markets. Specifically, the proposal requires ATSs to report additional order information to FINRA, such as specific order types, and whether an order can be routed away from the ATS for execution, so that FINRA has the relevant information to reconstruct an ATS's order book for surveillance purposes.

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13 By its terms, Rule 613 of SEC Regulation NMS, which sets forth the requirements for the CAT, will not require all broker-dealers to report to CAT until three years after the CAT plan is approved. See 17 CFR 242.613 (a)(3)(vi).

For purposes of this rule proposal, FINRA defines the economic baseline as the current regulatory reporting requirements of an ATS to FINRA. Currently, each ATS has the same reporting requirements to FINRA related to OATS that apply to all FINRA members.[14] For instance, these obligations accrue when an ATS acts as a party to a securities transaction, such as matching buy and sell orders from its subscribers. Currently, ATSs do not have to notify FINRA of any amendments or additions to existing order types. FINRA requires each member, including an ATS, to associate its order types with one of the existing special handling codes defined in the OATS technical documentation. This association is not perfect, as the conditions on a specific order type offered by a firm or ATS may differ from the approximately 70 special handing codes identified in OATS. [15]

FINRA does not believe that this proposed rule change will impose a significant burden on its member firms that are ATSs. Given the level of order activity generated on ATSs, ATSs currently report a significant amount of order information to OATS. The proposed rule change would require an ATS to supplement its current submissions with the additional information described herein using the existing OATS gateway. In so doing, the proposal minimizes duplication with OATS reporting and the potential impact on ATSs, while providing FINRA with the necessary order information to perform more comprehensive order-based surveillance of ATSs and the market as a whole. FINRA

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14 In addition to the OATS reporting requirements, ATSs were required to calculate their volume information pursuant to Rule 4552 through January 31, 2016, and were required to report this data to FINRA by February 9, 2016. FINRA began calculating ATS volume data based on trade reports on February 1, 2016.

15 See "OATS Reporting Technical Specifications" at http://www.finra.org/sites/default/files/OATSTechSpec_01112016.pdf for a full list of special handling codes.

does not believe that this proposed rule change would require ATSs to generate significant new information relating to orders; rather it would require ATSs to report information already compiled as part of operating their order books, and for which the ATSs are already obligated to capture under Regulation ATS.[16] In addition, as described above, FINRA has revised the proposal as published in Regulatory Notice 14-51 so that FINRA will obtain order information that will enhance its surveillance of ATS activity, while not imposing undue reporting requirements on ATSs.

FINRA expects that there will be approximately 42 ATSs that will be impacted by the rule change, where they will be required to report additional information at the time of the order receipt and order execution. Of those, five are identified as display ATSs, and therefore will be subject to additional reporting requirements at the time of the order receipt such as whether the order is hidden or displayable, display quantity, reserve quantity, displayed price and price entered.[17] However, based on a series of communications with a sample of ATSs, FINRA understands that ATSs already collect and store such information, including the NBBO at the time of the order receipt and execution.

FINRA also acknowledges that ATSs may incur some costs associated with updating their reporting systems to reflect the new requirements introduced by this rule proposal. However, some of the reporting requirements under this Rule, such as an indicator whether the order can be routed away from the ATS and display size, have already been implemented due to the National Market System Plan to Implement a Tick

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16 See 17 CFR 242.302.

17 Of the five ATSs that are display ATSs, one ATS is an ECN that displays quotes on an exchange.

Size Pilot Program[18], and reporting additional data fields are expected to create marginal reporting costs for member firms that are ATSs. Therefore, the proposed rule change is not expected to create an unnecessary burden on member firms that are ATSs.

As of February 2016, there are no ATSs that are also ADF Trading Centers and the requirements on reporting quote identifiers would not be applicable to the approximately 42 ATSs that are active at the time of the writing of this filing.

Pursuant to Section 19(b)(1) of the Act[19] and Rule 19b-4 thereunder,[20] exchanges have to file with the SEC when they intend to eliminate, amend and add to the existing order types, modifiers and related references. The proposed rule change introduces similar pre-use reporting requirements for ATSs which currently have no such reporting requirements to FINRA, and hence would impose comparable obligations between execution venues as it relates to the introduction of new order types.[21]

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

This proposal, in addition to another proposal involving OATS order reporting, was published for comment in Regulatory Notice 14-51 (November 2014).[22] Five

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18 See Securities Exchange Act Release No. 74892 (May 6, 2015), 80 FR 27514 (May 13, 2015) (File No. 4-657).

19 15 U.S.C. 78s(b)(1).

20 17 CFR 240.19b-4.

21 FINRA notes that, under current Rule 301(b)(2)(ii) of SEC Regulation ATS, ATSs are required to file an amendment on Form ATS at least 20 calendar days prior to implementing a material change to the operation of the ATS. See 17 CFR 242.301(b)(2)(ii).

22 The OATS non-member reporting proposal also described in Regulatory Notice 14-51 is not reflected in the current proposed rule change; consequently, comments on that proposal are not addressed.

comments were received in response to the Regulatory Notice.[23] A copy of Regulatory Notice 14-51 is attached as Exhibit 2a. A list of comment letters received in response to Regulatory Notice 14-51 is attached as Exhibit 2b, and copies of the five comment letters that addressed the proposed rule change are attached as Exhibit 2c.

As proposed in Regulatory Notice 14-51, ATSs would be required to report additional order information that is not currently captured in OATS, which would enable FINRA to better recreate the full ATS order book. This would include all events and order attributes that would change the ATS's system quantity (the number of shares of an order, whether displayed or undisplayed, that can currently execute within the ATS), the displayed quantity, highest (buy orders) or lowest (sell orders) price at which the order may be executed, and the displayed price for an order. As initially proposed, an ATS also would have been required to provide, for every order, the associated OATS identifier, which would link information about that order to the related information and full lifecycle reported to OATS. That proposal would have applied to any ATS that accounted for more than 0.25% of consolidated market share in any security over a one-month period. Once an ATS had exceeded the threshold for one security, it would have been required to report order information for all securities for which the ATS receives an

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[23] See Letter from Manisha Kimmel, Managing Director, Financial Information Forum, to Marcia E. Asquith, Secretary, FINRA, dated February 20, 2015 ("FIF"); Letter from John A. McCarthy, General Counsel, KCG Holdings, Inc., to Marcia E. Asquith, Secretary, FINRA, dated February 20, 2015 ("KCG"); Letter from Howard Meyerson, General Counsel, Liquidnet Inc., to Marcia E. Asquith, Secretary, FINRA, dated February 20, 2015 ("Liquidnet"); Letter from Theodore R. Lazo, Managing Director and Associate General Counsel, Securities Industry and Financial Markets Association, to Marcia E. Asquith, Secretary, FINRA, dated February 24, 2015 ("SIFMA"); and Letter from Mark Holder, Managing Director, UBS Securities LLC, to Marcia E. Asquith, Secretary, FINRA, dated February 26, 2015 ("UBS").

order. As proposed, an ATS that triggered the reporting requirement would have had to fall under the 0.25% threshold and remain there for six months before being relieved of its reporting obligation.

While some of the commenters supported the overall goal of increased surveillance of ATSs and increased transparency of ATS operations,[24] all the commenters opposed some aspect of the proposal, with commenters primarily criticizing the proposed requirement that ATSs report re-pricing events for pegged orders. Multiple commenters argued that this part of the proposal would require ATSs to record and generate information that they do not currently capture.[25] Commenters noted that an ATS may not necessarily re-price an order due to a change in the NBBO, especially if it does not display or route orders to other market centers.[26] Commenters noted that the proposal, and particularly the requirement to report re-pricing events for pegged orders, would generate a substantial number of new OATS records, which would place an additional burden on ATSs and might create latency.[27] Liquidnet noted that midpoint pegged orders constitute all of its order flow, and that reporting re-pricings of pegged orders would impose a heavy reporting burden on it.[28] Commenters stated that the new requirements

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24 See KCG Letter at 4; SIFMA Letter at 2; UBS Letter at 1.

25 See FIF Letter at 2, KCG Letter at 4-5; SIFMA Letter at 3; UBS Letter at 2.

26 See FIF Letter at 2; KCG Letter at 4; UBS Letter at 2. One commenter suggested that some of the stated goals of the proposal, e.g., detection of spoofing and layering, may not be applicable to ATSs that do not display or route orders. See FIF Letter at 3.

27 See FIF Letter at 2; KCG Letter at 4; SIFMA Letter at 3-4.

28 See Liquidnet Letter at 2.

might also necessitate the creation of real-time OATS generation, rather than end-of-day batching.[29]

Several commenters also stated that the proposal should be modified to reflect the differences between exchanges and ATSs. Commenters noted that ATSs may use variants of price/time priority, and may also allow subscribers to opt out of executing against certain order flow.[30] As a result, it may appear that an ATS is not executing against available interest. Commenters also noted that the proposal should be modified to reflect the fact that not all ATSs operate similarly, e.g., order handling and execution methodologies may differ among ATSs.[31]

FIF recommended that the proposed 0.25% volume threshold should be modified so that it is consistent with the current fair access threshold of Regulation ATS (ADV of five percent or more of the aggregate average daily share volume) or the Regulation SCI ATS threshold.[32] Liquidnet noted that FINRA already has access to NBBO data and suggested an alternative whereby the ATS could report, in connection with the execution of a midpoint pegged order, the BBO that the ATS referenced to derive its execution

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29 See FIF Letter at 2; KCG Letter at 5; UBS Letter at 3.

30 See FIF Letter at 3; SIFMA Letter at 3.

31 See supra note 28.

32 See FIF Letter at 2. FIF also suggested that any changes to order reporting should not be undertaken through OATS but through changes to the functionality of CAT. See FIF Letter at 3.

price.[33] UBS suggested enhancing existing OATS order attributes, rather than the current proposal, e.g., the addition of special handling codes.[34]

After the close of the comment period, FINRA engaged in discussions with representatives of several ATSs to better understand their concerns with the proposal and to solicit input on possible alternatives to the proposal. In response to commenters and in furtherance of those discussions, FINRA has amended the proposal in several respects as noted above in Item II.A.1. The most significant change is the removal of the requirement for non-displayed ATSs to report changes in price or size, including changes to pegged orders each time the pegging price changes. Based on the comment letters and FINRA's subsequent discussions with several ATSs, such events generally would not be created by an ATS matching engine unless a new order on the opposite side of the market that is eligible to execute against that resting order is received and can match against the resting order. Consequently, the initial requirement to report re-pricing events would have required ATSs to create such events for the specific purpose of reporting to FINRA. FINRA believes that removing the requirement to report changes to price or size for non-displayed ATSs responds to commenters' concerns that the proposal is complex, will significantly impact members' OATS reporting practices, and will require members to create information that they do not currently capture. At the same time, FINRA believes that the revised proposal still enhances FINRA's surveillance capabilities by requiring ATSs that display subscriber orders to report this information. FINRA believes that this

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33 See Liquidnet Letter at 2.

34 See UBS Letter at 3.

information is particularly relevant to display ATSs, and that FINRA does not currently possess this information.

FINRA has also amended the proposal to remove the volume-based threshold that would trigger the reporting requirements. FINRA believes that removing the reporting threshold will increase the number of ATSs that report the proposed order information, and by extension increase FINRA's ability to enhance its surveillance of trading and order activity occurring on or through ATSs. At the same time, FINRA notes that removing the proposed reporting threshold should not significantly impact the reporting status of most ATSs, since the majority of ATSs would have satisfied the proposed reporting requirement. To the extent that FINRA is distinguishing among ATSs in setting forth reporting requirements, FINRA believes that a more useful distinction is between non-display and display ATSs, as it is currently proposing.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2016-010 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Robert W. Errett, Deputy Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2016-010. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street,

NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2016-010 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[35]

Robert W. Errett
Deputy Secretary

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35 17 CFR 200.30-3(a)(12).

Regulatory Notice 14-51

Equity Trading Initiatives: OATS and ATS Reporting Requirements

FINRA Requests Comment on Proposed FINRA Rules Requiring the Identification of Non-Member Broker-Dealers in Order Audit Trail System (OATS) Reports and the Reporting of Additional Order Information by Alternative Trading Systems (ATS)

Comment Period Expires: January 13, 2015

November 2014

Notice Type
- Request for Comment

Suggested Routing
- Compliance
- Legal
- Operations
- Senior Management
- Trading

Key Topics
- Alternative Trading Systems
- Non-Member Broker-Dealers
- OATS

Referenced Rules & Notices
- FINRA Rule 6250
- FINRA Rule 7440
- SEA Rule 15c3-5
- SEA Rule 301
- SEA Rule 302
- SEA Rule 613

Executive Summary

FINRA is requesting comment on proposed amendments to the OATS rules that would require member firms to report additional information to OATS. Specifically, FINRA is proposing to amend the OATS rules to require members to identify non-member broker-dealers when reporting orders received from such entities. FINRA is also proposing to require ATSs to provide FINRA with additional order book information using existing OATS interfaces.

The text of the proposed rules is set forth in Attachment A.

Questions concerning this *Notice* should be directed to:

- Shelly Bohlin, Vice President, Market Analysis and Audit Trail Group, Market Regulation, at (240) 386-5029; or
- Andrew Madar, Associate General Counsel, Office of General Counsel (OGC), at (202) 728-8056.

Action Requested

FINRA encourages all interested parties to comment on the proposal. Comments must be received by January 13, 2015.

Comments must be submitted through one of the following methods:

- Emailing comments to *pubcom@finra.org*; or
- Mailing comments in hard copy to:

  Marcia E. Asquith
  Office of the Corporate Secretary
  FINRA
  1735 K Street, NW
  Washington, DC 20006-1506

To help FINRA process comments more efficiently, persons should use only one method to comment on the proposal.

Important Notes: All comments received in response to this *Notice* will be made available to the public on the FINRA website. In general, FINRA will post comments as they are received.[1]

Before becoming effective, a proposed rule change must be authorized for filing with the Securities and Exchange Commission (SEC) by the FINRA Board of Governors, and then must be filed with the SEC pursuant to Section 19(b) of the Securities Exchange Act of 1934 (SEA or Exchange Act).[2]

Background and Discussion

The proposals set forth in this *Notice* are two of seven FINRA initiatives relating to equity market structure and automated trading activities including high frequency trading (HFT).[3] These initiatives are designed to increase the scope of trading information FINRA receives, provide more transparency into trading activities to market participants and investors and require firms engaged in electronic trading and their employees to be trained, educated and accountable for their role in equity trading. The first proposal would require FINRA members (Reporting Members) that are reporting an order received from a broker-dealer that is not a FINRA member (non-member broker-dealer) to identify the non-member broker-dealer as part of their OATS report. The second proposal would require ATSs to report additional information related to orders received by the ATS using existing OATS interfaces.

Identification of Non-Member Broker-Dealers to OATS

FINRA is proposing to require a Reporting Member that is reporting an order received from a non-member broker-dealer to identify the non-member broker-dealer as part of their OATS report. Currently, through the use of OATS and data provided to FINRA by exchanges, FINRA is able to identify with specificity the activity of FINRA member broker-dealers across market centers. However, FINRA cannot identify with specificity non-member broker-dealer activity in the over-the-counter market (OTC), or non-member broker-dealer sponsored access activity, since Reporting Members are not required to report non-member broker-dealers' identities to OATS.[4] Consequently, FINRA is not able to consistently identify non-member broker-dealer activity and therefore cannot see a complete view of such activities conducted through FINRA members.

Although Reporting Members report orders they receive from non-member broker-dealers, these reports do not contain the identity of the non-member broker-dealer from which the order was received. Under the proposal, FINRA members receiving orders from non-member broker-dealers would be required to identify the non-member broker-dealer in their OATS reports.[5] Members would identify the non-member broker-dealer by including a unique non-member identifier on the OATS report that will allow FINRA to obtain the identity of the non-member broker-dealer. This identifier would either be an existing SRO-assigned identifier such as a market participant identifier (MPID), or if a non-member broker-dealer does not have an SRO-assigned identifier that is available to FINRA, the Central Registration Depository (CRD) number of the non-member broker-dealer.[6]

FINRA believes that this proposal will significantly improve its ability to support cross-market surveillance and monitor OTC trading by specifically identifying broker-dealers responsible for order activity. FINRA members receive a substantial amount of order flow from non-member broker-dealers, particularly in connection with ATS and sponsored access activity,[7] and this proposal will enable FINRA to identify and aggregate on an automated basis when a FINRA member's activities involve non-member broker-dealer activities.[8] In addition, this additional information will allow FINRA to more readily detect potentially violative trading activity by those entities for potential enforcement action or referral to appropriate regulatory authorities as well as enable FINRA to more effectively determine whether members are complying with their regulatory obligations, including, for example, the implementation of effective risk management controls under SEA Rule 15c3-5.[9] This requirement may also reduce the number of false alerts generated by surveillance patterns when non-member broker-dealer activity is included in surveillance information by permitting surveillance patterns to more accurately account for the specific broker-dealer that is responsible for the activity.

FINRA recognizes that this proposal will require firms to obtain and submit a unique identifier when submitting an OATS report for an order received from a non-member broker-dealer. FINRA notes, however, that unique identifiers currently exist for non-member broker-dealers, and are generally readily obtainable by the member firm trading with the non-member broker-dealer. FINRA also notes that some members already provide non-member broker-dealer identifiers for orders received from non-member broker-dealers.[10] For these reasons, FINRA preliminarily believes that this proposal will not have a significant impact on Reporting Members or their reporting practices, but is soliciting comment on the impact of this proposal on Reporting Members.

Reporting of Additional Order Information by ATSs

ATSs currently submit order information relating to activity occurring on or through the ATS to FINRA through OATS.[11] However, there are several data elements that are not required to be reported to OATS, such as order re-pricing events (*e.g.*, an order that is pegged to the National Best Bid or Offer) and order display and reserve size. Because these components of, or changes to, an ATSs order book are not reported, FINRA is not able to use existing OATS data to fully reconstruct an ATS order book for surveillance purposes. Obtaining this additional information from ATSs would allow FINRA to use information in automated surveillance of ATSs, including trading manipulation surveillance.[12]

To enhance its ability to surveil ATS activity on an automated basis, FINRA is proposing to require ATSs that exceed a certain volume threshold to report additional order information in a manner that will supplement and link to the information currently reported by an ATS to OATS. Rather than requiring ATSs to establish a separate reporting structure for this new data, it would be reported to FINRA using existing OATS interfaces, which FINRA believes will minimize any potential duplicative reporting.[13]

The order reporting requirements would apply to any ATS (whether considered a "lit" ATS or a "dark pool")[14] that accounts for more than 0.25 percent of consolidated market share in any security over a one-month period.[15] Once an ATS has exceeded the threshold for one security, it would be required to report order information for all securities for which the ATS receives an order. An ATS that has triggered the reporting requirement would have to fall under the 0.25 percent threshold and remain there for six months before being relieved of its reporting obligation.

Under the proposal, ATSs exceeding the volume requirement would be required to report all events and order attributes that would change the ATS's system quantity (the number of shares of an order, whether displayed or undisplayed, that can currently execute within the ATS), the displayed quantity, the highest (buy orders) or lowest (sell orders) price at which the order can currently execute within the ATS, and the displayed price for an order. An ATS also would provide, for every order, the ATS book sequence identifier and the associated OATS identifier, which will link information about that order to the related information and full lifecycle reported to OATS.[16]

FINRA believes that this proposal will greatly enhance its ability to surveil activity occurring within an ATS, and by extension HFT and algorithmic trading activity more generally across markets. Among other things, the additional information provided under the proposal will enable FINRA to more effectively conduct automated surveillance involving ATSs, and to detect market-specific and cross-market manipulative activities. Given the significant role of ATSs in the current market structure, FINRA believes the proposed additional information will greatly enhance its ability to monitor and reconstruct trading activities occurring on or through an ATS.[17]

FINRA recognizes that the proposal may create or increase costs related to technological capabilities or system enhancements for reporting and compliance for members that are ATSs or that operate ATSs that exceed the volume thresholds noted above. These members will have to transmit additional order information to FINRA on a daily basis. Consequently, FINRA is soliciting comment on the impact of this proposal on members as well as on whether other approaches to obtaining ATS order book information exist, and the benefits and economic impact of such approaches.

Request for Comments

FINRA seeks comments on the proposals outlined above. In addition to general comments, FINRA specifically requests comments on the following questions:

Identification of Non-Member Broker-Dealers to OATS

- What kinds of costs would Reporting Members incur in complying with the proposed requirement to report the identity of non-member broker-dealers when receiving orders from such entities? Would these costs differ based on the member's business model? Please provide any estimates of these costs and associated assumptions underlying the estimates.
- Are there alternative methods or approaches that would provide FINRA with this same type of information? What are the economic impacts associated with these alternatives?
- What is the process by which a member firm obtains the identifier of a non-member broker-dealer? Would FINRA need to provide additional tools or information to Reporting Members in order for them to comply with the requirement?
- What other impacts would this proposal have on Reporting Members?

Reporting of Additional Order Information by ATSs

- What are the potential impacts on members of the proposal to require the reporting of ATS order book information? What kinds of costs would members incur in connection with this proposal? Do these costs differ depending on the member's business model? Please provide any estimates of these costs and associated assumptions underlying the estimates.
- In reporting ATS order book information, would members be required to generate new order information? To the extent that members will be required to code and transmit ATS order book information pursuant to FINRA OATS specifications, what impact will this have on members?
- Should the proposal require the reporting of all ATS order book information, or is there a benefit to excluding lower-volume ATSs from the reporting requirement? Is the proposed volume threshold an appropriate measure or should the volume threshold be higher or lower? Are there alternative threshold measures that FINRA should consider? What are the economic impacts associated with different volume thresholds?
- Would other approaches to reporting ATS order book information provide FINRA with comparable information? To the extent that other alternatives exist, what are the benefits, shortcomings and economic impacts of such approaches?
- Instead of submitting ATS order book information through the existing OATS gateway, are there other approaches that should be considered? What are the benefits, shortcomings and economic impacts of such approaches?

FINRA requests that commenters provide empirical data or other factual support for their comments wherever possible.

Endnotes

1. FINRA will not edit personal identifying information, such as names or email addresses, from submissions. Persons should submit only information that they wish to make publicly available. *See Notice to Members 03-73* (November 2003) (NASD Announces Online Availability of Comments) for more information.

2. *See* SEA Section 19 and rules thereunder. After a proposed rule change is filed with the SEC, the proposed rule change generally is published for public comment in the Federal Register. Certain limited types of proposed rule changes, however, take effect upon filing with the SEC. *See* SEA Section 19(b)(3) and SEA Rule 19b-4.

3. *See* FINRA September 19, 2014 news release *"FINRA Board Approves Series of Equity Trading and Fixed Income Rulemaking Items."*

4. A FINRA member that provides sponsored access to a non-member broker-dealer has an OATS reporting obligation for each order sent to a national securities exchange pursuant to any such agreement. In this scenario, the FINRA member must report a New Order and a Route Report to the applicable exchange reflecting that the order was received from a non-member broker-dealer. *See* OATS FAQ C77.

5. FINRA Rule 7440(c)(6) requires that, for orders routed from a member to a non-member broker-dealer, the identity of that non-member broker-dealer be reported. Currently, the OATS Technical Reporting Specifications require a specific identifier for each national securities exchange to which an order is routed be reported to OATS. However, only a generic identifier for non-members other than a national securities exchange is required. Consequently, the identity of the specific non-member broker-dealer to which an order is routed is not captured. The OATS Reporting Technical Specifications will be updated to require a member to provide either an SRO-assigned identifier or CRD number when routing an order to a non-member broker-dealer.

6. Currently, all SEC-registered broker-dealers have an SRO-assigned identifier that is available to FINRA.

7. For example, in the second quarter of 2014, more than 39 percent of new orders reported to OATS were reported as being received from a non-member broker-dealer. Of particular note, more than 49 percent of ATS orders and more than 63 percent of sponsored access orders were received from a non-member broker-dealer.

8. For example, FINRA would be able to identify potential wash trades of a non-member broker-dealer, even if executed through two separate members.

9. *See* 17 CFR 240.15c3-5.

10. In the second quarter of 2014, ATSs reported the MPIDs of 19 non-FINRA member broker-dealers that submitted approximately 10.1 billion orders to those ATSs.

11. An ATS is a system that meets the statutory definition of a national securities exchange, which includes a system that brings together buyers and sellers of securities, but that elects to register as a broker-dealer and be subject to the requirements set forth in Regulation ATS.

12. FINRA already receives these data elements in the order book information provided to FINRA by its exchange clients under Regulatory Services Agreements, and this additional information would allow FINRA to have comparable information for both ATSs and exchanges.

13. Similarly, an ATS that is registered as an Alternative Display Facility (ADF) Trading Center and displays quotations on the ADF, of which there currently is only one such ATS, is subject to separate order reporting requirements under Rule 6250, which require that the ADF Trading Center report order information that will link an order to a quote that is displayed on the ADF. For such ATSs, the proposed rule would incorporate certain reporting requirements of Rule 6250, but would not require duplicative reporting for an ADF Trading Center.

14. A "lit" ATS displays subscriber orders and, if that ATS meets the applicable volume thresholds, makes its best bid and best offer available for publication in the consolidated quotation data. A "dark" ATS does not make such quotation information available within the ATS or for publication in the consolidated quotation data. *See* 17 CFR 242.301(b)(3).

15. This is the same threshold that was proposed, although never adopted, by the SEC in its proposed rulemaking to lower the trading volume threshold in Regulation ATS that triggers the obligation for ATSs to display their best-priced orders in the consolidated quotation data. *See* Securities Exchange Release No. 60997 (November 13, 2009), 74 FR 61208 (November 23 2009).

16. For an ATS that displays quotations on the ADF, the rule will incorporate certain reporting requirements from Rule 6250, which require that the ADF Trading Center report order information that will link an order to a quote that is displayed on the ADF.

17. FINRA notes that, for the period between May 12, 2014, through June 23, 2014, ATSs accounted for 16 percent of the volume of NMS stocks by shares traded.

ATTACHMENT A

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

FINRA Rules

4554. Alternative Trading Systems - Recording and Reporting Requirements of Order and Execution Information for NMS Stocks

(a) Subject to the terms and conditions contained herein, each Qualifying ATS must record each item of information described below for each order it receives in an NMS stock, as defined in Rule 600(b)(47) of SEC Regulation NMS, from a subscriber or from another broker-dealer. For purposes of this Rule, the term "order" includes a broker-dealer's proprietary quotes that are transmitted to an ATS. All Qualifying ATSs must report this information to FINRA as specified below.

(1) Order Receipt:

All orders received by a Qualifying ATS must be recorded and reported to OATS pursuant to FINRA Rules 7440 and 7450. The following additional fields must also be recorded and reported to FINRA by the Qualifying ATS when reporting receipt of the order to OATS:

(A) unique identifier assigned to the order by the ATS, as applicable;

(B) the time the order was communicated to the ATS matching engine if different than the time of receipt reported pursuant to FINRA Rule 7440(b)(16), and the time when the order was placed on the book for execution, with such information reported in the finest increment (e.g., milliseconds) that is captured in the system of such ATS;

(C) ATS book sequence id for the event;

(D) whether the order was marketable upon arrival;

(E) whether the order was not marketable and was placed on the book;

(F) display quantity;

(G) total quantity available for execution at the ATS at the time the order was received by the ATS;

(H) price at which the order was displayed and/or price at which order was placed on the ATS book (e.g., if not displayed);

(I) specific pricing instructions such as pegging, including specific benchmarks;

(J) highest (buy orders) or lowest (sell orders) price at which the order can currently execute within the ATS;

(K) order display instructions and limits, such as the maximum number of shares for the order that can be displayed at any given time, display range, etc.; and

(L) any other information as specified by FINRA or the SEC.

(2) ATS book sequence ID, when the Qualifying ATS reports any of the following events to OATS pursuant to FINRA Rules 7440 and 7450:

(A) order executions at the ATS;

(B) order cancellations;

(C) order modifications; and

(D) order transmittal to another market center.

(3) ATS Book Price and Size Changes

(A) whether price and/or size of shares available for execution changed (e.g., price change or size change);

(B) the order receiving firm order ID, as that term is described in Rule 7440(b)(1) and the OATS Reporting Technical Specifications;

(C) unique identifier assigned to the order by the ATS, as applicable;

(D) price or size change timestamp;

(E) reason for price and/or size change;

(F) ATS book sequence id for the event;

(G) new display quantity and total quantity of the order executable at ATS resulting from the order event update;

(H) new limit and displayed price and the new highest (lowest) price of the buy (sell) order resulting from the order update event;

(I) new order display limits, such as a new display range resulting from the order update event; and

(J) any other information as specified by FINRA.

The information described in subparagraphs (1) through (3) must be reported to FINRA by no later than 8:00 a.m. Eastern Time on the calendar day following of receipt of the order in an electronic form as prescribed by FINRA.

(b) Qualifying ATSs that are also registered as ADF Trading Centers, as defined in Rule 6220, must also record and report to FINRA, as specified below, the following information for each bid or offer displayed on the ADF:

(1) symbol;

(2) quote identifier provided to the ADF Facility;

(3) quote generation timestamp;

(4) the Order Receiving Firm Order ID, as that term is described in Rule 7440(b)(1) and the OATS Reporting Technical Specifications for each order that is part of the displayed bid or offer;

(5) unique identifier assigned to the order by the ATS, as applicable, for each order that is part of the displayed bid or offer; and

(6) any other information as specified by FINRA or the SEC.

The information described in paragraph (b) shall be reported to FINRA no later than 8:00 a.m. Eastern Time on the calendar day following receipt of the order in an electronic form as prescribed by FINRA; provided, however, that an ATS that is also registered as an ADF Trading Center must report any information described in this paragraph (b) to FINRA immediately upon request. Any information related to time must be reported in the finest increment (e.g., milliseconds) that is captured in the system of such ATS.

(c) "Qualifying ATS" means any ATS, as defined in Rule 300 of SEC Regulation ATS, that accounts for more than 0.25% of consolidated market share in any NMS stock over a one-month period. Once an ATS has exceeded the threshold for one NMS stock, it will be required to report order information for all NMS stocks for which the ATS receives an order. Once an ATS is deemed a Qualifying ATS, it must fall under the 0.25% market share threshold, and remain below that threshold for six months, to no longer be considered a Qualifying ATS and be relieved of its reporting obligation.

(d) Members shall transmit this information in such form as prescribed by FINRA.

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6250. Quote and Order Access Requirements

(a) through (b) No Change

(c) An ADF Trading Center that is an ATS must report the information required in Rule 4554. For each bid or offer displayed by [an ADF Trading Center] a Registered Reporting ADF Market Maker on the ADF, the [ADF Trading Center] Registered Reporting ADF Market Maker must record and report to FINRA the following information in such form as prescribed by FINRA.

(1) All [ADF Trading Centers] Registered Reporting ADF Market Makers must record and report the following information for each order that is part of a displayed bid or offer, including:

(A) through (M) No Change

(2) All [ADF Trading Centers] Registered Reporting ADF Market Makers must also record and report the execution details, if any, of each order that is part of a displayed bid or offer, including:

(A) through (L) No Change

The information described in paragraphs (1) and (2) shall be reported to FINRA in "next day" file submission, with such information reported to FINRA no later than 8:00 a.m. Eastern Time on the day following receipt of the order; provided, however, that an [ADF Trading Center] Registered Reporting ADF Market Maker must report any information described in paragraphs (1) and (2) to FINRA immediately upon request. Any information related to time must be reported in the finest increment (e.g., milliseconds) that is captured in the [ADF Trading Center's] Registered Reporting ADF Market Maker's system.

* * * * *

7440. Recording of Order Information

(a) Procedures

No Change.

(b) Order Origination and Receipt

Unless otherwise indicated, the following order information must be recorded under this Rule when an order is received or originated. For purposes of this Rule, the order origination or receipt time is the time the order is received from the customer.

(1) through (18) No Change.

(19) where the Reporting Member receives an order from a broker-dealer that is not a member, identification of the non-member broker-dealer; and

([19]20) if the member is relying on the exception provided in Rule 5320.02 with respect to the order, the unique identification of any appropriate information barriers in place at the department within the member where the order was received or originated.

(c) Order Transmittal

No Change.

* * * * *

Exhibit 2b

Alphabetical List of Written Comments

1. Mark Holder, UBS Securities LLC (February 26, 2015)

2. Theodore R. Lazo, Securities Industry and Financial Markets Association (February 24, 2015)

3. Manisha Kimmel, Financial Information Forum (February 20, 2015)

4. John A. McCarthy, KCG Holdings, Inc. (February 20, 2015)

5. Howard Meyerson, Liquidnet Inc. (February 20, 2015)

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Equities

Mark Holder
Managing Director
Global Co-Head, Direct Execution Services

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FINRA
Ms Marcia E. Asquith
Office of the Corporate Secretary
1735 K Street, NW
Washington, DC 20006-1506

via e-mail (pubcom@finra.org)

26 February 2015

Comments on Regulatory Notice 14-51 Equity Trading Initiatives: OATS and ATS Reporting Requirements

Dear Ms Asquith

UBS Securities LLC ("UBS") respectfully submits this letter in response to the request for comment on proposed amendments to the OATS rules described in FINRA Regulatory Notice 14-51 (the "Notice"). The Notice discusses proposed rules that would require Alternative Trading Systems ("ATSs") to provide FINRA with additional order book information using existing OATS interfaces.[1]

The UBS View

UBS supports the underlying goals of this and other FINRA initiatives that are designed to improve transparency for market participants and regulators. To the extent that data provided by brokers, ATSs and other participants can provide meaningful insight into automated trading activities, and is practical and not overly burdensome to produce, UBS agrees that it should be made available to regulators and, where appropriate, to the investing public.

The Notice prompts two fundamental questions: (i) will the additional order information reported by ATSs ("ATS Data") achieve FINRA's stated objectives, and (ii) will the associated burden of producing and processing the ATS Data be justified by the benefits realized[2], especially in light of other regualtory initiatives?

[1] The Notice also contains proposed amendments to the OATS rules to require members to identify non-member broker-dealers, but UBS is not commenting on that portion of the Notice.

[2] In the Framework Regarding FINRA's Approach to Economic Impact Assessment for Proposed Rulemaking, FINRA cites the importance of "analysis, including assumptions and risks, as to why the proposal is necessary and how it best achieves its stated goal(s)".

Based upon a careful review of the Notice with our internal subject matter experts, UBS believes the proposed approach *requires thoughtful modifications*. The creation of a new feed for order events and use of OATS as the platform for reporting those events pose significant challenges, and, in our opinion, are not the most effective methods to realize FINRA's goals.

Areas of Concern and Recommendations

1. The complexities of ATS rulebooks mean a simple price/time priority view of an ATS order book may not provide meaningful information.

FINRA seeks the ATS Data primarily because "FINRA is not able to use existing OATS data to fully reconstruct an ATS order book for surveillance purposes."

ATSs in many cases have sophisticated order types that mean matching is not carried out in strict price/time priority sequence. The UBS ATS, for example, has multiple crossing restrictions and Source Categories[3] that factor into its matching algorithm. Given this complexity, it is difficult to see how FINRA could adequately embed these varied rulesets into its evaluation of an ATS orderbook solely built from the requested order event information.

UBS questions whether a partial recreation of an ATS order book will in practice provide FINRA with sufficient information to perform effective surveillance.

2. Alternatives to a feed of order events should be explored. Not all ATSs "reprice" pegged orders. Book recreation may be partially achievable through use of detailed order attributes.

Modelled after the data feeds that it receives from exchanges, FINRA seeks data representing all events and order attributes that would change the number of shares or price at which an order within an ATS could execute.[4] In reality, an ATS that neither displays nor publishes order information to any external party does not have a need to capture or store this type of 'book' feed. Furthermore, FINRA appears to assume that pegged orders in ATSs are "repriced". Orders in the UBS ATS book, including pegged orders, are evaluated for marketability based upon peg instructions, limit price constraints and crossing restrictions, but are not explicitly repriced. The requirements outlined in the Notice may therefore require an ATS to generate order state events that do not currently exist, solely for the purpose of reporting the data to FINRA. This requirement would require extensive re-engineering of matching engine technology components, which would add risk and complexity to these mission-critical systems.

FINRA should explore whether certain additional information concerning order types (special handling codes) on an OATS order receipt event could better facilitate surveillance without requiring ATSs to provide voluminous and frequent price/size updates based on market data or execution events.

[3] Please see UBS ATS' Form ATS, available at www.ubs.com/ats, for the definition of Source Category as well as further details in respect of its matching methodology.

[4] See Notice footnote 12: "FINRA already receives these data elements in the order book information provided to FINRA by its exchange clients under Regulatory Services Agreements."

3. OATS is not the best platform to receive the proposed feed.

If FINRA determines that the order event feed is the appropriate mechanism for capture of the information it requires, FINRA should revisit the concept of using OATS as the vehicle to receive the feed. Currently most firms report to OATS in a batch processing mode after the end of the trading day. The window for OATS report submission is generally sufficient to allow even high volume ATSs to handle OATS processing.

Based upon our preliminary analysis, UBS projects that new reporting as proposed under the Notice would increase the overall submission of UBS OATS records by at least a factor of 10. The effect of this massive increase in reporting would most likely mean that UBS would modify its reporting to an intra-day process. That type of change also would require a significant technology investment. As a result, storage costs for ATSs will increase substantially.

FINRA should consider the ability of the existing FINRA OATS infrastructure to support this new reporting volume. Increasing the volume of records submitted by some of its largest participants by a factor of 10 will pose significant challenges to FINRA, as well as the submitting firms and ATSs. The cost of this infrastructure investment will be borne indirectly by the industry, which is also facing a series of costly new initiatives such as the Consolidated Audit Trail, FINRA CARDS and Regulation SCI.

If FINRA proceeds to the rulemaking stage, it should be incumbent upon FINRA to conduct a thorough analysis of the cost implications on the OATS system and estimated impact. Importantly, FINRA should more explicitly justify the investment in significant storage and processing for OATS given the impending implementation of Consolidated Audit Trail with its extensive data processing infrastructure.

Additionally, UBS notes that the reporting requirements outlined in the Notice have certain open-ended descriptions in the reporting layout, such as "(L) any other information as specified by FINRA or the SEC." It is not possible to provide meaningful feedback on such an open ended definition. We suggest FINRA further refine with specificity the reporting requirements.

4. Revising the proposal to require additional order attributes on existing OATS records may address concerns.

As noted above, we believe FINRA could achieve its objectives in a more cost-effective way by expanding the OATS attributes required for ATS OATS reports. This incremental but highly effective approach would eliminate the extensive re-engineering work required by ATS matching engines, storage and capacity concerns for participants and FINRA, as well as process re-engineering requirements for moving to intra-day reporting. The enhanced OATS attributes could facilitate an intelligent recreation of ATS order book data by FINRA based on theorder attributes in combination with market data feeds FINRA already maintains.

Conclusion

UBS supports the underlying goals stated in the Notice to enhance the transparency of the US equity securities markets. However, efforts to strengthen our markets should be both effective and not overly burdensome.

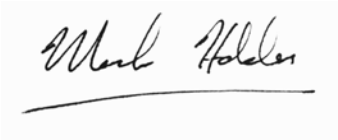
ATSs serve an important function in the US equity markets, and their advent was driven by client demand for execution alternatives. ATSs offer meaningful price improvement and reduced market impact costs to investors,

and often allow interaction with more natural order flow. Furthermore, certain ATSs provide additional liquidity opportunities, particularly for those institutional clients that prefer to work their orders away from lit markets. Onerous reporting requirements imposed on ATSs could stifle innovation, or more significantly, create sufficient operational burdens or barriers to entry that will cause them to cease operating. The ultimate result of this contraction would be to limit or suppress the execution choices of buy-side investors, meaning investors will have less ability to effectively manage their trading strategies, and will have diminished opportunities to seek better execution, lower transaction costs and achieve price improvement and investment performance. As a result, the end clients of institutional investors - which include retail investors, individual retirement account and fund holders – would likely be impacted.

We respectfully request that FINRA work closely with the industry to further refine the approach set forth in the Notice to create a framework that is best designed to enhance transparency and preserve the execution choices of investors and enable broker-dealers to serve the evolving needs of clients with innovative execution offerings. Thank you for the opportunity to comment on the Notice. Should you have questions regarding the views of UBS, please do not hesitate to contact me.

Yours sincerely

UBS Securities LLC



Mark Holder
Managing Director
Global Co-Head, Direct Execution Services

cc: Richard G. Ketchum, Chairman and Chief Executive Officer
Stephanie Dumont, Senior Vice President and Director of Capital Markets Policy
Shelly Bohlin, Vice President, Market Analysis and Audit Trail Group, Market Regulation
Andrew Madar, Associate General Counsel, Office of General Counsel

February 24, 2015

Via Electronic Mail (pubcom@finra.org)

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: FINRA Regulatory Notice 14-51: Proposal Requiring the Identification of Non-Member Broker-Dealers in Order Audit Trail System Reports and the Reporting of Additional Order Information by Alternative Trading Systems

Dear Ms. Asquith:

The Securities Industry and Financial Markets Association ("SIFMA")[1] submits this letter to comment on the above-referenced Regulatory Notice published by the Financial Industry Regulatory Authority ("FINRA"). In the Regulatory Notice, FINRA requests comment on a proposal to amend the Order Audit Trail System ("OATS") rules to require members to identify non-member broker-dealers when reporting orders received from those entities. FINRA is also proposing to require Alternative Trading Systems ("ATSs") to provide FINRA with additional order book information using existing OATS interfaces. The proposal is one of seven FINRA initiatives relating to equity market structure and automated trading activities.

For many years, SIFMA and its members have been vocal advocates and thought leaders on equity market structure issues. The U.S. equity markets are the deepest, most liquid and most efficient in the world, with investors enjoying extraordinarily low transaction costs, narrow spreads, and fast execution speeds. Nevertheless, SIFMA believes there are aspects of market structure that could be enhanced through steps designed to decrease unnecessary market complexity, increase transparency of market information, and promote fairness in access. To sharpen the focus on these important issues, SIFMA's Board of Directors convened a broad-based task force in 2014 of members from across the country and across the industry, including retail and institutional dealers and asset managers, to develop a series of tangible and actionable

[1] The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. 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.

market structure reforms. Through this task force, SIFMA has developed more than a dozen specific recommendations for addressing equity market structure.[2]

SIFMA supports FINRA's goal of enhancing its ability to conduct automated surveillance and monitoring of trading activity on ATSs. However, we believe the data collection requirements of the proposal would not serve FINRA's goal because the requirements do not sufficiently account for the unique and customized trading functionalities that each ATS provides. In their current form, the proposed data collection requirements would impose unworkable operational burdens and FINRA has not sufficiently explained how this additional information would enhance its surveillance efforts. Before FINRA files the initiative with the Securities and Exchange Commission ("SEC") as a proposed rule change, we urge FINRA to work directly with SIFMA and its members to refine the proposal, with a goal of providing FINRA with workable data elements that would not impose unnecessarily excessive costs or risks to implement.

I. Reporting of Additional Order Information by ATSs

The Regulatory Notice states that the goal of the proposal is to enhance FINRA's ability to surveil activity occurring within an ATS, and by extension electronic and algorithmic trading more generally across markets. Under FINRA's proposal, ATSs exceeding a volume requirement would be required to report all events and order attributes that would change the ATS's system quantity (the number of shares of an order, whether displayed or undisplayed, that can currently execute within the ATS), the displayed quantity, the highest (buy orders) or lowest (sell orders) price at which the order can currently execute within the ATS, and the displayed price for an order. In addition, ATSs would be required to provide, for every order, the ATS book sequence identifier and the associated OATS identifier, which would link information about that order to the related information and full lifecycle reported to OATS. At the heart of the proposal is a goal of allowing FINRA to use OATS data to fully reconstruct an ATS order book for surveillance purposes.

In addition to the overall concern that the proposal would impose a significant operational burden without furthering FINRA's goal of enhanced surveillance, SIFMA members have a number of concerns with the specific aspects of the proposal. First, the proposal's one-size-fits-all reporting requirement does not take into account the variation of business models and trading functionalities across ATSs. For example, ATSs differentiate among themselves through sophisticated and individualized trading functionalities, which do not line up with standardized reporting models the way that traditional exchange trading models do. In addition, compliance with the proposal would require ATSs to carry out extremely significant systems changes, which would introduce unnecessary operational and systemic risk to the market.

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

More specifically, the set of data elements that FINRA would require ATSs to collect and report reflect an incorrect assumption that every ATS's business model and matching protocol is the same, and that all ATSs function the same as an exchange. In fact, the business models of ATSs vary significantly because, by their very nature, each ATS seeks to provide a unique, "alternative" order handling and execution methodology. Not all ATSs follow a price/time priority methodology and rather differentiate themselves to meet the specific trading needs of a subset of market participants, for example by placing importance on size of transaction or investor type. Further, an ATS may provide its subscribers with the ability to place various restrictions (*e.g.* counterparty, size) on their orders which may result, by the subscriber's choice, in an otherwise available contra-side order being bypassed.

Several data elements stand out as examples of information that some ATSs do not maintain and would have to begin collecting solely for these requirements. In these cases, ATSs would have to capture, store and report brand new fields that are not otherwise required to be recorded and may have no relation to the ATS's business model, with no corresponding explanation of how the information would enhance FINRA's surveillance efforts.

- The proposal would require each ATS to record whether each order "was marketable on arrival" and whether the order "was not marketable and was placed on the book." However, some ATSs do not record whether or not incoming orders are marketable. In addition, depending on the subscriber's instructions a marketable order might not be executed right away and a non-marketable order might not be placed on an order book.

- The proposal would require ATSs to track the highest (for buy orders) or lowest (for sell orders) price at which an order can currently execute. However, some ATSs do not track this information for every incoming order because it may not be relevant to the matching logic of the trading system.

In addition, the complexity of the proposed data elements would unnecessarily increase operational risk to the market. Each ATS in scope would need to change multiple systems in order to operate in compliance with the proposed requirements, resulting in multiple ATSs making multiple systems changes at the same time. Any systems change, no matter how thoroughly prepared and tested, creates a risk of error and negative impact to the market. The proposed data collection requirements would result in a significant number of systems changes by ATSs with substantial market presence. Any mistake resulting from all of those systems changes could cause systemic problems.

Moreover, the proposal would result in ATSs being required to collect and transmit massive amounts of data. As an example, the proposal would require ATSs to track, record, and transmit extensive data for all price and size changes of each order. Taking aside the fact that some ATSs do not track this information to begin with, for each order that an ATS receives – which can be millions per day given millisecond trading speeds – ATSs would have to collect and record a multiple of those millions to track each theoretical price or size change and the

reason for each price and size change, among many other factors. Implementing these aspects of the proposal would require a significant amount of resources to accommodate the enormous increase in data required to be collected, transmitted, and retained.

In addition, FINRA's justification for the proposal is based in part on the incorrect predicate that ATSs should provide the same type of surveillance activity as exchanges. In this regard, FINRA states that it already receives these data elements in the order book information provided to FINRA by its exchange clients under Regulatory Services Agreements ("RSAs"), and this additional information would allow FINRA to have comparable information for both ATSs and exchanges. However, as SIFMA has noted before,[3] exchanges serve a specific statutory role as self-regulatory organizations, under which they are responsible for regulating their member firms and enforcing compliance with the federal securities laws. In this regard, it is important to point out that FINRA's exchange clients provide order book information to FINRA *voluntarily*, under RSAs that they elect to negotiate and enter into pursuant to their own choice to outsource their regulatory functions to FINRA. If an exchange experiences issues with transmitting information to FINRA, the two parties resolve the matter as part of their business arrangement. Under the proposed rule, ATSs would be *required* to collect and provide data to a primary regulator as part of a regulatory requirement. If an ATS were to experience issues with transmitting information required by the proposed rule to FINRA, it would then be subject to enforcement penalties and fines, even after the ATS resolves the issue.

Taking all of these factors together, we believe FINRA can accomplish its goal of enhanced surveillance in a much less burdensome manner by narrowing the scope of the required data elements. SIFMA and its members stand ready to work with FINRA to find a workable solution.

II. Identification of Non-Member Broker-Dealers to OATS

SIFMA supports FINRA's proposal to require a reporting member that is reporting an order received from a broker-dealer that is not a FINRA member (non-member broker-dealer) to identify the non-member broker-dealer as part of their OATS reports. FINRA notes in the proposal that members would identify the non-member broker-dealer by including a unique non-member identifier on the OATS report that will allow FINRA to obtain the identity of the non-member broker-dealer. Specifically, this identifier would either be an existing Self-Regulatory Organization (SRO)-assigned identifier, such as a market participant identifier (MPID), or if a non-member broker-dealer does not have an SRO-assigned identifier that is available to FINRA, the Central Registration Depository (CRD) number of the non-member broker-dealer.[4] However, FINRA does not address how member firms should identify non-U.S. broker-dealers, which do not have CRD numbers or MPIDs. For those cases, FINRA should clarify how non-

[3] *See* Letter from Theodore R. Lazo, Managing Direct and Associate General Counsel, SIFMA to Mary Jo White, Chair, Securities and Exchange Commission dated July 31, 2013.

[4] *See* FINRA Regulatory Notice 14-51.

U.S. broker-dealers should be identified and what specific identifier should be used in the OATS report.

* * *

SIFMA looks forward to discussing the proposal further with FINRA in order to refine the scope of the requirements. We will be in touch shortly to arrange a meeting. In the meantime, if you have any questions, please contact either me (at 202-962-7383 or tlazo@sifma.org) or Timothy Cummings (at 212-313-1239 or tcummings@sifma.org).

Sincerely,

Theodore R. Lazo
Managing Director and
Associate General Counsel

cc: Stephanie Dumont/FINRA

FINANCIAL INFORMATION FORUM
5 Hanover Square
New York, New York 10004
212-422-8568

Via Electronic Delivery

February 20, 2015

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K St. NW
Washington, DC 20006-1506

Re: Regulatory Notice 14-51 - Identification of Non-Member Broker-Dealers in OATS and the Reporting of Additional Order Information by ATSs

Dear Ms. Asquith,

The Financial Information Forum (FIF)[1] would like to take this opportunity to comment on Regulatory Notice 14-51 - Identification of Non-Member Broker-Dealers in OATS and the Reporting of Additional Order Information by ATSs (the "proposal"). We appreciate the extension of the comment period which has allowed for a thorough review of the proposal. As written, we believe the proposal will have a significant impact on implementation and we look forward to continued conversations with FINRA to achieve their regulatory goals in a more efficient manner.

Identification of Non-Member Broker-Dealers in OATS

In order to facilitate the identification of non-member broker dealers in OATS, FIF recommends that FINRA augment existing MPID directories[2] to include MPIDs for non-member broker dealers. We understand that not all non-FINRA members have MPIDs but believe that the FINRA MPID program could be expanded in a manner similar to the provision of MPIDs for NYSE floor brokers as part of the OATS for NMS expansion. Firms would look to this list in order to validate whether an MPID would be required for OATS identification processes.

FIF also evaluated the use of the CRD number, recognizing that all U.S. registered broker dealers have a CRD number. We believe an MPID-based approach is better because current OATS

[1] FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the financial technology industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

[2] Specifically many firms rely on the MPID list available here: ftp://ftp.nasdaqtrader.com/symboldirectory/mpidlist.txt

identification is based on the MPID. Implementation using an existing MPID directory would allow firms to leverage existing workflows and ease implementation costs. Additionally, CRD numbers may be associated with multiple firm names for the same firm. Reconciling firm names with CRD numbers may prove challenging. It is worth noting that with the implementation of CAT and the corresponding CAT Reporter ID, this issue will be addressed. Rather than interim measures to improve OATS, FIF respectfully suggests that FINRA work diligently with the other SROs towards driving CAT forward.

Reporting of Additional Order Information by ATSs

The proposal states that "ATSs exceeding the volume requirement would be required to report all events and order attributes that would change the ATS's system quantity (the number of shares of an order, whether displayed or undisplayed, that can currently execute within the ATS), the displayed quantity, the highest (buy orders) or lowest (sell orders) price at which the order can currently execute within the ATS, and the displayed price for an order." In the proposal, the volume requirement is set at thresholds based on SEC proposal, S7-27-09, that was never adopted. Rather than introduce new thresholds for ATSs to monitor, FIF recommends using an existing threshold based on either the fair access threshold of Reg ATS or the SCI ATS thresholds established in Reg SCI.

For those ATSs that would be subject to the proposal, FIF has several concerns about the implementation impact if the proposal were adopted in its current form. The implementation concerns are as follows:

- The proposal would require ATSs to log events that they do not currently log. The logging of such events may impact the latency of ATS matching engines, and would require significant reengineering of trading infrastructure to comply. It would be very difficult for firms to develop separate processes to re-run market data against ATS order information in order to produce these records. It is questionable if such an approach would produce reliable results since it would require re-sequencing market data against an order stream retroactively. Additionally, this would likely be a more cumbersome process.
- The number of additional OATS records would be significant; depending on implementation specifics FIF members estimate this would range from 10 to 100 times what is sent to OATS today. Many firms that currently generate OATS via an end of day batch process may be required to create a real-time OATS generation process given the sheer volume of submissions that would be required. Additionally, FIF members are concerned with the costs associated with accommodating this volume on the OATS platform and the downstream impact this would have on industry costs associated with supporting OATS.
- If FINRA is looking for ATSs to generate the equivalent of an order book feed, OATS is not suited for this purpose.
- Unlike exchanges, ATSs may not re-price orders with every movement in market data. Often, re-pricing occurs only if there is a contra-order in the ATS. Other times, re-pricing is dependent on whether the order is marketable, e.g., a pegged limit order that is not

marketable will not generate any re-pricing events. FINRA has indicated that they are not looking for ATSs to manufacture events but it is unclear under what circumstances an OATS submission would be required for an ATS that does not re-price all orders.

FIF believes that further discussions between FINRA and ATSs are required in order to ensure that FINRA has an in-depth understanding of the relevance of their regulatory objectives especially with respect to ATSs that do not route out and do not display orders. It is our understanding that surveillance objectives as they relate to identifying spoofing or layering activity depend on orders being displayed and routable which is not the case in many ATSs. The proposal assumes that ATSs operate in a manner similar to exchanges which may not be true for all ATSs. ATSs, in conformance with their Form ATS, may offer different execution models and client functionality including priority that is not strictly based on price/time and options for subscribers to opt-out of trading with certain counterparties. Additionally, ATSs may enhance their functionality on a regular basis. Without a thorough evaluation of an ATS's Form ATS, FINRA will not have a complete picture of an ATS's order/execution model even with the additional order information that the proposal is requesting.

While FIF questions the benefits of providing the additional order information requested in the proposal, we do believe there are benefits to ATS transparency. The recent implementation of the MPID amendments along with the associated ATS OATS and Trade Reporting guidance[3] will provide new trade reporting and order audit trail information to FINRA to support their regulatory goals. Additionally, FINRA could explore additional special handling codes to capture various pegging and other market data-dependent order types. To this end, FIF members have expressed a willingness to continue the dialogue with FINRA to determine how best to capture additional data as part of the order audit trail.

Given that OATS will be retired as part of the Consolidated Audit Trail (CAT), FIF recommends that rather than enhancing OATS for the short-term, any requirements to come out of further discussions should become functional requirements of CAT. Requiring significant changes at both firms and FINRA to accommodate this proposal would be short-sighted in light of CAT. We acknowledge FINRA's concerns with the timing of CAT but believe that given their role as both a member of the SRO CAT consortium as well as a bidder for the CAT processor, they are uniquely positioned to drive CAT forward in a timely manner. In its current form, a significant effort will be required on the part of impacted firms to implement this proposal. The implementation time required for the re-engineering efforts described above is not trivial. Requiring firms to make enhancements to OATS in parallel with CAT implementation will drain internal resources and strain CAT implementation timelines. We are hopeful that FINRA will amend this proposal and consider CAT as part of any future rule-making in this area.

[3] Available at http://www.finra.org/web/idcplg?IdcService=SS_GET_PAGE&ssDocName=P598513

FINANCIAL INFORMATION FORUM

We appreciate the opportunity to comment on these impactful proposals and look forward to identifying solutions that better meet FINRA's interest in achieving their regulatory goals in an effective and efficient manner.

Regards,

Manisha Kimmel

Manisha Kimmel
Managing Director
Financial Information Forum

cc: Richard G. Ketchum, Chairman and Chief Executive Officer
Stephanie Dumont, Senior Vice President and Director of Capital Markets Policy
Shelly Bohlin, Vice President, Market Analysis and Audit Trail Group, Market Regulation
Andrew Madar, Associate General Counsel, Office of General Counsel (OGC)

Stephen Luparello, Director, Division of Trading and Markets, Securities and Exchange Commission
Gary Goldsholle, Deputy Director, Division of Trading and Markets, Securities and Exchange Commission
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KCG

February 20, 2015

Via Electronic Mail (pubcom@finra.org)

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: Regulatory Notice 14-51: FINRA Request for Comment on Proposed Rules Requiring the Identification of Non-Member Broker-Dealers in Order Audit Trail System (OATS) Reports and the Reporting of Additional Order Information by Alternative Trading Systems (ATS)

Dear Ms. Asquith:

KCG Holdings, Inc. (KCG) respectfully submits this letter in response Regulatory Notice 14-51 (RN 14-51 or the Notice) issued by the Financial Industry Regulatory Authority (FINRA). KCG appreciates the opportunity to comment on the Notice and commends FINRA generally on its recent series of initiatives relating to market structure and automated trading activities.

RN 14-51 requests comment on proposed rule amendments that would require member firms to report additional information to OATS. The proposal has two primary components: (1) identification of non-member broker-dealers to OATS; and (2) reporting of additional order information by ATSs. KCG supports FINRA's goal of improving its ability to support cross-market surveillance and monitor trading activity in the over-the-counter (OTC) market. However, as discussed in more detail below, we recommend that FINRA consider revising its proposal in several respects prior to filing it as a proposed rule change with the U.S. Securities and Exchange Commission (Commission).

I. Background

KCG is a global financial services firm that offers investors a range of services designed to address their trading needs across asset classes, product types and time

zones. As an independent, electronic market maker, KCG combines advanced technology with exceptional client service to deliver greater liquidity, lower transaction costs, improve pricing, and provide execution choices. KCG is a registered market maker on numerous U.S. cash equity and options exchanges, including a DMM and Supplemental Liquidity Provider on the New York Stock Exchange (NYSE), and a Lead Market Maker on NYSE Arca. As a market maker, KCG commits its capital to facilitate trades by buyers and sellers on exchanges, ATSs, and directly to our clients.

KCG offers clients multiple opportunities to interact with our market making operations. In addition, KCG's institutional clients have access to algorithms and experienced trading desks to access liquidity, maintain anonymity and minimize market impact. KCG also operates two Commission-registered ATSs.

II. Discussion

A. Identification of non-member broker-dealers to OATS

FINRA is proposing to require that a FINRA member (Reporting Member) that is reporting an order received from a non-member broker-dealer to identify the non-member broker-dealer as part of its OATS report. Currently, FINRA is able to identify with specificity the trading activity of FINRA member broker-dealers across market centers through the use of OATS reports and data provided to FINRA by the exchanges. FINRA is unable, however, to consistently identify the trading activity of non-member broker-dealers across market centers. Although Reporting Members do report to OATS orders they receive from non-member broker-dealers, these reports do not contain the identity of the non-member broker-dealer.

Under the proposal, a FINRA member receiving an order from a non-member broker-dealer would be required to reference a unique non-member identifier when reporting the order to OATS that would allow FINRA to identify the non-member broker-dealer. FINRA noted this identifier would either be an existing SRO-assigned identifier such as a, market participant identifier (MPID) or the Central Registry Depository (CRD) number for non-member broker-dealer that does not have an SRO-assigned identifier. FINRA believes the inclusion of non-member broker-dealer

identities will significantly improve its ability to support cross-market surveillance and better monitor OTC trading activity.

KCG supports FINRA's proposal to better identify non-member trading activity across markets. We do, however, have several suggestions to improve the proposal. First, FINRA should compile a table (FINRA Table) that includes the preferred non-member identifier – whether an MPID, CRD, or some other identifier - to be relied upon by Reporting Members for identifying all non-member broker-dealers to OATS. FINRA should update the FINRA Table regularly and ensure it is readily available to all Reporting Members. Second, Reporting Members should only be required to report to OATS identifying information for non-member broker-dealers appearing on the FINRA Table. In other words, if a Reporting Member receives an order from a non-member broker-dealer that does not appear on the FINRA Table at the time of order receipt, the Reporting Member should not be required to provide any identifying information regarding the non-member broker-dealer to OATS. These revisions to the proposal will allow FINRA to perform appropriate cross-market surveillance while ensuring that Reporting Members identify non-members to FINRA in a consistent manner.

B. Reporting of additional order information by ATSs

FINRA is proposing to require ATSs that exceed a certain volume threshold[1] to report to FINRA through OATS 'additional order information' to supplement the order information ATSs currently report to OATS. FINRA noted that several data elements "are not required to be report to OATS, such as order re-pricing events (e.g., an order that is pegged to the National Best Bid or Offer) ... and [b]ecause these components of, or changes to, an ATSs order book are not reported, FINRA is not able to use existing OATS data to fully reconstruct an ATS order book for surveillance purposes." Under the proposal, an ATS would be required to report all events and order attributes that would change the ATS's system quantity (number of shares of an order, whether displayed or undisplayed, that can currently execute within the ATS), the displayed quantity, the highest (buy orders) or lowest (sell orders) price at which the order can currently execute within the ATS, and the displayed price for an order.

[1] The order reporting requirements would apply to any ATS that accounts for more than 0.25 percent of consolidated market share in any security over a one-month period.

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One reason cited by FINRA in support of requiring additional information from ATSs is to allow FINRA to receive comparable information to the information it already receives from exchanges. While we applaud FINRA's efforts to better understand ATS operations, we believe this rationale reflects a fundamental misunderstanding about the meaningful differences between the operation of exchange matching engines and ATS matching engines. KCG believes that the proposal needs to be modified to recognize the real distinctions between exchanges and ATSs. Without such modifications, FINRA will be placing an undue burden on ATS operators to comply with a new requirement that provides FINRA with an enormous amount of supplemental data that will be of limited use towards FINRA's goal of reconstructing ATS order books for automated surveillance.

There are many examples of the differences between ATS and exchange operations, which are a result of markedly different business models and reflected in their respective matching engines. For example – unlike exchanges - ATSs do not necessarily re-price open orders with every movement in the market. While changes in the national best bid and offer (NBBO) impact the prices at which an ATS may potentially execute an order, these NBBO changes may not result in a re-pricing or other event. ATSs that do not display or route orders to other market centers may not re-price orders unless there is a contra-side order in the ATS, if at all. Also, an exchange must accept and execute all orders according to universal protocols based around price/time priority whereas an ATS may or may not use protocols based around price/time priority or may be designed to cater to certain preferences (order size, investor type, etc.). In addition, an ATS may allow for segmentation among subscribers, providing choice as to the types of counterparties with whom subscribers interact on the ATS based upon various categorizations (agency vs. principal; retail, institutional, electronic market maker; or based upon quantitative metrics such as liquidity profiles). As a result, ATSs may permit blocking and filtering among subscribers – such "opt-out" functionality is not permitted on exchanges – that may result in ATS orders that do not execute against what may appear to be otherwise available contra-side interest.

In addition to providing an incomplete view of ATS order books, KCG believes the proposal will manufacture a substantial number of additional new OATS records. On average, KCG currently generates and sends approximately 60 million OATS records

KCG

each day related to ATS activities. We estimate that implementation of the proposal will require us to generate and send anywhere from 15 to 30 times the amount of records we currently generate and send to OATS. Other ATS operators are also likely to face a similar surge in the volume of data they will need to generate and send to OATS. In addition, ATSs will also have to store this massive amount of new data to be generated by the additional records requirement. All of this will place a significant burden on ATS operators as they will be required to invest not only in substantial technology development time but also in ongoing hardware, storage and other infrastructure costs.

Currently, many ATS operators generate OATS reports by running an end-of-day batch process. The additional records requirement may necessitate that firms revamp their processes in order to meet their OATS reporting obligations. Specifically, the volume of new records that must be incorporated into ATS OATS workflows and may require the creation of real-time OATS generation process in order to meet this new requirement. The reason for the need to create real-time processes is largely due to existing time to process the overnight batch. Without significant modifications, batch processing times would likely exceed the requirements of delivery to FINRA by 8:00 AM on T+1, which will cause firms to experience breaks in OATS reporting.

KCG believes FINRA should meet with ATS operators and industry groups to discuss their operations with a view towards developing a standardized set of special handling codes to be used by ATS operators in OATS reports and which will account for opt-out features that result in otherwise executable contra-side orders not interacting.

* * *

KCG recommends that FINRA consider our comments and suggestions and revise its proposal accordingly prior to filing it as a proposed rule change with the Commission.

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III. Conclusion

KCG appreciates this opportunity to comment on FINRA Regulatory Notice 14-51. Please do not hesitate to contact me at 646-428-1615 if you have questions regarding any of the comments provided in this letter.

Sincerely,

John A. McCarthy
General Counsel

cc: Robert Colby, Chief Legal Officer, FINRA

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February 20, 2015

By Email
pubcom@finra.org

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: Regulatory Notice 14-51; Equity Trading Initiatives: OATS and ATS reporting Requirements

Dear Ms. Asquith,

Liquidnet, Inc. (Liquidnet) appreciates the opportunity to comment on Regulatory Notice 14-51 (the Regulatory Notice) published by the Financial Industry Regulatory Authority (FINRA).

Liquidnet is a broker-dealer registered with the Securities and Exchange Commission (SEC) and a member of FINRA. Liquidnet operates two SEC-registered alternative trading systems (ATSs): the Liquidnet Negotiation ATS, which executes negotiated transactions; and the Liquidnet H2O ATS, which provides for automated execution of orders at the mid-point of the national best bid and offer (NBBO). All orders in the Liquidnet H2O ATS are pegged to the mid-point of the NBBO (mid-peg orders). Based on Rule 605 data filed with the SEC, during 2014 Liquidnet generated average price improvement of 93.90% for covered orders for the Liquidnet H2O ATS, as compared with 9.32% average price improvement for the industry as a whole.[1]

Identification of non-member broker-dealers to OATS

FINRA proposes that a reporting FINRA member, when reporting through OATS an order received from a non-member broker-dealer, identify the non-member broker-dealer. FINRA provides that the identifier for the non-member broker-dealer would either be an existing SRO-assigned identifier, such as a market participant identifier (MPID), or the Central Registration Depository (CRD) number of the non-member broker-dealer.

Liquidnet will seek guidance from FINRA as to whether this requirement applies for orders received by Liquidnet from its non-US affiliates. These non-US affiliates are registered securities dealers in other jurisdictions. They do not have SRO-assigned identifiers or CRD numbers.

[1] Data available by subscription to VistaOne Regulatory Services.

Reporting of additional order information by ATSs

FINRA proposes to require ATSs that exceed a specified volume threshold to report additional order information to supplement the information currently reported to OATS. All Liquidnet ATS executions involve either a negotiation process or the execution of a mid-peg order. Liquidnet will seek guidance from FINRA as to how the proposed additional reporting requirements apply to negotiated and mid-peg orders and executions. For example, Liquidnet will seek guidance as to whether FINRA would consider a negotiated order to have a displayed quantity.

Liquidnet also requests clarification on the requirement to report order re-pricing events. As noted above, all orders in the Liquidnet H2O ATS are mid-peg orders. Having to report every time that the mid-peg price changes as a result of a change in the NBBO would create a significant reporting burden for Liquidnet; at the same time, this information would provide limited value to FINRA as FINRA already has access to NBBO data. Mid-peg orders that our customers submit always have an explicit limit price (or a limit price imputed by Liquidnet where the customer fails to indicate a limit price). In either case, Liquidnet reports this limit price to FINRA through OATS, along with any updates to the limit price, as instructed by the customer. A less onerous alternative would be to require that an ATS, in connection with reporting the execution of a mid-peg order, report the best bid and best offer prices that the ATS referenced to derive the execution price.

Effective date

There should be a sufficient time period between FINRA's publication of functional specifications for the new reporting requirements and effectiveness of the rule to enable Liquidnet and other ATSs to seek and obtain guidance from FINRA on the new reporting requirements.

Conclusion

Liquidnet appreciates the opportunity to comment on the rule proposals set forth in the Regulatory Notice. Please contact me at (646) 674-2044 if you would like clarification on any of our comments.

Very truly yours,

Howard Meyerson, General Counsel

EXHIBIT 5

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

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4500. BOOKS, RECORDS AND REPORTS

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4554. Alternative Trading Systems - Recording and Reporting Requirements of Order and Execution Information for NMS Stocks

(a) Subject to the terms and conditions contained herein, each ATS must record and report the information described below for each order it receives in an NMS stock, as defined in Rule 600(b)(47) of SEC Regulation NMS. For purposes of this Rule, the term "order" includes a broker-dealer's proprietary quotes that are transmitted to an ATS. The information described in paragraphs (b) and (c) shall 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.

(b) All orders received by an ATS must be recorded and reported to OATS pursuant to FINRA Rules 7440 and 7450. The following information must be recorded and reported to FINRA by all ATSs when reporting receipt of an order to OATS:

(1) Whether the ATS displays subscriber orders outside the ATS (other than to alternative trading system employees). If an ATS does display subscriber orders outside the ATS (other than to alternative trading system employees), indicate whether the order is displayed to subscribers only or through publicly disseminated quotation data);

(2) Whether the ATS is an ADF Trading Center as defined in FINRA Rule 6220;

(3) Whether the order can be routed away from the ATS for execution;

(4) Whether there is a counter-party restriction on such order;

(5) A unique identifier for each order type offered by the ATS. An ATS must provide FINRA with (i) a list of all of its order types 20 days before such order types become effective and (ii) any changes to its order types 20 days before such changes become effective. An identifier shall not be required for market and limit orders that have no other special handling instructions;

(6) The NBBO (or relevant reference price) in effect at the time of order receipt and the timestamp of when the ATS recorded the effective NBBO (or relevant reference price);

(7) Identification of the market data feed used by the ATS to record the NBBO (or other reference price) for purposes of subparagraph (6). If for any reason, the ATS uses an alternative feed than what was reported on its ATS data submission, the ATS must notify FINRA of the fact that an alternative source was used, identify the alternative source, and specify the date(s), time(s) and securities for which the alternative source was used; and

(8) Sequence number assigned to the order event by the ATS's matching engine.

(c) The following information must be recorded and reported to FINRA by all ATSs when reporting execution of an order to OATS:

(1) The NBBO (or relevant reference price) in effect at the time of order execution;

(2) The timestamp of when the ATS recorded the effective NBBO (or relevant reference price); and

(3) Identification of the market data feed used by the ATS to record the NBBO (or other reference price) for purposes of subparagraph (1). If for any reason, the ATS uses an alternative feed than what was reported on its ATS data submission, the ATS must notify FINRA of the fact that an alternative source was used, identify the alternative source, and specify the date(s), time(s) and securities for which the alternative source was used;

(d) The following information must also be recorded and reported to FINRA by ATSs that display subscriber orders when reporting receipt of an order to OATS:

(1) Whether the order is hidden or displayable;

(2) Display Quantity;

(3) Reserve Quantity;

(4) Display Price;

(5) Entered price;

(6) If the ATS is an ADF Trading Center, the quote identifier provided to the ADF if such order resulted in a new quote being transmitted to the ADF.

(e) For an ATS that displays subscriber orders, each time the ATS's matching engine re-prices a displayed order or changes the display quantity of a displayed order, the ATS must report to OATS the time of such modification, the applicable new display

price or size, and if the ATS is an ADF Trading Center, the quote identifier provided to the ADF if such modification resulted in a new quote being transmitted to the ADF.

(f) For orders held by an ADF Trading Center, if the order becomes associated with a quote identifier based on an action by the matching engine (e.g., another order is cancelled making the order being held the best priced order in the matching engine), the ADF Trading Participant must provide a new quote identifier for that order.

(g) "ATS" shall mean 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.

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