

Tick Size Pilot Program

FAQ: Data Collection Requirements for Broker-Dealers

The Tick Size Pilot Plan ("Plan") was approved by the Securities and Exchange Commission (SEC) on May 6, 2015. This document is intended to assist broker-dealers with implementation of the data collection requirements of Appendices B and C of the Plan. These FAQs provide additional guidance on how the data collection requirements will apply to members of Plan Participants and how the Plan Participants intend to collect the data from their members to comply with Appendices B and C of the Plan.

It should be noted that these FAQs reflect reporting obligations for broker-dealers and Plan Participants that may differ from the Plan. The SROs intend to file proposed rules that will address and codify the differences between the reporting obligations set forth in these FAQs and those set forth in the Plan.

As the following FAQs reflect, the Plan Participants, after careful consideration and consultation with industry participants, have determined the most efficient and cost effective way to comply with the data collection requirements of the Plan is for each Plan Participant to collect underlying order and transaction data from its DEA members and then use that data to compile the statistics required under Appendices B.I., B.II, B.IV and C for submission to the SEC and publication on the Plan Participants' websites as applicable.

The following topics are covered in these FAQs:

- I. Appendices B.I. and B.II. Broker-Dealer Data Collection Requirements
- II. Appendices B.IV. and C Market Maker Data Collection Requirements
- III. General Questions

I. Appendices B.I. and B.II. Broker-Dealer Trading Center Data Collection Requirements

Q1: Appendices B.I. and B.II. require trading centers to collect and provide market quality statistics and certain detail order data to their DEA, who in turn must deliver such data to the SEC and make it publicly available on each DEA's website. How will broker-dealer Trading Centers be expected to comply with the data collection requirements contained in Appendices B.I. and B.II. of the Plan?

A1: Broker-dealers that meet the definition of a Trading Center must comply with data collection requirements contained in Appendices B.I. and B.II., as prescribed by the broker-dealer's Designated Examining Authority (DEA).

Based on feedback from the industry, FINRA will be submitting a rule change that would require Trading Centers for which FINRA is the DEA to comply with the data collection requirements by providing additional Tick Size specific data elements on their current OATS submissions in Pre-Pilot Data Collection Stocks and Pilot Stocks. FINRA members for which FINRA is their DEA should refer to the Tick Size OATS Data Specifications on the FINRA OATS website at [LINK](#) for detailed information and FAQs about the proposed specific OATS Tick Size reporting requirements.

The Chicago Stock Exchange is working to finalize the data collection obligations for broker-dealer Trading Centers for which it is the DEA and will communicate such requirements on its website as soon as they are available.

Q2: Who is responsible for producing the statistics required for broker-dealer Trading Centers by Appendices B.I. and B.II.?

A2: Each DEA will be responsible, using the data collected as described above, for creating the broker-dealer Trading Center statistics required by Appendices B.I. and B.II. of the Plan. Each DEA will also be responsible for publishing and transmitting such statistics to the SEC as required by the Plan. The Plan Participants intend to publish detailed FAQs and documentation reflecting how these statistics should be calculated prior to the start of the data collection period. In addition, each DEA will publish information on how they will perform the required calculations from the underlying data provided by their members (e.g., which timestamps will be used, how Trading Centers will be represented (by MPID or other identifier) and will make completed statistics available for review by their members.

Q3: Appendix B applies to all trading centers as defined in Rule 600(b)(78). How does a broker-dealer determine if it meets the definition of trading center and is therefore required to comply with the data collection requirements of Appendices B.I. and B.II.?

A3: "Trading Center" is defined in the Plan as having the same meaning as in SEC Rule 600(b)(78) which states, "a national securities exchange or national securities association that operates an SRO trading facility, an alternative trading system (ATS), an exchange market maker, an OTC market maker, or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent." Accordingly, any broker-dealer that executes trades otherwise than on a national securities exchange would be deemed to be a trading center under the Plan. More specifically, any broker-dealer that meets the definition of an executing party under FINRA's trade reporting rules and is required to report trades to a FINRA trade reporting facility as an executing party would meet the definition of Trading Center.

Q4: Does a firm that does not execute orders other than in the limited case of an error correction meet the definition of trading center?

A4: No. If the only trades a broker-dealer executes are for the purpose of correcting a bona fide error related to the execution of a customer order, the broker-dealer would not be deemed to be a trading center for the purposes of

Q5: All Trading Centers as defined in Rule 600(b)(78), including Plan Participants, are subject to Appendix B Data Collection requirements. Have "Trading Centers" intentionally been identified in the Tick Size Pilot to include a broader set of Market Participants than those identified as "Market Centers" subject to Rule 605 reporting?

A5: Yes, the use of the term "Trading Centers" under Rule 600(b)(78) is intentional. The SEC Order referred to "Trading Centers" in directing the Participants to create the Plan. The Plan uses the term "trading center" in the data requirements of Appendix B to mirror the terminology of the Order and the Plan.

Q6: Does the definition of "Trading Center" include agency crosses executed by broker-dealers over-the-counter?

A6: Yes, broker-dealers that execute trades over-the-counter by crossing orders as agent are considered Trading Centers for the purposes of the data collection requirements of the Plan.

Q7: Is there a minimum threshold in terms of either number of orders received or trades executed that would subject a Trading Center to Tick Size Pilot data collection requirements?

A7: No. There are no minimum thresholds for the data collection requirements of the Plan.

Q8: Does a member firm that operates a Trading Center in one or more Pre-Pilot Data Collection Stocks or Pilot Stocks have data collection obligations under B.I and B.II for all Pre-Pilot Data Collection Stocks or Pilot Stocks or just those for which it operates a Trading Center?

A8: Member firms only have data collection obligations for Pre-Pilot Data Collection Stocks or Pilot Stocks in which they operate as a Trading Center.

Q9: Does a member firm have data collection obligations for Pre-Pilot Data Collection Stocks or Pilot Stocks on the days when it does not execute orders on a Trading Center operated by the member firm?

A9: Member firms that operate a Trading Center in a Pre-Pilot Data Collection Stock or Pilot Stock have data collection obligations beginning on the first day the member firm meets the definition of a Trading Center by acting as an executing party to a trade in that Pre-Pilot Data Collection Stock or Pilot Stock. The member firm would then be obligated to provide data for such stocks for the remainder of the Pilot even if the Trading Center did not act as an executing party in any trades for the remainder of the Pilot.

II. Appendices B.IV. and C Market Maker Data Collection Requirements

Q10: Appendices B.IV. and C require Plan Participants to collect market maker participation and profitability statistics and provide such data to the SEC as well as make it publicly available on each DEA's website as applicable. How do the Plan Participants intend to comply with this requirement?

A10: To satisfy the requirements of Appendices B.IV. and C, the Plan Participants will require Members of Plan Participants that meet the definition of Market Maker under the Plan to provide to the Member's DEA certain market maker transaction data on a daily basis in an industry standard file format. This data must be reported to the Market Maker's DEA no later than 12 p.m. Eastern Standard

Time on T+4. Each DEA will publish this file format and reporting specifications on its website. Market Makers should obtain detailed reporting specifications from their DEA's website.

Q11: What is the definition of "Market Maker" under the Plan?

A11: "Market Maker" means a dealer registered with any self-regulatory organization (SRO), in accordance with the rules thereof, as (i) a market maker or (ii) a liquidity provider with an obligation to maintain continuous, two-sided trading interest.

Q12: Will DEAs use the same market maker transaction data to perform the calculations required for both Appendices B.IV and C market maker statistics?

A12: Yes. The DEAs will use the same market maker transaction data to perform the calculations required under both Appendices B.IV and C.

Q13: What transaction data will Market Makers be required to provide?

A13: Each registered Market Maker must provide certain trade execution information, as specified in the Market Maker Transaction Reporting Specifications published on each DEA's website. This transaction data will include the identity of the Trading Center where each trade was executed and may include the Market Maker's own Trading Center if the Market Maker executed any orders as principal on its own Trading Center in its market making account. Additionally, an ATS operated by the same broker-dealer as the Market Maker could be included if such Market Maker traded on an ATS operated within the same broker-dealer as the Market Maker.

Q14: Should proprietary trading activity related to the firm's role as a qualified block positioner as defined in Rule 3b-8(c) of the Exchange Act be included in the data required pursuant to Appendices B.IV. and C?

A14: Proprietary trading activity related to a firm's role as a qualified block positioner that is conducted in the same account(s) as the firm proprietary activity conducted in furtherance of its market making obligations with respect to its status as a registered market maker should be included in Appendices B.IV or C. Block positioning activity, however, done in accounts that are not related to the firm's market making activity should not be included. Further, proprietary activity related to the firm's role as a qualified block positioner in Pre-Pilot Data Collection Stocks or Pilot stocks for which the firm is not a registered market maker should also not be included.

Q15: The Market Maker participation statistics required to be reported by Participants under Appendix B.IV only include Market Maker transactions that take place on a Participant's trading center. Do the

Plan Participants expect this to be expanded to include market maker transactions that take place on an over-the-counter trading center?

A15: Yes, the Plan Participants intend to file proposed rules expanding the scope of Appendix B.IV. to include market maker participation on all trading centers, including over-the-counter trading centers.

Q16: The definition of "Market Maker" under the Plan "means a dealer registered with any self-regulatory organization, in accordance with the rules thereof, as (i) a market maker or (ii) a liquidity provider with an obligation to maintain continuous two-sided trading interest." How does this definition apply to the market maker data requirements under Appendices B.IV. and C. for trading activity by the market maker that does not occur on a national securities exchange on which the market maker is registered?

A16: With respect to the Market Maker Participation statistics required by Appendix B.IV. and the Market Maker Profitability statistics required by Appendix C, a broker-dealer that is registered as a market maker or liquidity provider on a national securities exchange should include all proprietary trading activity on other trading centers that is originated in the market making account used by the firm to facilitate its market making obligations on the national securities exchange on which it is a registered market maker. Trades executed by the firm in other proprietary accounts, such as arbitrage accounts, should not be included.

Q17: How will DEAs calculate the profitability statistics required under C.I.b and C.I.d for registered Market Makers?

A17: DEAs will calculate the statistics required by Appendix C using the detailed market maker transaction data provided under B.IV. The Plan Participants intend to file proposed rules describing the method used to calculate such statistics.

Q18: Will the calculations described in Q17, above, include only Regular Hours or both Regular Hours and Extended Hours?

A18: The calculations will include trading activity for both Regular Hours and Extended Hours.

Q19: Will the calculations described in Q17, above, be adjusted for any cancellations or corrections reported by the Market Makers?

A19: Yes.

Q20: If a trade is corrected prior to the T+4 submission deadline, how should that be reflected in the data submitted to the Market Maker's DEA?

A20: If a trade is corrected prior to the T+4 submission deadline, only the corrected version of the trade, and not the original trade, should be included in the Market Maker's submission.

Q21: Does the market maker transaction data that will be collected by the DEAs apply only to Market Makers that make markets in Pre-Pilot Data Collection Stocks or Pilot Stocks or does it apply to Market Makers generally that may trade in Pre-Pilot Data Collection Stocks or Pilot Stocks but not as a Market Maker?

A21: The data collection requirements under Appendices B.IV. and C of the Plan are limited to firms that are registered Market Makers in Pre-Pilot Data Collection Stocks or Pilot Stocks. A broker-dealer that is not a registered Market Maker in a particular re-Pilot Data Collection Stock or Pilot Stock would not be required to provide market transaction data for that security even if they are a registered market maker in other Pre-Pilot Data Collection Stocks or Pilot Stocks.

III. General Questions

Q22: How will the Participants ensure the confidentiality of data collected for the Plan?

A22: The reported data will be handled under the Participants' standard confidentiality policies.

Q23: How will the Participants ensure that the data collected for the Plan will not be used by Participants for business purposes?

A23: Access to, and use of, confidential data will be restricted to regulatory purposes associated with the Participants' obligations under the Plan. Public data produced under the Plan does not require restrictions on access or use.

Q24: How will anonymity of the member firms be ensured when the data is made publicly available?

A24: Anonymity will be established through aggregation of the data as described in the Plan.

Q25: Will members of Participants be subject to disciplinary action if they submit inaccurate, incomplete or untimely data required by the Plan?

A25: Yes. Members must comply with the data collection requirements of the Plan and failure to provide accurate, complete and timely data could be viewed as a violation of SRO or SEC rules.

Q26: What is the universe of securities to which the data collection requirements apply?

A26: Prior to the start of the data collection period, the Participants will distribute via their respective websites a list of Pre-Pilot Data Collection Stocks for purposes of the data collection obligations. Prior to

the commencement of the Pilot, the Participants will distribute via their respective websites a list of Pilot Stocks that must be used for purposes of the data collection obligations during the Pilot and for the six months following the Pilot.

Q27: Will the list of Pre-Pilot Data Collection Stocks and Pilot Stocks be updated to reflect symbol changes and other corporate actions?

A27: Yes. The accuracy of each list will be evaluated and refreshed daily by each listing Participant. Participants and members of Participants should develop policies and procedures for obtaining each daily list from the Participants' websites.

Q28: If a stock declines below \$1.00 during either the pre-Pilot or the Pilot Period, will the data reporting obligations continue to apply to that stock?

A28: Yes. Data reporting obligations will be unaffected if a stock declines below \$1.00 during either the pre-Pilot or the Pilot Period. Data will continue to be collected throughout both the pre-Pilot and the Pilot Period regardless of whether the price declines below \$1.00. Quoting and trading rules for stocks priced below \$1.00 are discussed in the general FAQs.

Q29: Does the Plan require broker-dealer trading centers to capture timestamps in milliseconds?

A29: No, the Plan does not change any timestamp granularity requirements for broker-dealers. The Plan does require timestamps to be reported using the finest granularity captured by the trading center. Therefore, if a broker-dealer captures timestamps covered by Appendices B.I and B.II in microseconds, such timestamps must be reported in microseconds. However, if the broker-dealer only captures timestamps in seconds, then such timestamps may be reported in seconds.

Q30: What is the data retention period for Members of Participants?

A30: Data collected under the Plan must be retained in accordance with existing SEC and SRO record retention rules.

Q31: What is the delay with which Participants will be making publically available the data pursuant to Appendices to the Plan?

A31: As described in the Plan at VII(A) and VII(B), public data will be made available on a monthly basis. Data will be made available one month after the end of the month being reported.