# Regulatory Alert

**Regulatory Insights for Financial Services**

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## SEC Final Amendments: Rule 605 of Regulation NMS

***KPMG Insights:***

— ***SEC Brisk Rulemaking Continues:*** *Part of sweeping SEC market structure changes; amends a 24-year-old rule, recognizing transformations to the equity market given technology and business model changes.*

— ***Expands Coverage:*** *Increases execution reporting entities, updates report contents, increases report accessibility, and allows customers of broker-dealers and other market participants direct information on aggregate broker-dealer executions.*

— ***Drives Competition:*** *Amendments meant to improve transparency of execution and allow for increased broker comparability.*

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The Securities and Exchange Commission (SEC or Commission) issues final amendments to the disclosure requirements of Rule 605 of Regulation NMS for executions of "covered orders" in national market system (NMS) stocks. The amendments are intended to update the disclosures in recognition of transformations to the equity market resulting from technology and business model changes. Changes to the scope and content of standardized monthly reports required under Rule 605 are intended to "improve transparency for execution quality and facilitate investors' ability to compare brokers."

The final amendments are many and varied. Highlights include:

— Expanding the scope of the rule to include broker-dealers who introduce or carry 100,000 or more customer accounts.

— Expanding the definition of "covered order" to include certain orders submitted outside of regular trading hours, certain orders submitted with stop prices, and non-exempt short sale orders. (*Note: Any order for which the customer requests special handling for execution is excluded from the definition of a "covered order".)*

— Modifying the existing order size categories to base them on both notional dollar value and whether an order is for a fractional share, for an odd-lot, or for a round lot or greater rather than number of shares.

— Establishing four new order type categories:
  - Marketable immediate-or-cancel orders.
  - Market orders submitted with stop prices.
  - Marketable limit orders submitted with stop prices.
  - Non-marketable limit orders submitted with stop prices.

— Replacing three existing categories of non-marketable order types with four new categories of order types:
  - Midpoint-or-better limit orders.
  - Midpoint-or-better immediate-or-cancel orders.
  - Non-marketable limit orders.
  - Non-marketable immediate-or-cancel orders.

- Expanding the scope to include non-marketable orders and orders submitted with stop prices if they become executable during regular trading hours.
- Adding a timestamp convention of a millisecond or finer and requiring average time-to-execution statistics for all order types.
- Expanding the scope of execution quality measures to include, among others, average effective divided by average quoted spread, measures relative to "size improvement", and measures of "price improvement relative to the best available price."

The final amendments also require:

- Market centers, brokers, and dealers to make available standardized, monthly reports of statistical information concerning their order executions as well as a summary report that is publicly available.
  - Separate reports will be required for a firm's broker-dealer activity and its Alternative Trading System (ATS) activity.
  - Separate reports will be required for activities specific to any single dealer platforms that they operate.
- Market centers, brokers, and dealers to retain reports posted to their website for three years from the initial date of posting.

**Effective Date.** The final rule will become effective sixty days after publication in the Federal Register.

**Compliance Date.** Compliance with the final rule will be required on the date that is 18 months after the effective date.

**For more information**, please contact Stefan Cooper or Mike Sullivan.

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