

SEC Proposes to Modernize Key Market Infrastructure Responsible for Collecting, Consolidating, and Disseminating Securities Market Data

Seeks to Introduce Competitive Forces to Core Components of the System for the First Time

FOR IMMEDIATE RELEASE
2020-34

Washington D.C., Feb. 14, 2020 —

The Securities and Exchange Commission today proposed to modernize the infrastructure for the collection, consolidation, and dissemination of market data for exchange-listed national market system (NMS) stocks. The proposal would update and expand the content of NMS market data to better meet the diverse needs of investors in today's equity markets. The Commission has not significantly updated the rules that govern the content and dissemination of NMS market data since their initial implementation in the late 1970s. The proposal would also seek to introduce competitive forces into this core component of the national market system for the first time. The introduction of and competition among these new data consolidators could, in turn, allow all market participants, including investors, to access and benefit from the expanded content of NMS market data.

“Today's proposal is part of our larger initiative to modernize our equity market regulatory structure to address significant changes in our trading markets. In particular, today's proposals are designed to improve data quality and data access for all market participants,” said Chairman Jay Clayton. “Both the content of NMS market data and the technologies used to collect, consolidate, and disseminate that data have lagged meaningfully behind proprietary data products and systems offered by the exchanges. By expanding the content of this data and introducing competitive forces into the market, the proposals would enhance transparency and ensure that improved NMS market data is available on terms that are accessible to a wide variety of participants in today's markets.”

In 1975, one of Congress's principal objectives for the national market system was to assure the availability of information with respect to quotations and transactions in securities. Currently, the national securities exchanges and the Financial Industry Regulatory Authority (collectively, the SROs) act jointly under three NMS plans (the Equity Data Plans) to collect, consolidate and disseminate information for NMS stocks. For each NMS stock, the SROs are required to provide specified market data (the NMS market data) to exclusive securities information processors (SIPs). The SIPs then consolidate that information and make it available to the public. Today's

proposal is designed to improve the NMS market data infrastructure by reducing the current disparity in content and latency between NMS market data and the proprietary data products that some of the individual exchanges sell directly to market participants. The proposal would replace the “exclusive SIP” model with a decentralized model of “competing consolidators.”

This proposal is the latest initiative in the Commission’s ongoing efforts to modernize the national market system to better fit the needs of investors—both retail and institutional—and other market participants, including our exchange listed, public companies. For example, in October 2019, the Commission [published a proposal](#) designed to improve the procedure for public comment and Commission review of proposed fee changes by NMS plans. In January 2020, the Commission [published a proposed order](#) designed to address conflicts of interest in the governance of the NMS plans and to expand the opportunity of investors and other non-SROs to participate in NMS plan governance. Today’s proposal would build upon and complement the Commission’s proposed governance order by seeking to modernize NMS market data from both a content and access perspective, including by introducing competitive forces to key components of the system for the first time.

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FACT SHEET

Market Data Infrastructure

Feb. 14, 2020

Current Regulatory Framework

Regulation NMS addresses both the content of, and the means by which, NMS stock quotation and transaction information is collected, consolidated and disseminated. Current rules establish a centralized consolidation model in which the SROs act jointly under the Equity Data Plans to provide specified NMS market data for each NMS stock to exclusive SIPs. The exclusive SIPs then consolidate that information and disseminate a national best bid and national best offer (NBBO) and last sale information. While the Commission has been monitoring the effectiveness of its NMS rules and has revised certain rules, the Commission has not significantly updated the rules that govern the content and dissemination of NMS market data since their initial implementation in the late 1970s even though the data used in trading has changed dramatically.

Market Developments

The U.S. equity markets are dynamic and, as a result of a variety of factors, have changed dramatically since the initial adoption of the national market system in the 1970s. In particular, the combination of technological advances and order routing and trading strategies have greatly increased the speed and automation of markets, making trading more market data dependent, in terms of content, access and processing speed. In response, exchanges have developed enhanced proprietary data and connectivity products that in various circumstances are viewed as superior to the data and access provided by the exclusive SIPs. These content and latency differentials between SIP data and the proprietary market data products disseminated directly by the exchanges have become increasingly material.

Proposal

The Commission preliminarily believes that the content of NMS market data and the model for collecting, consolidating and disseminating NMS market data have not kept pace with technological and market developments. As a result, the Commission is concerned that current

NMS market data may no longer satisfy the needs of many investors, broker-dealers and other market participants. The proposal seeks to address this concern in two fundamental ways.

First, as illustrated in the examples provided in the chart below, the proposal would update and expand the content of NMS market data to include: (1) information about orders in share amounts smaller than the current round lot size (e.g., 100 shares) for higher priced stocks; (2) information about certain orders that are outside of an exchange’s best bid and best offer (i.e., certain depth of book data); and (3) information about orders that are participating in opening, closing and other auctions.

Content of Current vs. Proposed NMS Market Data

	Current	Proposed
Last sale data/transaction reports	The price, size and exchange of the last sale of the NMS stock, including odd-lot transactions.	Same as current.
Best bid and best offer (“BBO”)	BBOs for each SRO in current round lot sizes (e.g., 100 shares)	BBOs for each SRO in revised round lot sizes based on the proposed new “round lot” definition: <ul style="list-style-type: none"> • \$50.00 or less per share: round lot = 100 shares; • \$50.01 to \$100.00 per share: round lot = 20 shares; • \$100.01 to \$500.00 per share: round lot = 10 shares; • \$500.01 to \$1,000.00 per share: round lot = 2 shares; and • \$1,000.01 or more per share: round lot = 1 share.
National best bid and national best offer	NBBO is based on the current round lot size quotations.	NBBO would be based on the proposed new round lot size quotations.
Protected quotations	Protected quotations are in current round lots.	The definition of protected quotation is proposed to be amended to be 100 shares or more, regardless of round lot size. Protected quotations would be included in proposed NMS market data.
Depth of book data	Not included.	Proposed new “depth of book data” would include for each SRO an aggregation of all quotes (regardless of share amount): <ul style="list-style-type: none"> • at each price between the BBO and protected BBO (if different); and • at each of the next 5 prices lower than the protected bid and higher than the protected offer.
Auction information	A limited range of auction information is provided by the Equity Data Plans, such as reopening auction information following Limit-Up Limit-Down (“LULD”) pauses and certain NYSE	Proposed new “auction information” would include any information specified by SRO rules or effective NMS Plans that is generated by a SRO leading up to and during an auction—including opening, reopening, and closing auctions—and disseminated during the time periods and at the time intervals

	auction information.	provided in such rules and plans.
Exchange-specific program data	Information regarding exchange-specific programs, such as retail liquidity programs.	As proposed, all current exchange-specific data elements plus any additional data elements defined as such pursuant to the effective national market system plan(s) required under Rule 603(b).
Over-the -counter bulletin board (“OTCBB”) and concurrent use data	OTCBB quotation and transaction data and certain “concurrent use” data (i.e., corporate bond and index data) is offered in connection with current NMS market data.	This information would not be included in NMS market data under the proposal.
Regulatory data	Includes information regarding short sale circuit breakers, trading pauses, regulatory halts, and official opening and closing prices of the primary listing exchange.	As proposed, all current regulatory data plus a new indicator for applicable round lot sizes and any additional regulatory data elements defined as such pursuant to the effective national market system plan(s) required under Rule 603(b).
Administrative data	Includes messages specifying identifiers for market centers and issue symbols and messages regarding the beginning and end of trading sessions.	As proposed, all current administrative data plus any additional administrative data elements defined as such pursuant to the effective national market system plan(s) required under Rule 603(b).

Second, the proposal would introduce a decentralized consolidation model under which competing consolidators, rather than the existing exclusive SIPs, would collect, consolidate, and disseminate certain NMS information. To support this decentralized model, the proposal would require each SRO to make available all of its data that is necessary to generate NMS market data to two new categories of entities: (1) competing consolidators, which would be responsible for collecting, consolidating and disseminating consolidated market data to the public; and (2) self-aggregators, which would be brokers or dealers that elect to collect and consolidate market data solely for their internal use.

SROs, as currently registered, and non-SROs could operate as competing consolidators. SRO competing consolidators would not be required to register separately with the Commission. Non-SRO competing consolidators would be required to register with the Commission under proposed new Rule 614 of Regulation NMS. All competing consolidators would be subject to certain standards with respect to the promptness, accuracy, reliability and fairness of their operations, including Regulation SCI. Self-aggregators would be registered broker-dealers subject to the full broker-dealer regulatory regime and would not be required to register with the Commission in a separate capacity.

What’s Next?

The proposal will be published on SEC.gov and in the Federal Register. There will be a 60-day comment period following publication in the Federal Register.

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