

[Securities Regulation Daily Wrap Up, TOP STORY—SEC unanimously votes to modernize NMS infrastructure, \(Dec. 9, 2020\)](#)

Securities Regulation Daily Wrap Up

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The changes are designed to enhance the collection, consolidation, and dissemination of equity market data and to foster a competitive environment for the national market system.

The SEC unanimously voted to amend Regulation NMS to modernize the national market system for the collection and consolidation of information with respect to quotations for transactions. Specifically, the changes expand the content of NMS information that is required and change the method by which NMS information is collected, calculated, and distributed by fostering a competitive environment for dissemination of information by a decentralized consolidation model, where competing consolidators would replace the existing exclusive securities information processors (SIPs) (Market Data Infrastructure, [Release No. 34-90610](#), December 9, 2020).

"In particular, these rules are designed to increase competition and transparency, which will improve data quality and data access for all market participants," [said](#) SEC Chairman Jay Clayton.

Existing regime. When adopted in the 1970s, one of the main objectives for the national market system was to ensure the availability of information with respect to quotations and transactions in securities. At present, the national securities exchanges and the SROs act jointly under NMS plans to collect, consolidate, and disseminate information for NMS stocks. For each NMS stock, they must provide specific market data to exclusive SIPs, and the SIPs then consolidate that data for public availability and disseminate a national best bid and national best offer and last sale information. Order routing and trading strategies have increased the speed and automation of markets, making trading more data dependent, and exchanges have developed proprietary products that some view as superior to that provided by the exclusive SIPs.

Changes. The new rules introduce a decentralized consolidation model in which competing consolidators, rather than the exclusive SIPs, will be responsible for collecting, consolidating, and disseminating consolidated market data. The rules require each SRO to make available data that is necessary to generate consolidated market data for competing consolidators.

The rules also 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); (2) information about certain orders 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.

Competing consolidators will be required to register with the Commission under new Rule 614 of Regulation NMS and subjected to standards respecting the promptness, accuracy, and fairness of their operations.

Commissioner statements. Chairman Clayton [applauded](#) the efforts of staff to continue to analyze and update the SEC's regulatory framework to fulfill the agency's mission to maintain fair, orderly, and efficient markets. Broad dissemination of consolidated equity market data is critical to this process, he said.

Commissioner Allison Herren Lee agreed, [noting](#) that the Commission has an obligation to oversee the provision of market data on fair and reasonable terms. The SIPs have not kept pace with proprietary data products in terms of content or speed, she said. More sophisticated electronic trading has led to equity trading occurring at ever-increasing speeds, and many market participants have found they must pay for the more expensive proprietary data feeds to ensure that they can operate competitively, Lee said. The changes provide "an upgrade to ensure that the trading experience on the SIP data highways is closer to that of the trading experience on the proprietary autobahns," according to the commissioner.

According to Commissioner Elad Roisman, the main goal is to address concerns related to the latency and usability of the current SIP feeds. Competition has been a strength of the national market system, and competition among market data consolidators can do likewise, he [said](#). "For an initiative of this scale and scope to be successful it is incredibly important that the industry and the Commission work together on implementation," he stressed. The SEC also should consider providing guidance on the regulatory requirement to achieve best execution, Roisman explained. "While I recognize that best execution is unique to the circumstances of a particular order, or a particular customer, I believe there is more we could and should do," he stated.

"Laying the groundwork for better, more widely available, faster data is the kind of market facilitation I can support," Commissioner Hester Peirce [explained](#).

Industry comments. Weighing in on the changes, Better Markets [stated](#): "These changes, including the injection of competition into the provision of such data, would serve as a countervailing check on the rampant increase of the cost of proprietary data, which should reduce the cost of intermediation and serve the interest of investors, savers and retirees." Creating a new system has the potential to promote fair and efficient markets and reduce asymmetries in information, the organization stated.

SIFMA also offered support, stating that the changes will provide for additional content and move away from the centralized approach to SIP-data distribution. "We further appreciate that it appears the final rule will not change the application of the order protection rule (OPR) and will provide for the protection of the new smaller round lot sizes under the OPR," SIFMA [explained](#).

The adopted rules will be effective 60 days after publication in the *Federal Register* but, to facilitate an orderly transition, the Commission has developed a phased transition plan that will begin in 2021.

The release is [No. 34-90610](#).

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