

## Providing Stock Quotations to Customers

### SEC Staff Provides Insight Into Firms' Obligations When Providing Stock Quote Information to Customers

#### Executive Summary

FINRA is issuing this *Notice* to remind firms and registered representatives of their obligations under Rule 603(c) of Regulation NMS (Vendor Display Rule) when providing quotation information to customers. The SEC staff recently made clear its view that if a registered representative provides a quotation to a customer that can be used to assess the current market or the quality of trade execution, reliance on non-consolidated market information as the source of that quotation would not be consistent with the Vendor Display Rule. In light of the SEC staff's statements, firms should review whether they are in compliance with the requirement in the Vendor Display Rule that broker-dealers provide a consolidated display of market data when they are providing quotation information to customers.

Questions concerning this *Notice* should be directed to:

- ▶ Brant K. Brown, Associate General Counsel, Office of General Counsel, at (202) 728-6927; or
- ▶ Christine Sakach, Special Counsel, Market Regulation, at (240) 386-5404.

#### Background & Discussion

FINRA is issuing this *Notice* to remind firms and registered representatives of their obligations under the Vendor Display Rule when providing quotation information to customers. In particular, firms should review whether they are in compliance with the requirement in the Vendor Display Rule that broker-dealers provide a consolidated display of market data in a context in which a trading or order routing decision can be implemented. Given the proliferation of various types of market data feeds and the SEC staff's recent statements regarding compliance with the Vendor Display Rule, which are discussed below, firms should undertake this review with a particular focus on the specific data feeds or other products registered representatives use when providing quotation information to customers.

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#### Notice Type

- ▶ Guidance

#### Suggested Routing

- ▶ Compliance
- ▶ Institutional
- ▶ Legal
- ▶ Registered Representatives
- ▶ Senior Management
- ▶ Trading

#### Key Topics

- ▶ Vendor Display Rule

#### Referenced Rules & Notices

- ▶ FINRA Rule 5130
- ▶ Rule 603 of Regulation NMS

With the adoption of Regulation NMS, the SEC updated requirements for consolidating, distributing and displaying market information. In particular, the SEC revised the requirement in former Rule 11Ac1-3 (renumbered as Rule 603 in Regulation NMS) that if vendors and broker-dealers provided market information for an NMS stock, they also were required to provide a consolidated display with information from all the market centers that traded the stock. The revised requirements reduced the information that firms must include in a consolidated display and narrowed the circumstances in which the consolidated display requirement would be triggered to those “in which a trading or order-routing decision can be implemented.”<sup>1</sup> More specifically, the revised Vendor Display Rule requires a consolidated display that includes (1) the prices, sizes and market center identifications of the national best bid or offer and (2) the most recent last sale information.<sup>2</sup> In the adopting release, the SEC stated that vendors and broker-dealers will have the ability to decide what, if any, additional data from other market centers to display.<sup>3</sup>

Since the adoption of Regulation NMS, the number of market data products offered has increased significantly. Many of these products provide data specific to a particular market or markets, and although they may provide valuable information to subscribers, many do not provide a “consolidated display,” as that term is defined in Regulation NMS. On July 22, 2015, the SEC staff denied a no-action request regarding registered representatives’ use of a data feed containing only a subset of consolidated market data when providing securities quotations to customers.<sup>4</sup> The letter requested assurance from the SEC staff that it would be permissible under the Vendor Display Rule for an individual registered representative of a broker-dealer to use the feed to identify a reference price for a security and use that price to provide a quotation to a customer. The letter noted that, if the customer submitted an order, the customer order would be executed or routed by a system using consolidated market-wide data, and the order would remain subject to the firm’s duty of best execution.<sup>5</sup>

In a response letter denying the request for no-action relief, the SEC staff made clear its view that “a quotation provided by a registered representative to a customer, which the customer can use to assess the current market or the quality of trade execution, is provided ‘in a context in which a trading or order-routing decision can be implemented’ for purposes of the Vendor Display Rule,” and, therefore, reliance only on a feed that is limited to a subset of consolidated market data as the source of the quotation would not be consistent with the Vendor Display Rule. The SEC staff noted that, in adopting Regulation NMS, the SEC stated that, “[p]articularly for retail investors, the [national best bid and national best offer, or NBBO] continues to retain a great deal of value in assessing the current market for small trades and the quality of execution of such trades.”<sup>6</sup> Consequently, relying solely on a market data product that is limited to a particular market or markets to provide quotation information to customers will not suffice for a firm in meeting its obligations under the Vendor Display Rule. Based on these statements by the SEC staff, firms should undertake a review of the market data they use in the operation of their businesses, including the data they make available to customers and internally within the firm to verify that they are complying with the requirements of the Vendor Display Rule when providing quotations to customers.

## Endnotes

1. See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37569 (June 29, 2005) (Reg NMS Adopting Release).
2. “Consolidated display” is defined to mean “(i) The prices, sizes and market identifications of the national best bid and national best offer for a security; and (ii) Consolidated last sale information for a security.” 17 CFR 242.600(b)(13). “Consolidated last sale information” means the price, volume and market identification of the most recent transaction report for a security that is disseminated pursuant to an effective national market system plan. See 17 CFR 242.600(b)(14).
3. See Reg NMS Adopting Release, *supra* note 1, at 37569 (“Beyond disclosure of this basic information, market forces, rather than regulatory requirements, will... determine what, if any, additional data from other market centers is displayed.”).
4. The letter was submitted by BATS Global Markets, Inc. (BATS) and concerned the BATS One Feed, which is “a data feed that disseminates, on a real-time basis, last sale information and the aggregate best bid and offer of all displayed orders for securities traded on the [four] BATS Exchanges and for which the BATS Exchanges report quotes under the Consolidated Tape Association Plan or the Nasdaq/UTP Plan.” See Letter from Eric Swanson, EVP, General Counsel & Secretary, BATS, to Stephen Luparello, Director, Division of Trading and Markets, SEC, dated February 25, 2015. Both the BATS request letter and the response letter from the staff of the SEC’s Division of Trading and Markets are available on the [SEC’s website](#).
5. See FINRA Rule 5130.
6. See Reg NMS Adopting Release, *supra* note 1, at 37567. “National best bid and national best offer” is defined in Rule 600(b)(42) under SEC Regulation NMS. See 17 CFR 242.600(b)(42).