TSWG

June 8, 2021

Agenda

- Changes to Phase 2d Spec Implementation Timeline
- Upcoming changes to ALG/SMT

New Future Spec Time Frames

▸ FINRA CAT will be publishing an updated Phase 2d Spec v4.0.0 r9 on June 18, 2021 to incorporate final changes and guidance for the MOOT event.

  ◦ Other pending updates will be incorporated, including updates to ALG/SMT and other items on the Spec Update list
  ◦ Updated MOOT scenarios will follow

▸ Version 4.0.0 r10 of the Phase 2d Spec is still on schedule to be published on August 2, 2021.

  ◦ Urgent updates needed to intake data to test will be considered on an as-needed basis.

▸ Both the June 18 and August 2, 2021 updates will be incorporated in the Test Environment no later than October 1, 2021.

▸ Spec needs can be re-evaluated in the October/November time frame after 4.0.1 is available in the Test Environment.

New Definition for "Trading Algorithm"

▸ 'Trading Algorithm' is defined as a computer program which receives an order and typically, parameters for execution of that order. According to the parameters and the purpose of the algorithm, it generates multiple orders, and determines the price, size and origination time of those orders. Examples include VWAP, TWAP, POV.

Updated Guidance Re: Use of 'ALG' and 'SMT'

‣ The smart router ('SMT') instruction is being retired and **will no longer be accepted beginning in Phase 2d**.

‣ The use of the 'ALG' instruction **will not change**.

◦ 'ALG' will continue to represent an instruction to use a trading algorithm and NOT the actual use of an algo as set forth in FAQ D29.

❖*Regulatory users identify the use of trading algorithms from parent orders and not through the routing of algo generated child orders.*

Examples of 'ALG' Use

As set forth in FAQ D29:

Use of 'ALG' is required in the following scenarios:

▸ IM receives an instruction from a customer to work the order using an algo.

▸ IM routes an order to another IM with instructions to work the order using an algo.

▸ IM originates a proprietary order with instructions to work the order using an algo.

'ALG' must NOT be used in the following scenario:

▸ An algo generates a series of orders that are routed to other destinations. The orders and routes generated by the algo should not include the 'ALG' instruction.

'ALG' Enhancements Beyond Phase 2d

Limitation of current 'ALG' guidance:

CAT is not able to consistently identify when a firm makes the decision to work an order using an algo when the order was not received or originated with such instructions.

For example, a trader's decision to use an algo to work an order is captured in the following scenarios:

▸ The order is routed to another desk or department with instructions to use an algo. The 'ALG' instruction is captured on the Internal Route Accept.

▸ A child order is generated with instructions to use an algo. The child order would include the 'ALG' instructions.

▸ A representative order is generated with instructions to use an algo. The representative order would include the 'ALG' instructions.

However, if the order is worked on the same desk without using a child order or representative order, there is currently no opportunity for a firm to reflect it has chosen to use an algo to work the order.

Post 2d New Algo Related Field

A new field will be added to the New Order/Supplement event that will allow a firm to reflect that is has chosen to use an algo to work all or part of an order when the firm did not receive an instruction from the customer to do so (e.g., using an algo to work a NH order)

▸ *discretionAlgoQuantity – When an Industry Member made the decision absent an explicit customer instruction to route all or part of an order though an algo, the Industry Member must capture the quantity that it sent through the algo.*