



March 20, 2015

**Via Electronic Mail (rule-comments@sec.gov)**

U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-1090  
Attention: Elizabeth Murphy, Secretary

Re: ***Extension & Clarification Request for Third Party Broker Dealers:***  
Regulation Systems Compliance & Integrity (Reg SCI):  
<http://www.sec.gov/rules/final/2014/34-73639.pdf>  
(File No. S7-Q1-13)

Dear Ms. Murphy:

Aplomb Strategies Inc. appreciates the opportunity to comment on the approved requirements for Regulation Systems Compliance & Integrity (Reg SCI) with regards to the potential requirements for Third Party Broker Dealer system reporting and development changes required to be implemented on **November 3, 2015**.

Aplomb Strategies applauds the Commission's thoughtful undertaking in developing these new reporting requirements, which will serve to strengthen the current market infrastructure. Aplomb agrees, that due to market complexity, developing and implementing controls in an expedited fashion to reduce the potential for systemic risk are critical to ensuring an efficient and robust US capital market system. At this time, Aplomb would like to raise an implementation question with regards to the interwoven conglomeration of technology platforms that currently comprise the US equity stock and option trading markets; specifically with regards to the use of Third Party Broker Dealer technology by covered SCI Entities.

**Third Party Broker Dealer Technology is currently in use by covered Reg SCI market venues:**

It is common place today for covered SCI entities to leverage technology developed by Third Party Broker Dealers for routing, market data and interim clearing and settlement. By way of example, Third Party Broker Dealer technology platforms are currently employed by the majority of exchanges to provide away routing services to comply with the trade through requirements driven by Regulation National Market System (Reg NMS) and distributive linkage for options. Moreover, as approximately 25% of retail option flow tends to be multiple legged option orders tied to stock, many option exchanges utilize Third Party Broker Dealer technology in a myriad of ways to manage the routing of option tied to stock orders; namely in the form of: Qualified Contingent Trades (QCT), Qualified Contingent Crosses (QCC), Complex Order Books, and Spread trades. Some option exchanges have developed their own internal Order Management and Execution Management platforms which leverage Third Party Broker Dealers for smart order routing. Exchanges have also leveraged Third Party Broker Dealer technology to manage their consumption of



market data, as feed handlers. In addition, ATs may use Third Party Broker Dealers for interim clearing and settlement processing before a trade clears through DTCC. It appears that Reg SCI would require Third Party Broker Dealers in these instances to become compliant with the system resiliency and new reporting regime requirements for order routing, market data and/or clearance and settlement trading platforms by November 3, 2015.

**Third Party Broker Dealer Impact:**

The potential magnitude of change for a Third Party Broker Dealer to implement this new requirement across its technology platforms needs to be considered in a manner that reduces the potential to unintentionally introduce risk into the market place. (Please refer to Appendix I for the list of potential requirements.) To that end, Aplomb requests clarification with regards to Third Party Broker Dealer requirements under the provision of Reg SCI and, where relevant, proactively would like to request an extension specific to Third Party Broker Dealer entities from the November 3, 2015 compliance implementation deadline.

Those covered entities that have historically responded to the SEC's Automation Review Policy (ARP) requirements are familiar with and have built out systems to meet ARP reporting requirements; whereas, Third Party Broker Dealer entities do not have the existing reporting framework in place, which would enable them to ring fence business lines and platforms that were not historically covered under ARP. These new rules may require certain Third Party Broker Dealers to undertake significant development work to separate out meet the new requirements in a compressed deadline.

The current set of Exhibits outlined by the Commission for the reporting requirements of Reg SCI are currently targeted towards SCI entities. Aplomb would like clarity on the specific reporting requirements with regards to Third Parties' compliance of Reg SCI. It is Aplomb's understanding that the Commission intended the provisions of the new reporting regime to cover approximately 44 entities in this first iteration of Reg SCI. To that end, Aplomb does not believe these specific Third Parties were intended to be targeted for Reg SCI compliance in November of 2015.

Most Third Party Broker Dealer's technology is cross-purposed. The same technology stack is utilized by both their customer businesses and the exchanges for Reg NMS / distributive linkage routing capabilities, market data/feed handlers, and ATs for clearing & settlement. It is important to note a few specific impacts to Third Party Broker Dealers with respect to meeting these potential requirements, either for November 2015 or in the future. Currently, the same technology leveraged by SCI covered entities is often housed, maintained and supervised within a customer facing business unit. In a competitive environment, broker dealers may be hesitant about publically reporting on system enhancements where the same change may affect their customer routing business. It appears without a significant technology development effort, that includes properly ring-fencing their market venue routing, market data, and settlement & clearing workflows, these broker dealers would be faced with reporting their customer-specific system enhancements. Properly ring-fencing just these routing, market data and clearing and settlement businesses units will, on the other hand, cause broker dealers to expend numerous resources, introduce added complexity to their platform, and introduce ancillary and not insignificant costs (such as additional market data fees by the exchange, and added capacity requirements). The unintended



consequence of these costs, in addition to the implementation costs in general may cause a reduction in market risk distribution and participants.

**Request for Guidance:**

At this time, we would welcome guidance on the intended applicability of these reporting requirements with respect to the Third Party Broker Dealers technology leveraged by covered SCI entities for routing, market data and clearing and settlement platforms. In addition, Aplomb has outlined a specific list detailing a request for guidance, please refer to Appendix II, below. Finally, if the Commission determines for routing, market data and clearing and settlement technology solutions that the Third Part Broker Dealers are responsible for complying with Reg SCI requirements due November 3, 2015; Aplomb would proactively request the Commission consider an extension specific to these Third Party Broker Dealer entities from the November 2015 compliance implementation deadline.

Aplomb Strategies appreciates the opportunity to comment on a potential unintended consequence of the proposed rule on Third Party Broker Dealers. Thank you very much for your consideration to this request.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Joanna Fields', with a long horizontal flourish extending to the right.

Joanna Fields

Principal

Aplomb Strategies Inc.

[Joanna.fields@aplombstrategies.com](mailto:Joanna.fields@aplombstrategies.com)



**Appendix I: Reporting Requirements:**

Aplomb is seeking clarity with respect to the current implementation requirements outlined in Reg SCI for Third Party Broker Dealer routing, market data handling and clearing and settlement. Will the following be required for November 3, 2015 for Third Party Broker Dealers?

- New Reporting Requirements:
  - 24 hour response on Notification of SCI event
  - Final so Interim report on SCI Event
  - Quarterly report of De Minimis SCI Event
  - Quarterly report of system changes
  - Report of SCI review
  
- New Policies and Procedures with regards to security, integrity, resiliency and availability to promote fair and orderly markets; specific requirements include the following:
  - Capacity planning estimates;
  - Periodic capacity stress tests;
  - Program to review and keep system development and testing methodology;
  - Review and testing of systems, backup systems pertaining to internal and external threats, physical hazards and natural or manmade disasters;
  - Business continuity and disaster recovery and testing plans, including a geographic diversity requirement;
  - Standards designed developed and test the successful collection, processing and dissemination of market data;
  - Record keeping;
  - Documentation on Form SCI; and
  - Identify responsible SCI personnel required for system review and communication with the SEC



**Appendix II: Request for Clarification from the Commission - Outstanding Questions:**

1. Will the Third Party Broker Dealers used by Exchanges for routing stock and options orders in order to be compliant with trade through requirements, and multi-legged options, including those tied to stock orders, be required to implement all the Reg SCI requirements for November 3, 2015?
2. Will the Third Party Broker Dealers used by the exchanges to manage their market data feeds and feed handlers be required to implement all the Reg SCI requirements for November 3, 2015?
  - a. The costs associated with market data usage: Broker dealers may potentially have to ring fence their market data business in order to clearly define the entities internally covered by the new reporting and policies and procedures. This could substantially impact these Third Party Broker Dealers market data cost structure, as they will potentially have to take in duplicate the intake of all current market data feeds. Will the existing exchange market data fee cost structure be amended to address the duplication of market data feed requirements driven by Reg SCI?
3. Will the Third Party Broker Dealers used by ATSS to manage interim clearing and settlement processes be required to implement all of the Reg SCI requirements for November 3, 2015?
4. As exchanges, generally, use two Third Party Broker Dealers to meet their routing requirements, in equities, and options, which naturally serve as back up to each other, under the new requirements would the Third Party Broker Dealers also need to commit to a full back up and disaster recovery plan?
5. Will Third Party Broker Dealers subject to the new provision of Reg SCI require independent audits to attest to platform ring-fencing in order to minimize reporting requirements, reduce potential cost impacts and limit capacity build outs obligations?