

STA Trading Issues Large Trader Reporting (Rule 13H-1) Overview

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About FIF Large Trader Working Group

- ▶ Established to address implementation issues with the Large Trader Reporting Rule
 - ▶ Maintaining Large Trader Rule Relevant Links Portal
 - ▶ Updating Large Trader Rule Implementation Tracking Document
- ▶ Made up of representatives from FIF's 80+ member firms including broker-dealers, vendors, and exchanges that participate in the FIF Front Office and Multi-Client Back Office Committees
- ▶ Participation in FIF working groups open to FIF members. Additional details available [here](#).

Large Trader Rule (Rule 13H-1)

At A Glance



- ▶ Commission is adopting new Rule 13h-1 and Form 13H under Section 13(h) to assist in both identifying, and obtaining trading information on, market participants that conduct a substantial amount of trading activity, as measured by volume or market value, in the U.S. securities markets.
- ▶ Rule 13h-1 will require a “large trader,” to identify itself to the Commission and make certain disclosures to the Commission on Form 13H.
- ▶ Upon receipt of Form 13H, the Commission will assign to each large trader an identification number that will uniquely and uniformly identify the trader, which the large trader must then provide to its registered broker-dealers.
- ▶ Registered broker-dealers will then be required to maintain records of two additional data elements in connection with transactions effected through accounts of such large traders (the large trader identification number, and the time transactions in the account are executed)
- ▶ Broker-dealers will need to report large trader transaction information to the Commission upon request through the Electronic Blue Sheets systems.
- ▶ Registered broker-dealers subject to the Rule will be required to perform limited monitoring of their customers’ accounts for activity that may trigger the large trader identification requirements of Rule 13h-1.
- ▶ BDs will require policies and procedures reasonably designed to inform persons of their obligations to file Form 13H and disclose their large trader status.

Note: Large Trader Reporting Rule information is based on excerpts from the Approved Rule as well as feedback from the SEC and ISG. Responses are subject to change.

Large Trader Reporting Rule

Key Dates



- ▶ July 27, 2011: Large Trader Reporting approved.
- ▶ Aug 3, 2011: Large Trader Reporting approved filing published in the Federal Register.
- ▶ October 3, 2011: Effective Date of Rule.
- ▶ December 1, 2011: Compliance Date for the requirement on large traders to identify to the Commission pursuant to Rule 13h-1(b).
- ▶ April 30, 2012: Compliance Date for broker-dealers to maintain records, report, and monitor large trader activity pursuant to Rule 13h-1(d), (e), and (f).



What is a Large Trader?

What is the definition of a Large Trader?

- ▶ Rule 13h-1(a)(1) defines a “large trader” as “any person that:(i) directly or indirectly, including through other persons controlled by such person, exercises investment discretion over one or more accounts and effects transactions for the purchase or sale of any NMS security for or on behalf of such accounts, by or through one or more registered broker-dealers, in an aggregate amount equal to or greater than the identifying activity level; or (ii) voluntarily registers
- ▶ The “identifying activity level” is: (1) 2 million shares, or shares with a fair market value of \$20 million, effected during a calendar day; or (2) 20 million shares, or shares with a fair market value of \$200 million, effected during a calendar month.

What types of firms are Large Traders?

- ▶ The Commission anticipates that the types of entities that would identify as large traders would include, for example, broker-dealers, financial holding companies, investment advisers, and firms that trade for their own account.

At what level are Large Trader IDs assigned? Is it the intent that the LTID be associated with an individual?

- ▶ The definition of large trader is designed to focus on the ultimate parent company of an entity or entities that employ or otherwise control the individuals that exercise investment discretion.
- ▶ Item 4(d) of Form 13H permits a large trader to assign LTID suffixes to sub-identify persons, divisions, groups, and entities under its control. For example, a large trader may choose to assign a suffix to each independent division within the large trader. To the extent large traders utilize LTID suffixes, the need for the Commission to contact large traders for assistance in further identifying their accounts should be diminished. Accordingly, the Commission encourages large traders to utilize LTID suffixes.

Duties of a Large Trader

- ▶ Rule 13h-1 will present new burdens to persons that meet the definition of large trader.
- ▶ In particular, persons, including those that might not presently be registered with the Commission in some capacity, that meet the definition of “large trader” will become subject to a new reporting duty, as the Rule will require each large trader to identify itself to the Commission by filing a Form 13H and submitting annual updates, as well as updates on as frequently as a quarterly basis when necessary to correct information previously disclosed that has become inaccurate.
- ▶ Additionally, each large trader will be required to identify itself to each registered broker-dealer through which it effects transactions.
- ▶ However, the Commission did not adopt the proposed requirement that large traders disclose their LTIDs to others with whom they collectively exercise investment discretion. They also did not adopt the requirement for Large Traders to disclose their account numbers.



Registering for a Large Trader ID

- ▶ Firms can begin filling out Form 13H via the [Edgar Filing Website for Form 13H](#). If a firm does not have a CIK Number, they can apply here: [Edgar Filer Management](#). If a firm is not sure if they have a CIK number, see [SEC CIK Lookup](#).
- ▶ Any filers that file in advance of the Compliance date of December 1, 2011 might not receive their LTID right away. However, once the process has been established it is expected that filers will receive an LTID in a couple of days.
- ▶ The [Approved Large Trader Filing](#) includes a written copy of Form 13H (see pages 167 – 178)

Duties of a Broker-Dealer: Recordkeeping, Reporting, Monitoring



- ▶ Registered broker-dealers must maintain records for all transactions effected directly or indirectly by or through (i) an account such broker-dealer carries for a large trader or an Unidentified Large Trader or (ii) if the broker-dealer is a large trader, any proprietary or other account over which such broker-dealer exercises investment discretion.
- ▶ Where a non-broker-dealer carries an account for a large trader or an Unidentified Large Trader, the broker-dealer effecting transactions directly or indirectly for such large trader or Unidentified Large Trader maintain records of all of the required information
- ▶ In addition, the proposed rule would require certain registered broker-dealers to implement procedures to encourage and foster compliance with the self-identification requirements of the proposed rule.

Reporting via Blue Sheets

- ▶ The Commission intends to utilize the existing infrastructure of the EBS system for the large trader reporting rule.
- ▶ The large trader reporting rule will contain two additional fields of information, notably the LTID number(s) and execution time of the transaction. ISG has not determined the new Blue Sheet Record Layout.
- ▶ In some instances, multiple LTIDs may be disclosed to a registered broker-dealer for a single account.
- ▶ EBS Request criteria will change as well. The Commission expects that it would, on occasion, request EBS data according to LTID. Additionally, the SEC could also ask firms to provide Large Trader trading in a specific security.
- ▶ ISG is in the process of determining the new record layout and updating FAQs

Determining who is an Unidentified Large Trader



- ▶ As noted in Rule 13h-1(a)(9), in considering whether the broker-dealer has “reason to know” that a person is a large trader, however, the broker-dealer need take into account only transactions in NMS securities effected by or through such broker-dealer (i.e., it need not seek out information on transactions effected by that person through another broker-dealer). Moreover, a broker-dealer may determine that it has no “reason to know” that a person is a large trader through two methods.
 - ▶ First, the broker-dealer may simply conclude, based on its knowledge of the nature of its customers and their trading activity with the broker-dealer, that it has no reason to expect that any of these customers’ transactions approach the identifying activity level.²⁰²
 - ▶ Second, the broker-dealer may rely on the safe harbor provision in paragraph (f) of the Rule. Under the safe harbor, a registered broker-dealer would be deemed not to know or have reason to know that a person is a large trader if it does not have actual knowledge that a person is a large trader and it establishes policies and procedures reasonably designed to identify customers whose transactions at the broker-dealer equal or exceed the identifying activity level and, if so, to treat such persons as Unidentified Large Traders and notify them of their potential reporting obligations under this Rule.
- ▶ The Rule does not require broker-dealers to definitively determine who is, in fact, a large trader.



Key Open Issues / Areas of Concern

- ▶ Determining Large Trade Status based on trading activity when the broker-dealer acts in different capacities (e.g., agency, riskless principal, proprietary)
- ▶ Large Trader ID format
- ▶ Inclusion of trading activity in EBS reports that are not traditionally reported today
- ▶ Responsibility for responding to Large Trader Reporting requests by broker dealers across the trade process (introducing, self-clearing executing broker, non-self clearing executing broker, clearing broker)
- ▶ Unidentified Large Trader identification – internally and on EBS requests both before and after a customer confirms they are not a Large Trader
- ▶ Availability of Electronic Blue Sheets record layout
- ▶ Impact to current EBS practices, e.g., average price account reporting
- ▶ Necessity of furnishing LTID and execution time on Exchange SRO EBS Requests
- ▶ Availability of additional details / specifics on SEC Large Trader Requests