

606(b)(3) is Only an Appetizer

Democratizing access to order-routing data has only whetted asset managers' appetite and sparked a market for additional data offerings.

By Rob Daly, Editor, The Daly Post

Broker-dealers have seen a ramp up in request for order-routing data under the Securities and Exchange Commission's Rule 606(b)(3) and expect the trend to continue for at least the next year.

Under the Rule, which went into effect on July 29, broker-dealers are required to disclose details on the routing of not-held orders for the previous six months within seven days of the client's request.

Until the 2008 Financial Crisis, only the largest and most advanced quantitative trading firms typically showed interest in such granular execution data. However, the steady adoption of quantitative trading and increased interest by compliance departments for attaining best execution have caused the demand for execution data to rise dramatically.

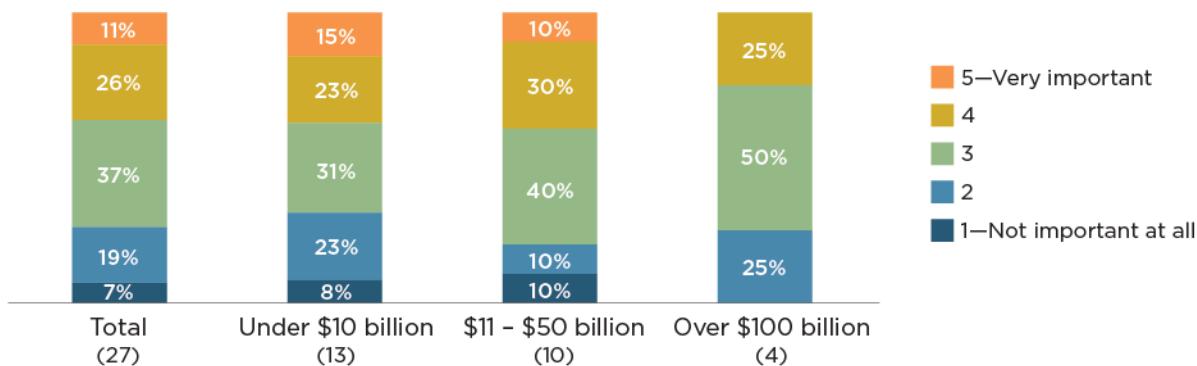


Shane Swanson, Senior Analyst, Market Structure and Technology at Greenwich Associates, recently published a research report entitled, "[Rule 606\(b\)\(3\) and Beyond](#)." In the report, Swanson notes that asset managers have a significant desire to access the new data available under the Rule.

Nearly three-quarters of the respondents (74%) polled for the study considered access to Rule 606(b)(3) data as "important" to "very important."

Of the buy-side firms surveyed, their AUMs ranged from less than \$1 billion to more than \$250 billion. The results: 84% of them expect to request Rule 606(b)(3) data from their brokers. Exactly 73% expect to do so quarterly, 20% monthly and 7% will request it using another time increment.

BUY SIDE'S ANTICIPATED IMPORTANCE OF EXECUTION PROTOCOLS



Note: Numbers in parentheses represent number of respondents.

Source: Greenwich Associates 2020 Liquidity Sourcing, Best Execution and Data Analysis Study

Mid-tier and smaller asset managers previously lacked the commission clout for their brokers to spend time and resources to fulfill their execution-data requests. But now, the new rule has lifted all boats and essentially raised the status of their requests in the eyes of their brokers.

Whether the buy side's demand for the new data set will be there for the long term is up for debate, according to Justin Schack, managing director and partner at Rosenblatt Securities. He shared his thoughts during an open call hosted by the Security Traders Association.

"There is this tide of expectation that firms should be looking at this," he said. "We keep hearing from the buy side that they feel that they are expected to use it. I think that trend will go away."

Some in the industry insist that asset managers should only request the data they plan to use and avoid holding data on which they chose not to act, while others take the opposite view.

"I think this is part of the buy side's fiduciary responsibility that if the data is easily accessible and it is standardized that it should be part of the conversation about best execution, alpha retention, or however you want to define it," added Jeffrey Estella, a principal at management consultancy Estella LLC and who also participated in the STA call.

Getting the Most From 606(b)(3)

Asset managers need to be aware that the new data set is not a replacement for transaction cost analysis data nor as merits or demerits for the executing brokers. It should be a springboard for more in-depth discussions with them.

Asset managers parsing Rule 606(b)(3) data will not identify the performance impact that a broker's routing decision had on the trade but could identify significant issues, said Rosenblatt's Schack. "You could see some potentially conflicted or sub-optimal routing behaviors."

He added that the buy side should not jump to a conclusion like a broker-dealer is working against their interest.

Since the Rule provides aggregated data, in situations where an executing broker-dealer operates multiple off-exchange liquidity pools, asset managers will need to infer the brokerage's routing behavior since 606(b)(3) data only identifies the executing broker and not its venues.

Asset managers also will find analyzing the routing data more challenging as the US equities market fragments further.

During the second half of September, Wall Street witnessed the Long-Term Stock Exchange, Members Exchange, and MIAX Pearl Equities launches. Each new bourse increased the permutations of order types and venues from which sell-side firms could select when executing a client's order.

However, the Rule's 21 data fields that broker-dealers may deliver in PDF or XML formats provide third-party vendors a foundation on which they can build analysis tools that may aid asset managers in developing apples-to-apples routing comparisons.

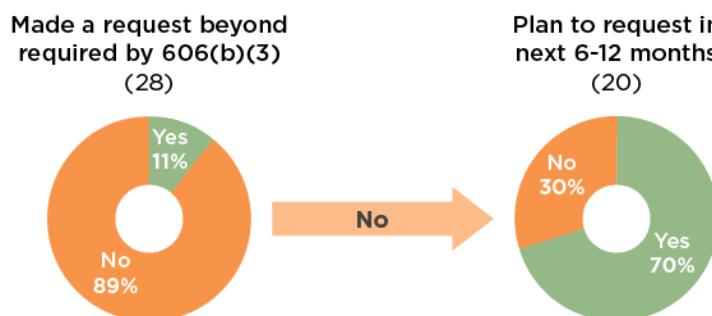
"There are vendor solutions out there that put a business intelligence overlay on the standardized data, as well as supply graphical displays to make it even easier for the buy side to define success metrics or take actions," said Estella.

Please, May I Have Some More?

Although Rule 606(b)(3) data democratized access to order-routing data for asset managers, its mandated fields are the lowest common denominator on which the Commission and the Street could agree before the SEC finalized the Rule in November 2018.

The Rule's aggregated data requirement does not address information regarding child-order routing or execution details destination for each order that a broker-dealer receives, which is more commonly called "look-through" data.

REQUESTS MADE BEYOND WHAT IS REQUIRED BY 606(b)(3)



Note: Numbers in parentheses represent number of respondents.
Source: Greenwich Associates 2020 Liquidity Sourcing, Best Execution and Data Analysis Study

Only a small minority of firms surveyed by Greenwich Associates (17%) have requested that their broker-dealers include look-through data with their 606(b)(3) data. The percentage grows to 70% when the respondents discuss their data requests for six to 12 months down the road.

Sell-side firms that provide clients with look-through data can expect to be in a better position than their competitors, especially during best execution committee deliberations and commission management reviews.

Persuading executing broker-dealers to provide the look-through data, however, likely will prove challenging from a business and not a technical perspective. No one wants their clients or clients' clients to piece together that the firm's smart order router is not as smart as advertised.

Fortunately, it is a business issue and not a technology issue because firms access look-through data from the same sources as their 606(b)(3) data.

Those broker-dealers that can pull this data and share it with clients definitely will have an advantage over their competitors.

Download **Rule 606(b)(3) and Beyond** published by Greenwich Associates [here](#).



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