

# SEC Rule 605: Disclosure of Order Execution Information

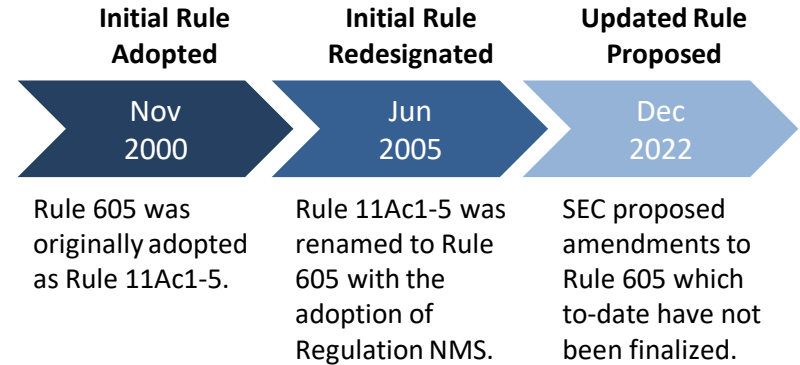
## Overview of Existing Rule

### Regulation Overview

SEC Rule 605 requires “market centers” to publish monthly reports covering details of their order executions in stocks that are listed on national securities exchanges. “Market centers” include broker-dealers acting as market makers or internalizing orders, as well as alternative trading systems (ATSs), national securities exchanges, and national securities associations. The rule aims to promote transparency and competition amongst market centers and broker-dealers in efforts to improve the efficiency of execution price and speed.

Each monthly report shall be made available within one month after the end of the month, and shall be published on an internet website that is free and readily accessible to the public for a period of three years from the date of posting.

### Regulatory Timeline



### Required Content in the Monthly Reports

The rule distinguishes by order type the data elements that are required to be reported. “Market centers” are required to report the elements covered under both rule sections (i) and (ii) for their market orders and marketable limit orders. Each monthly report shall be categorized by security, order type, and order size, and shall include the following columns of information:

(i) For market orders, marketable limit orders, inside-the-quote limit orders, at-the-quote limit orders, and near-the-quote limit orders:

The number of covered orders;

The cumulative number of shares of covered orders:

- total,
- cancelled prior to execution,
- executed at the receiving market center,
- executed at any other venue,
- executed from 0 to 9 seconds after the time of order receipt,
- executed from 10 to 29 seconds after the time of order receipt,
- executed from 30 to 59 seconds after the time of order receipt,
- executed from 60 to 299 seconds after the time of order receipt,
- executed from 5 to 30 minutes after the time of order receipt;

The average realized spread for executions of covered orders;

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(ii) For market orders and marketable limit orders:

The average effective spread for executions of covered orders;

The cumulative number of shares of covered orders:

- executed at the quote,
- executed outside the quote,
- executed with price improvement;

For shares executed at the quote, the share-weighted average period from the time of order receipt to the time of order execution;

For each of (i) shares executed outside the quote, and (ii) shares executed with price improvement:

- the share-weighted average amount per share,
- the share-weighted average period from the time of order receipt to the time of order execution;

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## Changes to the Rule with SEC Proposed Amendments

In December 2022, the SEC proposed amendments to Rule 605 in efforts to modernize the rule to further increase transparency so that investors can compare brokers on execution quality. The amendments would expand the scope of entities subject to Rule 605, change how orders are categorized for the purposes of the rule, and modify the information required to be reported under the rule. The updates include the following:

### Expanded Scope of Entities

Additional entities covered under the rule include:

- (1) Broker-dealers that are not “market centers” but introduce or carry 100,000 or more customer accounts;
- (2) Single-dealer platforms; and
- (3) Entities that would operate proposed qualified auctions.

### Updated Scope of the Standardized Monthly Reports

Updates to how orders are categorized for purposes of the rule include:

- (1) The definition of “covered order” is expanded to include certain orders submitted outside of regular trading hours, certain orders submitted with stop prices, and non-exempt short sale orders;
- (2) The existing order size categories are modified to be based on round lots rather than number of shares and include additional order size categories for fractional share, odd-lot, and larger-sized orders; and
- (3) A new order type category is created for marketable immediate-or-cancel orders, and three existing categories of non-marketable order types are replaced with three new categories: beyond-the-midpoint limit orders, executable non-marketable limit orders, and executable orders with stop prices. The proposed amendments would also scope in non-marketable orders if they become “executable” during regular trading hours.

### Updated Content of the Standardized Monthly Reports

Several changes are proposed, mainly to add new data elements to be included in the monthly reporting:

- (1) The existing time-to-execution is being replaced with average time to execution, median time to execution, and 99th percentile time to execution statistics, each as measured in increments of a millisecond or finer;
- (2) Realized spread would be required to be calculated after 15 seconds and one minute of execution;
- (3) New statistical measures of execution quality would be required, including:
  - average effective over quoted spread,
  - percentage effective and realized spread,
  - a size improvement benchmark that could be used to calculate whether orders received an execution of more than the displayed size at the quote,
  - new measures to assess the execution quality of non-marketable orders, and
  - additional measures for market and marketable orders showing price improvement relative to the best available price in the market.

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## Elements Required to be Reported with SEC Proposed Rule Updates

### Changes to the Required Content in the Monthly Reports

The updated rule again distinguishes which data elements are required to be reported by order type and specifies the following to be included:

(i) For market orders, marketable limit orders, marketable immediate-or-cancel orders, beyond-the-midpoint limit orders, executable non-marketable limit orders, and executable orders with stop prices:

The number of covered orders;

The cumulative number of shares of covered orders:

- total,
- cancelled prior to execution,
- executed at the receiving market center, broker, or dealer,
- executed at any other venue;

For executions of covered orders:

- cumulative number of shares of bid at the time of execution;
- avg realized spread as calculated (i) 15 seconds and (ii) 1 minute after the time of execution;
- the avg percentage realized spread as calculated (i) 15 seconds and (ii) 1 minute after the time of execution;
- avg effective spread, average percentage effective spread, and average percentage effective over quoted spread;

(iii) For beyond-the-midpoint limit orders, executable non-marketable limit orders, and executable orders with stop prices:

The number of orders that received either a complete or partial fill;

The cumulative number of shares executed regular way at prices that could have filled the order while the order was in force;

For shares executed, the share-weighted average period from the time the order becomes executable to the time of order execution expressed in increments of a millisecond or finer;

For shares executed, the share-weighted median period from the time the order becomes executable to the time of order execution;

For shares executed, the share-weighted 99th percentile period from the time the order becomes executable to the time of order execution;

(ii) For market orders, marketable limit orders, marketable immediate-or-cancel orders, and beyond-the-midpoint limit orders:

The cumulative number of shares of covered orders:

- executed at the quote; executed outside the quote; and executed with price improvement;
- executed with price improvement relative to the best available displayed price;
- executed at the best available displayed price;
- executed outside the best available displayed price;

For each of (i) shares executed at the quote, (ii) shares executed outside the quote, and (iii) shares executed with price improvement, the share-weighted:

- avg amount per share,
- avg period, and median period from the time of order receipt to order execution,
- 99th percentile period from the time of order receipt to the time of order execution;

For shares executed with price improvement relative to the best available displayed price, the share-weighted average amount per share that prices were improved as compared to the best available displayed price;

For shares executed outside the best available displayed price, the share weighted average amount per share that prices were outside the best available displayed price;

### New Section Covering Executions of Market and Marketable Limit Orders

Market centers, brokers and dealers shall also make monthly reporting on all executions of covered orders that are market and marketable limit orders that it received for execution from any person. The report shall include (i) a section for NMS stocks that are included in the S&P 500 Index and (ii) a section for other NMS stocks. Each section shall include the following statistics for executed orders which are to be equally weighted by symbol based on share volume:

- |   |  |
|---|--|
| I. Average order size                                     | V. Average percentage effective spread                               |
| II. Percentage of shares executed at the quote or better  | VI. Average effective over quoted spread (expressed as a percentage) |
| III. Percentage of shares that received price improvement | VII. Average execution speed (in milliseconds)                       |
| IV. Average percentage price improvement per order        |  |

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