

Modification and Cancellation Scenarios

TSWG 6/2/20

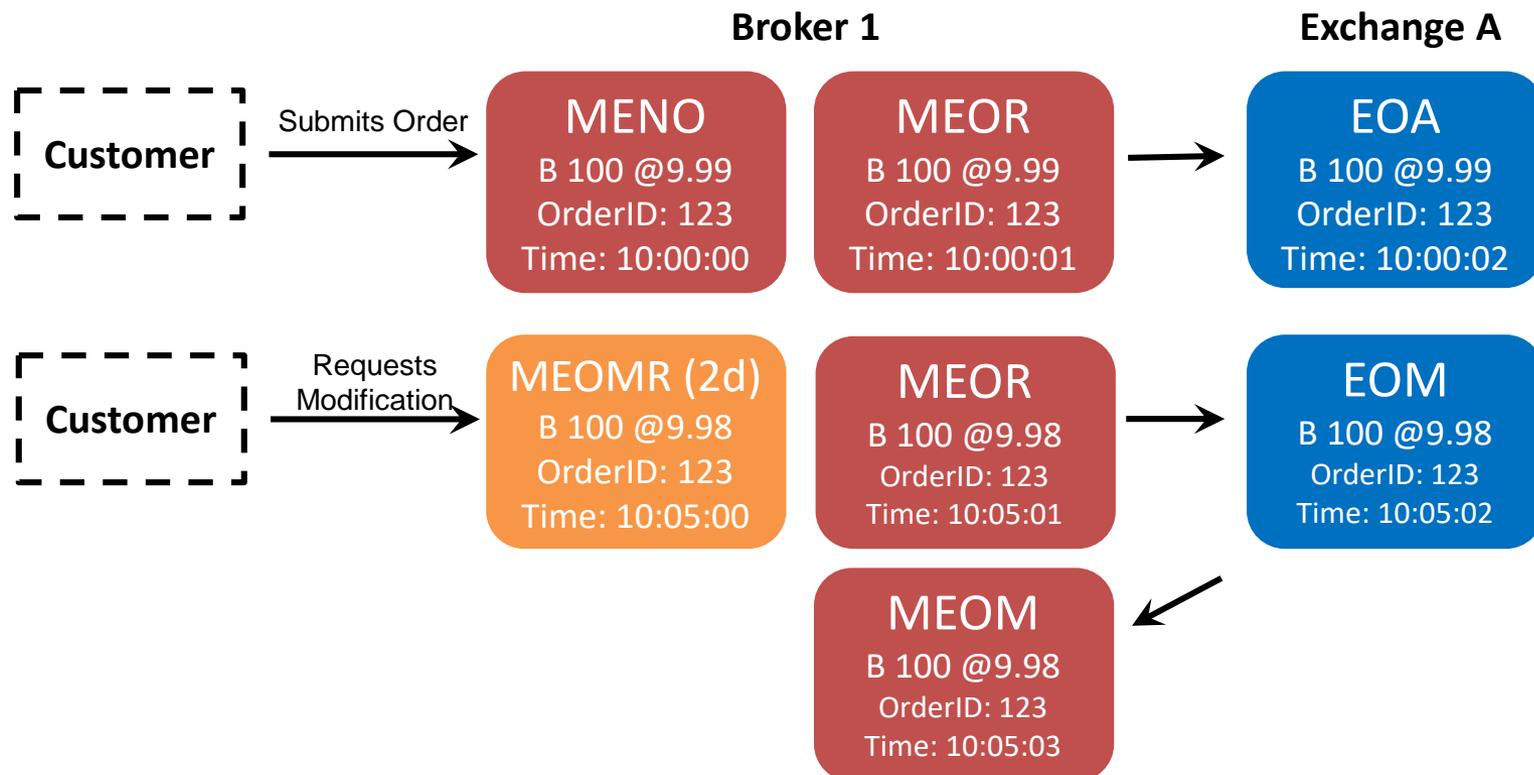
Objectives

- ▶ Review examples of how requests to modify and cancel orders will be reported to CAT and identify outstanding issues to be addressed for Phase 2d.
- ▶ Review requirements for Too Late to Cancel scenarios
- ▶ Review Phase 2d requirements for route modifications and cancellations

Order Modifications

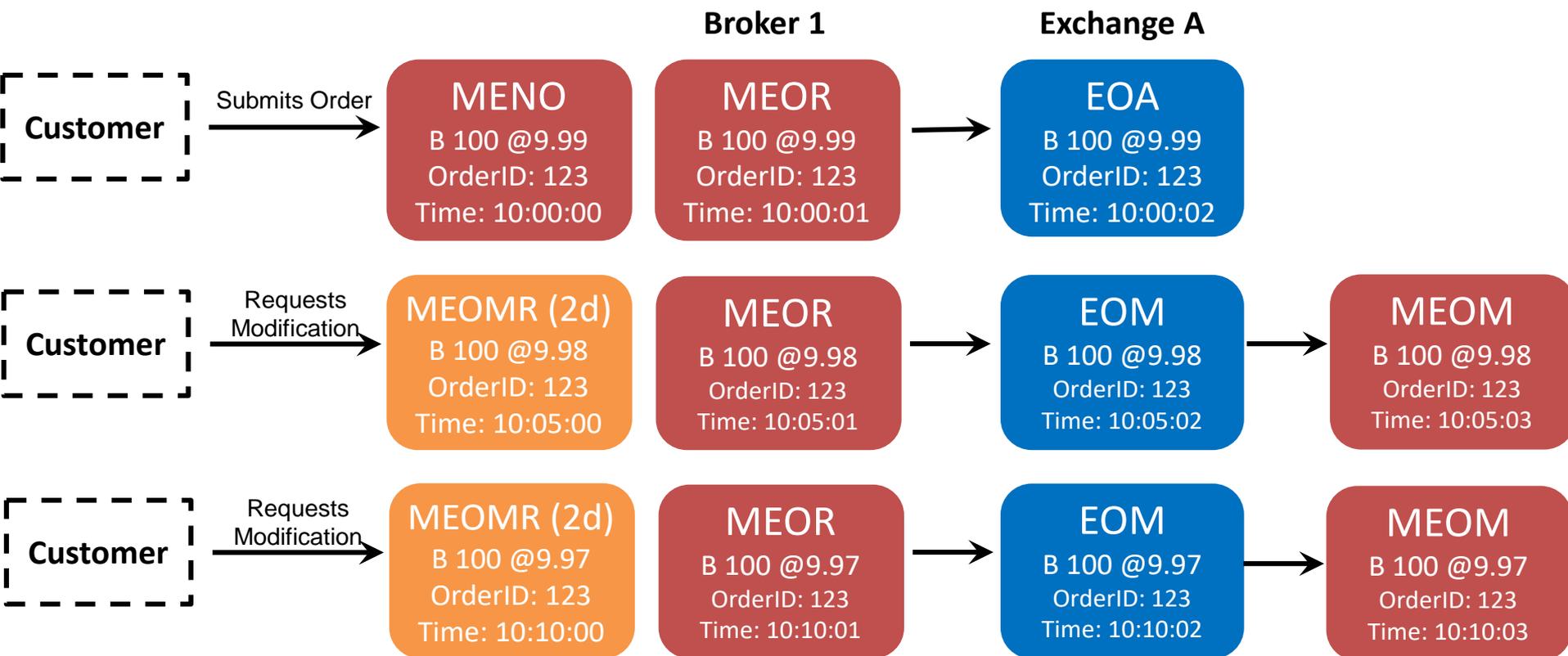
Example of a Customer Order Modification

Industry Member receives a customer order, and routes the order to an exchange. The customer subsequently requests the Industry Member to modify the price of the order. The Industry Member routes the modification to the exchange, and modifies the order on its books and records once acknowledgement is received.



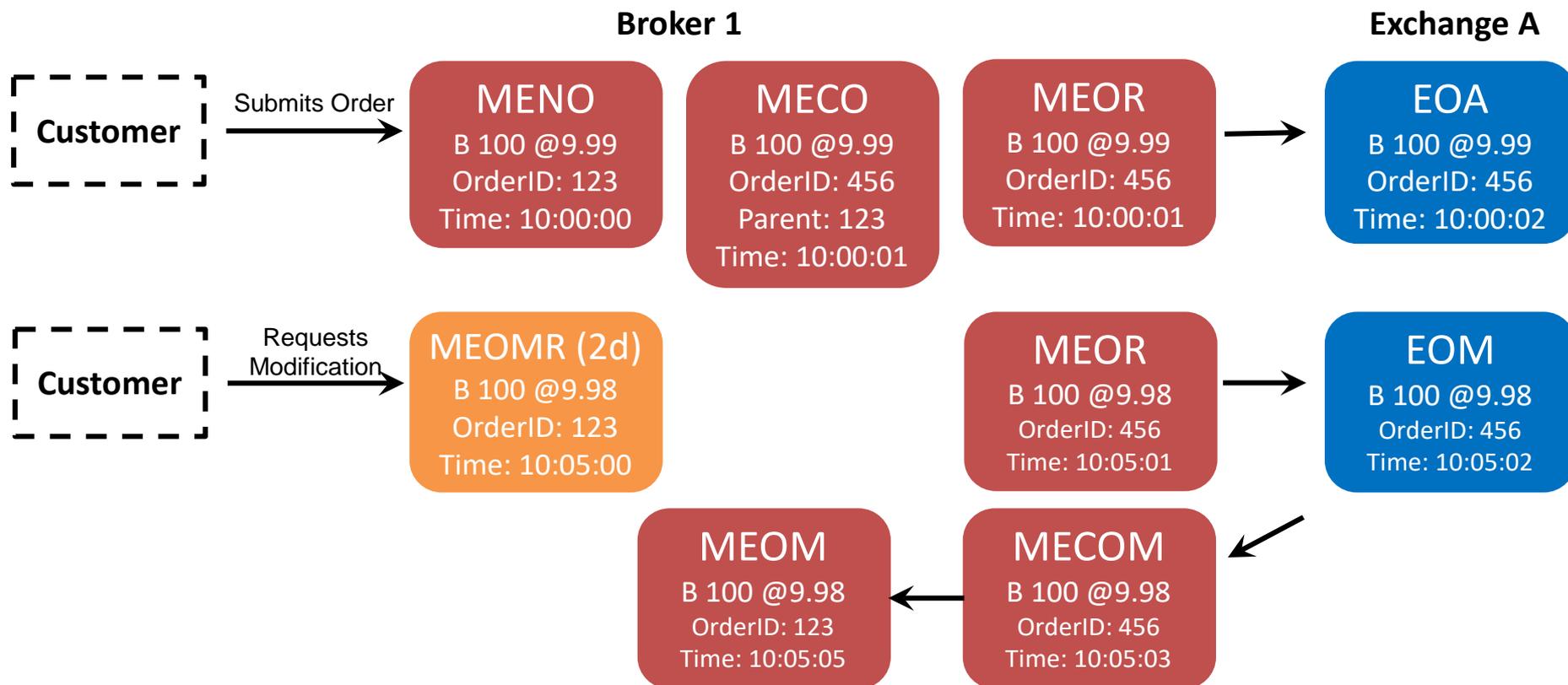
Example of Multiple Customer Order Modifications

Industry Member receives a customer order, and routes the order to an exchange. The customer subsequently requests the Industry Member to modify the price of the order multiple times. The Industry Member routes each modification to the exchange, and modifies the order on its books and records once acknowledgement is received.



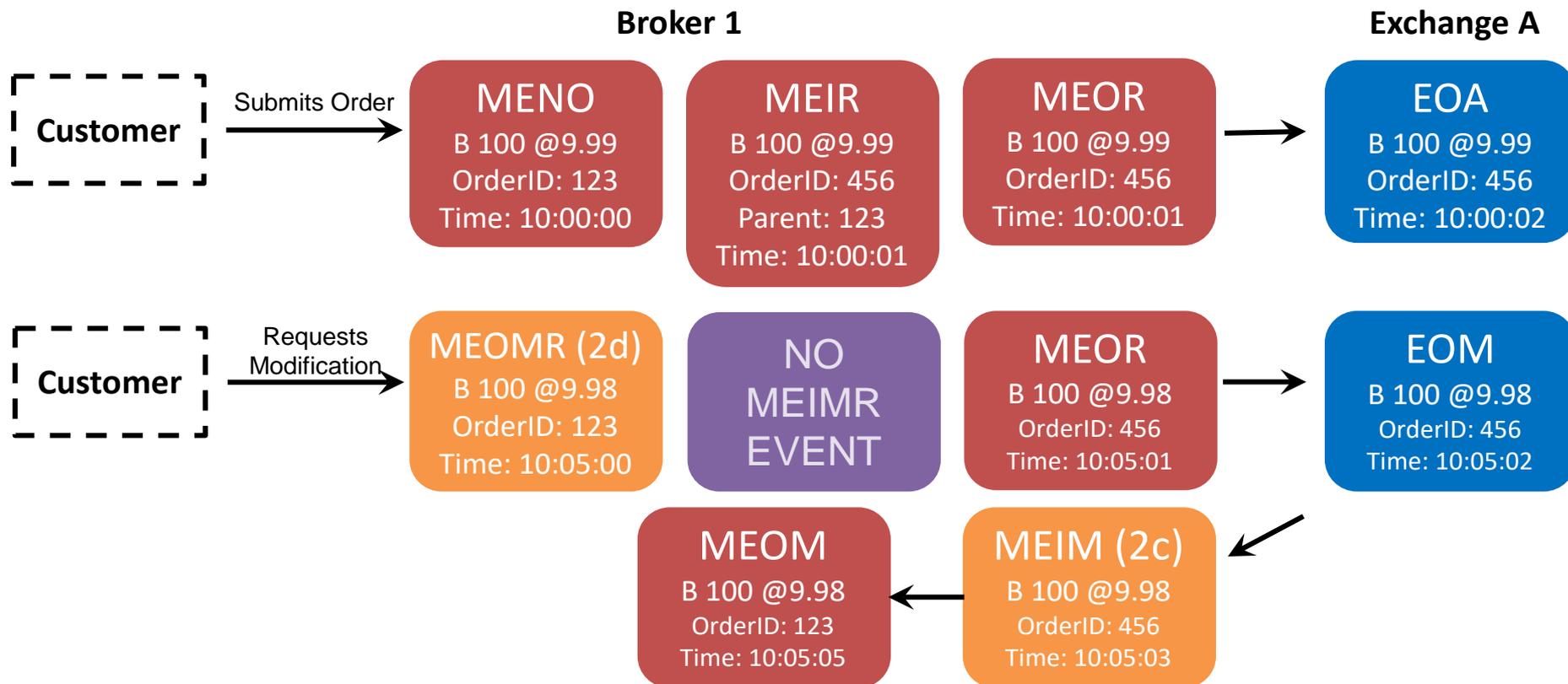
Example of Child Order Modification

Industry Member receives a customer order at the sales desk and originates a child order that is routed to an exchange. The customer subsequently requests the Industry Member to modify the price of the parent order. In order to modify the child order, the Industry Member routes a modification to the exchange, and modifies the child order on its books and records once acknowledgement is received. (No modification is requested on the child order as it is initiated by the firm). The modification of the parent order is confirmed after acknowledgement from the exchange confirming the modification of all open child orders.



Example of Internal Route Modification

Industry Member receives a customer order at the sales desk and routes the order internally to a trading desk, who routes to an exchange. The customer subsequently requests the Industry Member to modify the price of the order. The Industry Member routes the modification to the exchange, and modifies the order on its books and records once acknowledgement is received.



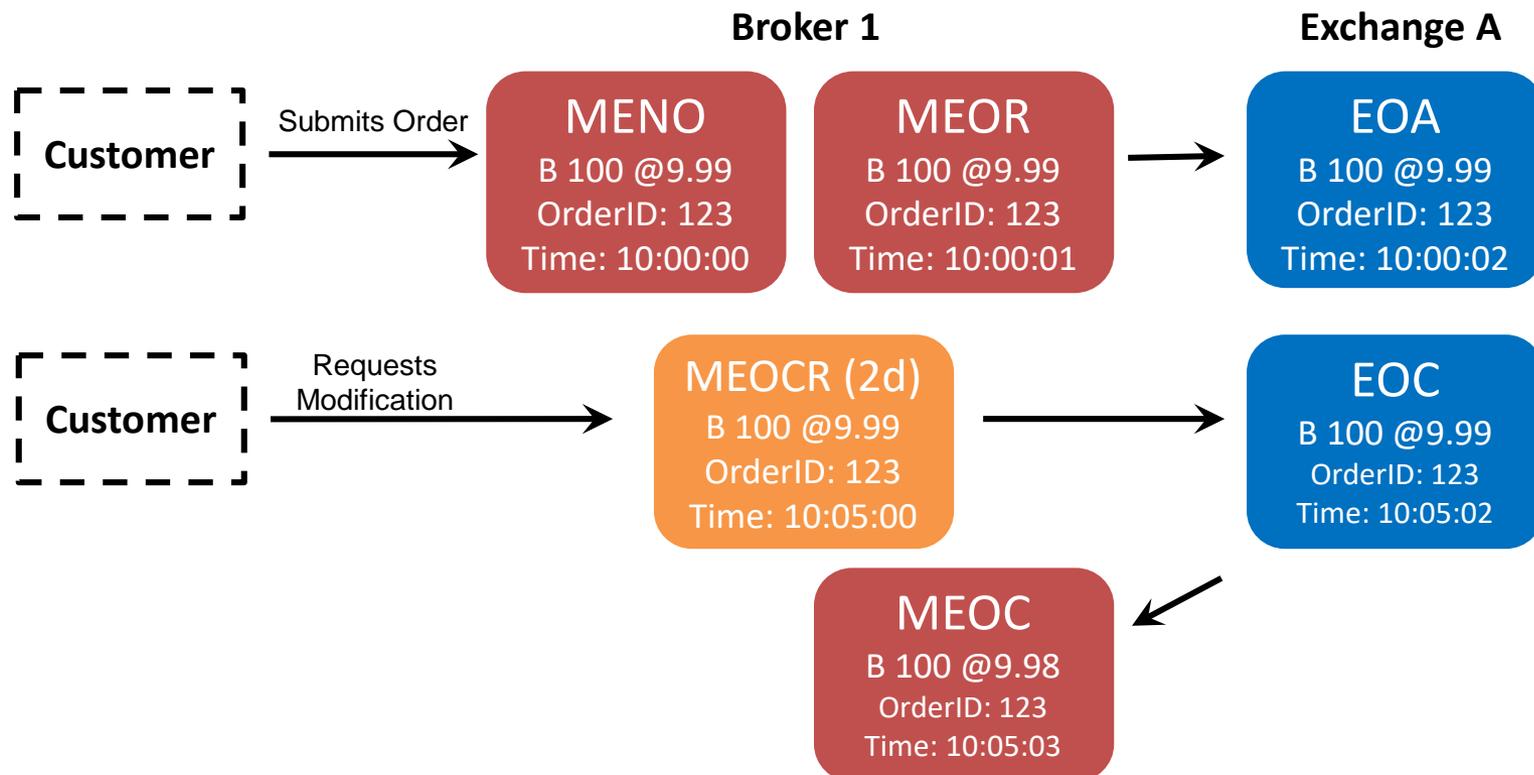
FINRA CAT Recommendations

- ▶ In Phase 2d, require unique OrderIDs on Modification events in line with the requirement for unique OrderIDs on Internal Route Accepted events.
- ▶ In Phase 2d, introduce MEIMR (Internal Route Modification Request) events to be consistent with MEOMR (Modification Request) events

Order Cancellations

Example of a Customer Order Cancellation

Industry Member receives a customer order, and routes the order to an exchange. The customer subsequently requests the Industry Member to cancel the order. The Industry Member sends the customer request to the exchange, and cancels the order on its books and records once acknowledgement is received.

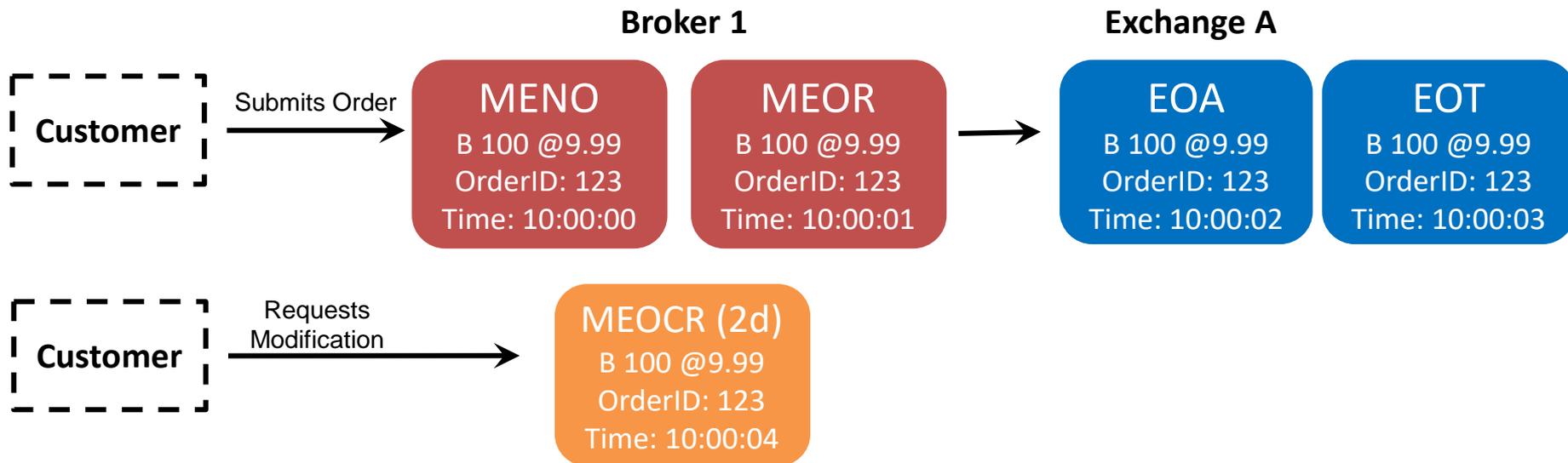


FAQ B42

- ▶ **B42. Are Industry Members required to report the receipt of a cancellation or modification instruction to the CAT if the Industry Member rejects the customer instruction because the order has already been executed?**
- ▶ If the Industry Member receives a customer instruction, the Industry Member must report the receipt of the customer instruction to the CAT. The details that must be reported for the customer instruction are set forth in Section 6.3(d)(iv) of the CAT NMS Plan, as applied to Industry Members by Section 6.4(d)(i) of the CAT NMS Plan.

Example of an Order that is Too Late to Cancel

Industry Member receives a customer order, and routes the order to an exchange. The customer subsequently requests the Industry Member to cancel the order, but the order has already been executed on the exchange and is too late to cancel.



Route Modifications and Cancellations

FAQ E3

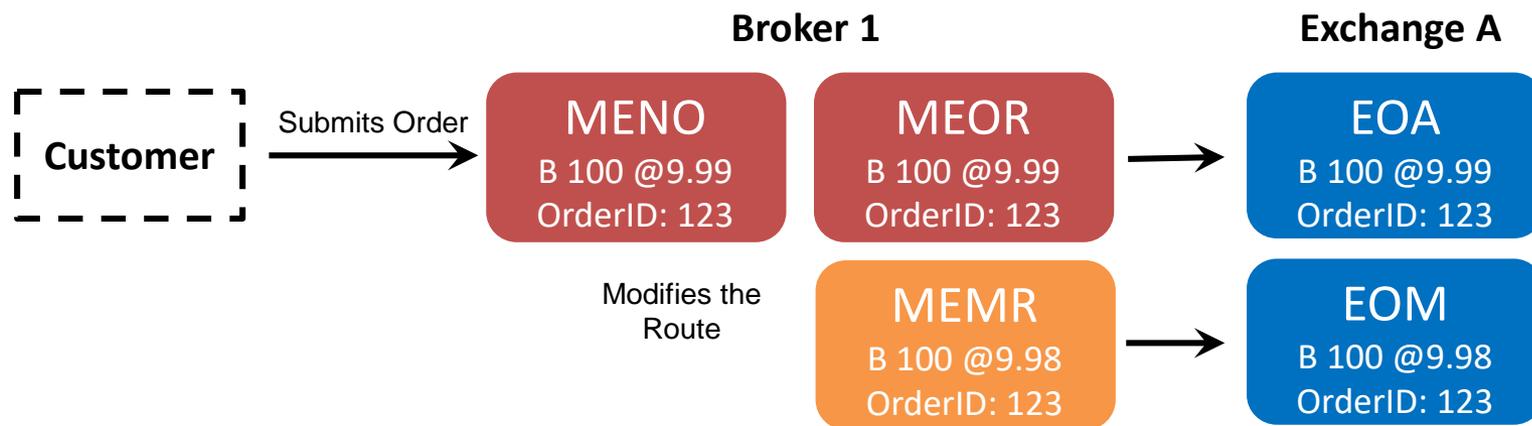
- ▶ **E3. BD A, an Industry Member CAT Reporter, receives a customer order for 10,000 shares and subsequently routes 2,000 shares of the order to Exchange A, another CAT Reporter. BD A's trader or trading system subsequently modifies the price of the 2,000 share order routed to Exchange A. Is BD A required to report the modification of the 2,000 share order routed to Exchange A?**
- ▶ In Phase 2a, firm modifications of a previously routed order are not required to be reported to CAT if the destination to which the order was routed is a CAT Reporter. As a result, in the given example, the modification of the 2,000 share order sent to Exchange A would not be reportable by BD A, but would be reported to CAT by Exchange A. If the order had been routed to a foreign destination or other destination that is not a CAT Reporter, BD A would be required to report the modification to CAT. The Participants will be evaluating the impact of this guidance after implementation of Phase 2a. The Participants plan to determine if these modifications, as well as cancellations of a route initiated by the firm, and not the client, should be reported to CAT based on analysis of the impact to regulatory data using production Phase 2a data. **Because this data will not have been available long enough by the start of Phase 2c to adequately make such a determination, the Participants are further deferring whether such modifications and cancellations will be reportable until Phase 2d.**

Phase 2d Requirements

- ▶ The SROs have determined that firm modifications/cancellations of a previously routed order are required by the Plan. The SROs will require modifications to previously routed orders even when the firm has modified the order, not the customer. Industry Members will be required to report this activity beginning in Phase 2d.

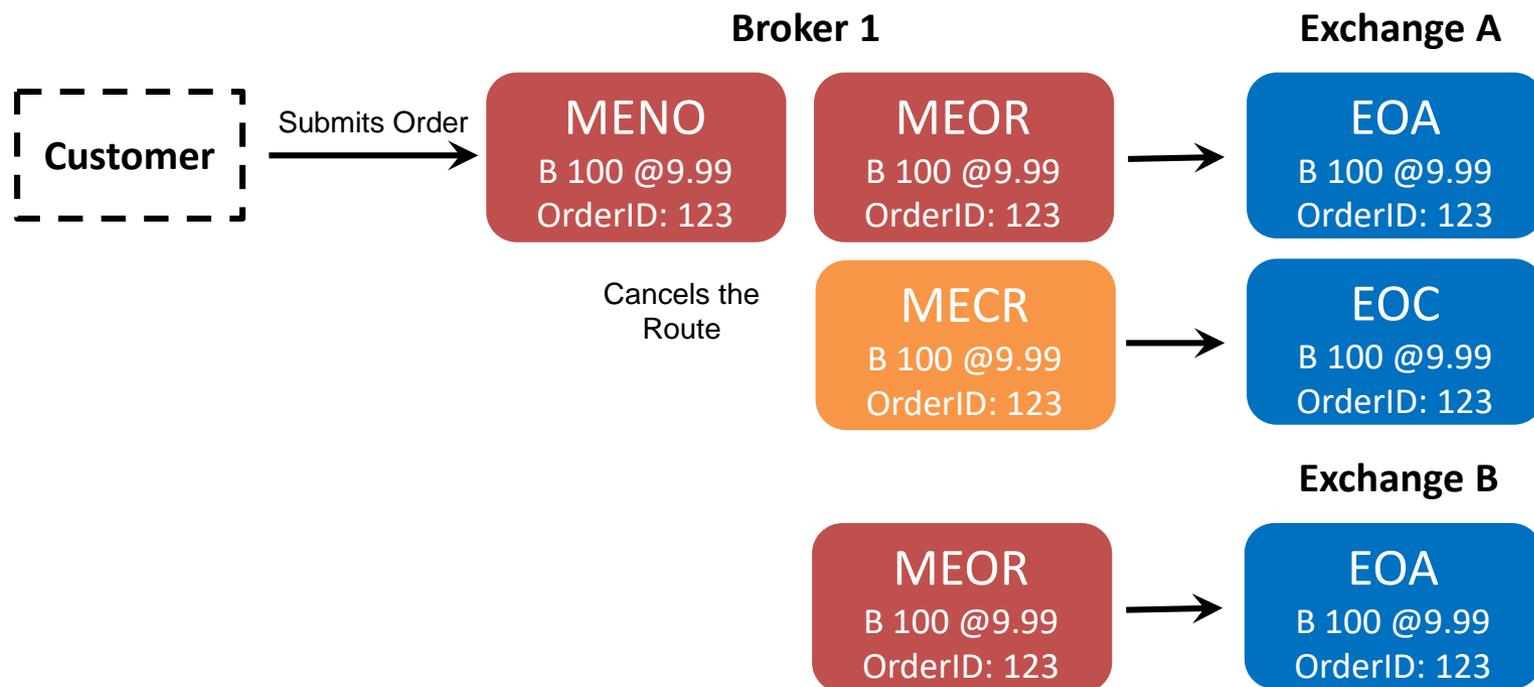
Example of a Route Modification (Customer Order)

In this scenario, an Industry Member receives a not-held customer order, and routes the order to an exchange. The Industry Member determines that it may be able to receive a better price and modifies the route of the order.



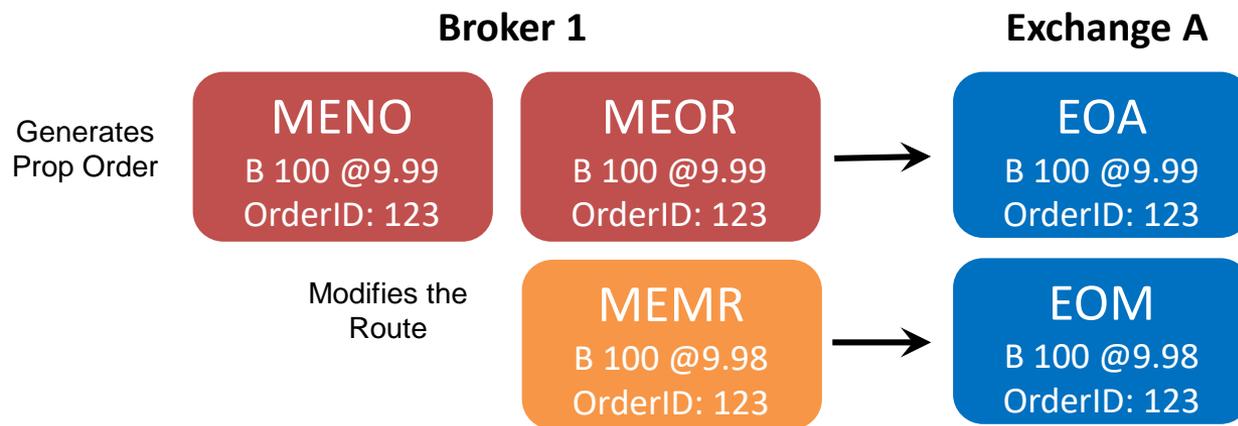
Example of a Route Cancellation (Customer Order)

In this scenario, an Industry Member receives a not-held customer order, and routes the order to Exchange A. The Industry Member determines to route the order to Exchange B, and cancels the route to Exchange A.



Example of a Route Modification (Prop Order)

In this scenario, an Industry Member originates a proprietary order, and routes the order to an exchange. The Industry Member determines that it may be able to receive a better price and modifies the route of the order.



Example of a Route Cancellation (Prop Order)

In this scenario, an Industry Member generates a proprietary order, and routes the order to Exchange A. The Industry Member determines to route the order to Exchange B, and cancels the route to Exchange A.

