

Manage the Auditors

The Financial Times recently published an article entitled “After Wirecard: Is it time to audit the auditors?”. Market data auditing is not as significant as the Wirecard fiasco, but the activities of auditors can affect broker dealer/exchange relations when a practice is outrageous and only focused on additional revenue.

The use of market data by Non-Professionals, or public investors, is a real success story in the U.S. equity markets. The markets and the regulators understand that the participation of retail investors is critical to the orderly functions of the markets and the retirement options for investors. SEC Chair Jay Clayton has made clear the importance of the retail investor on many occasions.

There are 4.2 million Non-Professionals for Consolidated Tape Association (CTA) Tape A up from 3.5 million in 2019; Unlisted Trading Privileges (UTP) also had 4.2 million Non-Professional subscribers at end of Q1 2020 up from 3.4 million in 2019. Work from home and zero commissions has resulted in an increase in retail trading which will most likely result in an increase in nonprofessionals in the next report.

The fee for Non-Professional usage is \$1/month for each of three plans or \$3/month. However, investors generally do not pay this because most brokerage firms will pay this fee on behalf of their customers.

Professional rates vary depending on number of Professionals per firm, but equivalent information would range from \$66 to \$92 per natural person. This steep discount for Non-Professional investors is intended to encourage broad public participation in the U. S. equity markets.

Exchange auditors will look for professionals who are registered as Non-Professionals by searching FINRA’s Central Registration Depository database. This is a fair practice. However recently one exchange auditor has decided that if a person identified as unemployed or not employed, he/she should be considered a Professional and charged at the higher Professional rate. We have all seen people that due to various reasons are temporarily or permanently unemployed. The current crisis may unfortunately cause an uptick in that situation.

The industry should be encouraging people to stay involved in the business on a personal level not just to assist the individuals to keep up skills to improve their likelihood of getting back in the marketplace but because it is the right thing to do.

Auditors should be managed and not be allowed to implement egregious practices.

There are important issues underway between brokers and exchanges with SEC involvement about the use and payment for market data. This will require informed dialogue, trust and compromise from all parties. This audit practice does not assist with that goal. Fortunately, the National Market System plans governing U. S. equity data consolidated market data allow for

input from the financial industry and investors via the CTA and UTP Advisory Committees of which I am a member. This committee has communicated to the Operating Committee their strong opposition to this practice.

By: Tom Jordan - July 6, 2020