Brokers Get Short Reprieve on Large Trader Requirements

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The SEC extended the compliance deadline for certain large trader recordkeeping, reporting and monitoring requirements to November 1 of 2013. The second phase of the implementation was originally scheduled to take effect on May 1, 2013.

The large trader requirements, initially adopted in 2012, are designed to enhance the agency's ability to identify large market participants, collect information on their trading, and analyze their trading activity. Per our prior post, Rule 13h-1 defines a "large trader" as a person whose transactions in exchange-listed securities equal or exceed two million shares or $20 million value during any calendar day, or 20 million shares or $200 million value during any calendar month.
Large traders are required to identify themselves to the SEC via a new form (13H). The SEC will then assign each trader a unique identification number. Large traders must provide this number and the accounts to which it applies to broker-dealers effecting trades on their behalf.

The large trading rules also impose recordkeeping, reporting, and monitoring requirements on broker-dealers. For instance, Rule 13h-1 requires certain broker-dealers to, among other things, maintain specified records of transactions that they effect, directly or indirectly, for large traders. Broker-dealers must also monitor their customers' accounts for activity that may trigger the large trader identification requirements.

The SEC implemented the new requirements in two phases. Phase One began on November 30, 2012 and introduced recordkeeping and reporting requirements for clearing broker-dealers of large traders that (i) are US-registered broker-dealers or (ii) trade via sponsored access arrangements.

Based on implementation issues identified during the initial roll out of the requirements, the SEC will now delay Phase Two, which would have implemented the remaining large trader provisions. According to the SEC, the temporary exemption should provide the SEC with the necessary time to complete its review of the implementation issues and allow broker-dealers time to develop, test, and implement any necessary systems changes once the SEC's review is complete
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