

Corporate & Financial Weekly Digest

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SEC Adopts New Rule Preventing Unfiltered Market Access

Co-authored by [Janet M. Angstadt](#)

On November 3, the Securities and Exchange Commission announced the adoption of Rule 15c3-5, which prohibits broker-dealers from providing customers with “unfiltered” or “naked” access to an exchange or alternative trading system (i.e., where broker-dealers allow customers to trade in those markets electronically using the broker-dealers’ market participant identifiers). The rule also requires broker-dealers to have better risk controls when they access the market on behalf of their customers or themselves. For example, broker-dealers must put in place risk management controls and supervisory procedures to help prevent erroneous orders, ensure compliance with regulatory requirements and enforce preset credit or capital thresholds.

The final rule includes certain limited exceptions to these requirements. For example, a broker-dealer providing market access is permitted to reasonably allocate control over specific regulatory risk management controls and supervisory procedures to a customer that is a broker-dealer, so long as such broker-dealer customer has better access to that ultimate customer and its trading information such that it can more effectively implement the specified controls and procedures.

According to the SEC, the new rule aims to bring greater standardization, accountability and transparency to market behaviors. “I have previously likened unfiltered access to giving your car keys to a friend who doesn’t have a license and letting him drive unaccompanied,” said SEC Chairman Mary Schapiro. “This rule requires that broker-dealers not only remain in the car, but also maintain control of it so we can all be assured the rules of the road will be observed before the car is ever put into drive.”

The new rule will be effective 60 days from the date of its publication in the *Federal Register*. Once effective, broker-dealers subject to the rule will have six months to comply with the requirements.

Click [here](#) to read the SEC press release regarding adoption of Rule 15c3-5, issued on November 3.

SEC Release No. 34-63241 is available [here](#).