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March 2, 2010

Sponsored Access Regs Impact Colo

Regulatory scrutiny of sponsored access, especially “naked” sponsored access, is putting some colocation projects on hold, John Panzica, vice president of the financial services practice at Switch and Data, told Markets Media.

“The regulations around sponsored access have had a huge impact, especially with the sellside,” Panzica said. “Selling firms have been gearing up new platforms to handle naked access into liquidity venues, but we've seen those projects put on pause.”

Although the regulations don't apply to colocation directly, many of the sponsored access projects that are affected also involve colocation to a large degree.

Under naked sponsored access, customers of a broker-dealer place an order that flows directly into the markets without first passing through the broker-dealer's systems and without being pre-screened by the broker-dealer in any manner.

The Securities and Exchange Commission says the practice heightens the risk that customers might enter erroneous orders as a result of computer malfunction or human error, fail to comply with various regulatory requirements, or breach a credit or capital limit.

The SEC's proposed rule would require broker-dealers to establish risk management controls and supervisory procedures to manage the financial, regulatory and other risks related to its market access, including access on behalf of sponsored customers.