

# FINANCIAL INFORMATION FORUM

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## Via Electronic Delivery

May 4, 2018

Mr. Brett Redfearn  
Director, Division of Trading and Markets  
Securities and Exchanges Commission  
100 F Street, NE  
Washington, DC 20549-1090

*Re: CAT Implementation Milestone Projections*

Dear Mr. Redfearn,

Thank you for meeting with FIF on April 17 so that we could compare the FIF Alternative Approach to the timeline in the unapproved SRO exemptive relief request<sup>1</sup> (“SRO November 2017 Request”).

At that meeting, you requested that we provide additional detail to demonstrate why FIF has projected the date by which the finalized Industry Member Technical Specification will be completed to be November 2019 as opposed to the October 2018 date, as specified in the SRO November 2017 Request.

## SRO Issue Resolution Process

The SRO issue resolution process was developed to resolve interpretive and implementation issues; the process to resolve each issue will necessarily span several months due to the complex nature of the issues. The SRO Interpretative Working Group (“Interpretive WG”) has identified several topics which require discussion with the industry. These topics are reviewed at the Industry Member Tech Spec Working Group according to the following process and in conformance with the SRO Guiding Principles<sup>2</sup>:

1. The SRO Interpretative Working Group chair provides a framing document to the industry outlining the CAT reporting requirements. This framing document sometimes includes specific questions for the industry to investigate.
2. The industry analyzes the reporting requirements (time for complete review occurs within a 3-5 week timeframe).

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<sup>1</sup> See [Letter](#) from Michael Simon, CAT NMS Plan Operating Committee Chair to Brent Fields, Secretary, SEC, *RE: Request for Exemptive Relief from Certain Provisions of the CAT NMS Plan* (November 13, 2017).

<sup>2</sup> SRO Guiding Principles iii and iv specifically state: iii. The costs of developing, implementing, and operating the CAT should be minimized to the extent possible. To this end, existing reporting structures and technology interfaces will be utilized where practicable; and iv. Industry input is a critical component in the creation of the CAT. The Participants will consider industry feedback before decisions are made with respect to reporting requirements and cost allocation models.

3. A Deep Dive Discussion is then held, where the industry responds back to the SROs with their full analysis and recommendations. Occasionally, follow up analysis is required by industry members to complete the investigation (e.g. OMS/EMS linkage issues that are currently ongoing resulting from the Industry Deep Dive on Riskless Principal/Aggregated Order Transactions).
4. The Interpretative WG then considers the industry recommendations and decides which of the industry recommendations to incorporate into a recommendation from the Interpretative WG to the Operating Committee. Prior to the formation of an Interpretative WG recommendation, the SROs may direct the Plan Processor to perform additional analysis on the impact of a preliminary recommendation. Additionally, the SROs may provide preliminary responses to the industry in order to seek feedback prior to a recommendation to the OC.
5. If the Operating Committee approves the Interpretative WG recommendation, the Commission will then review, approve, amend, or disapprove the SRO recommendation. Following approval, one or more of the following occurs: (1) an updated Interpretative FAQ is issued on the CAT NMS Plan website, (2) the OC directs the Plan Processor to make conforming changes to the Industry Member Technical Specification.

### FIF Justification for Specification Delay

To date, none of the identified topics have made it through the full process outlined above. Since the initial meeting of the Industry Member Tech Spec Working Group on February 1, 2018, 7 topics<sup>3</sup> have gone through the first 3 steps outlined above, 3 topics have been raised by FIF but have not gone through the process<sup>4</sup>, and an estimated 8 additional major topics<sup>5</sup> are yet to be addressed.

FIF identified 28 open issues which will have to undergo SRO/industry analysis prior to the finalization of the Industry Member Technical Specification.<sup>6</sup> FIF conservatively estimates that following the deep dive discussions with the SROs on each major issue identified, the SROs will require 2 months to analyze, review, and decide upon the industry's recommendations, with at least 2 additional months required by the Plan Processor to incorporate the Industry/SROs recommendations into the Technical Specification. Each of the major topics and open issues will have to follow the SRO Issue Resolution Process, and the collective ability of the SROs, Commission, and industry members to work through this large body of issues will have a direct impact on the implementation timeline.

Pursuant to the SRO November 2017 Request, the SROs cite as a necessary component of issuing a final Order and Customer Information Technical Specification, that the Industry be afforded sufficient time to engage in meaningful review and to provide necessary feedback to the SROs/Plan Processor.<sup>7</sup> Of note, the SROs in their recommendation of October 2018 as the final Industry Member Specification publication date, stated that "the Participants expect [the Plan Processor] to publish iterative drafts of

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<sup>3</sup> FIF/STA/SIFMA have provided analysis on behalf of Industry Members on: Riskless Principal, Aggregated Orders, Representative Agency Orders, Verbal Quotes, PII, Multi-Leg Orders, and Options Pricing. Unlisted OTC Equity Trading Scenarios is currently in step 3.

<sup>4</sup> FIF has provided input on Trading Day change recommendations, New Order Events, and OTC.

<sup>5</sup> Allocations, Manual Events, Customer and Account Definitions, Electronic Options Processing, Manual Options Processing, OATS Retirement Process, Contingency Orders, and New Events Processing have yet to be fully framed, reviewed, and analyzed by the SROs and Industry Members.

<sup>6</sup> See [Letter](#) from William H. Hebert, Managing Director, FIF to Mr. Ed Watson, Mr. Shane Swanson, and Mr. Michael Simon (October 16, 2017).

<sup>7</sup> *Supra* note, 1 at 15-16.

the Industry Member Technical Specifications for submission of orders, incorporating regulator and industry feedback on February 15, 2018, April 15, 2018 and June 15, 2018...[the] Industry Member Technical Specification will be complete and vetted with the Advisory Committee by October 15, 2018.”<sup>8</sup> The Plan Processor has missed both the February and April deliverables<sup>9</sup>, thereby negating any meaningful opportunity for the Industry to vet the Technical Specification in multiple iterations prior to the proposed October 2018 publication date.

Notably, none of the above includes the time required for the Commission to consider necessary exemptive relief, which will be required to account for changes pursuant to the SROs’ PII recommendation, and industry recommendations of reporting requirements for verbal quotes and representative orders. FIF emphasizes that all exemptive relief being considered must be approved prior to the finalization of the Technical Specification. This estimate does not include additional issues that are likely to arise as a result of, and dependence on, decisions made or new information raised by the Industry or SROs, the incorporation of the SRO PII recommendation, or any issues that must be analyzed and resolved following the release of the Customer Information Technical Specification which could further extend the timeline.

Finally, FIF stresses that in addition to the publication of the Industry Member Technical Specification, the industry requires interpretive guidance to accurately implement the new CAT Industry Member Technical Specification. Notably, OATS currently comprises 297 FAQs<sup>10</sup>. FIF anticipates CAT will require approximately two times as many CAT-specific FAQs due to its novel reporting requirements (additional reporting scenarios for equities and new requirements to report options, allocations, and customer information). FIF stresses that implementation of the CAT Industry Member Technical Specification cannot occur until the industry is provided with sufficient FAQs and use cases required to implement the CAT.

Based upon FIF’s conservative estimates regarding the time required to complete the framing, analysis, and incorporation by the Plan Processor of the 18 identified major issues<sup>11</sup> and 28 remaining issues yet to be fully vetted into a workable Industry Member Technical Specification, and the necessary development of FAQs and use cases required for Industry implementation, combined with the SROs’ stated objective of allowing the Industry sufficient opportunity to review iterative drafts of the Industry Member Technical Specification, FIF conservatively estimates that a final Industry Member Technical Specification will not be complete until November 2019.

### FIF Alternative Approach

Alternatively, the FIF Alternative Approach has two major advantages that allow for a 2018 Reporting Specification milestone:

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<sup>8</sup> *Id.* at 16.

<sup>9</sup> On February 21, 2018, the Plan Processor released an excerpt of V0.2 of the Industry Member Technical Specification. Notably, the 33-page excerpt does not provide sufficient information by which the Industry can review and assess the viability of the Specification.

<sup>10</sup> See OATS [FAQs](#).

<sup>11</sup> See *supra*, notes 3-5.

- The first phase (Phase 2a<sup>12</sup>) is based on current OATS reporting requirements and only includes the new PII CAT reporting requirements and equity Market Maker Order Reporting – meaning all the “topics” under discussion now are not required to be resolved to proceed with the first industry implementation phase of the FIF Alternative Approach. FIF anticipates that if the FIF Alternative Plan is approved in May, the Plan Processor can complete a Specification by November 2018 with Phase 2a Industry Member reporting commencing in November 2019.
- All new reporting requirements are included in later phases – meaning that the topics will have sufficient time to be defined and analyzed and incorporated into a later specification, without blocking the delivery of Phase 2a (equities order reporting with OATS based scope plus equities Market Making and PII solution).

### Conclusion

For the aforementioned reasons, FIF believes that the ultimate completion date of the Industry Member Technical Specification will not occur until at least November 2019.

FIF acknowledges that the industry feedback portion of the process (Steps 1 – 3), SRO issue resolution (step 4), and Plan Processor incorporation (step 5) requires a significant time and resource commitment on the part of the SROs and the industry. We believe this is a necessary part of the process to ensure that there is a full analysis and incorporation of industry feedback into CAT reporting requirements as required by the CAT NMS Plan Guiding Principles.

On April 23, FIF requested to meet with the SROs to discuss the Technical Specification issue resolution process and the impact of the FIF Alternative Approach in improving said process and will provide Commission Staff an update after that meeting. We welcome the opportunity to further discuss any issues outlined in this letter.

Regards,



Christopher W. Bok, Esq.  
Financial Information Forum

CC: David Shillman, Associate Director, Division of Trading and Markets, SEC  
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<sup>12</sup> Under FIF’s Alternative Implementation Approach, Phase 2a incorporates an initial OATS-based deliverable, including Equities Market Making Orders and the PII solution adopted by the CAT NMS Operating Committee.