

FINANCIAL INFORMATION FORUM

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April 2, 2019

CAT Leadership Committee:

Ms. Cindy Retterer, Vice President, Nasdaq
Ms. Shelly Bohlin, Vice President, FINRA
Ms. Soniya Shrivastav, Managing Director, NYSE
Mr. Tom Busch, Director, CBOE Global Markets

Re: CAT Implementation Risks

Dear CAT Leadership Committee,

The Financial Information Forum (“FIF”),¹ Consolidated Audit Trail (“CAT”) Working Group (“Working Group”) is respectfully submitting comments on the proposed timelines and scope of the CAT transition plan presented² by the SROs to Industry Members on February 20th, 2019. FIF recognizes that the transition plan and associated CAT implementation schedule aim to provide the new Plan Processor (FINRA) and CAT Reporters a reasonable opportunity to complete CAT phases 2a and 2b deliverables by December 2020. However, as would be expected with any large-scale data collection and regulatory reporting project, several operational and technical challenges/risks remain.

Specifically, FIF is concerned that the reduced timeframe between the equities (phase 2a) and options (phase 2b) “go-live” dates introduces additional risks that may impair the industry’s ability to successfully implement the full scope of phases 2a and 2b during 2020. Additionally, FIF emphasizes that an expeditious issue resolution process will be critical throughout the CAT implementation period. FIF anticipates that additional items requiring resolution will arise as industry members progress with their CAT development and testing, which will require prompt resolution for industry members to proceed with CAT implementation.

This letter will focus primarily on describing the risks associated with the new CAT implementation schedule and proposes an alternative, lower risk implementation plan that will allow for the full scope of phases 2a and 2b to be implemented by December 2020.

Remaining Risks – CAT Phased-In Implementation Approach

On February 20, 2019, the CAT NMS Plan Operating Committee presented industry stakeholders with a revised CAT implementation plan. Rather than full phase 2a equity testing beginning in August 2019, the SROs proposed that the testing of data validations be phased-in, beginning with testing of File Submission & Data Integrity in December 2019. Following a five-month testing period, phase 2a will

¹ FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the securities industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

² https://www.catnmsplan.com/wp-content/uploads/2019/02/CAT_Industry_Webcast_02.20.2019_vF.pdf

“go-live” in April 2020, and phase 2b will “go-live” in May 2020. Following the initial “go-live” dates for phases 2a and 2b, CAT Reporters will begin testing for intra-firm linkage validations, interfirm linkage validations, and Exchange/TRF linkage validations in 1-to-3-month increments, concluding with Exchange linkage validations for options in December of 2020.

FIF believes that this new CAT implementation plan introduces several risks that may be mitigated through minor changes to the schedule that will facilitate a greater likelihood of successfully delivering CAT phases 2a and 2b in 2020.

Risks Associated with the SRO’s Phase 2a/2a Implementation Schedule

Prior to the dissemination of the revised CAT implementation plan in February 2019, Industry Members were operating under a plan that provided 6 months between the roll-out of equities and options functionalities. CAT introduces several novel reporting requirements (*i.e.*, Market Making activity, interfirm linkages, options), and industry members viewed the 6 month gap as essential to adequately stabilize the reporting of phase 2a equities while allowing firms time to complete the development and testing work required to begin reporting phase 2b options.

Under the new implementation schedule, industry members are required to implement phase 2b options one month following the “go-live” date for phase 2a equities. FIF views the nearly simultaneous implementations for equities and options as introducing several technological and operational risks to both the industry and the SROs that include:

- The elimination of adequate lead time between the “go-live” dates of equities and options. FIF emphasizes that options reporting is a novel regulatory reporting requirement that may prove extremely challenging to implement completely and accurately during the initial CAT roll-out period. As stated above, the industry viewed the 6-month gap in the go-live dates for equities and options as essential to allowing CAT Reporters to learn from and gain needed experience from submitting data from a much more familiar financial product (simple equities) and would more adequately allow firms the opportunity to complete the development effort required to report options. Under the current approach, the lead-time between the “go-live” dates of equities and options is effectively eliminated, requiring industry members to implement both almost in parallel. FIF emphasizes that under the new schedule, both industry members and the Plan Processor have lost the opportunity to leverage the experience gained from the initial implementation of equities to facilitate a smoother implementation of phase 2b options reporting requirements.
- The new schedule will require CAT Reporters to significantly reallocate resources (human and technical) needed to complete the development and implementation of phases 2a and 2b concurrently. To meet the new schedule, CAT Reporters must significantly revise prior plans to complete 1) requirements analysis; 2) systems enrichment/coding; 3) system changes and data migration; and 4) testing that encompass both equities and options simultaneously. Additionally, the revised CAT implementation approach will require firms to use the same resources to 1) code for subsequent phases of the CAT; 2) test for subsequent phases of CAT implementation (*i.e.* interfirm/intrafirm linkage validations); 3) plan for the appropriate staging of implementation given the revised implementation expectations. FIF believes that the increased strain on scarce resources required to implement phases 2a and 2b in parallel could result in higher expenses (to increase CAT project team staffing), or poor data quality.
- Meeting CAT reporting obligations of both equities and options under the current timeframe will require both industry members and the Plan Processor to quickly and significantly scale-up their

internal infrastructure and resources required to meet the constrained implementation milestones and increased volume of events that must be reported to the CAT. FIF believes that rapid scaling in parallel with testing and development will potentially result in increased error rates and greater stress on both CAT Reporter systems and the CAT repository.

- There is a concentration of linkage and validation milestones in late 2020, which will likely pose especially challenging for options, which are being reported for the first time.

FIF's Proposed Revised Phase 2a/2a Implementation Schedule

FIF recommends that to alleviate many of the risks introduced by the new CAT implementation plan, the “go-live” date for options be moved out by 2 months, to July 2020 (see appendix A and attached PowerPoint). FIF believes that providing for 3 months of separation between the “go-live” dates of equities and options will mitigate much of the costs and risk of delivering both phases concurrently. Additionally, this will allow firms to apply lessons learned from their experience testing and deploying simple equities to enable a smoother launch of options reporting and make for an overall more successful implementation of phases 2a and 2b to provide the associated regulatory benefits.

FIF believes that 3 months of separation between the “go-live” dates of equities and options can be achieved, and still allow for the separation of the subsequent linkage and validation go-lives during 2020, under the following proposed timeline³:

- April 2020 – equities file submission goes live;
- June 2020 – equities intrafirm linkage validations goes live;
- July 2020 – options file submission goes live;
- September 2020 – options intrafirm linkage validations goes live;
- October 2020 – equities interfirm and exchange/TRF linkage validations goes live;
- November 2020 – options interfirm linkage validations goes live;
- December 2020 – options exchange linkage validations goes live;
- February 2021 – options linkage validation conformance period ends.

Under this proposed approach, FIF recommends that the SROs allow for a short conformance period for options linkage errors in which CAT Reporters would be exempt from regulatory enforcement actions due to high error rates, late reporting, etc. FIF recommends that this proposed conformance period end in February 2021. The proposed conformance period will substantially help to alleviate potential challenges that may result from year-end technology freezes and staff holiday vacations that may put at risk the ability of firms to make changes to rectify the root cause of linkage errors for the options linkage validations going live in November and December 2020. Additionally, given that CAT reporting of options order lifecycle information is fundamentally new to the industry (since options are not reportable to OATS), the conformance period for options linkage errors will allow firms to focus on resolution of the root causes of errors in this new product and more efficiently balance resources between the stabilization of 2b reporting, while simultaneously preparing for 2c testing.

FIF strongly emphasizes that the proposed schedule changes and the introduction of an options conformance period will be essential to allow the industry a reasonable opportunity to 1) fully implement phase 2a requirements; 2) leverage the experience gained from phase 2a implementation to

³ See Appendix 1.

more effectively implement phase 2b; and 3) significantly reduce the stress on systems and human resources during the critical CAT implementation period.

Remaining Risks – Issue Resolution Process

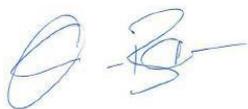
FIF considers the current issue resolution process to be a potential risk that could impair the timely implementation of CAT. It is imperative that outstanding issues and questions be addressed in a timely manner prior to “go-live” in order to facilitate both the industry and the SROs building a complete audit trail that can be utilized by the regulators to adequately perform surveillance. FIF believes that as firms continue to review the technical specifications and complete the business analysis and coding process, additional CAT reporting challenges and questions will be identified and require expeditious resolution. Should CAT “go-live” before all major issues are resolved and incorporated into the technical specifications, industry members and the SROs will likely be required to revise and perform additional systems changes following the implementation of phases 2a and 2b, which would be costly and inefficient for both Industry members and the SROs.

FIF recommends that additional processes, which should include leveraging both SRO and Industry Member expertise with respect to all CAT reportable events (*e.g.* equities and options) be considered that will facilitate the expeditious resolution of both remaining (*i.e.* representative orders, Trade as a result of a Quote, etc.) and additional issues, should they arise. FIF continues to believe that a fast and efficient issue resolution process will prove essential if the industry is to meet all required CAT deliverables under the current implementation timeframe.

Conclusion

FIF remains fully committed to the success of the CAT project. FIF believes that implementing the aforementioned recommendations will mitigate much of the identified risks associated with the current CAT implementation schedule as well as promote a more streamlined and efficient implementation of all phase 2a and phase 2b CAT deliverables.

Respectfully,



Christopher Bok, Esq.
Director, Financial Information Forum

CC: Mr. Michael Simon, CAT NMS Plan Operating Committee Chair on Behalf of the CAT Plan Participants: BATS Exchange, Inc., BATS Y-Exchange, Inc., BOX Options Exchange LLC, C2 Options Exchange, Incorporated, Chicago Board Options Exchange, Inc., Chicago Stock Exchange, Inc., EDGA Exchange, Inc., EDGX Exchange, Inc., Financial Industry Regulatory Authority, Inc., International Securities Exchange, LLC, Miami International Securities Exchange, LLC, NASDAQ

OMX BX, Inc., The Investors Exchange, NASDAQ OMX PHLX, LLC, The NASDAQ Stock Market LLC,
National Stock Exchange, Inc., New York Stock Exchange LLC, NYSE Arca, Inc., NYSE MKT LLC;
Mr. Brett Redfearn, Director, Division of Trading and Markets, SEC
Mr. David Shillman, Associate Director, Division of Trading and Markets, SEC
Mr. David Hsu, Assistant Director, Division of Trading and Markets, SEC
Ms. Manisha Kimmel, Senior Advisor to the Chairman, SEC

Appendix A

Consolidated Audit Trail (CAT)

Proposed Revised 2a / 2b Implementation Timeline

- The Large Industry Member implementation schedule should be revised to allow additional separation between the 2a Equities and 2b Options go-live dates in order to minimize the risk of a nearly simultaneous go-live. Testing dates remain unchanged. Several other 2a and 2b go-live dates have been adjusted slightly to keep separation between the Equities and Options subsequent incremental validation and linkage go-lives.
- This plan has significant risk in that the Inter-firm, exchange and TRF linkage go-lives are all compressed into Q4, and there is a go-live in December, when many firms have technology change freezes (which put at risk the ability of firm's to make changes to rectify the root cause of errors, especially for the final Options Exchange linkage go-live). Consider adding a short conformance period for Options linkage errors to Feb, 2021 as a possible mitigant.

