FINANCIAL INFORMATION FORUM

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April 12, 2017

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Re: Milestone for Participants' rule change filings to eliminate/modify duplicative rules

Dear CAT NMS Plan Participants,

The Financial Information Forum ("FIF")[1] on behalf of our Consolidated Audit Trail ("CAT") Working Group ("FIF CAT WG") would like to take this opportunity to reiterate key considerations for retirement of CAT duplicative regulatory reporting systems, given that the CAT NMS Plan Participants ("the Participants") must file their retirement plans by May, 2017. We request that these considerations, included in our CAT NMS Plan comment letter[2], will guide your upcoming rule filings and subsequent timelines for implementation.

Elimination of duplicative reporting is the highest priority for the FIF CAT WG because the costs and burdens to implement CAT are significantly increased if duplicative reporting is necessary for an extended period of time. The FIF CAT WG appreciates that the approved CAT NMS Plan included an improved retirement calendar with the May filing by the Participants for the relevant rule changes to eliminate or modify its duplicative rules/systems and definition of criteria for the retirement of these duplicative rules/systems.[3]

OATS Retirement
FIF CAT WG has prioritized OATS as the most critical duplicative regulatory reporting system to retire[4] due to the breadth of reporting and compliance costs to adhere to this regulation. The Participants'

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[1] FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the financial technology 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] Letter to Brent Fields, Secretary, SEC, from Mary Lou VonKaenel, Managing Director, Financial Information Forum (July 18, 2016).

[3] CAT NMS Plan, Appendix C, Section 9, A Plan to Eliminate Existing Rules and Systems, p.98-100

[4] FIF Consolidated Audit Trail Working Group CAT Processor Proposed Optimal Solution Recommendation, September 15, 2014

OATS-CAT Gap Analysis[5] identified 53 elements and 3 "not in scope/not required" functions that were missing from CAT Phase 1, that may prevent the retirement of OATS. FIF CAT WG respectfully requests that all data elements and functions required for the retirement of OATS be included in CAT Phase 1. We had assumed that was the plan because the Participants' confirmed in the approved CAT NMS Plan[6] that the data needed to support retirement will be include in CAT. This gap analysis includes recent OATS expansion for Tick-size Pilot and ATS order books. FIF CAT WG respectfully requests that further OATS expansion prior to CAT launch should be minimized, but if required, then the needed data and functionality also be implemented in CAT Phase 1 so as not to delay the retirement of OATS.

EBS and Large Trader Rule
FIF CAT WG has also prioritized Large Trader Reporting (SEC Rule 13h-1) and Electronic Blue Sheets (SEC Rule 17a-25) as high priority for elimination (in full or part) due to complexity, compliance cost and better suitability of the CAT platform for these reporting obligations. The EBS-CAT Gap Analysis[7] noted that CAT Phase 1 is missing 13 data elements, 4 transaction types, and inclusion of prime brokerage so that EBS reporting obligations for equities and options in CAT Phase 1 could not be satisfied. FIF CAT WG requests that this functionality be included in CAT Phase 1 to satisfy equities and options EBS reporting requirements so that the Commission could allow CAT Phase 1 to become that source for regulator data inquiries (except for history). The Participants' proposals for expansion of CAT reporting for debt securities and other asset classes[8], to be submitted to the Commission in May, 2017, should, at a minimum, define a plan such that the enhanced CAT NMS Plan to support these new asset classes would be complete enough to replace the EBS reporting obligations for these asset classes.

Other CAT Duplicative Reporting Systems
FIF CAT WG requests the Participants continue the effort to incorporate additional current and future planned reporting obligations into CAT with the specific goal to replace existing reportable systems (*e.g.,* OATS for ATS) or incorporate future reporting obligations (e.g., potential expansion of Rule 600/606 to include institutional trade execution) with the CAT data warehouse, where complete audit trails would be accessible immediately to the regulators for inquiry and analysis. This would serve both an underlying regulatory objective of more immediate and accurate access to data as well as an industry objective of reduced costs and burdens of regulatory oversight.

Retirement and Reporting Exemptions
FIF CAT WG recognizes that the full retirement of duplicative (in full or part) regulatory reporting systems requires that all Industry Members are reporting to CAT. Given the current phased implementation of CAT (large industry members reporting by November, 2018 and small industry members reporting the following year), the earliest retirement of any duplicative regulatory reporting system would be 2020.

However, for the transition period, it is not necessary that the duplicative regulatory systems are actually "retired", only that qualified Industry Members can be exempted from reporting obligations to the duplicative system until such time that the system can be retired. Assuming that one of the criteria to be qualified for exemption from duplicative reporting is sufficient CAT data reporting quality, this

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[5] SEC Rule 613 Consolidated Audit Trail (CAT) OATS-CAT Gap Analysis, August 2016
[6] SEC Release No. 34-77724; File No. 4-698; April 27, 2016 ("CAT NMS Plan"), Appendix C, Section 9, A Plan to Eliminate Existing Rules and Systems
[7] SEC Rule 613 – Consolidated Audit Trail (CAT) Revised EBS-CAT Gap Analysis, June 2015
[8] CAT NMS Plan, November 15, 2016 Section 6.11, Debt Securities and Primary Market Transactions

represents a huge incentive to Industry Members to ensure their reported CAT data is of high quality and accuracy.

FIF CAT WG requests that once CAT reporters achieve satisfactory CAT reporting data quality, broker-dealers should be exempt from reporting to duplicative systems. FINRA acknowledged this as an option in the CAT NMS Plan[9]. FIF CAT WG applauds that approach, and requests adoption by all Participants in their retirement rule filings and retirement plans.

Measurement of Data Quality
FIF CAT WG recognizes that for the Participants to rely on CAT as their data source for surveillance and reviews, high quality data is required. However, for retirement purposes, the definition of Maximum Error Rate[10] as the data quality criteria for retirement is inappropriate. The quality of options data in CAT has no bearing on the quality of the OATS equivalent data captured in CAT, and in all likelihood will not initially be the same quality level given the vast history and experience of Industry Members in reporting OATS data today.

FIF CAT WG recommends that a Retirement Error Rate[11] be used as the basis for reporting exemptions such that firms that achieve the Retirement Error Rate are no longer required to report to the existing duplicative systems. Establishing a Retirement Error Rate for each duplicative regulatory reporting system/rule creates objective criteria for discontinuing duplicative reporting and the eventual retirement of these systems. We believe that SRO rule filings should incorporate the Retirement Error Rate and allow individual firms to be exempted from duplicative reporting once the Retirement Error Rate is achieved.

Plan Processor Functionality
As noted in the CAT NMS Plan[12], a key component of enabling the exemption of reporting to duplicative systems prior to retirement of those systems, is the ability to integrate CAT reported data (of Industry Member's data with sufficient CAT data quality) with the regulator's capture of data through its current regulatory system. We are confident that Thesys, the Plan Processor, is well-versed and technically capable of providing support to the Participants for the viewing of data spanning multiple data sets or data warehouses.

FIF CAT WG requests that this CAT functionality/technical assistance should be given high priority by the CAT Operating Committee because its goal should be to consolidate more data and audit trails into CAT and therefore, the ability to smoothly retire existing duplicative regulatory systems is on-going for which both Participants and Industry Members need a cost-effective template and approach.

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[9] CAT NMS Plan, Appendix C, Section 9, A Plan to Eliminate Existing Rules and Systems, "However, FINRA will monitor its ability to integrate CAT Data with OATS data to determine whether it can continue to perform its surveillance obligations. If it is practicable to integrate the data in a way that ensures no interruption in FINRA's surveillance capabilities, FINRA will consider exempting firms from the OATS Rules provided they report data to the Central Repository pursuant to the CAT NMS Plan and any implementing rules."

[10] CAT NMS Plan, Section 6.5(d)(i) Data Accuracy

[11] *Supra* note, 2 at 5. "The Retirement Error Rate would be defined as the acceptable error rate for discontinuing reporting to a duplicative system. The Retirement Error Rate calculation should be based only on "comparable" data in CAT. For example, OATS equivalent data reported to CAT should meet the reporting and quality criteria required by FINRA specifically for OATS reporting."

[12] *See supra* note, 8.

Launch of CAT

FIF CAT WG respectfully requests that the launch of CAT should be dependent on meeting a set of pre-defined objective measurements that enable the success of that launch. One of those measurements should be data quality attained by the industry prior to launch that demonstrates that the Maximum Error Rate (and Retirement Error Rates of the identified duplicative reporting systems) can be achieved by the industry. This should ensure that Industry Members can quickly qualify for exemptive relief from duplicative reporting as a transition stage to full retirement of duplicative systems. Not meeting these data quality criteria prior to launch would be indicative that either or both the CAT System, Plan Processor or Industry Members are not prepared for launch.

Summary

We believe that these recommendations provide incentives for both regulators and Industry Members to achieve the adoption of CAT as the source of quality data for purposes of surveillance and analysis. FIF CAT WG respectfully suggests that these recommendation be seriously considered and ultimately adopted within the Participants' duplicative reporting systems rule filings, retirement criteria and plans. FIF CAT WG supports a thoughtful and methodical adoption of CAT as the regulatory reporting system of record – a goal the Commission, the Participants and Industry Members should all have in common - while providing aggressive relief to the industry from the burden and cost of duplicative reporting.

We thank you for the opportunity to present our ideas to you, and trust that the practical approaches we have presented will be thoughtfully considered and incorporated in to your retirement plans.

Sincerely,

William H. Hebert
Managing Director
Financial Information Forum

cc: The Honorable Michael S. Piwowar, Acting Chair, SEC
    The Honorable Kara M. Stein, Commissioner, SEC

    Ms. Heather Seidel, Acting Director, Division of Trading and Markets, SEC
    Mr. Gary Goldsholle, Deputy Director, Division of Trading and Markets, SEC
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    Mr. Peter Santori, Chicago Stock Exchange for CAT NMS Plan Participants
    Mr. Robert Walley, Deloitte
    Mr. Mike Beller, Thesys, CAT Plan Processor