

# FINANCIAL INFORMATION FORUM

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## Via Electronic Delivery

September 21, 2017

Mr. Michael Simon, CAT NMS Plan Chair on behalf CAT NMS Plan Operating Committee;  
Mr. Ed Watson, Chief Operating Officer, Thesys CAT, LLC;  
Mr. Shane Swanson, Chief Compliance Officer, Thesys CAT, LLC

Re: Industry Member CAT Reporting Specification Issues

Dear Michael, Ed, and Shane,

The Financial Information Forum (“FIF”)<sup>1</sup> Consolidated Audit Trail Working Group (“FIF CAT WG”) would like to take this opportunity to inform the CAT Operating Committee and Thesys CAT, LLC (“Thesys”) of FIF’s concerns with the schedule for the development and review of the DRAFT CAT Reporting Technical Specifications for Industry Member v0.1. (“Initial Spec”) announced at the September 7 Industry Outreach event. It does not meet, in our view, the CAT NMS Plan Objective Milestone of publishing iterative drafts of the specification with sufficient time for industry review.

FIF’s concerns with the Industry Member Specification review timeline is discussed in more detail below, with a recommendation to extend the specification development period with a proposed completion date for publication of the Final CAT Reporting Specification by February, 2018.

### ***Industry Member CAT Reporting Specification Schedule and Content***

FIF’s concerns with the schedule for the development and review of the Industry Member CAT Reporting Specification are:

- The schedule allocates only 18 days for the industry to review the September 7 Initial Specification, because **September 25 was announced as the deadline for comments if the industry hopes to effect the Final Specification. To be clear, the industry has one opportunity to comment on the draft specification with any meaningful impact on the Final Specification.** Serious issues have already been identified after a preliminary review of this specification. Some examples of these issues are:
  - Expansion of complex orders to include “any time a purchase or sale contingency exists between or among two or more instruments that are Eligible Securities.”<sup>2</sup> This explicitly brings into scope equity pairs trading and index arbitrage strategies which would significantly expand the cost and complexity of CAT reporting.
  - Requirement for providing a sequence number for any equity event when the timestamp cannot be guaranteed to be unique for reporter/date/symbol/event.

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<sup>1</sup> FIF ([www.fif.com](http://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.

<sup>2</sup> Initial CAT Reporting Specification for Industry Members (v0.1).

- Requirement for providing a sequence number for any equity event when the timestamp cannot be guaranteed to be unique for a CAT Reporter and a security for a given day.

All of these issues represent significant new cost and impact to the broker-dealer community that will require major changes to broker-dealer current business processes.

- Thesys has identified the following sections as missing in this Initial Specification: Updates to Data Dictionary, Two-sided Trade and Route events, *e.g.*, QCC, Crossing Orders with respective broker identification, Additional Auction messages, Open Outcry Trading, Cabinet Trades, Order Event Scenarios, Options and Complex Options Scenarios, Submission Process, Data Flow, Registration Process, Connectivity, Transport Options, Accessing Feedback Information, Security, Feedback, Corrections, Failure Codes, Testing, and CAT Service Desk. **The first time the industry will see a complete description of the CAT interfaces and functionality will be when the Final Specification is published on November 15.**
- Lack of support by the Operating Committee for this Initial Specification.<sup>3</sup>
- Given the calendar presented at the event, and the content of the Initial Specification, FIF is very confident that **significant change should be expected** following publication of the Final Specification on November 15.

#### ***Recommendation for the Schedule for Industry Member CAT Reporting Specification***

For all the above reasons, FIF does not believe that this schedule is consistent with the CAT NMS Plan, which specified that iterative drafts of the Technical Specifications were to be published, as needed, for industry review.<sup>4</sup> It is clear to FIF that more time must be allotted in the schedule to allow proper development of both an Initial and Final CAT Reporting Specification, including enough time for industry review and comment. In addition, the Plan Processor and the Operating Committee need reasonable time to harmonize their views so that they speak with one consistent and unified voice to the industry. The Operating Committee and the Plan Processor also need enough time to evaluate the industry comments and thoughtfully consider those comments for inclusion into the specification. In FIF's opinion, in order to smoothly roll-out complex, industry-wide software projects such as CAT, software development best practices of finalizing a coherent and complete design, interfaces and functionality as early in the implementation cycle as possible improves the probability of meeting CAT requirements in a more efficient and timely manner.

In summary, FIF recommends that the schedule for development of the Industry Member CAT Reporting Specification be extended for three months to accommodate release of iterative drafts of the specification for industry review and incorporation of industry comments into the specifications, with **full approval of the Operating Committee**. This schedule would support publication of the Final Specification by February 2018.

After review of defined interfaces and functionality contained in the Final Specification, the industry can assess a viable implementation schedule for commencement of Industry Member reporting to the CAT.

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<sup>3</sup> Version 1 of the Industry Member Specification includes, as a footer, a disclaimer that the Specification is a "Draft Document For Discussion Purposes Only...Not Approved By Operating Committee of CAT NMS, LLC."

<sup>4</sup> CAT NMS Plan, November 16, 2016, Appendix C.10.b, Submission of Order and MM Quote Data to Central Repository.

### **Alternative Approaches**

Given our assessment of the current state of the schedule for specification development and the likely ripple effect it will have on the Phase 1 implementation schedule, FIF believes it is an opportune time to consider alternate approaches on the development and delivery of function for CAT Phase 1. Although FIF, SIFMA and other commenters did highlight their concerns on the feasibility of the schedule throughout the CAT NMS Plan evolution, it is only now, given the current state of the Initial Specification, that there is clear evidence of the infeasibility to complete the tasks at hand on the current schedule. An alternate approach to consider is a **phased delivery of function in CAT Phase 1**. The most logical phases would be equities reporting first followed by options reporting, but more granular phasing of functionality could also be considered. Phasing of functionality would provide immediate relief in devising a new schedule for completion of the CAT Reporting Specification for Industry Members.

### **Summary**

FIF remains supportive of the Consolidated Audit Trail to form the basis for a comprehensive reporting infrastructure that not only allows improved surveillance of the marketplace but also improves the efficiency and effectiveness of industry reporting. Although FIF is raising these concerns now with the Initial Specification schedule and content, FIF continues to work diligently with its members to better understand the CAT requirements and the implications of implementing CAT within their firms through development of use cases and scenarios, which have been shared with Thesys.

FIF appreciates the opportunity to raise these concerns to the Operating Committee and Thesys and trusts you will seriously consider and evaluate these issues. Because FIF believes these are serious concerns which require immediate action to correct, FIF is requesting a response from the Operating Committee by October 15. FIF welcomes the opportunity to further discuss any or all of the issues highlighted in this letter with the CAT NMS Plan Operating Committee and Thesys CAT, LLC.

Sincerely,



William H. Hebert  
Managing Director  
Financial Information Forum

cc:

Ms. Heather Seidel, Acting Director, Division of Trading and Markets, SEC  
Mr. Gary Goldsholle, Deputy Director, Division of Trading and Markets, SEC  
Mr. David S. Shillman, Associate Director, Division of Trading and Markets, SEC

Mr. Robert Walley, Partner, Deloitte  
Ms. Ellen Greene, Managing Director, SIFMA  
Mr. James Toes, President and CEO, STA

CAT Operating Committee, 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.