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Via Electronic Delivery

September 29, 2017

Ms. Heather Seidel,
Acting Director, Division of Trading and Markets
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: *SEC Order Instituting Proceedings to Determine Whether to Approve or Disapprove the Proposed Rule Changes, as Modified by Amendments Thereto, to Eliminate Requirements That Will Be Duplicative of CAT, August 30, 2017.*

Dear Ms. Seidel,

The Financial Information Forum ("FIF")[1] Consolidated Audit Trail Working Group ("FIF CAT WG") appreciates the opportunity to provide additional comments to the Securities and Exchange Commission ("The Commission") on the SROs' Retirement Proposal, including answers to the 15 questions (Attachment 1) posed by The Commission on a "firm-by-firm exemption from duplicative reporting" approach. FIF continues to object to the single cutover approach as defined in the SROs' Retirement Proposals[2].

FIF proposes that the CAT should be implemented in three phases, each with a set of robust and defined measures of success to ensure that the objectives of the CAT are realized, and the duplicative reporting systems are retired in an efficient manner:

1. **Testing Phase**: Industry Members and SROs submit data to the CAT processor with objective of meeting the qualitative and quantitative criteria that are currently proposed by the SROs as retirement criteria. The SROs' proposed criteria for determining the retirement of duplicative systems retirement is more appropriate to be used as benchmarks to end the Testing Phase and enter the Pilot Phase.
2. **Pilot Phase**: The CAT reporting system is "live" with Industry Members submitting daily production reports, including error corrections. All Industry Member data is linked with SRO data

[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] SR-FINRA-2017-013 - Proposed Rule Change Relating to Elimination and Modification of Duplicative Rules After Implementation of the Consolidated Audit Trail. (Note, for simplicity, only the FINRA filing is referenced. All other exchange filings are based on this filing, or are not relevant to the FIF comments in this letter).

and the CAT processor produces all SRO required surveillance and reports. OATS and Blue Sheets continue to be the reporting systems of record.

3. **CAT as Regulatory System of Record**: CAT is recognized as the reporting system of record. Duplicative reporting ceases and duplicative reporting systems can be retired.

FIF requests that The Commission either: a) support the firm-by-firm exemption approach; or b) define a shortened and fixed pilot period of duplicative reporting to validate CAT functions that cannot be fully validated during a robust industry and SRO testing period. These points are discussed more fully in the following sections.

Summary of FIF objections to the SROs' Retirement Proposal

Duplicative reporting remains a critical issue for FIF's members due to the costs and complexities of maintaining consistent and accurate reporting to multiple regulatory systems of largely the same information for any extended and undefined period of time. To summarize FIF's objections to the single cut-over approach[3]:

- **Objective and Measurable Criteria:** A key concern with the single cutover approach is its open-ended definition. While the Industry Member error rate criteria is specific, objective and measurable, the CAT system criteria is qualitative, non-measurable and at the discretion of the SROs. Various criteria can and should be assessed / resolved prior to CAT launch. Not having a defined period with a target cutover date based on objective criteria tied specifically to the duplicative reporting system data, is problematic for FIF members. It is this point that resulted in FIF's support for a firm-by-firm exemption approach.
- **CAT Launch requirements vs. Retirement considerations:** The criteria defined in the single cut-over approach are more appropriate to establish as CAT launch (or "go-live") criteria (*i.e.,* the CAT System should not enter the Pilot Phase until the CAT System can fulfill its obligations and the quality of CAT Industry Members reporting meets the target aggregate error rates).
- **Error Rates:** The error rate criteria for determining when CAT data should be used versus the duplicative reporting system should only apply to the data relevant to that duplicative system (e.g. OATS equivalent data assessed for OATS retirement). All other data collected by CAT is irrelevant to the question of OATS retirement.
- **Improved Quality** – By establishing these criteria as determinative for CAT launch, it appropriately shifts the focus for achieving the baseline system(s) requirements and reporting quality levels to the test environment/period where issues can be fixed most expediently. This would ensure that duplicative reporting period be brief because only those cases which cannot be adequately validated in a test environment (*e.g.,* linkages) need to be validated in a production environment, and even these limited cases could be further mitigated through coordinated industry-wide testing which can simulate production environments.
- **Impact to Timelines:** FIF recognizes that its recommendation to change the proposed SROs retirement criteria to CAT launch criteria may impact the October/November 2018 milestones to commence Industry Member reporting to CAT. These dates would be subject to meeting these criteria prior to launch, and would likely require an industry testing period longer than the three-months allocated in the current implementation plan. FIF believes that is the correct trade-off, because software development best practices recommend that validation, whenever

[3] Letter from William Hebert, Managing Director, FIF to Robert Errett, Deputy Secretary, SEC *Re: SR-FINRA-2017-013 - Proposed Rule Change Relating to Elimination and Modification of Duplicative Rules After Implementation of the Consolidated Audit Trail*. (June 22, 2017)

possible, be completed prior to production, as it will be more efficient and timely process, with improved results.

Firm-by-Firm Exemption Approach
FIF acknowledges that a firm-by-firm exemption approach may introduce additional costs and complexity to the CAT processor and/or SROs to manage the transition. However, the current single cutover approach puts all the costs and burdens solely on the industry. FIF believes that the costs and risks should be shared by Industry Members and the SROs to promote a fair and balanced model for managing and regulating the marketplace. FIF notes that managing the transaction may be more complicated, costly and difficult with the introduction of a proposed new and different CAT reporting model as detailed in The DRAFT CAT Reporting Technical Specification for Industry Members v0.1[4].

The reporting interface, as defined in this specification, deviates significantly from the current OATS reporting model, with the introduction of many new reports and data elements. The mapping between the proposed CAT data model and the current OATS model, especially when considering cross report implications and error correction procedures, will be complex. The SROs and the Plan Processor should have focused more on the goal of rapid retirement of duplicative systems as a design objective of CAT Phase 1. In the preliminary review of the DRAFT specification, it is clear that the Plan Processor did not prioritize facilitation of OATS retirement as one of its key design objectives.

As currently proposed, the proposed CAT reporting interface complicates retirement and any converter approach. It complicates CAT development and testing by Industry Members because they cannot use their current vetted OATS model as a base for CAT reporting. Reconciliation tools that the industry must build for validating their CAT reports are now much more difficult. Further, FIF maintains that the same will be true of regulators during the CAT test and duplicative reporting periods, because if the current reporting system of record does not match the CAT system it will be extremely difficult to determine which system data is correct, which makes the process of error correction nearly impossible.

If this proposed CAT reporting interface remains as the CAT Phase 1 interface, the cost and complexity of the converter to CAT, the regulators and the industry increases significantly. However, that cost is dwarfed by the cost to Industry Members for duplicative reporting[5], especially if the duplicative reporting extends for an undetermined length of time.

Alternate Model Consideration
Faced with these two opposing models for retirement of duplicative systems, each of which has their own considerations, FIF proposes an alternate solution, which addresses the deficiencies with both current retirement models.

FIF could support a single cutover approach if the definition of the approach was modified as follows:

- The CAT system and Industry Member reporting criteria is defined as CAT launch criteria, not duplicative system retirement criteria.
- The Industry Member reporting criteria for duplicative system retirement be limited only to the pertinent data of applicable duplicative system.
- There is only one system of record during any duplicative reporting period.

[4] DRAFT CAT Reporting Technical Specification for Industry Members V0.1

[5] *Supra* note, 3 ("Monthly current regulatory reporting costs for Insources is $45.7M, of which OATS and EBS is assumed to represent half of that spend").

- The duplicative reporting period is only used to validate those records/data elements/conditions that cannot be validated during pre-launch (*e.g.,* some linkage conditions). This duplicative reporting period should be contained within a period of a few months.
- The time period for this duplicative reporting period is fixed with cutover to occur at the end of the period.

Summary

FIF wishes to thank The Commission for this opportunity to voice our concerns with the SROs Retirement Approach. Retirement of duplicative reporting systems is both a necessary and complicated task. Thoughtful consideration of the implications of various models is essential to find the best solution for the marketplace. FIF welcomes the opportunity to further discuss the issues raised in this letter.

Sincerely,

William H. Hebert
Managing Director
Financial Information Forum

cc:

The Honorable Jay Clayton, Chair, SEC
The Honorable Kara Stein, Commissioner, SEC
The Honorable Michael Piwowar, Commissioner, SEC

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

Ms. Ellen Greene, Managing Director, SIFMA
Mr. James Toes, President and CEO, STA

Self-Regulatory Organizations; 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.

Attachment 1. Answers to 15 Questions on Firm-by-Firm Exemption Approach

Preface: The following 15 questions have been answered with an "assumption" that the converter approach would likely be a service that takes CAT reports (including error corrections), converts those reports to OATS reports, and then submits those reports to OATS for processing.

It should also be noted that Thesys CAT, in its description to the industry of its CAT bid in 2014/2015, highlighted the feature of a CAT to OATS service, as part of their bid outline. In addition, the CAT NMS Plan included the possibility of a firm-by-firm exemption approach supported by FINRA. With that as a backdrop, FIF has been surprised with the current lack of support by FINRA and Thesys CAT for firm-by-firm exemption approach and CAT interfaces that would facilitate migration from OATS to CAT.

1. ***What would be the monetary costs of constructing a CAT to OATS converter or developing an alternative mechanism for linking CAT Data to OATS that would provide continuity of the OATS SROs' surveillance capabilities?***
   Thesys CAT and FINRA are in a better position to provide a preliminary cost estimate and FIF will be pleased to comment.

2.
   a. ***What technological challenges would have to be addressed to make a converter or other mechanism feasible?***

      Two requirements would make a converter feasible: 1) CAT data must be a complete super-set of all required OATS data 2) the CAT interface must be "mappable" to the OATS reporting interface. The review of the September 7 Initial CAT Reporting Specification for Industry Members highlighted several OATS data elements missing from the CAT reporting definition. Additionally, the CAT report model defined by the specification deviates from the OATS event report schema, making the work of a CAT to OATS converter more difficult.

   b. ***When could work begin on a converter or alternative mechanism?***
      High-level design, preliminary development and planning work could start now, but implementation must wait until the Final Specification has been published and no material changes are expected on the interface.

   c. ***Could work begin before the Plan Processor had begun accepting CAT reports from Industry Members and making these reports available to regulators?***

      The converter can be implemented any time after a stable CAT Reporting Final Spec is available. Final testing of the converter could be performed in parallel with the Industry Member testing period, using Industry Member CAT Reports submitted in the CAT test environment.

   d. ***How long would it take to construct a converter or other mechanism?***
      Thesys CAT and FINRA are in a better position to provide a preliminary estimate on the time it would take to build a converter. However, it should take less time to build a converter than it takes to build a CAT system for Industry Member reporting.

3. ***Are there any entities that would be capable of constructing a converter?***
   There are a number of entities, including Thesys CAT and FINRA, which are capable of

constructing a converter. FINRA originally proposed the idea of a firm by firm exemption, and this notion is contained in the CAT NMS Plan. During the bid process and in presentations to FIF and SIFMA, Thesys CAT *stated that Thesys CAT would accept OATS and many other industry formats*.

4. ***If the costs of the converter would be passed on to Industry Members, would the benefits of a converter be undermined?***

   Yes, depending on the pricing scenario, the benefits of a converter could be undermined if the (monthly) cost of the converter to the Industry is equal to or greater than the (monthly) cost of duplicative reporting for the Industry Member. There would also be concerns about the converter costs being passed on to all Industry Members as not all Industry Members would utilize the proposed converter.

5.
   a. ***Please estimate the percentage of Industry Members' CAT reports that would qualify for an individual exemption from OATS reporting for each month after Industry Members begin reporting in Nov 2018.***

   FIF is unable to provide an estimate as it would require historical records of how the industry (and individual firms) responded to major changes to the OATS reporting interface and a monthly firm by firm history of OATS error rates following a major OATS release, which the industry does not possess.

   b. ***Do you believe that the costs and/or benefits of a converter would be affected by the number of Industry Members that can be expected to meet the threshold error rates for CAT reporting (weighted by their percentage of total CAT reports submitted by OATS-reporting Industry Members) before full OATS retirement, thus qualifying for an individual exemption from OATS and to have their CAT reports converted to OATS?***

   The costs of a converter would be affected by the number of Industry Members that qualify for an exemption due to scaling, design and implementation implications.

   The benefits of a converter would be affected by the two variables: 1) the number of Industry Members that meet the threshold error rates 2) the time it takes these Industry Members to meet the threshold error rates.

   If only one firm will qualify for the exemption for one month, the benefit of the converter would not justify its cost. However, if the 126 large Insourcers[6] cited in FIF's response to the SROs' Retirement Proposal[7] all qualified for the firm-by-firm exemption for 3 months, the benefits accrued would be $274M.

6.
   a. ***Do you believe that the Systems Retirement Proposals would result in any burden on competition?***

   Yes, any new broker dealer that would be OATS-reporting eligible may defer entering the

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[6] SEC Release No. 34-79318, File No. 4-698, November 15, 2016; Joint Industry Plan: Order Approving the National Market System Plan Governing the Consolidated Audit Trail, Table 4, p. 657.

[7] *See* supra note, 3 at 3 ("…each Insourcer spends, on average, $725,615/mo. for current regulatory reporting obligations (includes OATS, EBS, Large Trader and others), of which OATS and EBS constitutes a significant portion of that cost.").

market until OATS has been retired due to 1) the initial cost of building both OATS and CAT reporting infrastructures, 2) on-going operational costs to maintain and report to both regulatory systems.
Small broker dealers might especially be at a disadvantage because they should have the most simple reporting obligations, and could more quickly achieve a high quality error rate, but they would be burdened with on-going duplicative reporting until the rest of the industry (which would be skewed to large firm reporting due to volume) complied with the target error rate for retirement.
Broker dealers who meet the error thresholds individually have no control over costs of duplicative reporting if these thresholds are measured at an industry level. FIF favors the firm-by-firm exemption approach due to the "open-ended" indeterminate period of time for duplicative reporting with the single-cutover proposal.

b. ***If there are burdens, how would they compare to the burdens that would be imposed by the converter approach?***
A broker dealer with high quality CAT reporting would eliminate their obligation to submit duplicative reporting and its associated costs.

7.

a. ***What impact would a converter have on the SROs' ability to conduct their surveillance and oversight?***
The SROs' are best positioned to opine on surveillance and oversight requirements. The design goal of a converter would be to ensure a smooth transition so as not to adversely impact SRO surveillance capabilities.

In FIF's view, CAT improves the regulators' surveillance capabilities. Through regulators' access to the CAT database (in addition to their access to current OATS or EBS data), they gain the following benefits:

- Regulators will immediately have access to customer information not available through today's regulatory reporting systems, and the ability to tie transactions back to the beneficial owner and authorized trader.
- All regulators will have access immediately to all reported data (not yet corrected) and will have access to corrected data days before when the data is available today.
- Regulators will have access to options data and allocation data, which is not available today
- Regulators will have a tool set that allows immediate, quick and easy inquiry over a wide data set, which is not available today.

For all of the above reasons, the regulators should be in a much better regulatory oversight and surveillance capability on day 1 of CAT, even if there is a slightly higher error rate.

In FIF's opinion, the SROs Retirement Proposal has focused too narrowly on an error rate for the data without looking at the broader benefits immediately provided by CAT, which offset any slightly elevated error rate.

b. ***Do you believe there are risks that a converter might not be able to successfully integrate CAT reports into OATS?***

Assuming FINRA and the Plan Processor work together cooperatively, they can enable a smooth migration from OATS to CAT. Those two entities can ensure that the CAT interface is defined to facilitate migration, with a well-defined mapping between CAT and OATS.

c. ***What is the likelihood of failures and what would be the magnitude of the costs resulting from any such failures?***
Without doing an in-depth analysis, FIF expects that likely failures would be unusual trading/reporting scenarios – cases that rarely occur and therefore, may not have been considered or tested completely. But "failure", in this case, would mean that reports might get rejected in OATS because the converter does not do an adequate job of converting the CAT report to OATS. It would require that a corrected record would need to be submitted to OATS. That is a common occurrence today, and one that does not result in a regulatory oversight lapse.

d. ***What costs might be incurred by SROs to detect and address any regulatory gaps created by a converter?***
The SROs' are best positioned to opine on costs.

However, in FIF's view and using OATS as an example of a duplicative system being retired, FIF's assumption, is that the converter would allow the current OATS database to contain reporting from all OATS reporters, even if not submitted by the Industry Member reporter directly. With robust testing prior to use of the converter, FIF does not anticipate any "regulatory gap" that should occur other than the normal errors identified in OATS reporting (some that might be generated through the CAT converter) that would need to be corrected by the Industry Member reporter or the converter.

e. ***What sort of additional surveillances might be necessary and how would you estimate the cost for an SRO to develop them?***
FIF cannot foresee the need for any additional surveillances required of an SRO during this duplicative reporting period.

8.

a. ***How long do you believe it will take before CAT reaches the accuracy and reliability thresholds proposed by the SROs before retiring OATS and other systems for all firms?***

The criteria defined in the single cut-over approach are more appropriate to establish as CAT launch (or "go-live") criteria (*i.e.,* the CAT System should not be considered the regulatory reporting system of record until the CAT System can fulfill its obligations and the quality of CAT Industry Members reporting meets the target aggregate error rates).

b. ***How long do you think it would take to make an effective converter available and how long would the converter be used for those firms who individually have met the thresholds while CAT overall has not?***
The answer to this question is very dependent on the firm chosen to build the converter and the design for the converter. The estimate should be provided by experts and entities responsible for its implementation (*e.g.,* FINRA, Thesys CAT, third party vendor). However, in FIF's opinion, in general, the converter implementation should not take longer than the time is would take to

implement the Industry Member reporting interface for the CAT System.

Firms that have been exempted from duplicative reporting to OATS will use the converter until 1) the reporting to CAT meets the retirement criteria and 2) OATS reporting for the industry can be terminated.

c. ***Does the length of this period affect your cost/benefit analysis for the converter approach?*** The benefit of the converter is affected by the length of time that firms have to maintain duplicative reporting systems and associated costs.

9.

a. ***What criteria should the OATS SROs consider for releasing a firm from its OATS requirements?*** The only criteria that the OATS SROs should consider for releasing a firm from its OATS requirements is **if that firm's OATS equivalent reports/data** are of sufficient quality to allow the OATS SROs to adequately surveil the marketplace.

b. ***Would you still support a firm-by-firm approach if it also incorporated an assessment of whether the Plan Processor is sufficiently meeting all of its obligations under the Plan?*** As FIF indicated in its response to the SROs' Retirement Proposals[8], all of the retirement eligibility criteria defined by the SROs' are inappropriate and should be defined as "go-live" criteria.

10. Describe any opportunity costs associated with the converter approach. E.g., would it divert resources at the SRO level that otherwise would be devoted to CAT implementation?
This question may be best addressed by the Plan Processor / SROs.

In FIF's opinion, there may be additional costs for the Plan Processor/ SROs/ FINRA to build/maintain/operate a converter during this transition period. However, depending on the chosen design for this converter, the costs need not be borne by the Plan Processor. For example, there are a number of possible technical solutions to allow "firm-by-firm" exceptions for duplicative reporting. The solution, in FIF's opinion, must have an objective to maintain a complete OATS data store (containing reporting information from all firms) even though the exempted firms will only be reporting to CAT. Although there can be a variety of design approaches, two simple models are discussed here, just to illustrate points which will be made in the answers to these questions:

1. The Plan Processor would only be responsible for routing all CAT reports and CAT error updates to FINRA. FINRA would then be responsible for receiving these CAT reports and converting into an equivalent OATS report and submitting to the OATS processing system.
2. The Plan Processor would incur all responsibility to convert all CAT reports into the OATS equivalent report and submitting the OATS report to FINRA. In this model, FINRA may need to be only minimally aware that the OATS report was being submitted by the Plan Processor.

In Model 1, the Plan Processor might only be required to route all CAT reports to FINRA and then FINRA would be responsible for converting the CAT report to an equivalent OATS report.

However, there are also design considerations and functionality that the Operating Committee/Plan

[8] S*upra* note, 3.

Processor can build into the CAT interface that would minimize the migration costs of the industry from OATS to CAT. These costs include both reconciliation costs for the industry during duplicative reporting as well as building a converter. If this was a design objective of the Plan Processor, they likely would not have diverged as radically from the current OATS reporting model as included in the recently released Initial Specification for Industry Member CAT Reporting. The reporting interface in the Initial Specification significantly complicates a CATS/OATS converter. The regulatory benefits for this divergence were not explained in the specification, and in fact, creates a more complicated reporting interface for the Industry Members.

In addition, any opportunity costs lost by the Plan Processor/SROs/FINRA “converter provider” must be weighed against the opportunity costs lost by the Industry Members who will be forced to endure duplicative reporting for an unknown period of time, even if an individual firm has consistently submits perfect quality CAT reports. The estimated duplicative reporting costs for Large Industry Members was included in FIF’s comment letter to the SROs’ Retirement Proposals. “E.g., each “Insourcer” (126 broker/dealers who implement their own regulatory reporting) spends, on average, $725,615/mo. for current regulatory reporting obligations (includes OATS, EBS, Large Trader and others), of which OATS and EBS constitutes a significant portion of that cost. The spend rate for these 126 firms to maintain duplicative reporting because the rest of the industry has not met the retirement reporting criteria is more than $20M/month[9].”

In addition, some of the cost of a converter or mapping tool must be in the regulators’ plan today, for their own use. During the industry test period, and the duplicative reporting period, FINRA, the other OATS and EBS regulators and CAT must all be performing some form of “conversion” or reconciliation between current OATS and EBS reporting and CAT reporting to determine validity of these three independent reporting trails. Otherwise, how will the regulators determine which report set is correct for any given market event, if these data sets “diverge” during test or the duplicative reporting period. FIF strongly believes that the effort to define and design tools to allow this reconciliation effort must be part of the regulators’ plan.

11.

a. ***Do you agree with the estimated costs of duplicative reporting described by two of the commenters?***
   Yes. FIF and SIFMA have consistently raised the issue of the cost/burden of duplicative reporting from the start of CAT.

b. ***Are there any additional opportunity costs faced by Industry Members that would result from duplicative reporting?***
   See Answer to question 11a.

c. ***How would the length of the duplicative reporting period affect the opportunity costs?***
   The estimate provided in answer to question 10 provides a monthly cost for duplicative reporting for a set of CAT Reporters. The opportunity cost would increase proportionally as the time of duplicative reporting is extended.

[9] Monthly current regulatory reporting costs for Insources is $726K x 126 = $91M, of which OATS and EBS is assumed to represent half of that spend. FIF conservatively estimated $20M as duplicative reporting costs for these firms.

12.

a. ***Do you agree with the proposed quantitative metrics for the pre and post-correction error rates that would have to be attained by CAT before the SROs would retire duplicative systems?***
As stated previously, the metrics should only apply to OATS specific (or EBS specific) data elements – all other CAT reported data is irrelevant in assessing the retirement of OATS or EBS.

b. ***Do you agree with the proposed categories for the assessment?***
FIF comment letter on SROs Retirement Proposal included:
"The EBS and OATS retirement plans require 5% pre-correction error rate and 2% post-correction rate in each of 5 categories (rejection rates, intra-firm linkages, inter-firm linkages, order linkage rates, exchange and TRF/ORF match rates). While FIF CAT WG appreciates the underlying rationale of maintaining good quality with each of these specific metrics, FIF requests that a more flexible approach be taken with minimum impact to data quality for surveillance purposes. FIF CAT WG requests that FINRA consider that the average pre-correction error rate across the 5 categories must achieve 5% but no single category could exceed 7% pre-correction error rate. Similarly, the average post-correction error rate across the 5 categories must achieve 2% but no single category could exceed a 3% post-correction error rate."

c. ***Are these categories sufficiently clear?***
No – the FIF comment letter on SROs Retirement Proposal included a series of questions regarding these metrics where the measurement descriptions were not clear.

d. ***If you believe that different thresholds or alternative areas for consideration would be more appropriate, please describe.***
As FIF has stated earlier, the open-ended timeframe for ending duplicative reporting coupled with definition of retirement criteria that should be "go-live" criteria in the SROs' Retirement Proposal is burdensome. Given this single cut-over approach defined in the SROs' Retirement Proposal, FIF supports the firm-by-firm exemption approach, because it attempts to put the timeframe for duplicative reporting under the control of each individual firm.

FIF would like to propose an alternative model:

- The launch criteria for CAT must include rigorous quality metrics to ensure both CAT System and Industry reporting are capable of meeting standards required to fulfill regulators' surveillance responsibilities including:
  - No material issues have been identified that have not been corrected or the risk accepted.
  - CAT includes all data necessary to allow regulators to continue to meet their surveillance obligations
  - Plan Processor is sufficiently meeting all of its obligations under CAT NMS Plan
  - Aggregate pre and post correction error rates for OATS and EBS specific data meet the 5%/2% error rates.
- Although extensive testing can be performed with industry-wide testing which simulates the production environment, there may be some validation (especially linkages) that may be difficult in a testing environment. For this reason, a CAT "launch" could be staged:
  - Pilot – All firms report to CAT for a brief period (at most a few months) to verify the OATS and EBS equivalent data meets the 5%/2% error rate. OATS and EBS remain,

during this period, as the “regulator reporting systems of record”. No fines/penalties apply during this Pilot period.

- Single cutover at end of the pilot period.

This model puts the focus on verifying CAT System and Industry Reporting accuracy and quality prior to launch – a more cost effective and timely environment for correction of errors. If the criteria above is met, the duplicative reporting period can be shortened.

e. ***What are the costs and benefits of the proposed approach versus any alternative approach that you would recommend?***
The industry costs of the retirement model described in 12d would shift from a longer period of duplicative reporting to a longer test period to achieve quality reporting rates. These costs would be significantly lower because the period of duplicative reporting would be fixed, and the costs to find/fix problems in a test environment is significantly less than a production environment. The Operating Committee/Plan Processor avoids the development costs of a converter and the complexity of managing a firm-by-firm exemption model; they also would benefit from finding/fixing errors in a test environment versus the production environment.

13.

a. ***Do you agree with the SROs’ proposed qualitative standards for retirement of duplicative systems, i.e., that retirement could not be permitted to occur until it is confirmed that 1) there are no material issues in CAT that have not been corrected; (2) the Cat includes all data necessary to allow the SROs to continue to meet their surveillance obligations; 3) the Plan Processor is sufficiently meeting all of its obligations under the CAT NMS Plan?***
No. *See* answers to 9b and 7a.

b. ***What are the costs and benefits of the proposed approach versus an alternative approach, which may include not having any additional qualitative considerations?***
The proposed approach puts minimum cost/risk on the SROs or the Plan Processor (no accommodation of tools, interfaces or the CAT design to facilitate retirement, no management of potential risks through risk avoidance techniques) versus the Industry Members bearing all of the costs of the single cut-over with an undefined period of duplicative reporting that is completely out of the control of any single firm, regardless of quality of their CAT reporting data.

Given the estimate of Industry Member costs for each month of duplicative reporting for just 126 Large Industry Member firms (see FIF comment letter on SRO Retirement Plan), the cost/benefit tradeoff between Industry Member and Participant and Plan Processor seems very unbalanced.

The alternative approach discussed in 12d maintains both the quantitative and qualitative measurements, but not as retirement criteria – these are more appropriate as “launch” criteria.

14.

a. ***To what extent should the SROs consider CAT performance regarding functions and data elements not present within existing audit trail systems when determining when to allow retirement of those existing systems?***
As stated previously, the metrics should only apply to OATS specific (or EBS specific) data

elements – all other CAT reported data is irrelevant in assessing the retirement of OATS or EBS.

b. ***What are the costs and benefits of the proposed approach versus any alternative approach that you would recommend?***
There was insufficient time to perform a cost/benefit analysis, from an industry perspective, on the alternative approach discussed in the answer to question 12d.

c. ***Do you believe that the Systems Retirement Proposals will promote efficiency, competition, and capital formation?***
No. *See* answer to 6a.
Regarding efficiency, the SROs retirement proposals take only the view of the Plan Processor or SRO efficiency, but do not consider the efficiency of Industry Members. As has been stated, duplicative reporting for any extended period of time is burdensome, costly and inefficient for every OATS reporting Industry Member. The costs were summarized in the answer to Question 10. This represents a significant burden on the industry, which may impact the costs borne by the investor.

15.

a. ***Do you agree with the length of the assessment period proposed by the SROs?***
As stated in FIF's comment letter on Retirement Proposals, six months is an acceptable period, but only if the assessment period will be terminated if the retirement criteria are met earlier. FIF does not agree with the criteria proposed for determining retirement and believes that criteria should be "launch" criteria. Robust industry and SRO testing and a short pilot period of reporting is preferred.

b. ***What alternative do you believe would be more appropriate and why?***
FIF believes that the assessment period can be shorter, and fixed in length, if rigorous assessment criteria is required for the launch of Industry Member reporting to CAT.

c. ***What are the costs and benefits of the proposed approach versus any alternative approach that you would recommend?***
From an industry perspective there was insufficient time to perform a cost/benefit analysis on the alternative approach discussed in the answer to question 12d.