

FINANCIAL INFORMATION FORUM

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Via Electronic Delivery

December 11, 2018

The Honorable Jay Clayton
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

RE: Consolidated Audit Trail Status Update

Dear Chairman Clayton,

The Financial Information Forum¹ (“FIF”) on behalf of its member firms, respectfully submits this letter to provide the Securities and Exchange Commission (“Commission”) with the status of ongoing efforts to implement the Consolidated Audit Trail (“CAT”). Much progress has been made in 2018 that has resulted in FIF’s belief that the start of industry member reporting required by Phase 2a of CAT is achievable. However, FIF believes that the resolution of several key issues is necessary for the industry to successfully meet the November 15, 2019 go-live date for Phase 2a of the CAT (“Go-Live Date”).

Industry Progress

The implementation of the CAT is truly an ambitious effort. It requires the centralization of complex order lifecycle data (much of which has not been previously reported) from all firms pertaining to all customers across all exchanges, each of which developed organically in its own idiosyncratic way at disparate venues and times. The collective focus on CAT implementation by the Commission, Self-Regulatory Organizations (“SROs”), ThesysCAT, LLC (“ThesysCAT”), and industry members, has resulted in a better process with improved Technical Specifications, additional guidance, and clear delineation of the phased-in CAT implementation Plan (“SRO Master Plan”). These achievements are the product of much labor and collaboration by all industry stakeholders.

In January 2018, the SROs formed the industry member Tech Spec Working Group (“Working Group”) comprised of Commission Staff, the SROs, ThesysCAT, and representation from the industry associations (*i.e.* FIF, STA, SIFMA). This Working Group has been essential to providing a forum to collaboratively solve many of the significant implementation issues that posed substantial challenges for the industry. Participants in this Working Group have collectively spent thousands of hours in over 140 separate meetings to identify, analyze, and resolve issues and questions critical to the successful development of the CAT.

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.

These critical and complex topics include but are not limited to:

- Firm Designated ID (“FDID”)
- Representative Order Flagging
- Error Correction
- Industry Testing
- Connectivity
- Matching Criteria
- Manual Events
- Representative Order Linkages
- Riskless Principal Capacity
- Manual Quotes
- Electronic Blue Sheets
- Complex Orders
- Options Pricing

It has been the collective effort of the Working Group that has directly resulted in improved Technical Specifications, guidance, use cases, and CAT reporting expectations that have eased the implementation challenges inherent in a project as large, multi-faceted, and intricate as the CAT.

Remaining Concerns

While substantial progress has been made in 2018, several significant challenges remain. There are several critical dependencies on information and deliverables by the SROs and ThesysCAT that are necessary to meet the Go-Live Date for industry member reporting (*e.g.*, additional guidance, availability of testing environments, and delivery of error correction tools). FIF believes that an expedited and even more efficient process is necessary to address and facilitate the timely resolution of these remaining critical dependencies to successfully implement Phase 2a and subsequent industry member milestones in the SRO Master Plan.

Issue Resolution Process and Need for an Empowered CAT Program Office

During the November 29, 2018 Working Group meeting, the SROs indicated to industry members that the current issue resolution process will remain during the CAT implementation phase. FIF is concerned that the speed of the current issue resolution process could impact the timely and successful implementation of CAT Phase 2a.

Today, the SRO issue resolution process spans several weeks, requiring the SRO Interpretative Working Group (“IWG”) to 1) consider each question raised by the industry; 2) develop a recommendation to the CAT NMS Plan Operating Committee; which 3) must be voted on for approval; and 4) incorporated into the Technical Specification and/or associated guidance.² While industry members understand the need to fully assess and implement each recommendation from the industry into the Technical Specifications or associated guidance (*i.e.* FAQs), the current issue resolution feedback cycle is very time-consuming. This process is causing delays to industry members. As firms await the resolution of issues and publication of critical guidance, they must put on-hold development of internal specifications, coding and procedures that could be affected by any such guidance, placing the timely implementation of the CAT at risk.

For example, in August of 2018, the SROs published supplemental guidance on FDID, to be used as an interim solution to allow regulators to readily identify an individual or entity placing an order, until such information is made available in the CAT Customer Information Database.³ The supplemental FDID guidance deviated significantly from the industry’s prior understanding of the FDID construct as specified in the NMS Plan and

² Depending on the complexity of the issue, the current issue resolution process generally spans between 5 weeks to 3 months.

³ This information is expected to be available in the CAT Customer Information Database by November 15, 2021.

previously approved exemptive relief; therefore, it necessitated several iterations of revision. During those iterations, industry members posed additional clarifying questions and recommendations. Currently, industry members continue to await final written guidance necessary to develop this important element of Phase 2a CAT reporting, which could require changes to the programming of firms' respective order management systems ("OMS") and/or execution management systems ("EMS") and the development of new reporting processes.

In addition to the aforementioned FDID issue, 129 other issues/requests for additional guidance were submitted by FIF on November 29, 2018.⁴ FIF believes continued delay on the receipt of guidance on these issues will have a direct impact on the development of CAT reporting processes, and could therefore ultimately impede the *timely* implementation of Phase 2a of the CAT. The industry requires each of the 129 issues to be raised and addressed through additional written guidance (*i.e.* FAQs) or amendments to the Technical Specification as soon as possible.

FIF suggests that in order to facilitate a more efficient issue resolution process designed to provide industry members with more prompt feedback on critical technical and interpretative issues, the Commission and SROs consider designating a "Program Office" empowered to act on behalf of all Participants of the NMS Plan with decision-making authority to act with agility and speed to address pragmatic issues, technical questions, and provide timely interpretative guidance to industry members. An empowered Program Office would be instrumental in alleviating time pressures caused by incomplete guidance and go far in facilitating timely implementation of all phases of the CAT.

Use Cases, FAQs, and Examples

The implementation of OATS, which developed in phases over many years, was a significant event in the history of regulatory reporting impacting order/transaction data. The implementation of the CAT is noteworthy in that it extends well beyond OATS, requiring the reporting of *previously unreported business activity*. As a result, it is imperative that the industry receive complete guidance well in-advance of the testing period, in order to allow industry members' respective legal and compliance staff, and developers to fully understand and implement the first phase of CAT. A Program Office similar to one suggested above would be instrumental in providing such critical guidance.

OATS-Like Error Correction Tools

On August 14, September 6, and November 28, 2018, FIF participated in deep-dive Working Group discussions with the SROs and ThesysCAT on the topic of the CAT error correction process. The materials presented to the SROs and ThesysCAT emphasized the substantial need for tools and functionalities specified in the CAT NMS Plan that would allow CAT Reporters to reasonably identify, rectify, and re-submit corrections within the required T+3 timeframe.⁵ Due to the greater complexity of CAT, industry members require and expect error correction tools more sophisticated than the tools currently available in the OATS interface to be delivered concurrently with the CAT Phase 2a Go-Live Date.

⁴ As industry members continue the CAT implementation process, additional issues will be identified which will require resolution.

⁵ See CAT NMS Plan at D-24. Pursuant to the CAT NMS Plan, the Plan Processor must provide, *inter alia*, "feedback as to the reason(s) for errors; prevent a linkage break between reports from resulting in additional events being rejected; allow broken linkages to be repaired without having to submit or resubmit additional reports; allow error corrections to be submitted both via online and bulk uploads or via file submission; support auto-correction of identified errors and notify reporters of any auto-corrections [and]; support group repairs."

Today, the OATS error correction toolset enables firms to, among other things, perform: 1) bulk repairs; 2) view out of sequence events; 3) create order events; 4) view rejections summarized by reason; 5) filter/sort/expand/collapse records and many other necessary functionalities that have proved indispensable in producing the 99.5% rate of accuracy for OATS. The more complex CAT reporting requirements combined with a significantly more stringent error correction timeframe compared to OATS demand an even more robust toolset to be integrated into the CAT web interface prior to the Phase 2a Go-Live Date.

To date, the SROs and ThesysCAT have not provided industry members with sufficient detail regarding any of the tools and functionalities that will be built into the CAT reporter interface to facilitate the correction and resolution of reporting errors.⁶ At the November 28, 2018 meeting addressing the CAT testing and error correction process, ThesysCAT stated that error correction tools had been contemplated, but did not indicate when such tools would be made available. At a minimum, acknowledgment from ThesysCAT and the SROs regarding which tools will be provided to CAT Reporters as part of the CAT interface must be provided as soon as possible in order to allow firms to determine if they will be required to build their own error correction tools.

To be clear, if OATS-like error correction tools are not made available on Day 1, hundreds of firms will be required to create and test their own tools or obtain vendor alternatives prior to the CAT Go-Live Date. Proprietary tools will require additional system builds, access to and ingestion of CAT data to perform system validation, and testing which will further stress the limited number of subject matter experts (“SMEs”) dedicated to the implementation of CAT reporting. Should this occur, inevitably firms (especially small firms who lack the necessary IT staff to write code and develop proprietary systems), may be put in the position of passing onto investors the cost required to build hundreds of redundant systems.

Furthermore, SMEs who have been tasked not only with implementing Phase 2a of CAT reporting, but also several other important regulatory initiatives scheduled for 2019 (*i.e.* Rule 606, Reg ATS-N, etc.) while simultaneously supporting the current OATS reporting and error correction process, will have to devote additional time to the creation of robust error correction tools. Ultimately, the lack of robust integrated CAT-specific error correction tools, more sophisticated than current OATS tools, will not only place industry members at risk of not being able to meet the shortened T+3 error correction and resubmission timeline, as required by Rule 613, but could also have an adverse effect on regulators’ ability to obtain accurate data in a timely manner to conduct regulatory reviews.

Testing and Connectivity

In addition, in order to comply with the Phase 2a CAT Go-Live Date, industry members require a fully functioning, production-quality test environment during the initial roll-out phase. Due to the novelty of CAT Reporting requirements, a robust test environment is especially important. Currently, the SROs and ThesysCAT have committed to commencing industry testing on August 15, 2019, allowing only three months for industry members (and in many cases their respective vendors) to test for and correct all issues prior to the CAT Go-Live Date. Any delay in the availability of CAT test environments will place industry member implementation of CAT by the Go-Live Date at substantial risk.

Furthermore, as counterparties will be matching trade reports for the first time, the implementation of the CAT logically requires the coordinated testing between industry counterparties to ensure that all inter-firm linkages and matching criteria are accurately reported. Therefore, the industry is dependent upon ThesysCAT

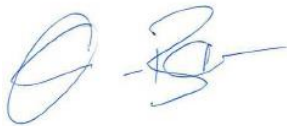
⁶ The lack of a full suite of error correction tools will significantly impact clearing firms and vendor OMSs/EMSs, who in many cases will perform corrections for hundreds of clients that are currently excluded from OATS reporting.

to provide industry members with the opportunity for firms to fully test all inter-firm matching processes during the initial phase of the CAT testing period. This information should be made available to the industry as soon as possible to allow time to code for and coordinate with counterparties.

Conclusion

FIF wishes to thank the Commission for the opportunity to provide this important update on the current status of the CAT. While the CAT is an ambitious and unprecedented project, FIF and industry member firms remain fully committed to working with the Commission, the SROs and ThesysCAT toward the successful implementation of Phase 2a of CAT reporting by November 15, 2019.

Regards,



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CC: The Honorable Kara M. Stein, Commissioner
The Honorable Robert J. Jackson, Jr., Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
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