

FINANCIAL INFORMATION FORUM

11 Hanover Square
New York, NY 10005

October 15, 2020

By Electronic Mail

Mr. Michael Simon
CAT NMS Plan Operating Committee Chair,
on behalf of the CAT NMS Operating Committee

Re: NMS Plan Governing the Consolidated Audit Trail: October 26, 2020 and January 4, 2021
Interfirm, Exchange and TRF Linkage Compliance Dates

Dear Mr. Simon,

The Financial Information Forum (“FIF”)¹ is writing to highlight challenges that Industry Members are experiencing in resolving interfirm, exchange and TRF linkage exceptions in connection with the filing of CAT Data. The terms “Industry Members” and “CAT Data” are defined in the National Market System Plan Governing the Consolidated Audit Trail (the “CAT NMS Plan” or “Plan”).²

Specifically, while the Participants (as defined in the Plan), the Plan Processor (as defined in the Plan) and Industry Members continue to work diligently to identify and resolve linkage exceptions, real error rates remain elevated. Therefore, for the reasons described in further detail below, FIF requests that the CAT NMS Plan Operating Committee (the “Operating Committee”) and the Participants take the following actions:

- Extend from October 26, 2020³ to December 31, 2020 the compliance date for requiring Industry Members to correct equity interfirm, exchange and TRF linkage exceptions by 8 am on T+3.
- Extend from January 4, 2021 to January 31, 2021 the compliance date for requiring Industry Members to correct options interfirm and exchange linkage exceptions by 8 am on T+3.

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 The Limited Liability Company Agreement of Consolidated Audit Trail, LLC is the CAT NMS Plan.

³ See CAT NMS Plan Timeline, <https://catnmsplan.com/timeline>.

- Confirm that Industry Members are not required to correct interfirm, exchange and TRF linkage exceptions that occurred on or prior to December 31, 2020 for equities and on or prior to January 31, 2021 for options.
- Acknowledge that Industry Members even after December 31, 2020 for equities and January 31, 2021 for options will not be subject to fines and other sanctions for failing to resolve interfirm, exchange and TRF linkage exceptions by 8 am on T+3 while the current challenges with error resolution remain outstanding, subject to an Industry Member taking reasonable steps to resolve these exceptions.
- Provide guidance on the regulatory standards that will be applied to Industry Members in connection with regulatory oversight for CAT reporter compliance. This guidance should take into account the challenges faced by Industry Members in resolving linkage exceptions that are outside their control, as set forth in this letter.

The reasons for these requests are as follows:

- Industry Members face significant challenges in resolving linkage exceptions that are the result of external factors that are beyond their reasonable control.
- Requiring Industry Members to resolve linkage exceptions starting on October 26, 2020 will impede Industry Members from addressing the root cause of these linkage exceptions. Enabling Industry Members to focus on addressing the root cause of linkage exceptions will result in Industry Members achieving lower linkage exception rates sooner.
- Requiring Industry Members to resolve linkage exceptions starting on October 26, 2020 will impede Industry Members in their efforts to implement the CAT Phase 2c and 2d and CAT CAIS requirements on a timely basis.

While FIF is requesting an extension of the compliance date to December 31, 2020 for linkage exceptions for equities and January 31, 2021 for linkage exceptions for options, FIF members remain concerned about the challenges with addressing linkage exceptions that occur after these dates, resulting from the complexity of CAT reporting and other factors that are outside the control of FIF members. The Participants, the Plan Processor and the Industry Members working together over the past few months have made great progress in addressing linkage exceptions, but significant challenges remain. It is important for all parties to continue to place their primary focus on addressing the root cause of linkage exceptions as this will lead to achieving lower linkage exception rates sooner. It is also important for the Participants and the Plan Processor to continue to enhance the tools available to Industry Members that are necessary to resolve linkage exceptions within the required timeframes.

Scope and complexity of CAT

The Consolidated Audit Trail (CAT) is an immense project that provides the Securities and Exchange Commission (“Commission”), Financial Industry Regulatory Authority, Inc. and the other Participants with automated access to a level of audit trail data that exceeds the level of audit trail data available to any other regulator or exchange in the world. As previously stated by FIF:

“FIF fully supports SEC Rule 613 requiring the creation, implementation, and maintenance of a CAT. We view CAT as an opportunity to improve and modernize the ability of the Participants and the Commission to oversee the securities markets. Better oversight will lead to greater confidence in the markets. This increased transparency will benefit all stakeholders, including CAT Reporter Broker-Dealers (“industry members”), individual investors, and the public. Once implemented, Rule 613 will also allow regulators to source transactional and customer information from a more centralized location, providing an opportunity for faster and more efficient surveillance of the markets. A fully functioning CAT should also facilitate the retirement of legacy and outdated regulatory reporting mechanisms (i.e. OATS, EBS) in favor of a more centralized surveillance tool.”⁴

CAT is a valuable initiative that enhances oversight of, and investor confidence in, the U.S. securities markets; CAT also is a complex project that requires extensive coordination among hundreds of broker-dealers, exchanges, vendors and regulators.⁵ Industry Members have played a significant role in the design and implementation of CAT and continue to devote extensive resources towards CAT implementation. The many successes of the CAT implementation to date, as discussed below, have been the result of the high levels of cooperation among the Commission, the Participants, the Plan Processor (FINRA CAT) and Industry Members.

Recent CAT milestones

The following are some of the milestones that have been achieved by the Participants, FINRA CAT and Industry Members during the past few months, notwithstanding the challenges faced by all market participants resulting from COVID-19:

- June 22, 2020: Production go-live for equities 2a file submission and data integrity validations
- July 20, 2020: Production go-live for options 2b file submission and data integrity validations
- July 27, 2020: Production environment go-live for equities 2a intrafirm linkage validations
- August 10, 2020: Production environment opened for equities 2a interfirm linkage validations
- August 10, 2020: Product environment opened for options 2b interfirm linkage validations
- August 17, 2020: Report card availability for equities
- August 24, 2020: Production environment go-live for options 2b intrafirm linkage validations
- September 15, 2020: Report card availability for options
- September 28, 2020: Production environment opened for equities 2a exchange and TRF linkage validations
- September 28, 2020: Production environment opened for options 2b exchange linkage validations.

⁴ See letter dated October 28, 2019 from Christopher Bok, Director, FIF, to Vanessa Countryman, Secretary, Securities and Exchange Commission, p. 1.

⁵ During the week of October 5 - October 9, there were 1,159 Industry Members reporting equities events to CAT and 660 Industry Members reporting options events to CAT. FINRA CAT Weekly Industry Testing Checkpoint Call (October 13, 2020) – Presentation, slide 6.

Compliance with file submission, data integrity and intrafirm linkage validations for both equities and options has been largely successful with aggregate error rates at or below 1%.⁶

Interfirm, exchange and TRF linkages

FIF notes that there is a significant distinction between file submission, data integrity and intrafirm linkage and interfirm, exchange and TRF linkage validation, as interfirm, exchange and TRF linkages require coordination with multiple counterparties. In addition, with interfirm, exchange and TRF linkage validations, a firm can incur a linkage exception even though the firm has reported properly.

With the large number of Industry Members reporting to CAT for equities and options, the required level of coordination is extensive. At the same time, Industry Members face a number of challenges for identifying and resolving linkage exceptions within the timeframes required by CAT, as described below.

CAT timeframes

The challenges identified above and discussed further below are not the result of any failures by FINRA CAT, the Participants or Industry Members, but rather a function of the complexity and scope⁷ of CAT reporting, the tight implementation timetables relative to the complexity of CAT reporting, the stringent deadlines for resolving reporting errors and the challenges of coordinating with numerous counterparties. FIF has previously highlighted the risks associated with the current CAT implementation timetables and the associated financial accountability milestones:

“Implement financial accountability milestones that evaluate success based upon the successful completion of a milestone’s functionality rather than focus its assessment solely upon the date in which it is completed. FIF believes that applying conditions to the collection of fees the Participants have and will absorb to support CAT development, implementation, and maintenance efforts may result in: 1) reduced dialogue between industry member CAT Reporters and the Participants; 2) lower quality CAT IM Tech Specs; 3) reduced emphasis on the development and publication of vital industry member guidance (i.e. FAQs, CAT Reporting Scenarios, CAT Operations guidance, Industry Webinars); 4) a less effective issue resolution process; and 5) the implementation of Phase 2a prior to the full development of the CAT system.”⁸

Industry Members appreciate the excellent work that FINRA CAT and the Participants have done in building out the technology for the CAT System (as defined in the Plan), documenting technical specifications and reporting scenarios, implementing and providing error correction tools, issuing numerous FAQs, hosting numerous webinars, soliciting feedback and input from Industry Members, operating a help desk, and providing a website that organizes the relevant material in a highly accessible

⁶ See, for example, FINRA CAT Weekly Industry Testing Checkpoint Call (October 13, 2020) – Presentation, slide 6.

⁷ During the week of October 5 – October 9, 2020, CAT processed approximately 68 billion reportable events. FINRA CAT Weekly Industry Testing Checkpoint Call (October 13, 2020) – Presentation, slide 6.

⁸ See letter dated October 28, 2019 from Christopher Bok, Director, FIF, to Vanessa Countryman, Secretary, Securities and Exchange Commission, p. 3.

manner. Industry Members also are appreciative of FINRA CAT and the Participants taking numerous steps to address concerns raised by Industry Members relating to the error handling process; at the same time, with a system that involves the complexity of CAT and involves processing and generating validations on 68 billion records a week,⁹ resolution of these types of issues takes time.

Challenges faced by Industry Members in resolving interfirm, exchange and TRF linkage exceptions

This section reviews the numerous and diverse challenges faced by Industry Members in resolving interfirm, exchange and TRF linkage exceptions. These challenges have previously been communicated to the Participants and FINRA CAT, and the Participants and FINRA CAT have actively taken steps to address these challenges. At the same time, with a system that involves the complexity and scope of CAT, an appropriate time period is required to address these challenges.

1. Delays in feedback files

The timetables for Industry Members to resolve linkage exceptions in CAT are very tight. One challenge faced by Industry Members is that there have been significant delays in the feedback files from FINRA CAT, which further reduces the available timeframe for Industry Members to resolve linkage exceptions. As an example, feedback files were delayed every day during the first two weeks of exchange and TRF linkage validation in the production environment. Further, the day-to-day variability of when feedback files are available impacts the ability of firms to efficiently allocate resources to address linkage exceptions. The delay in feedback files and the variability of when feedback files are available is a significant additional challenge given the tight timeframes required for resolving linkage exceptions.

In addition to the relief requested above, FIF requests that the T+3 deadline for correcting interfirm, exchange and TRF linkage exceptions be extended in any scenario where there are delays in feedback files.

2. High number and percentage of linkage exceptions

The production environment opened for interfirm linkage validations on August 10, 2020. For the first week of linkage validation, the interfirm unlinked percentage for equities and options in the aggregate was 37.0% for senders and 37.3% for recipients. During this week, the total number of CAT records was approximately 70 billion.¹⁰ While not every CAT record is subject to a linkage validation, this is still a large number of errors for the industry to address and many multiples larger than the exception rates that firms are currently staffed to manage for OATS. Since August, the high number and percentage of linkage exceptions has presented a challenge for firms in addressing these exceptions. The unlinked percentages have improved significantly since August as a result of the efforts of FINRA CAT, the Participants and the Industry Members, yet there are still a large number of exceptions that firms must address. The most recent interfirm linkage exception rates for equities of 8.5% for senders and 10.4% for receivers are still many multiples larger than the error rates that firms are currently staffed to manage for OATS. During the most recent week the interfirm linkage exception rate for options was

⁹ FINRA CAT Weekly Industry Testing Checkpoint Call (October 13, 2020) – Presentation, slide 6.

¹⁰ FINRA CAT Weekly Industry Testing Checkpoint Call (August 18, 2020) – Presentation, slide 8.

significantly reduced to 1.1% for senders and 6.1% for receivers. The most recent exchange linkage exception rate was 27.5% for equities and 48.9% for options. The most recent TRF linkage exception rate was 33.5%.¹¹

The weekly statistics demonstrate continuous improvement each week, but additional time is needed.

3. Volume and size of feedback files has resulted in unexpected download and search times

As a result of the volume and size of feedback files, Industry Members have experienced unexpectedly long times for downloading the files. The volume and size of files also makes it challenging and more time consuming than expected for firms to search for, identify and resolve linkage exceptions.

4. Combining of different categories of linkage exceptions in one feedback file

As of May 18, 2020 for equities and June 20, 2020 for options,¹² firms have been responsible for resolving intrafirm linkage exceptions within the required T+3 timeframe. The combining of intrafirm and other linkage exceptions in one feedback file has made it more challenging for firms to identify and resolve intrafirm linkage exceptions, resulting in less time available to address other types of linkage exceptions.

5. Limitations on the ability to repair linkage exceptions

Limitations relating to bulk repair functionality available through the CAT reporter portal and SFTP have presented an additional challenge for firms in addressing the large number of linkage exceptions. Firms also are limited in their ability to view and resolve exceptions when the number of exceptions exceeds a specified threshold. Another challenge is that firms have been unable to proof export files generated through the CAT reporter portal prior to submission.

6. Transparency on which linkage exceptions remain open each day

At present, Industry Members do not have adequate information as to which linkage exceptions remain open each day. Starting October 26, FINRA CAT will provide Industry Members with daily open error files that will identify the linkage exceptions that remain open for each prior day. It is challenging for Industry Members to implement the technical and business process changes to take into account these files without technical details and sufficient testing. Firms will need adequate time after these files become available to incorporate them into their existing procedures for tracking and resolving linkage exceptions. An extended conformance period would allow for Industry Member technical and business processes to be adjusted.

While the report to be provided by FINRA CAT will assist Industry Members in resolving linkage exceptions, Industry Members will continue to have significant challenges based on the high number of linkage exceptions that need to be resolved, as described above, and it will take time for firms to realize

¹¹ FINRA CAT Weekly Industry Testing Checkpoint Call (October 13, 2020) – Presentation, slide 6.

¹² Securities Exchange Act Release No. 88702 (April 20, 2020), 85 FR 23075 (April 24, 2020).

the full benefit of these reports. Industry Members also request that FINRA CAT provide a report of repaired linkage exceptions for each prior day. Industry Members further request confirmation that they will be permitted to rely on the daily reports that identify the remaining open linkage exceptions.

7. False positives

Industry Members have faced the challenge of exceptions that are generated by the CAT system that are not, in fact, errors. This impedes the ability of firms to address true errors as firms must first distinguish between the true errors and the false positives. The following are examples of false positives:

- If an Industry Member receives an order in an initial public offering security on the day prior to its commencement of trading, the Industry Member is not able to report that security to CAT. When the Industry Member then reports a subsequent event relating to that security, such as a route or a modification, the Industry Member receives an unlinked intrafirm error message, and the Industry Member is not able to fix this exception. When a route is involved, this impacts receiving firms that also are not at fault.
- If an Industry Member received a GTC order prior to the initial reporting date for CAT, subsequent events relating to the GTC order will result in an intrafirm linkage exception, and the Industry Member is not able to fix this exception. When a route is involved, this impacts receiving firms that also are not at fault.
- Routing firms are not required to report route modifications until Phase 2d, but receiving firms are required to report the receipt of route modifications. If a routing firm does not report a route modification, as permitted for Phases 2a and 2b, this generates an unlinked error for the receiving firm and a named error for the routing firm.
- When an exchange is unable to file a significant number of CAT reportable events by the initial reporting deadline of 8 am on T+1, this results in false positive linkage exceptions for Industry Members that have routed to the exchange. This is discussed further below.
- Industry Members reporting the route of the equity leg of a complex order to an exchange are receiving exchange linkage exceptions even though the Industry Members are reporting correctly.
- Industry Members are receiving linkage exceptions when the routing firm is a small industry member not yet subject to CAT reporting.

FINRA CAT has notified the industry that it will be implementing changes to address these issues. FIF appreciates the prompt action by FINRA CAT and the Participants to address these issues.

8. Contact information for Industry Members

Resolving interfirm, exchange and TRF linkage exceptions requires interaction with counterparties, including other Industry Members and exchanges. FIF previously proposed that FINRA CAT provide a portal where all industry participants and their reporting agents could enter contact information that could be viewed by other reporting parties. When FINRA CAT advised that it would not be appropriate for FINRA CAT to develop this portal, FIF developed a contact portal that we refer to as the CAT utility. FIF makes the CAT utility available to all Industry Members, including Industry Members that are not FIF

members. Industry Members who use the CAT utility have told FIF that the utility is an essential tool for resolving reporting linkage exceptions. One challenge for Industry Members today is that there are Industry Members that have not yet signed-up for the CAT utility. FIF requests that the Participants and FINRA CAT re-emphasize to all Industry Members the importance of providing contact information in a readily accessible manner to facilitate the resolution of linkage exceptions.

9. Contact information for exchange personnel

Another challenge for Industry Members is that the exchanges did not initially provide contact information for resolving exchange linkage exceptions in a manner that was readily accessible to Industry Members. More recently, all of the exchanges have provided contact information, and this information is available through the FINRA CAT website and is readily accessible to Industry Members. The delay in making this information available has made it more difficult for firms to address exchange linkage exceptions and delayed identification and resolution of the root cause of these issues. A linkage exception could be an error by either the routing or receiving party, so it is important to have contact information for all counterparties, whether the counterparty is an Industry Member or an exchange. Communication between the routing and receiving parties is often required to identify the cause of past and current linkage exceptions and to ensure that these linkage exceptions do not recur in the future. As an example, there could be a miscommunication between a routing and receiving party as to which identifier should be used for either party. It is important that all exchanges provide contact information in a manner that is readily accessible to all Industry Members that are exchange members, and FIF members appreciate the recent actions taken by the exchanges and FINRA CAT to make this information available.

10. Exchange linkage issues

Many Industry Members were not aware until recently that the exchanges were making changes to how they report sender IMID, routed order ID and session values to CAT as compared to how they report these values to OATS.¹³ As an example, certain exchanges have updated their formatting requirements for the reporting of the session field, resulting in exchange linkage exceptions and the requirement for Industry Members to identify, code, test and implement corresponding system changes. An additional challenge is that different exchanges have adopted different approaches for reporting session and other fields.

11. Exchanges missing the 8 am on T+1 initial reporting deadline

In certain cases, exchanges have been unable to file a significant number of CAT reportable events by the initial reporting deadline of 8 am on T+1. This has resulted in a significant number of false positive exceptions that Industry Members must review, thereby impeding Industry Members in their ability to resolve true linkage exceptions. Late filing by exchanges also makes it more challenging to resolve

¹³ See Order Routing Field Mapping between CAT and Exchanges (August 31, 2020), <https://catnmsplan.com/sites/default/files/2020-08/8.31.20-Order-Routing-Field-Mapping-between-CAT-and-Exchanges-v1.7.pdf>.

linkage exceptions by T+3 because firms do not receive notification of the linkage exceptions until T+2. FIF members have requested that notification of linkage exceptions be suppressed in this scenario.

12. TRF linkage issues

Based on their interpretation of the Technical Specifications for Phases 2a and 2b, many Industry Members are reporting the CATReporterIMID in the CAT Trade Event to match one side of the TRF report (for example, the branch sequence number) and reporting the tapeTradeID in the CAT Trade Event to match the other side of the TRF report (for example, the contra branch sequence number). This was not expected by Industry Members and is generating a significant number of linkage exceptions for many Industry Members.

13. Parallel operation of OATS

While addressing the various issues described above, firms must continue to ensure compliance with their OATS reporting obligations, including resolution of all linkage exceptions with counterparties.

14. CAT Phases 2c and 2d and CAT CAIS

While addressing the various issues discussed above, firms must continue to focus on reviewing, documenting and implementing the extensive requirements for CAT Phases 2c and 2d and CAT CAIS.

Holding to a compliance date of October 26, 2020 will necessarily extend the time-period for addressing the root cause of linkage exceptions

If firms are required to allocate resources to resolve all equity linkage exceptions starting on October 26, firms will have less time to focus on addressing the root cause of linkage exceptions. This means it will take longer to reduce the overall linkage exception rate. Enabling Industry Members to focus on addressing the root cause of linkage exceptions will result in Industry Members achieving lower linkage exception rates sooner.

FIF appreciates the opportunity to submit this letter and requests that the Operating Committee take action on this request prior to the October 26 compliance date for interfirm, exchange and TRF linkage validations for equities. FIF welcomes the opportunity to discuss the considerations raised in this letter. If you would like clarification on any of the items discussed in this letter or would like to discuss further, please contact me at howard.meyerson@fif.com.

Very truly yours,

/s/ Howard Meyerson

Howard Meyerson
Managing Director, Financial Information Forum

Mr. Brett Redfearn, Director, Division of Trading and Markets, SEC
Mr. David S. Shillman, Associate Director, Division of Trading and Markets, SEC
Mr. David Hsu, Assistant Director, Division of Trading and Markets, SEC
Mr. Mark Donohue, Senior Policy Advisory, Division of Trading and Markets, SEC
Ms. Manisha Kimmel, Senior Policy Advisory, Regulatory Reporting to Chairman Jay Clayton, SEC
Mr. Andre E. Owens, Partner, Wilmer Cutler Pickering Hale and Dorr LLP
Ms. Shelly Bohlin, Chief Operating Officer, FINRA CAT, LLC
Ms. Judy McDonald, CAT NMS Plan Advisory Committee Chair, on behalf of the CAT NMS Plan Advisory Committee