

SEC Rule 613 – Consolidated Audit Trail (CAT)

Industry Outreach Event

December 10, 2014



BOXSM
OPTIONS EXCHANGE



Today's agenda

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Polling Question 1

Please answer the question provided on the right hand side of the WebEx.

What primary business is your organization engaged in?

A

Institutional Trading

B

Retail Trading

C

Advisory

D

Asset Management

E

Other

Current Status

Recent CAT NMS Plan Milestones

Plan Filed

- The CAT NMS plan was filed with the SEC on September 30, 2014
- SROs are working on several exemption requests associated with the NMS Plan in consultation with the Development Advisory Group (“DAG”) and SEC
- SROs anticipate filing an amended plan

Bidder Selection Process

- RFP responses were received from 10 Bidders on March 21, 2014
- 6 Bidders were shortlisted on July 1, 2014
- Each shortlisted Bidder participated in a working session in October, where the Bidders walked through their solutions and responded to detailed questions from the SROs

Exemptive Relief Requests

The SROs are requesting exemptive relief from the SEC in the following areas:

- Section A - Reporting of options market maker quotes
- Section B - Reporting of unique Customer IDs
- Section C - Reporting of unique Reporter ID
- Section D - Linking allocations to executions
- Section E - Timestamp granularity on manual order events

Funding Model & Cost to Broker-Dealers Study

Funding Model Considerations

In establishing the Funding Model, SROs kept in mind the following considerations:

- Simple to understand and calculate
- Predictable
- Transparent
- Equitable allocation of fees
- All CAT Reporters pay a share of the costs associated with the CAT Central Repository

Basic Funding Model Parameters

A number of parameters were considered for the Funding Model:

Costs allocated to participant types

- Broker-Dealers
- Execution Venues, Exchanges, and FINRA

Funding Basis

- Fixed fees per tier
- Variable fees

Number of tiers used in assigning costs

- Number of firms in each tier
- Amount of costs allocated to each tier

Method for determining tiers

- Total “message” volume (orders, cancels, executions, market maker quotes)
- Market share
- Notional value

Results of Broker-Dealer Cost Survey

- SROs distributed a study to 4,406 Broker-Dealers to gather information about the cost impacts associated with the implementation and ongoing maintenance of the CAT¹
- Total average costs² for current reporting are approximately \$4,300,000 for large³ firms and \$1,200,000 for small firms⁴
- Average cost projections for implementation of CAT reporting under Approach 1⁵ were approximately \$5,100,000 for large firms and \$550,000 for small firms. Average cost projections for implementation of CAT reporting under Approach 2⁶ were approximately \$4,800,000 for large firms and \$460,000 for small firms.
- Average costs for ongoing maintenance of CAT reporting under Approach 1⁵ are predicted to be approximately \$3,700,000 for large firms and \$480,000 for small firms. Average cost projections for ongoing maintenance of CAT reporting under Approach 2⁶ are predicted to be approximately \$3,200,000 for large firms and \$450,000 for small firms.
- Overall, both large and small firms project lower average annual maintenance costs for compliance with the CAT compared to current reporting costs
- There were large variances in reported projected costs, indicating that most firms may pay less than average, while a few firms may pay much more than average

1. A total of 422 Broker-Dealers responded. Of those responses, 180 were substantially incomplete, and 75 were determined to be erroneous, leaving a population of 167 responses which were used for analysis.

2. Costs displayed are inclusive of Hardware / Software costs, FTE Costs and third party / outsourcing costs. FTE costs include FTE counts multiplied by an annual all-in FTE rate of (\$401,440), a rate applied based upon an estimated rate of \$193/hr., taken from Rule 613

3. Defined as a Broker-Dealer with total capital of greater than \$500,000 in the previous fiscal year

4. Defined as a Broker-Dealer with total capital of less than \$500,000 in the previous fiscal year and is not affiliated with any firm or person that is not a large firm as defined here

5. CAT reporting using industry and Exchange Protocols

6. CAT reporting using a specified file format

Polling Question 2

Please answer the question provided on the right hand side of the WebEx.

Which aspect of the CAT NMS Plan would you be interested in learning more about?

A

Cost to Broker-Dealers

B

Reporting Requirements

C

Implementation & Reporting Timelines

Plan Processor Requirements (PPR)

Plan Processor Requirements (“PPR”)

SROs are documenting additional requirements that the Plan Processor would need to meet to effectively and efficiently create and maintain the CAT

PPR Requirements Include:

- Central Repository Requirements
- Reporting Requirements
- Receipt of Data from Reporters
- Data Security
- BCP / Disaster Recovery
- Data Availability
- Functionality of the CAT System
- CAT Customer Data
- User Support

The PPR is a working document that is expected to change over time to ensure that the requirements of the CAT keep pace with emerging technology, regulatory requirements, and industry needs.

Next Steps

Upcoming Milestones

The SROs are working towards the following milestones in the implementation of the Consolidated Audit Trail:

Submission and approval of exemptive relief

- The SROs are requesting exemptive relief from some requirements of Rule 613. As part of this process, the SROs requested and received feedback from the DAG

Bidder Engagement

- The SROs continue to engage with the Shortlisted Bidders to deepen their understanding of each proposed solution. Bidders may be allowed to revise parts of their proposal prior to final Bidder selection

Amendment of the CAT NMS Plan

- SROs are reviewing and enhancing NMS Plan language in order to file an amendment to the CAT NMS Plan

Publication of specifications for CAT Reporters

- The selected Plan Processor to publish detailed specifications for CAT Reporters 10 months before first participants are required to begin reporting data to the Central Repository

CAT NMS Past Milestones

| Key Milestones | Date |
|--|--------------------|
| ✓ Request For Proposal (RFP) publication | February 26, 2013 |
| ✓ Formed the Development Advisory Group (DAG) | March 25, 2013 |
| ✓ Published request for comments on issues related to the CAT NMS Plan | April 22, 2013 |
| ✓ SROs filed selection process NMS Plan with the SEC | September 3, 2013 |
| ✓ Selection process NMS Plan published by the SEC for public comment | November 15, 2013 |
| ✓ NDA executed between SROs and Bidders | December 19, 2013 |
| ✓ SEC approval of selection process for NMS Plan | February 21, 2014 |
| ✓ RFP responses received | March 21, 2014 |
| ✓ CAT NMS Plan submitted to the SEC | September 30, 2014 |

Polling Question 3

Please answer the question provided on the right hand side of the WebEx.

How do you rate your company's readiness around the CAT?

A

We have organized a working group

B

We are doing analysis on existing systems

C

We have identified areas requiring attention

D

We have not started any related work

Questions?