

SEC Rule 613 - Consolidated Audit Trail (CAT)

SRO Industry Event

December 10, 2012



Agenda

RFP Process and Timeline

RFP Bidder Requirements and Evaluation Criteria

Overview of CAT and Core Functions

Key Areas For Which SROs are Seeking Feedback

- Key Reporting Requirements
-

Questions Received to Date

Feedback

RFP Process

- RFP will be issued for the design, build, and operation of the CAT
 - Optimal technology design and reporting framework
 - Optimal administrative process
 - Qualified bidders
- The Proposed RFP Concepts Document was issued on December 5
 - Published to ensure transparency of RFP development process
- Industry outreach
 - Complex project with a wide range of potential solutions
 - Feedback on the concepts presented is needed to complete the RFP
 - Comments and views from all interested parties on the
 - RFP structure
 - Level of specificity of the key reporting requirements
- CAT NMS Plan must include cost benefit analysis
 - Industry feedback on proposed reporting concepts is necessary for cost/benefit analysis

RFP Timeline

Currently, the NMS Plan must be filed by April 26, 2013. However, given the significant amount of work and analysis that is required to develop the NMS plan, including the issuance of an RFP, the SROs plan to submit an exemption request to the SEC to extend the due date for filing the NMS Plan until December 2013. If approved by the SEC, the RFP timeline will be as follows:

- Feedback on RFP concepts needed by January 18, 2013
- Publish RFP mid-February 2013
- RFP responses due early April 2013

Formal selection of a bidder is subject to SEC approval of the NMS Plan. Therefore, based on the proposed timeline, the SROs anticipate formal selection of a bidder would occur sometime in 2014.

RFP Bid Requirements

- Because SROs must identify solutions for all aspects of administering and operating the CAT, a single provider will be needed to oversee all administrative and technical functions of the CAT.
- Given the different types of expertise needed for the different functional requirements of the CAT, the SROs would consider a bid that included qualified sub-contractors that are directly overseen by the primary bidder.

RFP Bidder Requirements

Any bidder must meet minimum criteria with respect to:

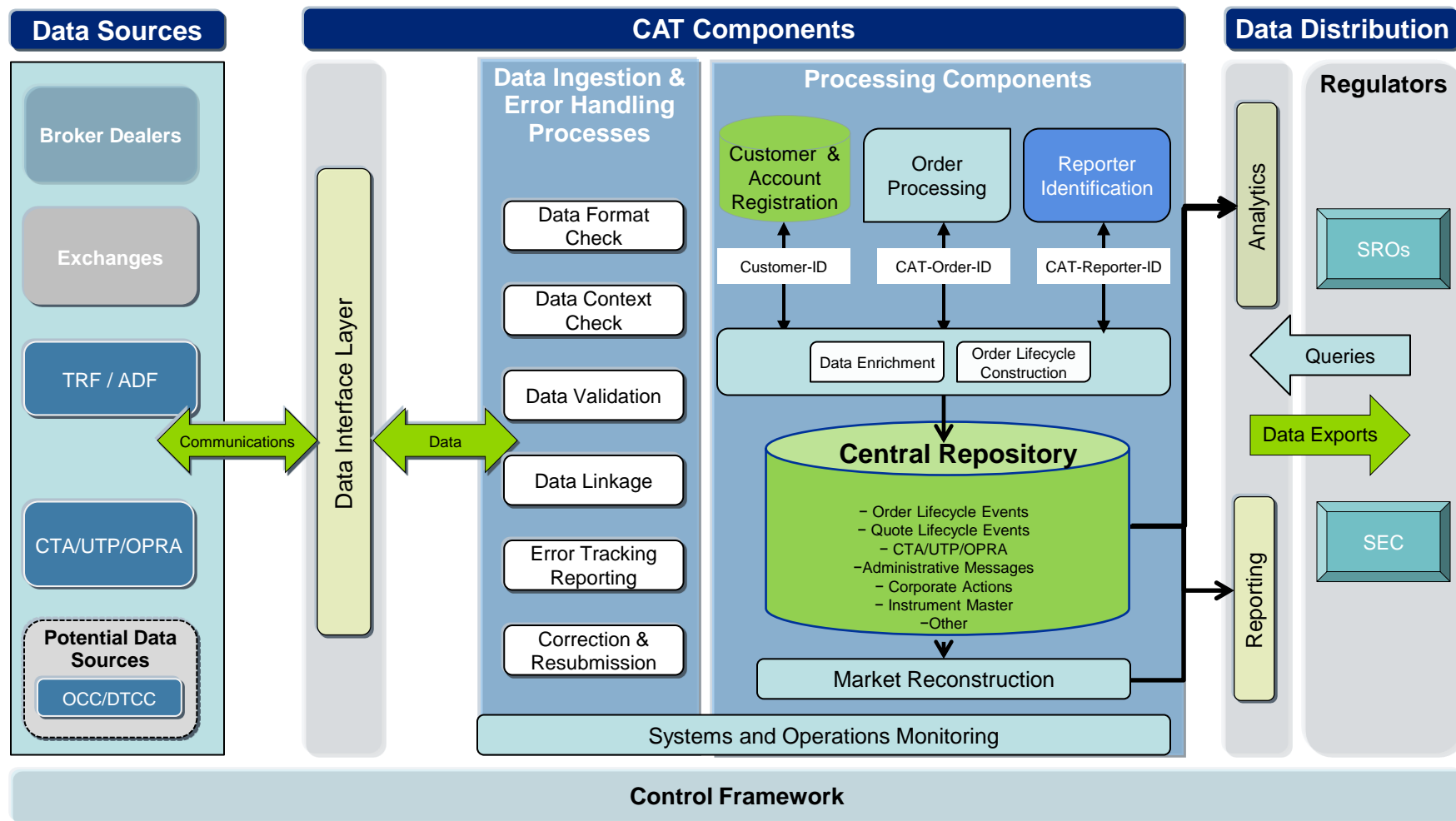
- Financial strength
- Experience and expertise
- Industry knowledge
- Proven solutions

Key RFP Responder Evaluation Criteria

- Ability to clearly and effectively communicate CAT reporting requirements to both business and technology constituents.
- Experience and expertise of key personnel used in the solution
- Depth of knowledge of securities markets and order and execution practices
- Ability to identify information/data needed to support regulation of new trading practices, market structure changes and new SEC and SRO rules as they evolve.
- Architecture, design and technical approach(s) and effectively addressing all of the CAT requirements and adaptability to meet future demands of the CAT
- System build, maintenance and operational costs
- Scalability of the solution (including the costs to scale)
- Experience and expertise with processing extremely large volumes of complex data using proven technology solutions
- Security practices, capabilities and track record
- Development, integration, and quality practices and approaches that demonstrate the ability to implement a complete systems and software development lifecycle
- System contingency plans (e.g. comprehensive disaster recovery)

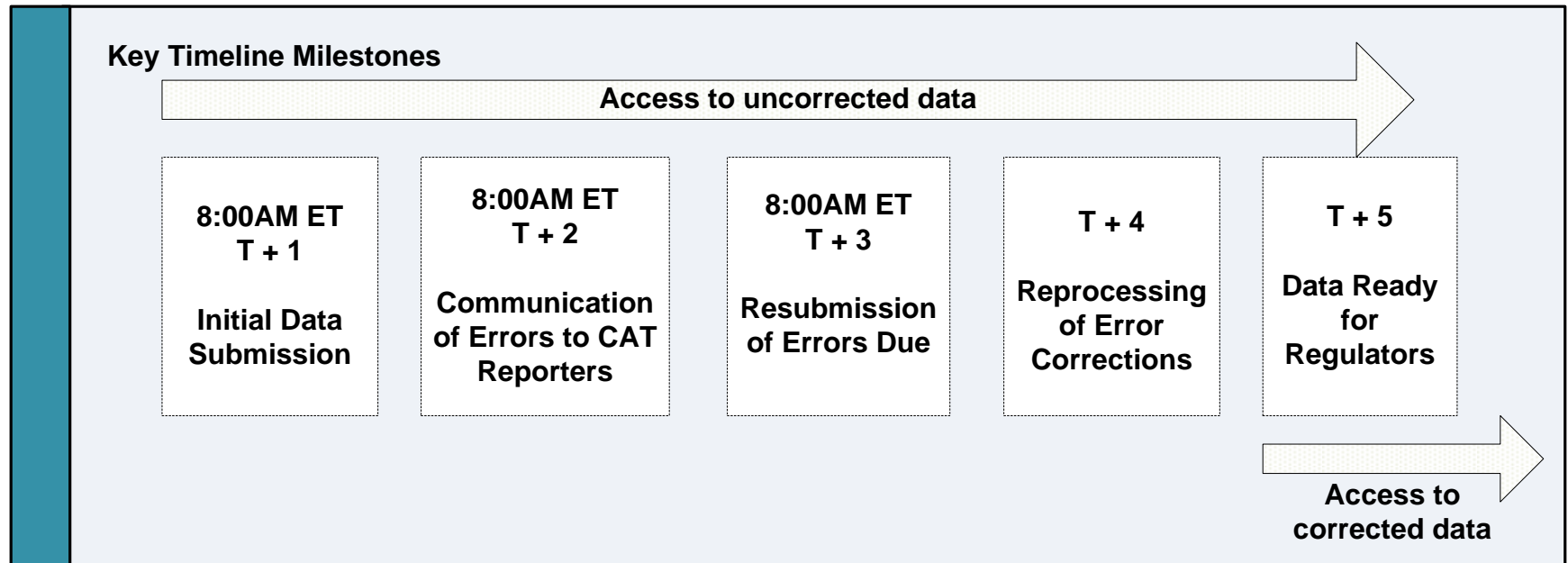
Overview of the CAT Process

The following diagram provides a high level overview of how the data would move through the CAT environment and the necessary processes that will validate and enrich the data as it travels to the repository. The environment will be governed through a control framework driven by Data Governance, Security, Data Management, Audit and Business Continuity Plan (BCP) requirements.



Timeframe for Data Validation and Error Handling

- Data validations must include thorough and efficient data accuracy checks.
- The identification and correction of unlinked lifecycle events must be processed within established timeframes to ensure data can be made available to SROs and the SEC in a timely manner. The processing timelines start on the day the order event is received by the CAT for processing.
- Exception reports must be generated when the error rate exceeds the maximum allowable error rate established by the NMS Plan.



Core CAT Functions

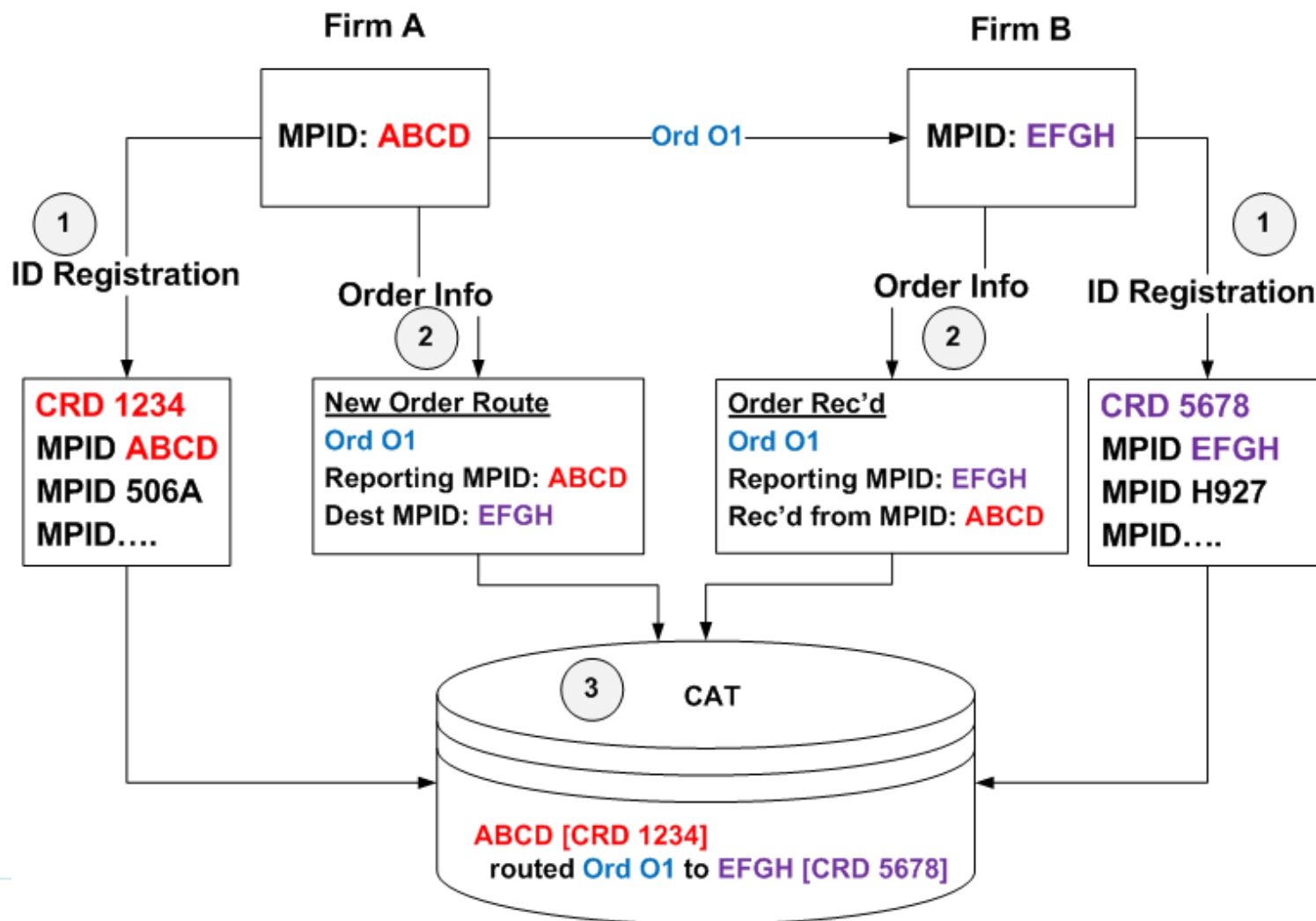
- The CAT provider will design, develop, build, operate and maintain the application(s) and infrastructure capable of receiving, processing, storing, and serving the CAT data.
- The CAT provider will also need to communicate with CAT Reporters and ensure efficient and effective implementation and operation of CAT technology solutions and changes.
- A list of the functions a CAT provider will need to provide is included in the Proposed RFP Concepts Document.

Key Reporting Concepts

- The SROs believe the reporting framework ultimately prescribed for three of the key identifiers required to build an order lifecycle, CAT-Reporter-ID, CAT-Order-ID and Customer-ID, should be subject to comment from broker-dealers, which must ultimately comply with the requirements for each of these identifiers.
- The SROs are seeking comment from broker-dealers on the feasibility, time and cost of implementation for the approaches laid out in the Proposed RFP Concepts Document.
- Detailed explanations of the proposed approaches for CAT-Reporter-ID, CAT-Order-ID and Customer-ID are contained in the Proposed RFP Concepts Document.

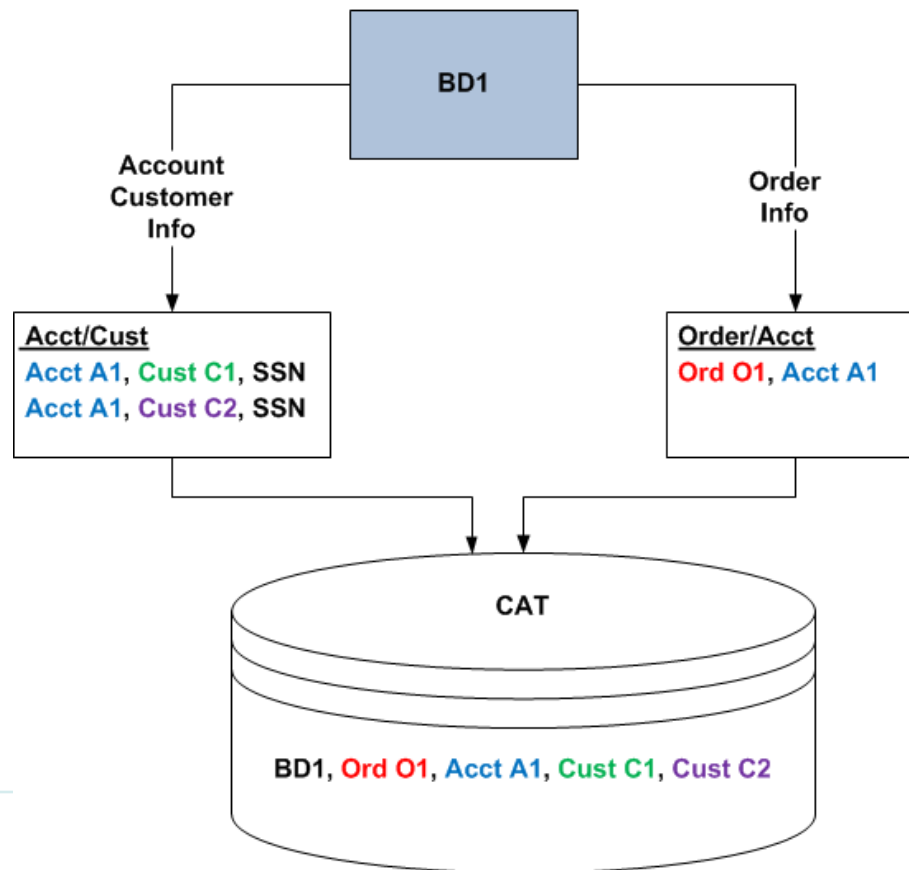
High Level Overview of Proposed CAT-Reporter-ID Approach

Broker-dealers would send a daily list to CAT of all market participant identifiers used during the trading day; CAT reportable events could be submitted to CAT using market participant identifiers registered with the CAT



High Level Overview of Proposed Customer-ID Approach

Broker-dealers would send account information on a daily basis that would include the identity of each customer (as defined by Rule 613) for each account. Upon receipt of the daily account and customer information, the CAT would assign and store internally a unique Customer-ID for each unique SSN, ITIN, or other unique identifier. Only account number would be reported on CAT order events.



CAT-Order-ID Approaches Under Consideration

The CAT-Order-ID framework must:

- Allow for the accurate and efficient linkage of related order events within a single firm and between CAT Reporters, regardless of where the order was routed or executed
- Guarantee a unique link between all related order events without relying on any form of “fuzzy” matching
- Prevent information leakage and minimize the possibility of reverse engineering to identify large orders or other similar material market information

The SROs are considering two approaches for CAT-Order-ID:

1. Single Order ID Approach
2. Daisy Chain Approach

The approach ultimately selected must accommodate all types of order routing scenarios including, but not limited to, agency orders, orders executed in a riskless principal capacity, orders routed between exchanges, orders executed through average price accounts and order aggregation scenarios.

Questions Received To Date

1. What happens if the SEC doesn't grant an exemption from the April 2013 due date for the NMS Plan?
2. Have the SROs decided how the CAT will be funded?
3. Will OATS and EBS be eliminated upon the implementation of CAT?
 - Need to address OTC Equity Securities before OATS and EBS could be retired
4. Are the SROs considering any sort of phase-in approach beyond what is currently in Rule 613?
5. Will OCC data be included in CAT?
6. Could the Customer-ID database be outsourced to a third party?
7. Will there be a single reporting format or will each SRO have its own specifications?
8. Will submitted bids be made public?
9. Who will evaluate bids and select winning bidder?
10. Will market surveillance be part of the CAT?
11. Would the SROs be willing to consider linking sub-account allocations by Customer-ID rather than CAT-Order-ID?

Feedback and Communication

- The SROs are soliciting public comment on all of the concepts and proposed requirements contained in the Proposed RFP Concepts Document published on December 5, 2013. The comments received will help inform the final RFP and are needed by no later than January 18, 2013.
- The SROs have established a dedicated email address to receive feedback. Feedback on the Proposed RFP Concepts Document should be submitted to: feedback@catnmsplan.com. Please note all comments received will be published on the catnmsplan.com website.
- Periodic updates will be made and posted to the catnmsplan.com website, as requirements and decisions are made. Notifications of updates will be distributed via email.