

SEC Rule 613 - Consolidated Audit Trail (CAT)

SRO NMS Plan Industry Call

September 19, 2012



Agenda

- 1. Overview of NMS Plan**
- 2. Scope of Rule 613**
- 3. Key Requirements**
- 4. Implementation Timeline**
- 5. SRO Action Plan**
- 6. Industry Involvement**

Overview of NMS Plan

- **On July 11, 2012, the SEC approved Rule 613 under Regulation NMS requiring the exchanges and FINRA (SROs) to submit to the SEC by April 26, 2013 an NMS Plan (Plan) to create, implement, and maintain a consolidated audit trail (CAT).**
- **As part of the Plan development process, the SROs must consider the feasibility, costs and benefits of alternatives to meet the requirements of Rule 613.**

Advisory Committee

- **Similar to other existing NMS plans, Rule 613 mandates the creation of an Advisory Committee once a final CAT Plan is approved and becomes effective that would advise the SROs on the implementation, operation and administration of the CAT.**
- **The Advisory Committee will include representatives of small-, medium- and large-sized broker-dealers and other interested parties, such as securities information processors, vendors, investors, issuers and academics.**

Scope – Covered Securities

- **The Plan submitted to the SEC must initially cover all secondary market transactions in NMS stocks and options (NMS securities). In addition, the Plan must examine the feasibility, costs and benefits of including primary market transactions in NMS securities in the initial phase.**
- **Within 6 months after the effectiveness of the Plan, the SROs must provide an “expansion document” to the SEC outlining how the following securities could be incorporated:**
 - **Equity securities that are not NMS securities (OTC equity securities), including both primary and secondary market transactions; and**
 - **Debt securities**

Scope - Reportable Orders

“Order” is defined in Rule 613 as:

- **Any order received by a member of a national securities exchange or national securities association from any person.**
- **Any order originated by a member of a national securities exchange or national securities association.**
- **Any bid or offer.**

Scope – Reporting Entities

- **All national securities exchanges and national securities associations. (begins one year after the Plan becomes effective)**
- **All members of a national securities exchange or national securities association, except small brokers. (begins two years after the Plan becomes effective)**
- **SRO members that are small broker-dealers, as defined in SEC Rule 0-10(c), have an additional year to comply. (begins three years after the Plan becomes effective)**

Key Requirements

- **Creation and maintenance of a central repository accessible by all regulators**
 - **Will include all events in the lifecycle of an order from receipt or origination through execution or cancellation**
 - **Requires identity of account holders and persons authorized to trade for an account**
 - **Establishes reporting deadlines and maximum allowable error rates**
- **Implementation by SROs of surveillance systems that are reasonably designed to make use of CAT data**

Reportable Order Events

The following events in the lifecycle of an order must be reported to the CAT:

- **Receipt or origination**
- **Routing of an order to another broker-dealer, national securities exchange or foreign exchange**
- **Routing of an order between desks or departments within a broker-dealer**
- **Modifications**
- **Cancellations**
- **Executions**

Customer Identification

Each order must identify the customer that originated the order. Rule 613 defines customer as:

- (i) The account holder(s) of the account at the broker-dealer originating the order; AND**
- (ii) Any person from whom the broker-dealer is authorized to accept trading instructions for such account, if different from the account holder(s).**

Customer Identification

- **Each “customer” must have a unique identifier, defined as the “Customer-ID”.**
- **The Customer-ID must be recorded contemporaneously with the event and then reported as part of the original receipt or origination of the order.**
- **If there are multiple customers associated with an order, all Customer-IDs must be reported.**
- **In addition to the Customer-ID, information of sufficient detail to identify the customer must be reported to the CAT.**

Customer Account Information

The following customer account information must be reported to the CAT:

- **Account number**
- **Account type**
- **Customer type**
- **Date account opened**
- **Large Trader ID, if applicable**

Reporting Deadlines

- **Generally, order events must be reported by 8:00 a.m. ET the next trading day. (Friday market data will not be due until Monday at 8:00 a.m.)**
- **Certain data elements are not required to be reported by 8:00 a.m. ET on the following trading day, but must be reported by 8:00 a.m. EST on the trading day following the day the firm receives the information.**

Error Rates

The Plan must address errors by:

- 1. Specifying a maximum tolerable error rate;**
- 2. Requiring the CAT to measure the error rate each business day and promptly take remedial action if the error rate exceeds the maximum tolerable rate;**
- 3. Specifying a process for identifying and correcting errors, including a process of notifying reporting entities of such errors;**
- 4. Specifying a process for disciplining those who repeatedly report erroneous data; and**
- 5. Specifying the time by which data that has been corrected will be made available to regulators.**

Implementation Timeline

Event	Implementation Date
CAT Processor Selected by NMS Plan Participants	Within two months after effectiveness of the approved NMS Plan
Business Clock Synchronization for SROs and Broker-dealers	Within four months after effectiveness of the approved NMS Plan
SROs begin submitting data to the central repository	Within one year after effectiveness of the approved NMS Plan
SROs must implement enhanced surveillance using CAT data	Within 14 months after effectiveness of the approved NMS Plan
SRO members, except small members, must begin submitting data to the central repository	Within two years after effectiveness of the approved NMS Plan
Small SRO members must begin submitting data to the central repository	Within three years after effectiveness of the approved NMS Plan

SRO Action Plan

- **Representatives of each of the equity and option SROs have begun meeting regularly to address our collective obligations under Rule 613.**
- **SRO working groups have been created to focus on the following aspects of the Plan:**
 - **Plan Governance**
 - **Technical**
 - **Industry Outreach and Input**
 - **Costs and Funding**
 - **CAT Expansion**

SRO Action Plan

- **The SROs plan to publish an RFP to solicit bids on meeting the requirements under the Rule, including for a CAT processor.**
- **Bids will be considered and the SROs will select an approach to be filed with the SEC.**
- **Prior to filing with the SEC, the selected approach will be published for industry comment.**
- **After consideration of industry comments, a final Plan will be filed with the SEC by April 26, 2013.**

Industry Outreach

- **To develop the RFP, significant industry input is required.**
- **The SROs are requesting that the industry initially focus on three key areas:**
 - 1. Customer Identification and Account Information**
 - 2. Order Linkages**
 - 3. Data Transmission and Error Correction**

Customer Identification and Account Information

- **Unique customer identifiers common across all broker-dealers – how should these be assigned and by whom?**
- **Availability of information of “sufficient detail to identify the customer” (e.g., name and address) How should this be reported? Can it be stored in a customer database rather than be reported with each new order?**
- **Do firms have this information readily available for persons authorized to trade in an account that are not account holders?**

Linkages - Intrafirm

- **How can representative orders be linked to underlying customer orders, such as in riskless principal or average price scenarios?**
- **How will firms be able to link customer identifiers to average price accounts?**
- **What are the primary challenges in linking subaccount allocations to the related parent order?**
- **Are there any issues with providing the identity of prime brokers on execution reports?**

Linkages - Interfirm

- **What are the most significant issues with passing order identifiers between broker-dealers?**
- **Should unique routing order identifiers be required?**

Linkages – To a National Securities Exchange

- **What are the most significant issues with linking to a national securities exchange?**
- **Are there any issues unique to reporting market-making orders and quotes?**

Data Transmission

- **What data transmission mechanisms should be considered?**
- **What type of technology alternatives should be considered?**
- **Does there need to be a manual transmission method, such as web entry?**

Error Correction

- **What is an achievable timeframe for error corrections, including resubmissions of rejections and unmatched routes?**
- **How should errors be communicated to reporting entities? How should underlying data requiring correction be provided to reporting entities?**
- **How much information do firms need to correct unmatched routes?**

Feedback and Communication

The SROs have established a dedicated website to provide information to the industry on the development of the Reg NMS Plan

catnmsplan.com

The SROs have also established a dedicated email address to receive feedback

feedback@catnmsplan.com

There will be multiple opportunities and requests to provide feedback during the Plan development process

Feedback and Communication

Industry participants are strongly encouraged to provide feedback on the key areas discussed to the email address or through industry groups such as SIFMA, FIF and STA as soon as possible.

This feedback will be used by the SROs in the development of an RFP.

Feedback and Communication

In order to respond to feedback and answer questions, the SROs will host a CAT event in New York on October 15 and 16, 2012.

During this event, the SROs will respond to feedback received and provide a preliminary overview of the RFP to be published by the SROs later this year.

Details on the event will be published on the CAT Reg NMS Plan website and by each SRO.