

# SEC Rule 613 – Consolidated Audit Trail (CAT)

## Industry Outreach Event\*

April 9, 2014



BOX<sup>SM</sup>  
OPTIONS EXCHANGE



 **Chicago Stock Exchange**



**NASDAQ OMX**



# Agenda

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- Welcome and introduction of the panelists
- Overview of CAT NMS Plan
- Conflicts of interest
- CAT NMS Plan milestones
- SRO activities

## Overview of CAT NMS Plan

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SEC Rule 613 requires creation, implementation, and maintenance of a consolidated audit trail (CAT), a central repository, covering all market participants across multiple asset classes.

- Eighteen national securities exchanges and FINRA (collectively the SROs) to submit to the SEC an NMS Plan (CAT NMS Plan) by September 30, 2014
- Central repository will be used by SROs and the SEC to perform surveillance and efficiently and effectively perform market reconstructions
- CAT NMS Plan submission will cover all NMS securities as required by Rule 613 and OTC equities

### Milestones Upon Approval of CAT NMS Plan

- SROs and member firms to synchronize their business clocks – within 4 months
- SROs start reporting to CAT- within 12 months
- Implement broker-dealer reporting, excluding small broker-dealers – within 24 months
- Implement small broker-dealer reporting – within 36 months

### Key Highlights of the CAT

- Will be the **world's largest data repository** of securities transactions
- Will maintain and support **thousands** of daily data and communication interfaces across the industry
- May drive changes in front, middle and back office operations
- May influence customer master information and associated processes

## Conflicts of Interest

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- The SROs have regulatory obligations with respect to the development of the CAT NMS Plan, and ultimately the creation and operation of the consolidated audit trail
- Since the initiation of the CAT NMS Plan project, the SROs have made it a requirement that bidding SROs have procedures and processes in place to mitigate potential conflicts of interest between the selection side and the bidding side of the SRO
- The SROs have established information barriers to protect confidential information within the SROs' bid evaluation teams
- The SROs have included in the Selection Process NMS Plan multiple provisions designed to balance potential conflicts of interest. The SROs believe that the Selection Process NMS Plan achieves this balance by allowing all SROs to participate meaningfully in the process of creating the CAT NMS Plan and selecting the Plan Processor while requiring that the participation is independent, the process is fair and transparent, and confidential bid information is used solely for selecting the Plan Processor.

## CAT NMS Plan Key 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 NMS Plan	February 21, 2014
✓ RFP response received	March 21, 2014
○ Current deadline for CAT NMS Plan submission to the SEC	September 30, 2014
○ SEC approval of the CAT NMS Plan	TBD
○ Formal selection of plan processor	Within two months after effectiveness of the NMS Plan

## Responses to Request for Proposal

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The following organizations have submitted CAT RFP responses:

Bidder Name	Subcontractor(s)
AxiomSL and Computer Sciences Corporation (CSC)	MIAX
Cinnober	Equinix, OneMarketData, Fundamental Interactions
EPAM	Broadridge Financial Solutions Inc.
FINRA	DTCC/Kingland
First Derivatives	Kx Systems, Inc., Equinix, Steadfast
IBM	
J. Streicher Analytics on behalf of the CATPRO Consortium: Hewlett Packard, Booz Allen, Buckley Sandler	CBX Technologies Inc., Networth Services Inc.
SunGard Data Systems	Google
TATA America International Corporation (TAIC)	Promontory Financial Group, Tata Consultancy Services
Thesys Technologies, LLC.	

## Development Advisory Group (DAG)

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Over 20 sessions have been held between industry representatives, industry groups and the SROs.



SROs posted an invitation for new DAG members to the [www.catnmsplan.com](http://www.catnmsplan.com) website.

## Industry Discussion Topics

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The following items are examples of the ongoing discussion topics that impact the development of the CAT NMS Plan:

Topics
Conflicts of Interest
Ensuring Confidentiality of Bid Information
Error Handling and Correction Process
Industry Integration in CAT Governance
Order Scenarios
Timestamps, Clock Synchronization and Clock Drift
<b>Options Market Maker Quotes</b>
<b>Sun-setting of Existing Systems</b>
<b>Customer-ID</b>
<b>Costs and Benefits</b>



## Options Market Maker Quotes

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The feasibility of having exchanges as opposed to broker-dealers report options market maker quotes without undermining the broader market reconstruction goals of Rule 613 or impairing market surveillance is being considered.

- Exchanges would submit to the CAT the options market maker (MM) quotes sent to them by broker-dealer market makers
- The cost for reporting options MM quotes could be substantial for broker-dealers, especially smaller options market makers, and could increase CAT processor costs related but not limited to:
  - Implementation and maintenance
  - Resolution of anticipated technical challenges in reconciling broker-dealer and exchange quotes (e.g. time-skews, QRMs and in-flight messages, band-width restrictions)
  - Scale of production, test and development systems to support a combined 30B quotes per day from exchanges and broker-dealers (instead of approximately 15B if only exchanges reported)

## Sun-setting of Existing Systems

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Rule 613 requires the CAT NMS Plan to include “a plan to eliminate existing rules and systems (or components thereof) that will be rendered duplicative by the consolidated audit trail, including identification of such rules and systems (or components thereof)”.

**Reporting Requirements that are considered for sun-setting provided the CAT demonstrably replaces the data currently provided, include:**

Reporting Requirement	Status
Order Audit Trail System (OATS)	SROs have researched and are supportive of sun-setting OATS. At a minimum, reporting OTC equities will be required to sun-set OATS
Electronic Blue Sheets (EBS)	SROs have researched and are supportive of sun-setting EBS. At a minimum, reporting OTC equities will be required to sun-set EBS
CBOE Rule 8.9	Research in progress
PHLX Rule 1022	Research in progress
Large Trader Reporting	Research in progress

## Customer-ID

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The SROs are taking steps to formalize the “Customer Information Approach” outlined previously. As per this approach, each broker-dealer may be required to:

- Assign a firm-designated identifier to each account which is unique across the firm
- Provide detailed account information to the CAT, including but not limited to
  - Firm-designated identifier, effective date, account type
- Provide detailed information on customer(s), associated with each firm-designated ID, including but not limited to
  - Name, address, date of birth, tax ID/social security number (SSN), individual’s role, Legal Entity Identifier (LEI), Large Trader ID (where applicable based on the customer)
- Submit to the CAT daily updates for
  - Reactivated accounts
  - Newly established or revised firm-designated identifiers
  - Changes in the associated reportable customer information
- Submit periodic complete refreshes

In Rule 613 commentary the Commission noted that including a unique customer identifier could enhance the efficiency of regulatory inquiries and aid regulators in reconstructing broad-based market events.<sup>1</sup>

<sup>1</sup> Securities Exchange Act Release No. 67457 (July 18, 2012), 77 FR 45722, 45756 (August 1, 2012) (“Adopting Release”).

## Costs and Benefits

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To understand how the CAT reporting requirements will impact CAT Reporters. Key factors for consideration are:

- Costs associated to come into compliance with CAT reporting requirements
  - Technology
  - Operational
  - Administrative
  - Third party (service providers)
- Benefits to CAT Reporters

The SROs will seek industry input on key areas such as:

- Reviewing the trade-offs when considering different options provided by Bidders
- Considering the cost-benefit analyses of various technical and operational components of solutions
- Identifying the cost implications that may arise in the interface between legacy and new systems

## Next Steps

## CAT NMS Plan Development – Current Activities

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SROs are committed to transparency in the Bidding and Selection Process and to protecting Bidder proprietary and confidential information.

- RFP responses evaluation
- Seek industry input
- Perform industry cost analysis
- Perform benefit analysis
- Develop funding model
- Develop NMS Plan

## Feedback and Next Industry Outreach Event

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The SROs maintain a dedicated website to provide information to the industry on the development of the CAT NMS Plan: [www.catnmsplan.com](http://www.catnmsplan.com)

The SROs also have a dedicated email address to receive industry feedback: [feedback@catnmsplan.com](mailto:feedback@catnmsplan.com)

There will be a CAT panel during SIFMA's Operations Conference:

- Location: Boca Raton, FL
- Date: Wednesday, April 30

**Questions?**



## Panelists

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Panelist	Affiliation
Tom Busch	CBOE
Jeff Wells	BATS
Casey McMahon	Wolverine Trading
Peter Santori	CHX
Manisha Kimmel	FIF
Alex Ryabenko	BATS
Jim Weber	Deloitte