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January 12, 2011

Mr. David Shillman
Associate Director
Division of Trading and Markets
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: Consolidated Audit Trail; Release No. 34-62174; File No. S7-11-10

Dear David:

SIFMA would like to thank you and your colleagues for meeting with SIFMA's Consolidated Audit Trail ("CAT") Working Group last fall to discuss this important regulatory initiative. As discussed at the meeting and in our comment letter, SIFMA fully supports the SEC's objective of providing timely access to a robust, cross-market audit trail for NMS securities and ultimately other securities.

Following up on our discussion, SIFMA's CAT Working Group has prepared the attached "Drop Copy" proposal, which sets out order and execution data that feasibly could be provided to a CAT processor in near real-time and could be implemented relatively quickly. We hope that you find this proposal to be helpful and look forward to further discussions with you and your colleagues.

Please feel free to contact me directly with any questions at (202) 962-7386 or jmchale@sifma.org.

Sincerely,

/s James T. McHale

James T. McHale
Managing Director and Associate General Counsel

Enclosure

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Introduction

- SIFMA continues to question the need for real-time reporting of the entire set of data elements in the CAT proposal, and believes that reporting on a T+1 (or in some cases later) basis should satisfy the SEC’s stated regulatory objectives more efficiently.
- However, if the SEC determines to require reporting of certain data elements in real-time or near real-time, we believe such data should be limited to reporting of “**key business events**,” as defined below.
- Definition of “real-time”: We note that the implementation options and complexity are significantly different if the reporting regime is within “minutes” rather than “seconds.” If real-time reporting is required in seconds, then significant re-engineering is required within broker-dealer order management systems and trading systems to support such a requirement (e.g., passing additional information between systems, performance tuning to compensate for additional processing of payload). Instead, if the definition of real-time allows for reporting within minutes (e.g., 10-15 minutes) of the events, it would be substantially less intrusive on order management systems and may allow for greater flexibility in designing reporting systems architecture and more standardized content for events such as order modifications, as described below. Also, as with prior implementations of new trade reporting regimes in the U.S. (e.g., ACT, TRACE), having more liberal reporting timeframes for an appropriate initial period (e.g., 12 months or more) to provide a sufficient period to optimize processes would be very helpful.

Assumptions

- Our proposal does not include a “unique customer ID” or a “large trader ID.” While a unique customer or large trader ID would not be incompatible with our proposal, we focus below on a solution that is achievable in the relative near-term. Development of a customer or large trader ID is outside the scope of this proposal because of the complexity of the technology development work involved and the difficult governance issues noted in SIFMA’s comment letter. We also note the Office of Financial Research’s separate proposal to establish a universal, industry-wide Legal Entity Identifier, which the OFR suggests could be used by securities regulators in the context of a consolidated audit trail.
- We also would not include a flag for algorithmic orders, due to the current lack of clarity regarding the definition of what “algorithmic” orders are, and the fact that the FIX standard does not currently have existing fields defined and implemented to flag these types of orders.
- Also, our proposal does not contemplate an order identifier that is unique across all firms or that would be passed from firm to firm.
- In addition, under the SIFMA proposal, trade executions would be reported to the CAT only once by the exchange/venue/broker that executes and not by any other firms in the chain. Broker-dealers would only report “internalized” executions (i.e., agency cross, principal, and riskless principal transactions).

- Finally, we would propose that any follow-up requests for additional information about these transactions would not include any information already provided to the CAT via drop copy.

“Key business events” are defined broadly as: Order Receipt and Origination; Order Transmittal; Order Execution; Order Modification; and Order Cancellation. For each of the key business events, firms or the exchanges/TRF would report defined data elements as follows:

A. Order Receipt and Origination¹

FIX message: New Order Single (Type D)

Data Elements:

- (1) An order identifier that uniquely identifies the order for the date it was received or originated;
- (2) the date and time the order is received or originated by a reporting member;
- (3) the identification symbol of the security to which the order applies;
- (4) the market participant symbol assigned by FINRA to the reporting member (SendingCompId);²
- (5) the number of shares to which the order applies;³
- (6) the designation of the order as a buy or sell order;
- (7) the designation of the order as a short sale or a short sale exempt order;⁴
- (8) the designation of the order as a market order, limit order, stop order or stop limit order;
- (9) any limit or stop price prescribed in the order;
- (10) the date on which the order expires, and, if the time in force is less than one day, the time when the order expires;
- (11) the time limit during which the order is in force; and
- (12) special handling requests (e.g., “all or none” orders).

B. Order Transmittal

FIX message: New Order Single (Type D)

Data Elements:

- (1) an order identifier that uniquely identifies the transmitted order;⁵

¹ Note that orders can be “received” from (i) clients of the broker-dealer and include orders generated by employees of the broker-dealer for advised accounts; and (ii) orders from affiliates of the broker-dealer. Order Origination applies to orders that are initiated by a broker-dealer for its own account, and may also include orders for the proprietary accounts of affiliates. Depending upon whether a firm is receiving an order or originating a proprietary order, the information in field 4 will vary.

² MPID standards need to be defined for listed options and other product classes which do not use FINRA MPIDs currently to identify market participants, and also for firms that are not FINRA or NASDAQ members as well as for exchanges.

³ The number of contracts for listed options.

⁴ Not applicable for listed options; applicable only for composite orders on stock leg.

⁵ Routed order id (unique identifier on the route message) or the Child order identifier. Note that this identifier would not be the same unique order identifier of the Parent order reported. To the extent that order identifier linkage is required across different order handling events, we would propose that this order identifier linkage information be reported separately to CAT on a non-real time basis. To the extent that reporting timeframes are longer, the ability to also provide linkage information would be more feasible.

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- (2) the date and timestamp the order is released to a market center;
- (3) the market participant symbol assigned by FINRA to the reporting member (SendingCompId);⁶
- (4) the market participant symbol assigned by FINRA of the receiving firm (TargetCompId);⁷
- (5) the identification symbol of the security to which the order applies;
- (6) the number of shares to which the order applies;⁸
- (7) the designation of the order as a buy or sell order;
- (8) the designation of the order as a short sale or a short sale exempt order;⁹
- (9) the designation of the order as a market order, limit order, stop order or stop limit order;
- (10) any limit or stop price prescribed in the order;
- (11) the date on which the order expires, and, if the time in force is less than one day, the time when the order expires;
- (12) the time limit during which the order is in force; and
- (13) special handling requests (e.g., “all or none” orders).

C. Order Execution

FIX message: Execution message (Type 8)

Data Elements:

- (1) an order identifier that uniquely identifies the order receiving the executions;
- (2) the market participant symbol assigned by FINRA to the reporting member (SendingCompId);¹⁰
- (3) an unique identifier of execution message;
- (4) the date and timestamp of the execution;
- (5) the identification symbol of the security to which the order applies;
- (6) the designation of the order as a buy or sell order;
- (7) the designation of the order as a short sale or a short sale exempt order;¹¹
- (8) the execution capacity (only agency or principal);
- (9) the market of execution for last fill;
- (10) the execution price; the number of shares bought or sold;¹²
- (11) the contraparty;
- (12) the order status; and
- (13) the trade condition.

⁶ See note 2, *supra*.

⁷ See note 2, *supra*.

⁸ See note 3, *supra*.

⁹ See note 4, *supra*.

¹⁰ See note 2, *supra*.

¹¹ See note 4, *supra*.

¹² See note 3, *supra*.

D. Order Modification¹³

FIX message: Order Cancel Replace Request (Type G)

Data Elements:

- (1) an order identifier that uniquely identifies the order modification;
- (2) an order identifier of the previous non rejected order;
- (3) the market participant symbol assigned by FINRA to the reporting member (SendingCompId);¹⁴
- (4) the market participant symbol assigned by FINRA of the receiving firm (TargetCompId);¹⁵
- (5) the date and timestamp the order is modified;
- (6) the identification symbol of the security to which the order applies;
- (7) the number of shares to which the order applies;¹⁶
- (8) the designation of the order as a buy or sell order;
- (9) the designation of the order as a short sale or a short sale exempt order;¹⁷
- (10) the designation of the order as a market order, limit order, stop order or stop limit order;
- (11) any limit or stop price prescribed in the order;
- (12) the date on which the order expires, and, if the time in force is less than one day, the time when the order expires;
- (13) the time limit during which the order is in force; and
- (14) special handling requests (e.g., “all or none” orders).

E. Order Cancellation¹⁸

FIX message: Order Cancel Request (Type F)

Data Elements:

- (1) an order identifier that uniquely identifies the cancel request;
- (2) an order identifier of the previous non rejected order;
- (3) the market participant symbol assigned by FINRA to the reporting member (SendingCompId);¹⁹
- (4) the market participant symbol assigned by FINRA of the receiving firm (TargetCompId);²⁰

¹³ Note that different order handling systems may only capture or send the individual data elements that are being changed on order modifications (rather than the entire modified order); therefore, CAT needs to accommodate that different parties may report these events differently. Also, different order handling systems and exchanges may handle order modifications as order cancellations and new orders transmittals; therefore, the CAT needs to accommodate that different parties may represent these business events differently in their CAT submissions.

¹⁴ See note 2, *supra*.

¹⁵ See note 2, *supra*.

¹⁶ See note 3, *supra*.

¹⁷ See note 4, *supra*.

¹⁸ Since different order management systems handle order cancellation events differently, and not capture all attributes for order cancellations, it may be sufficient to merely submit the order id of the order being cancelled and not all of the additional data elements.

¹⁹ See note 2, *supra*.

²⁰ See note 2, *supra*.

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- (5) the date and timestamp the order was cancelled;
- (6) the identification symbol of the security to which the order applies;
- (7) the number of shares cancelled;²¹
- (8) the designation of the order as a buy or sell order; and
- (9) the designation of the order as a short sale or a short sale exempt order.²²

²¹ See note 3, *supra*.

²² See note 4, *supra*.