

FINANCIAL INFORMATION FORUM

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Via Electronic Delivery

Mr. Stephen Luparello
Director
Division of Trading and Markets
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

September 24, 2015

Re: Financial Information Forum Request to the Securities and Exchange Commission for postponement of the data collection and reporting implementation date required under the *Plan to Implement a Tick Size Pilot Program Submitted to the Securities and Exchange Commission pursuant to Rule 608 of Regulation NMS under the Securities Exchange Act of 1934* ("Tick Size Pilot")

Dear Mr. Luparello,

On behalf of Financial Information Forum ("FIF") non-exchange industry members, I am writing to ensure you are aware of the criticality of the situation with regard to the Tick Size Pilot, where the industry is expected to be fully prepared for data collection and reporting by November 6, 2015.

Based on a conversation I had yesterday with Brendon Weiss, Chair of the Tick Size Pilot Plan Operating Committee, and other Participants, it is our understanding that the Securities and Exchange Commission (the "Commission" or "SEC") plans to hold to the November 6, 2015 implementation date despite the fact that final specifications ("specs"), Frequently Asked Questions ("FAQs") or any other forms of interpretative guidance or documentation have not yet been published. It was also indicated that Participants have been directed to publish specs and FAQs no later than tomorrow, September 25, with proposed SRO rule filings to be submitted to the SEC by next week. If these premises are true and distributions and filings are made according to this timeline, industry members will have less than six weeks for implementation of a complex initiative. It is not only highly risky for all trading centers, but contrary to the policies and procedures established by many of our member firms, particularly those required to operate under guidelines set forth by the SEC under Regulation SCI, which will become effective November 3. In fact, we are concerned that attempting to enforce the implementation of such a complex initiative under these circumstances, virtually contemporaneous with the compliance date for Regulation SCI, would introduce unwarranted systemic risk, directly contrary to the purpose of Regulation SCI.

It is also our understanding that it is FINRA's intent to include in its rulemaking the requirement that all FINRA members (where FINRA is their DEA) fulfill certain Tick Size Pilot data collection and reporting responsibilities through their OATS submissions, using an expanded OATS format to cover B.I and B.II reporting, and an alternate format for market making transactions to support B.IV and Appendix C reporting obligations. That said, while we appreciate FINRA's offer to assist its member firms and trading centers in meeting the Tick Size Pilot data collection and reporting requirements,

FIF would prefer that members have the option to utilize these services by choice rather than by mandate.

On behalf of FIF non-exchange members, I wish to make the following two points:

1. Six weeks is not a reasonable timeframe for implementation of this data collection and reporting phase of the Tick Size Pilot, and there are no circumstances or scenarios in which a November 6, 2015 implementation date is achievable.
2. FIF members are strongly opposed to FINRA's "All or None" approach to using OATS reporting to meet the requirements of B.I and B.II. While leveraging OATS is attractive to some, it is cost-prohibitive and risky to others. Trading Centers should be permitted to choose the solution that best fits their needs, which we hope would include, but should not be limited to, expansion of FINRA's OATS reporting.

We therefore respectfully request that the Commission establish an implementation date for data collection and reporting that is more reasonable and in alignment with standard guidelines for proper software development, testing and deployment. Given the industry's experience with comparable regulatory initiatives, particularly where implementation requires changes to OATS, we believe a minimum of six months is required to ensure the industry can comply with these data collection and reporting requirements without introducing undue risk. The Appendix provides FIF's feedback on the advantages and disadvantages of using OATS, a discussion of alternatives and realistic timeframes for implementation.

For the reasons stated here and detailed in the Appendix, FIF requests an immediate postponement of the data collection and reporting implementation date. We would be happy to meet with SEC Staff and Plan Participants to further discuss these serious concerns. Please do not hesitate to contact me at 212 652 4483 with questions or to arrange for follow up discussions.

Thank you for your consideration of this important industry issue.

Regards,



Mary Lou Von Kaenel
Managing Director
Financial Information Forum

cc: The Honorable Mary Jo White, Chair
The Honorable Luis A. Aguilar, Commissioner
The Honorable Daniel M. Gallagher, Commissioner
The Honorable Michael S. Piwowar, Commissioner
The Honorable Kara M. Stein, Commissioner
Gary Goldsholle, Deputy Director, Division of Trading and Markets
David S. Shillman, Associate Director, Division of Trading and Markets
Brendon Weiss, Intercontinental Exchange, Chair, Tick Size Pilot Plan Participants Operating Committee

Appendix

FIF Concerns Regarding Implementation of Tick Size Pilot Data Collection and Reporting

Based on a recent conversation with Brendon Weiss, Chair of the Tick Size Pilot Plan Participants Operating Committee, and several other key Participants, it is FIF's understanding that the Securities and Exchange Commission (the "SEC") has given Participants the directive to move forward with plans for implementation of the data collection and reporting phase of the Tick Size Pilot set to begin November 6, 2015.

FIF has been advised to operate under the following assumptions¹:

- Complete technical specifications ("specs") and Frequently Asked Questions ("FAQs") related to data collection and reporting will be published on Friday, September 25, 2015.
- Specs will include formats and transmission instructions for B.I, B.II, and B.IV reporting to FINRA, which will cover the reporting responsibilities of Trading Centers and Market Makers whose DEA is FINRA.
- Participants (SROs) will submit draft rule changes related to data collection and reporting to the SEC no later than next week. We are under the impression that FINRA intends to include in its rulemaking the requirement that all FINRA members fulfill certain Tick Size Pilot data collection and reporting responsibilities through their OATS submissions using an expanded OATS format.
- A simplified method of calculating Market Maker's profitability (Appendix C) will also be supported by FINRA, with Market Makers submitting a list of daily transactions similar to a trade blotter. Reporting of market making activity in the formats specified for B.IV will be used by FINRA to fulfill Market Makers' Appendix C profitability reporting requirements.
- The need for reporting based on Information Barriers will be relaxed.
- Post-ex matching to SIP data is acceptable.
- There will be no new timestamp granularity requirements.

FIF's industry members are greatly concerned with the time allotted to implement any solution, whether it be OATS, in-house or some other vendor solution.

There are no circumstances or scenarios in which a November 6, 2015 implementation date is achievable.

It is unreasonable to expect industry members to analyze, code, test and deploy the changes necessary to comply with a set of requirements as complex as those outlined in Appendices B and C, in less than 6 weeks from the time complete specifications, rule changes and interpretative guidance are received. It is particularly important that this phase of the Pilot be handled properly, given that its success or failure is driven by the accuracy of the data to be analyzed. To rush the data collection effort will undermine the integrity of the Pilot itself.

¹ If the assumptions that would impact acceptability of post-ex matching using SIP data, current granularity required for timestamps, or complexity of reporting requirements for market makers were to be removed or changed; or, if unexpected requirements are discovered upon examination of final specs, FAQs and other forms of interpretive guidance, there could be significant implications in terms of time, cost and potential effects on liquidity.

Without examining the details of final technical specifications, interpretative guidance or rule filings, it is not possible for FIF members to definitively comment on the time required to make the changes necessary to utilize OATS or third party services to fulfill the Tick Size Pilot data collection and reporting requirement. Using alternatives to OATS for reporting B.I and B.II such as the services of third-party vendors (e.g. 605 reporters) are thought to be easier and less risky to implement; but regardless of the approach, sufficient time must be allocated to ensure proper procedures for analysis, programming, testing and deployment are followed.

- Based on past experience², it is generally agreed that changes to OATS require at least 6 months from the final specs to production. Many firms, including service bureaus that process for numerous trading centers, have requested eight to nine months lead time for these changes if OATS is involved.
 - This is primarily due to the critical nature and the extreme complexity of the OATS reporting process, and the significant penalties associated with reporting errors, etc. Firms typically take great caution when making any changes to OATS, and insist on rigorous regression testing.
 - For the hundreds of firms that utilize vendors for OATS reporting, ample time for implementation is critically important. In many cases, service providers must implement and test internally before deploying the new software to their users, who in turn must integrate the changes within their systems.
 - “Away” executions have not previously been included in OATS reporting. At some firms, this may require pulling data from multiple systems and formatting into OATS reports, which represents additional scope and could be a significant build.
 - A significant amount of work is being done by FINRA, making it even more critical that ample time is allocated for member firms to test with FINRA.
- A 605 vendor reporting solution is viewed as less risky because there is no impact on current OATS reporting. It will take some time to implement, however, because once the final specs are published, the vendors will need time to determine how they will adapt their applications and specs to accommodate the data collection and reporting requirements, and in turn, push those new requirements out to their users who must then adapt their internal processes, or coordinate with another set of vendors.
 - For a firm to cut files from multiple systems in different formats and send them to a third party 605 vendor is less complex than preparing each file for OATS submission, as file creation would be separate from all other systems in a firm so no regression testing would be required. Vendors typically will adapt to file formats of their clients.
 - There are many known instances where two types of vendors will be involved; for example, the front-end OMS vendor must provide transaction data to the 605 vendor who will filter the transactions, extract the necessary data, apply the analysis and reformat for reporting to the DEA. Each aspect of the process must be coded and carefully tested while ensuring current processes are not negatively impacted.
 - Because of the differences in the definition of “Market Center” as it applies to 605 reporting, and “Trading Center” as it will be applied to Tick Size Pilot, there are firms that will be impacted under the Tick Size Pilot Plan that don’t currently have business relationships with vendors that provide 605 reporting services, so new relationships would need to be established if these firms are unprepared to generate the reports in-house.

² The most recent changes to OATS which involved repurposing of fields were considered so minor as to not require a rule change. That implementation has taken 4 months and is due on September 28. More substantive technical specifications to support the new ORF platform did require a rule change. The initiative took 6 months as specs were released on May 9, 2014 and implemented on November 17, 2014.

- Firms have noted that projects in November and December timeframes are challenged as most firms experience code freezes. This should be considered in any implementation schedule.
- With regard to the implementation for the full Pilot, it is extremely important that the implementation date be delayed in lock-step with data collection for two reasons:
 - A reduced data collection period would degrade the quantity and richness of data for analysis, and thereby dilute the value and effectiveness of the data collection effort.
 - A compressed period for development and testing of quotes and trades is not feasible, as FAQs and other forms of guidance required to begin analysis and development has not been provided. Based on current assumptions, development and testing will require a bare minimum of 6 months; however, that could be expanded depending on complexities that may become evident with the final FAQs.

FIF is concerned that FINRA's proposal to expand OATS reporting to meet the requirements of data collection and reporting is presented as an "all or none" solution, or may be mandated by a rule filing.

Trading Centers should be permitted to choose the solution that best fits their needs which we hope will include, but should not be limited to an OATS solution.

FIF industry members are deeply divided on the issue of selecting OATS as a solution, with a group of member firms in favor of the FINRA proposal, and many broker dealers and vendors opposed to the use of OATS for this purpose. It is impossible to reach consensus on this important decision, and for that reason we underscore the need for FINRA to reconsider its position and *allow firms to opt in or out of the use of OATS to meet Tick Size Pilot reporting obligations.*

The primary advantages highlighted by FIF industry members of using OATS to report B.I and B.II data include the following:

- The preliminary draft specs provided by FINRA appear not to be too complex, pending further definition and finalization of new fields³.
- FINRA will provide consistency in application of data (SIP post-ex matching) and calculation of statistics.
- Although there is significant work involved in making the necessary changes to OATS to meet Tick Size Pilot data collection and reporting requirements, the policies, procedures and supervisory structure that are in place at each firm to oversee the OATS process, can be leveraged and automatically applied to meet the new Tick Size Pilot transaction reporting process, without additional work or overhead.

The primary disadvantages of using OATS to report B.I and B.II data and the reasons many firms are opposed to the use of OATS include the following:

- Regardless of how insignificant or extensive OATS changes may seem, changes to OATS are risky, costly, and time-intensive.

³ Subsequent conversations with FINRA indicate the requirement for "Information Barrier ID" has been removed, as all non-market making activity in a firm may be reported using a single MPID, except ATS reporting which must use its own MPID. Further understanding is required of the other new fields such as "Routable Flag" and "Retail Investor Order Flag".

- Firms have adapted their systems and processes through the years to meet each new requirement introduced by FINRA. At most firms, numerous systems may be involved in provisioning the data to an integrated system that ultimately processes the complete data set required to generate the OATS reports. Changes made to any aspect of OATS could have serious impact in other areas involved in OATS reporting; therefore, rigorous testing (including regression testing) is necessary in numerous systems to avoid costly errors.
- A bare minimum of 6 months is required for any OATS implementation, particularly when a new field is being added. In addition to format adjustments to outgoing OATS reports, there are code changes and testing that will impact: a) multiple upstream systems where changes must be made to create/capture data that did not previously exist (e.g. Routable Flag, Retail Investor Order Flag), b) client interfaces to provide new data fields for input, c) database schemas to accommodate the new fields, d) database search screens, e) modules to review and correct OATS submissions.
- One firm has estimated the cost of modifying OATS code to meet the requirements of B.I. and B.II. reporting to be 5 times the cost⁴ of creating files for 605 vendors' solutions. This is primarily due to the complexity of OATS systems, the number of systems impacted, the specialized knowledge of resources required to handle those systems, and the time it takes for code changes and testing. In contrast, a standalone 605 vendor solution can be accomplished by pulling transaction files from each individual system, with no impact to a firm's OATS implementation.
- Third-party, multi-client providers of OATS reporting services are firmly against the use of OATS for Tick Size Pilot data collection and reporting.
 - The requirement to use OATS will negatively impact any of their clients that would not otherwise be subject to Tick Size Pilot data collection and reporting.
 - Although changes to the OATS reporting formats are required only for those that are deemed "trading centers" for Pilot securities, multi-client providers will be burdened with significant additional processing because every transaction for every client must be examined to determine whether the firm has acted as a trading center in a Pilot security, in which case Tick Size Pilot fields must be populated and reported in the OATS format.
 - If OATS reporting is the only method in which a trading center can satisfy Tick Size Pilot data collection and reporting obligations, vendors whose services are aimed only at post-trade processing will be unexpectedly impacted by Tick Size Pilot because they provide OATS reporting for their broker dealer clients.⁵ In addition to the expense of OATS development and ongoing processing costs, third party providers and their clients would have to put significant resources on this rather than other regulatory or other revenue generating initiatives.
- The goal of the Tick Size Pilot is to provide a quality data set for research and analysis. The timing required for OATS submissions is not in alignment with the timing for reporting of Tick Size Pilot data. Specifically, OATS is required to be reported daily. While Tick Size Pilot data is required to be captured daily, reports must be submitted on a monthly basis with a 30-day lag. This allows firms ample opportunity to make corrections necessary to ensure that the data used in analysis is as accurate as possible.

⁴ This FIF member has estimated the cost of OATS implementation to exceed \$500,000.

⁵ A service provider that would not otherwise be impacted by Tick Size Pilot unless the OATS implementation is mandated, has estimated costs of \$670,000 comprised of the following: research and analysis of current processes and future needs for this requirement; support/communication with firms, vendors, and others (e.g. FINRA); business analysis documentation; development coding, testing, and documentation; internal and point to point testing; testing support for client firms; post production support.

- Any changes to OATS data submitted to FINRA are fraught with challenges with respect to correction, deletion and ensuring that the dataset is defect free. The OATS process varies in complexity from firm to firm and depends upon the business model and message volumes. Inclusion of additional data elements in the nightly process can stretch firms' processing limits and can potentially delay OATS submissions, which is considered a quite serious violation of FINRA OATS rules. By opting to use the OATS process, firms will lose the flexibility of additional time provided under the Tick Size Pilot Plan to submit cleaner data and also increase the operational risk of submitting OATS data due to processing constraints.
- FINRA does not provide statistical summaries and analytical tools that will enable firms to identify errors; for example, those caused by post-trade cancels and corrects, or incorrectly tagged trades. Currently, 605 vendors apply validations and aggregate statistics to discover reporting errors, and once corrections are made, vendors will "rerun" the reports to ensure the data being reported is accurate.