



June 6, 2025

Paul S. Atkins, Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

**Re: Securities Industry and Financial Markets Association (“SIFMA”)
Recommendations on Reforms to the Consolidated Audit Trail (“CAT”)**

Dear Chairman Atkins:

SIFMA¹ applauds your recent announcement that you have instructed Securities and Exchange Commission (“Commission” or “SEC”) staff “to undertake a comprehensive review of the CAT,” and that in addition to examining CAT costs, you have asked the staff to “take a hard look at the reporting requirements and scope of what is collected.”² You added that you are looking “forward to the agency engaging with the public on this important issue.” SIFMA wholeheartedly agrees with you that the time is right for such a public review of CAT now that the Commission and the self-regulatory organizations (“SROs”) have had several years of experience operating and using it for regulatory purposes. To further this review, SIFMA is submitting this letter to provide the Commission with several high-level CAT reform recommendations. Overall, we agree with and support many of the recommendations in the recent joint letter from Nasdaq and Cboe (“Nasdaq/Cboe Letter”) and the separate letter from NYSE (“NYSE Letter”),³ and we encourage the Commission to act expeditiously on CAT reform recommendations with widespread agreement.⁴

¹ SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

² See (<https://www.sec.gov/newsroom/speeches-statements/atkins-prepared-remarks-sec-speaks-051925>).

³ Letter from John A. Zecca, Nasdaq and Patrick Sexton, Cboe to Paul S. Atkins, SEC re: Petition for Rulemaking and Exemptive Relief to Reduce the Costs of the Consolidated Audit Trail (CAT) (April 24, 2025), *available at* <https://www.sec.gov/comments/4-698/4698-598775-1738922.pdf>; letter from Jaime Klima, NYSE to Paul Atkins, SEC re: Consolidated Audit Trail: NYSE Proposals to Lower Costs while Maintain Regulatory Benefits (April 24, 2025), *available at* <https://www.sec.gov/comments/4-698/4698-598195-1737842.pdf>.

⁴ Separately, SIFMA recently submitted a comment letter supporting the proposal to amend the CAT NMS Plan to reduce the amount of customer personally identifiable information (“PII”) in the CAT Customer and Account Information System (“CAIS”). See Release No. 34-102665 (March 13, 2025), 90 FR 12845 (March 19, 2025) (“CAIS Amendment”). The CAIS Amendment follows the SEC’s February 10, 2025 order granting exemptive relief

As part of these reform efforts, SIFMA also recommends that the SEC fund the CAT through its standard budget process, as it does with other tools and technology used by the Commission. Importantly, this would make CAT costs—which would ultimately be funded through the regular Section 31 process—subject to Congressional review and oversight. Without a funding obligation for CAT, the SEC currently has no meaningful incentive to consider, let alone reduce, the costs associated with the scope of the information the SEC requires to be reported to CAT because these costs are borne by Industry Members and, to a lesser extent, the SROs. As part of its review of the CAT, SIFMA also urges the Commission to focus on increasing the CAT’s data security, an issue that the Commission previously proposed to address through a rulemaking in 2020 that has not progressed.⁵

Moreover, notwithstanding SIFMA’s agreement with and support of many of the recommendations in the Nasdaq/Cboe Letter and the NYSE Letter (discussed below), given the lack of Industry Member representation on the CAT Operating Committee, SIFMA urges the SEC to lead all CAT reform efforts through a public process that includes Industry Members. In leading these efforts, SIFMA notes that the SEC has direct authority under Rule 608 of Regulation NMS to amend the CAT NMS Plan.⁶ As needed, the Commission should use its full authority to bring about changes it identifies as a result of its comprehensive review of the CAT.

Executive Summary

SIFMA strongly supports the Commission’s comprehensive review of the CAT and urges the Commission to lead all CAT reform efforts through a public process that includes Industry Members. As noted, we agree with and support many of the recommendations in the recent Nasdaq/Cboe Letter and NYSE Letter and encourage the Commission to act expeditiously on them. As set forth below, SIFMA provides high-level recommendations on CAT reforms that should be considered as part of this review. We would like to discuss these recommendations in greater detail with the Commission and the SROs as the Commission’s comprehensive CAT review progresses.

from certain requirements of the CAT NMS Plan related to the reporting of names, addresses, and years of birth for natural persons reported with transformed social security numbers (“SSNs”)/individual taxpayer identification numbers (“ITINs”) to the CAIS. See Release No. 34-102386 (February 10, 2025), 90 FR 9642 (February 14, 2025) (“CAIS Exemption Order”). In that letter, SIFMA also urged the SEC to provide further guidance to market participants regarding how it plans to proceed with the CAIS database now that the SEC has issued its CAIS Exemption Order and the SROs have followed it up with their CAIS Amendment.. See letter from Joseph Corcoran and Gerald O’Hara, SIFMA to Vanessa Countryman, SEC re: CAIS Amendment (May 30, 2025), *available at* <https://www.sec.gov/comments/4-698/4698-608327-1776534.pdf>.

⁵ See Release No. 34-89632 (August 21, 2020), 85 FR 65990 (Oct. 16, 2020).

⁶ Rule 608(a)(2) and (b)(2) of Regulation NMS give the Commission direct authority to amend NMS plans. The SEC previously relied on this authority to address the SROs’ significant delays in developing the CAT, amending the CAT NMS Plan to impose the financial accountability milestones on the SROs. See Release No. 34-88890 (May 15, 2020), 85 FR 31322 (May 22, 2020).

SIFMA's Recommendations for CAT Reform

As the Commission is aware, Nasdaq and Cboe in their joint letter and NYSE in its letter recently called on the Commission to undertake CAT reforms to reduce its costs and provided recommendations in furtherance of this objective.⁷ SIFMA agrees with and supports many of these recommendations. SIFMA also has been discussing CAT reforms internally for several months, as SIFMA members have long been concerned about CAT costs. SIFMA notes that CAT funding and the CAT funding model currently are subject to litigation, and SIFMA continues to believe that the Commission's order approving the funding model for the CAT is contrary to the Securities Exchange Act of 1934 and arbitrary and capricious.⁸

While CAT implementation took many years, the CAT was ultimately implemented under a tight timeframe during the period from 2020-2024. This was driven by the Commission's frustrations with the SROs' slow pace of CAT implementation and the Commission's resulting imposition of the financial accountability milestones on the SROs to incentivize them to implement the CAT in a timely manner or face significant financial repercussions.⁹ These factors led to the development of the CAT without a significant focus on the total cost of the system, nor a proper mechanism for transparency and oversight thereof.¹⁰

Given the conditions under which CAT was developed, SIFMA agrees that the time is ripe to closely evaluate CAT's operations and costs now that the Commission and the SROs have had several years of experience with a fully functional CAT. CAT has grown to include the collection of data that is well beyond what is needed for an effective regulatory audit trail. In some cases, this was due to SEC staff demands that strayed from the purposes of Rule 613. As a result, CAT has become very costly with an unsustainable trajectory of cost increases. CAT LLC's 2025 operating "budget" is \$272 million,¹¹ an increase of 18% from 2024,¹² and over five times the SEC's estimated annual range of \$36.5-\$55 million when it approved the CAT NMS Plan in 2016.¹³ In addition to paying a majority of the CAT's budgeted costs, the industry's

⁷ See Cboe/Nasdaq and NYSE comment letters, *supra* n. 3.

⁸ See Brief of Amicus Curiae SIFMA, *Am. Sec. Ass'n v. SEC*, No. 23-13396 (11th Cir.) (filed Feb. 15, 2024). SIFMA accordingly reserves all rights.

⁹ See Release No. 34-88890 (May 15, 2020), 85 FR 31322 (May 22, 2020).

¹⁰ See (<https://www.sifma.org/wp-content/uploads/2024/03/SIFMA-Comments-on-CAT-Fee-Filings-Historical-Costs-1-Final-3-5-2024.pdf>).

¹¹ See (https://www.catnmsplan.com/sites/default/files/2024-11/11.20.24-CAT-LLC-2025-Financial_and_Operating-Budget.pdf). These "budgets" are more accurately characterized as "estimates" because there seems to be no consequences for exceeding them.

¹² See (https://www.catnmsplan.com/sites/default/files/2024-08/07.31.24-CAT-LLC-2024-Financial_and_Operating-Budget.pdf). Last publicly available mid-year update from July 2024.

¹³ See Release No. 34-79318 (November 15, 2016), 81 FR 84696, 84854 (November 23, 2016).

ongoing costs to comply with CAT reporting requirements are multiples of the CAT's current budget and the SEC's original estimate of \$1.7 billion annually.

SIFMA also notes that the Commission has used CAT data to conduct economic research in connection with proposed rulemakings without any apparent budgeting or governance constraints and without any public visibility (subject to appropriate protections) of the data and methodology of such research.¹⁴ Ad-hoc queries of enormous data sets can potentially be far more expensive than routine reviews, and such use should be carefully monitored and metered.

As outlined below, many of SIFMA's recommendations for CAT reforms are consistent with the recommendations from Nasdaq/Cboe and NYSE. In addition, as mentioned in SIFMA's separate letter regarding the CAT CAIS Amendment, SIFMA urges the SEC to provide further guidance to market participants regarding how it plans to proceed with the CAIS database. SIFMA recognizes that the SROs through the CAT Operating Committee have sought to address this question,¹⁵ but the Commission has not yet directly addressed it.

Subject to the Commission's further review and consideration, SIFMA has concerns regarding the recommendation in the Nasdaq/Cboe Letter and NYSE Letter calling for the removal of Appendix D from the CAT NMS Plan. SIFMA recognizes that Appendix D may include certain items that are unreasonably prescriptive and costly, and welcomes additional information and dialogue regarding these items. However, certain items that are currently a part of Appendix D should be retained in the CAT NMS Plan in some form. For example, Appendix D includes an entire section (Section 4) on Data Security requirements that operationalize the general provision in Rule 613 that the Plan Processor "[e]nsure the security and confidentiality of all information reported to" the CAT.¹⁶ Appendix D also contains a requirement that the SROs maintain a test environment for CAT Reporters "that is functionally equivalent to the production environment," which has been beneficial to SIFMA members over the years. SIFMA also does not support the last recommendation in the NYSE Letter calling for the Commission to rescind its 2020 data security proposal, because, as discussed, SIFMA continues to believe that there are aspects of that proposal that would enhance CAT security.¹⁷

SIFMA supports many of the recommendations in the Nasdaq/Cboe Letter and NYSE Letter and believes the Commission should act on them expeditiously. Specifically, SIFMA supports the following recommendations in the letters:

- rescinding the requirement for the CAT to collect and store unnecessary options market maker quote data (Nasdaq/CBOE Letter and NYSE Letter);

¹⁴ See (<https://www.sifma.org/resources/news/blog/government-in-the-dark-sec-use-of-cat-data-in-rulemaking-raises-concerns/>).

¹⁵ See (<https://www.sec.gov/comments/4-698/4698-607367-1773454.pdf>).

¹⁶ 17 CFR § 242.613(e)(4)(i).

¹⁷ See (<https://www.sifma.org/wp-content/uploads/2020/11/SIFMA-Comment-on-SEC-Security-CAT-Proposal.pdf>).

- amending the deadlines for processing CAT data and right-sizing the service level agreements (Nasdaq/CBOE Letter and NYSE Letter);
- eliminating online CAT query tools (e.g. OTQT) that are seldom used and redundant (Nasdaq/CBOE Letter and NYSE Letter);
- reducing record retention requirements from six to two years (Nasdaq/CBOE Letter);
- eliminating all “late to the lifecycle” processing and relaxing linkage processing (Nasdaq/CBOE Letter and NYSE Letter);¹⁸ and
- approving the proposal to permanently exempt certain verbal activity from reporting (NYSE Letter).

Consistent with these recommendations from Nasdaq/Cboe and NYSE, SIFMA’s high-level recommendations listed below would lead to a more efficient and cost-effective CAT without compromising its intended regulatory purpose. Subject to the pending challenge on CAT funding and the funding model, we also recommend that the SEC fund the CAT through its annual budget, as it is a regulatory system the SEC uses and ultimately controls. We would like to discuss these recommendations in greater detail with the Commission and the SROs and for the SEC to require that Industry Members be included in any CAT reform efforts. While these recommendations are high-level, SIFMA members have many more details to implement each recommendation, particularly as they relate to CAT reporting.

Commission Leadership and Permanent Exemptive Relief for Certain Items

- SIFMA urges the SEC to lead CAT reform efforts through a public process and, as needed, rely on its direct authority under Rule 608 of Regulation NMS to make the necessary changes to the CAT NMS Plan to implement the reforms.
- The SEC should review all of its orders granting temporary exemptive relief from CAT reporting requirements with a view to making them permanent (e.g. representative order, verbal quotes). In addition, full cost-benefit analyses should be required for any future CAT guidance and rulemakings that impose new requirements.
- The SEC should issue immediate permanent exemptive relief related to the reporting of so-called “Port Settings,” which, despite the SEC staff’s historical insistence, the industry does not believe is required to be reported under the CAT NMS Plan.

¹⁸ Elimination of “late to the lifecycle” processing should not be accompanied by unreasonable or heightened broker-dealer reporting standards. In addition, the industry requests that the SROs work with it on a similar alternative with the goal of reducing “late to the lifecycle” linkage errors and achieving equivalent CAT cost savings as the SROs’ recommendation here, while still allowing for firms to confirm successful repairs within a reasonable window.

Optimize CAT Reporting

- Current deadlines to submit, process, and correct CAT data are onerous and costly and can be relaxed without compromising CAT's regulatory purpose. Relaxing the current timelines by 9-24 hours could lead to significant operational and technology cost savings.
- The CAT transaction technical specifications and resulting database are unnecessarily large and complex. They could be scaled back to include only essential transactions, errors, and data elements. These changes should make CAT reporting and processing more efficient and less costly without affecting its regulatory purpose.
- Current CAT processes link more than one trillion events daily. We recommend a set of detailed changes that would optimize linkage processing based on regulatory utility and need, resulting in significantly decreased processing times and costs.

CAT Data Security

- SIFMA continues to urge the SEC to adopt its 2020 data security proposal (with appropriate amendments).¹⁹ While SIFMA acknowledges the CAIS Exemption Order and CAIS Amendment (if adopted) may obviate the need for certain aspects of the proposal, SIFMA strongly objects to the idea that CAT should not be made more secure, which was the point of the data security proposal. For example, contrary to the NYSE point that the CAT data security proposal is no longer needed in light of these actions, SIFMA notes that the proposal included a strong prohibition on the ability of the SROs to use CAT data for any commercial purposes. In other words, the SEC can move forward with the data security proposal while also taking into account the actions in the CAIS Exemption Order and proposed CAIS Amendment.

CAT Funding

- As the CAT is a regulatory system that is used by the SEC, the SEC should include it in its budget, as is done for all other SEC projects. The CAT ultimately should be subject to the checks and balances of the Congressional appropriations process used to fund the SEC's budget. While the industry will still pay for the CAT through the Section 31 process (where the industry reimburses the SEC for its budget), including CAT in the SEC's budget will serve to better align incentives to control CAT costs and address longstanding concerns about ineffective CAT governance.

Holistic External Review

- In addition to the above concrete suggestions for reducing CAT costs, the SEC should require the SROs to engage an independent external technology firm at their expense (subject to appropriate security measures to protect CAT data and processes), with input from industry-member experts, to complete a holistic review of the current operations of CAT—including its regulatory uses by the SEC and SROs—to identify ways to further optimize and improve CAT and reduce its costs.

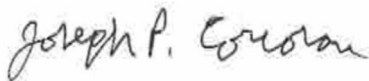
¹⁹ See Release No. 34-89632 (August 21, 2020), 85 FR 65990 (Oct. 16, 2020).

Paul S. Atkins
Chairman
U.S. Securities and Exchange Commission
June 6, 2025

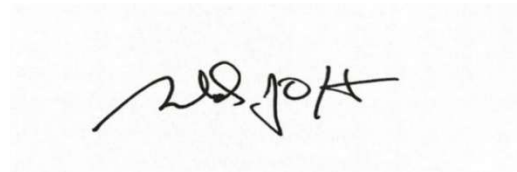
* * *

SIFMA appreciates the opportunity to submit this letter to you regarding CAT reforms. SIFMA strongly supports the Commission's comprehensive review of the CAT and urges the Commission to lead all CAT reform efforts through a public process that includes Industry Members. As set forth above, SIFMA includes recommendations on CAT reforms that should be considered as part of this review. If you have any questions or need any additional information, please contact Joe Corcoran at (202) 962-7383 or Gerald O'Hara at (202) 962-7343.

Sincerely,



Joseph Corcoran
Managing Director and Associate
General Counsel



Gerald O'Hara
Vice President and Assistant
General Counsel