

FINANCIAL INFORMATION FORUM

5 Hanover Square
New York, New York 10004

212-422-8568

March 2, 2012

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE,
Washington, DC 20549-1090

Re: File Number S7-11-10, Consolidated Audit Trail

Dear Ms. Murphy,

After discussing the proposed Consolidated Audit Trail with Commission staff and Commissioners, the Financial Information Forum (FIF)¹ would like to take this opportunity to provide further comments on the proposed Consolidated Audit Trail (CAT) discussed in File Number S7-11-10 (the "Proposal").² FIF members agree that an enhanced audit trail system could increase the effectiveness of cross-market surveillance through better data availability and integration. To ensure that the Commission's major objectives can be met within a reasonable timeframe and in the most efficient manner possible, FIF recommends the following:

1. Mandate the inclusion of broad industry participation in the form of working groups to include participation from the SEC, FINRA, exchange, broker dealer and vendor communities
2. Conduct a requirements analysis as part of the detailed blueprint for CAT
3. Create an RFP(Request for Proposal) in order to determine the CAT Processor
4. Consider the OATS for NMS Survey Results in the Preparation of the CAT Cost/Benefit Analysis

Each of these recommendations is discussed in more detail below:

Mandate the inclusion of broad industry participation in the form of working groups to include participation from the SEC, FINRA, exchange, broker dealer and vendor communities.

In order for CAT to effectively meet its objectives, FIF believes that extensive business analysis will be needed that will require cross-market expertise in quote, order, trade and post-trade systems and processes. Such an analysis will require many detailed discussions among SEC staff, the SROs and industry teams. An iterative approach, involving small working groups in dialogue with SEC staff, would be the most effective path. The working groups would report back to much larger industry audiences, soliciting feedback and consensus.

In order to ensure broad industry participation, FIF believes the approved CAT filing should mandate the formation of such working groups. FIF would expect to play an active role in the CAT Working Groups. As

¹ FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the financial technology industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

² Please refer to the [August 12, 2010 FIF comment letter](#) for a more detailed discussion of CAT-related implementation issues.

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a neutral industry organization that focuses on implementation issues with respect to industry initiatives, we are ideally suited to draw on our diverse member base that encompasses all aspects of the industry including broker dealers, vendors and exchanges. Additionally, through our partnership with STA, we have an even broader distribution channel including access to the buy-side.

Following the adoption of the Large Trader Rule, we have performed extensive business analysis delving into implementation issues not foreseen during the comment period. If such business analysis were performed during the CAT plan development process, we are confident that issues would emerge earlier in the process, leading to a more efficient and cost-effective solution.

Conduct a requirements analysis as part of the detailed blueprint for CAT

FIF members agree that a better audit trail system is required in order to more effectively surveil the markets. In order for CAT to meet the needs of the SEC, we believe the SEC should outline a set of goals and guiding principles they are striving to achieve as part of the adopted CAT filing and leave the determination of data elements and other technical requirements to the industry working group described above. For example, rather than requiring a unique order ID, the adopted CAT filing should require that an order can be tracked through its lifecycle and leave the technical details to the requirements analysis.

We believe a comprehensive requirements analysis is a critical component to the development of a detailed blueprint for CAT and should include a consideration of:

- Avoiding duplication with (or ensuring replacement of) existing order audit trail and other regulatory reporting systems (e.g., OATS, COATS, EBS) including the possibility that these systems could migrate to the same/similar architecture as CAT thereby reducing industry cost of compliance while increasing effectiveness of surveillance.
- Availability of order and trade data throughout the trade lifecycle, e.g., allocation data not being available at the time of order entry.
- Extensibility for multi-instrument capabilities, most importantly options and futures but also fixed income and other instruments. The scope of the requirements analysis should not be entirely equities-centric even if equities are first to go into production.

We believe that the time required to perform a requirements analysis is closer to six months than the 90 days currently identified in the proposed release. Additionally, there may be benefits to issuing an RFI (Request for Information) during the requirements analysis in order to engage potential solution providers early in the process. The outcome of the requirements analysis would be the detailed blueprint for CAT which would be filed with the SEC and subject to a comment period. This stage of Plan development could be done in parallel to the determination of the governance model for the Plan. We would expect a comment period following a proposed governance plan before final adoption.

Create an RFP in order to determine the CAT Processor

Following the approval of requirements as part of the NMS Plan filing, we recommend that the NMS Plan working group(s) conduct a robust RFP process in order to determine the best service provider to act as the CAT Processor. Potential respondents should be evaluated against their ability to meet the

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requirements established as part of the detailed blueprint. An objective, transparent RFP process with industry involvement would allow for the evaluation of multiple solutions within a well-defined framework. We would expect the industry working group described above to be the driving force behind the RFP process. Given the complexity of requirements as we understand them today, we believe the SEC should allow six months for the CAT selection process rather than the two months currently identified in the proposed release.

With ongoing industry input throughout the CAT Processor selection process, we believe the final selection of a Processor should be the NMS Plan.

Consider the OATS for NMS Survey Results in the Preparation of the CAT Cost/Benefit Analysis

Following the completion of the FINRA OATS for NMS enhancements, FIF conducted an industry survey to determine the costs of that initiative. Relevant findings of the FIF OATS for NMS study³ include:

- On average, business analysis accounted for over one-third (36%) of the time spent on implementation with the remaining time spent on development (33%), testing (24%) and other activities (8%).
- Project teams included staff from Technology, Project Management, Compliance and Operations.
- The industry cost of OATS for NMS was estimated at \$48 million.
- Issues with the specification identified early on in the project (January 2011) did not result in a new specification until May 2011 leading to throw-away work for some firms.

We believe that an iterative, ongoing dialogue between industry participants including the regulators could result in up-front business analysis that prevents wasted effort. Cost estimates should reflect time spent by multiple individuals within a firm that are typically assigned to projects of this nature.

Conclusion

With the development of the Consolidated Audit Trail, we have an unprecedented opportunity to improve the Commission's ability to surveil the market. It will be critical to have an informed understanding of how order and trade processing works in order to design a system that is capable of achieving the objectives of CAT. FIF believes that incorporating the elements discussed above into the adopted CAT filing will help achieve those goals. Specifically, we recommend that the adopted CAT filing:

- Mandate the formation of cross-market participant working groups including active involvement of the diverse membership of FIF and STA
- Outline the objectives of CAT rather than identify technical requirements
- Allow six months for the cross-participant working groups to perform a requirements analysis as part of the development of the CAT NMS Plan. This work could be done in parallel to the determination of a governance model.
- Allow six months for the cross-participant working group to conduct an RFP process. Based on the RFP findings, the NMS Plan will select the CAT Processor.

³ For full text of the FIF OATS for NMS Survey, see:

<http://fif.com/docs/oats%20for%20nms%20survey%20results%20-%20202-9-12-final.pdf>

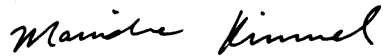
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We look forward to taking an active role in the development of the Consolidated Audit Trail and working with you on this important project.

Sincerely,



Manisha Kimmel
Executive Director
Financial Information Forum

cc: The Honorable Mary L. Schapiro, Chairman
The Honorable Elisse B. Walter, Commissioner
The Honorable Luis A. Aguilar, Commissioner
The Honorable Troy A. Paredes, Commissioner
The Honorable Daniel M. Gallagher, Commissioner

Robert Cook, Director, Division of Trading & Markets
David Shillman, Associate Director, Division of Trading and Markets
Heather Seidel, Associate Director, Division of Trading and Markets

Carlo di Florio, Director, Office of Compliance Inspections and Examinations
John Polise, Associate Director, Office of Compliance Inspections and Examinations

Richard Shilts, Acting Director, Division of Market Oversight, CFTC
Rachel Berdansky, Deputy Director, Examinations, Division of Market Oversight, CFTC

Jim Toes, President & CEO, Securities Traders Association