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August 9, 2010

VIA ELECTRONIC FILING

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

Re: Consolidated Audit Trail, File No. S7-11-10

Thomson Reuters welcomes the invitation to submit comments to the Securities and Exchange Commission (SEC) on the proposed rule establishing a Consolidated Audit Trail (CAT) rule, published June 8, 2010. Thomson Reuters supports the Commission's efforts to improve market processes, and believes its goals of providing timely and comprehensive oversight of markets and participants are well conceived.

BACKGROUND

Thomson Reuters is an interested market participant in the formulation of the CAT, as it is a leading provider of real time market connectivity for financial institutions in the United States and around the world. Its Markets Division provides market information, technology and connectivity between market participants to help enable transparent, efficient and orderly securities markets. The Company has pioneered many developments in both Exchange and OTC markets, and so has deep expertise in electronic transactions processes across many of the asset ranges that are relevant to enabling the CAT rule.

The organization offers exchanges, brokers and the liquidity providers and market makers with the cross-border capabilities, connectivity, trusted independent data, risk management and back office functionality that are essential to enable reliable and resilient market participation. Over half a million financial professionals in over 40,000 organizations in more than 155 countries manage risk, price portfolios and drive trading strategies and reach their clients and trading partners seamlessly across the Thomson Reuters community.

COMMENTS

Thomson Reuters is aware that the SEC has been considering establishing a consolidated audit trail rule for many years, although recent events such as the "flash crash" of May 6, 2010 highlight the need for regulatory bodies to promptly and efficiently reconstruct significant market events and investigate other matters of suspected market manipulation. Thomson Reuters believes that

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its broad experience, both domestically and internationally, across asset classes, gives it an ability to provide the SEC with informed and relevant suggestions regarding the proposed rule.

Cost estimates

The proposal suggests the CAT would cost $4 billion to establish and then have an annual implementing cost of about $2.1 billion. Thomson Reuters believes that the purposes of the CAT can be realized for significantly lower costs than the proposal envisions. This is the case because regulatory personnel will not have to request data from market participants on an individual, case-by-case basis, and those market participants will no longer need to respond to individualized requests for data from regulators. In addition, the consolidated nature of reporting will achieve an economy of scale, making the gathering and searching of reported data more efficient. The SEC observes in the Proposed Rule that a consolidated audit trail ultimately could provide cost reductions through the elimination of redundant and overlapping SRO rules and requirements. Finally, the additional data gathered and its immediate availability will lessen the burden on regulators of investigating and reconstructing significant market events such as the "flash crash" of May 6, 2010.

Although these factors will offset some of the costs of the proposed CAT rule, the SEC and SROs can realize even greater savings if market participants and regulated entities can modify existing reporting environments, using innovative technology and reporting systems to achieve, and perhaps even surpass, the objectives of the CAT rule. The SEC's rule should provide the SROs with sufficient flexibility for the SROs to develop their NMS plan so that the overarching goals of the SEC are met. However, the technical implementation of the solution could be different from the proposal, with a CAT that costs considerably less than presently anticipated, and on an accelerated implementation schedule.

Normalization of Existing Data Streams

The May 6th flash crash highlighted the interconnectedness of trading strategies across disparate market centers and asset classes. The "siloed" nature of the various market centers contributed to the flash crash because of a lack of ability to coordinate appropriate systemic risk management actions outside their boundaries. The SEC should facilitate interoperability with regulatory systems adopted by other U.S. or foreign-based regulatory authorities by adopting an approach that enables all participants to connect equally, on a federated way, covering all asset classes, and leveraging current systems. A company like Thomson Reuters is positioned to normalize and widely distribute this content. This approach would be responsive to the realities of today's highly interconnected marketplace.

To be clear, Thomson Reuters does not believe the goals outlined in the proposed rule should be relaxed. A CAT should, first and foremost, allow the SEC and SROs to investigate unusual market activity, including fraudulent and manipulative market practices. The SEC rightly recognizes the need for a robust and effective cross-market order and execution tracking system, including one that could cover other financial instruments.

Rather, Thomson Reuters believes that the full panoply of regulatory objectives can be realized, using existing information networks and technology. Thomson Reuters does not believe that it is practical to migrate all SROs towards one of the existing audit trail systems—OATS, OTS, COATS. Instead, Thomson Reuters believes that each SRO's existing requirements can be enhanced—adding collection layers and normalizing layers. This can be done far more readily and economically than creating and maintaining a comprehensive new program. Standardization may be warranted for data fields that might trigger flags for significant market events, such as is under consideration in the SRO Single Stock Circuit Breaker Proposals. However, standardization throughout the entire range of reportable data does not provide significant additional benefits over normalizing existing data streams.

It is not necessary that all SROs and market participants adopt identical data reporting in order for the purposes of CAT to be fulfilled. For example, the requirement of a unique order identifier that follows throughout the life of the order would impose a significant implementation burden for market participants, which would grow as the CAT is expanded to other investment products. The purpose would be to enable regulators to link routing across different market participants. However, it is possible to accomplish the same result by tracking transactions in a systematic manner across the market and the execution venues. This linkage would provide traceability even when one or more orders are combined during a transaction.

Real-Time Reporting

The proposed rule, in section III.D.1 would require that data reported under the CAT be reported at the same speed as the market changes, to enable better cross-market monitoring and more timely surveillance of anomalies. Thomson Reuters acknowledges that the transition from end-of-day reporting to market speed reporting is a transformative change in reporting requirements. However, based on its experience in handling vast and ever-growing quantities of data, within and across markets, Thomson Reuters believe the goals of the SEC are achievable based on existing technology and infrastructure. Further, Thomson Reuters believe that reporting market changes as they occur is essential to promptly analyze and reconstruct transactions. Furthermore, doing so on a consolidated basis is critically important given the rise in cross-market transactions.

Phasing of Implementation

The proposed rule would require SROs to provide the required data within one year after the NMS plan becomes effective. Members of the SROs would be required to provide their data within two years of the NMS plan becoming effective. The SEC believes that additional time for members is required to implement changes, specifically to capture customer and order information that was previously not required. Thomson Reuters feels that the benefit of data reports in the first year will be limited by its incomplete coverage, and that this phased implementation takes a disjunctive approach. Instead, the SEC should emphasize a need for comprehensive collaboration across all market participants: reporting requirements should apply initially to all market participants as to that data which is presently reported. Additional data fields would be added on an iterative basis over the two-year period, or other time-frame selected by the Commission.

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Security
The proposed Rule 613(e)(4)(i) would require that the NMS plan processor ensure the security and confidentiality of all information submitted to the central repository. In addition, it would require that the SROs agree not to use repository data for anything other than surveillance and regulatory purposes. As the SEC recognizes, the CAT has the potential to significantly increase the surveillance and intervention by the SEC and SROs when they detect anomalies. However, putting the data into a central repository does not realize its full potential benefit.

The SEC should consider the present rulemaking as an opportunity to support self-enforcement as well. The data flowing across the consolidated tape can be analyzed to unleash valuable derived works that would permit surveillance by the participants themselves, reducing their risks and their costs. They would be able to intervene before the regulator even needs to investigate or take action.

The analyzed data could be used to create indices and benchmarks that increase the transparency of the market. Indeed, this enhanced surveillance and transparency would very likely attract additional trading volume to the U.S. markets.

At a minimum, it would cause market participants to conduct better, more efficient compliance monitoring and risk management for their organization. Use of the consolidated tape in this way would not jeopardize privacy because the derived works would be based on aggregated data that does not feature identifying data. In addition, Thomson Reuters strongly supports a requirement that vendors that handle the CAT tape data implement best-practices regarding security, reliability, and integrity of data.

We look forward to working with the SEC on this proposed rule, and with the NMS participants as they develop the resulting consolidated audit trail program. We would welcome the opportunity to meet with SEC staff to discuss these issues.

Sincerely,

Devin Wenig
Chief Executive Officer, Markets Division
Thomson Reuters