

FINANCIAL INFORMATION FORUM

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Via Electronic Delivery

November 2, 2017

Mr. Brent Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. SR-FINRA-2017-013 Response to Comments

Dear Mr. Fields,

The Financial Information Forum (“FIF”)¹ Consolidated Audit Trail (“CAT”) Working Group (“FIF CAT WG”) would like to take this opportunity to provide additional comments for the SEC’s (“The Commission”) consideration, based on FINRA’s response to comments² to The Commission notice and order to solicit comments on the proposed rule changes for retirement of duplicative systems to CAT (“OIP”)³. FIF appreciates FINRA’s thoroughness in responding to FIF’s and other industry comments.

FIF believes that FINRA, and the other Plan Participants, have a responsibility to ensure the CAT is an effective system to facilitate the retirement of the Order Audit Trail System (“OATS”) and amendment of Electronic Blue Sheets (“EBS”)⁴ rules. To achieve this, as outlined in FIF’s previous comment letter⁵, FIF is requesting that The Commission require the Operating Committee to set CAT Phase 1 design goals, launch criteria for Industry Member Reporting and an implementation plan that will enable the rapid retirement of duplicative reporting systems. This is discussed more fully below.

¹ FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the securities 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 Mr. Brant Brown’s letter to Mr. Brent Fields, Re: File No. SR-FINRA-2017-013 – Response to Comments, October 11, 2017

³ SEC Release No. 34-81499, August 30, 2017

⁴ Letter from Brant Brown, Associate General Counsel, FINRA to Mr. Brent Fields, Secretary, *SEC Re: File No. SR-FINRA-2017-013 – Response to Comments*, October 11, 2017 – See FINRA OIP, *Supra* Note 2 at 1. FINRA OATS Rules are expressed in FINRA Rule 7400 Series, Rule 4554, and Rule 6101(b); FINRA EBS Rules are expressed in FINRA Rule 8211 and Rule 8213.

⁵ Letter from William Hebert, Managing Director, FIF to Ms. Heather Seidel, *Re: SEC Order Instituting Proceedings to Determine Whether to Approve or Disapprove the Proposed Rule Changes, as Modified by Amendments Thereto, to Eliminate Requirements That Will Be Duplicative of CAT*, September 29, 2017.

Design Goals

In FIF's comment letter on the CAT Draft Specification, FIF stated the document "has not adequately addressed the inclusion [...] of all of the transactions and data needed for the retirement of OATS, comparable functions in EBS and Large Trader."⁶ If the data collected by CAT were compatible and easily mapped to OATS and EBS, the CAT implementation by the industry and FINRA's task of validating CAT reporting would be less complicated and less error prone, and would also facilitate any cut-over approach.

FIF agrees with FINRA⁷ that the proposed CAT reporting model unnecessarily complicates the retirement process with no justification of improvements in surveillance benefits, cost efficiencies, or ease of reporting over current reporting. We raised these concerns (e.g., divergence of reporting models between OATS and CAT complicating retirement of OATS; unnecessary additional reports and data elements complicating reporting and error corrections; explicit reporting of implicit actions; reporting events and results of events on same report; excessive use of free-form text fields; lack of stringent definitions of terms, scenarios, data elements; end of trading day at midnight) in our comment letters⁸ on the CAT Draft Specification to Thesys CAT and the Operating Committee. The body of knowledge including specifications, FAQs, terminology, etc. established over the past two decades of equities reporting would effectively be thrown out if the proposed CAT reporting model were adopted and that body of knowledge would need to be rebuilt before the industry reported with any acceptable degree of quality to the CAT. In our opinion, and after significant review, this is an unnecessary and disruptive step which ultimately jeopardizes a successful and timely implementation of CAT.

The CAT Operating Committee, of which FINRA is a member, shares accountability for the current state of the CAT draft specification⁹. FIF requests that The Commission hold the CAT Operating Committee to its obligation to oversee the development of Technical Specifications that "...facilitate elimination of reporting systems that the CAT may cause to be redundant such as EBS and OATS."¹⁰

FIF also recommends that The Commission and FINRA postpone a decision on the retirement approach for OATS/EBS until these design goals have been incorporated into the Industry Member Data Reporting Technical Specifications, reviewed by the industry and approved by the Operating Committee. At that time, FINRA can complete an analysis to determine the most efficient mechanism to facilitate the retirement of duplicative systems.

Launch Criteria and Implementation Strategy

FINRA's proposed retirement plan could lead to an unnecessarily lengthy and expensive period of duplicative reporting. FIF, as previously proposed¹¹, recommends a three-phased implementation strategy to minimize the cost burden to the industry of duplicative reporting:

⁶ Letter from Mr. William Hebert, Managing Director, FIF letter to Mr. Ed Watson, Shane Swanson, Michael Simon; *Re: FIF CAT Working Group Comments on Industry Member Specification*, October 16, 2017.

⁷ Letter from Mr. Brant Brown to Mr. Brent Fields, *Re: File No. SR-FINRA-2017-013 – Response to Comments*, October 11, 2017

⁸ Letter from William H. Hebert Managing Director, FIF to Mr. Ed Watson, et.al, *DRAFT CAT Reporting Technical Specifications for Industry Members V0.1*, September 25 and October 16, 2017

⁹ Draft CAT Reporting Technical Specifications for Industry Members, DRAFT V0.1, September 1, 2017

¹⁰ CAT NMS Plan, Appendix D, Section 2.1

¹¹ *Supra* note, 5.

1. **Test Phase:** Industry Members and SROs submit data to the Plan Processor with the objective to meet the qualitative and quantitative criteria that are currently proposed by the SROs as retirement criteria (i.e., CAT contains all data necessary to allow the retirement of existing OATS and EBS obligations¹²; error rates meet acceptable quality levels; CAT system performing effectively and meeting its obligations). These criteria should be used as benchmarks to end the Test Phase and enter the Pilot Phase.

FIF requests that The Commission direct the CAT Operating Committee to incorporate this test phase and the stringent exit criteria into the CAT implementation plan and schedule.

2. **Pilot Phase:** The CAT reporting system is “live” with Industry Members submitting daily production reporting, including error corrections. All Industry Member data is linked with SRO data and the CAT Processor produces all SRO required surveillance and reports. However, because CAT is still undergoing evaluation by the SROs as a reliable source or regulatory reporting, FIF does not feel it is consistent to declare CAT as a regulatory system of record during this assessment period. FIF requests that The Commission declare that OATS and EBS continue to be the reporting systems of record during this “pilot phase”.

Given that FINRA is planning on “daily publication of metrics detailing the rates associated with the retirement of OATS”¹³, it will become apparent during this “pilot phase” if a shortened duplicative reporting period is warranted. FIF requests that The Commission, and FINRA, agree to ending the assessment period earlier than the proposed six-month duration if the daily metrics being collected and published during this period reflect consistent achievement of the target goals.

3. **CAT as Regulatory System of Record:** CAT is recognized as the reporting system of record. Duplicative reporting ceases and duplicative reporting systems can be retired.

FIF believes implementing the CAT in these three phases will allow for the identification and correction of errors within a testing environment, rather than a production phase as FINRA, and the current CAT implementation plan, are suggesting. This approach would be more cost efficient by minimizing issues discovered during the FINRA assessment period, and enabling the shortening of the expensive duplicative reporting period.

CAT Amendments

FIF supports FINRA’s recommendation that Small Industry Members who are OATS reporters begin reporting concurrent with Large Industry Members.¹⁴

FIF requests that The Commission ensure that the CAT Operating Committee expressly consider Tick-size Pilot reporting requirements in the CAT Implementation Plan for CAT Phase 1 so as not to delay the retirement of OATS.

¹² OATS - FINRA Rule 7400 Series, Rule 4554, and Rule 6101(b); EBS – FINRA Rule 8211, Rule 8213

¹³ Letter from Mr. Brant Brown to Mr. Brent Fields, *Re: File No. SR-FINRA-2017-013 – Response to Comments*, October 11, 2017 at 14.

¹⁴ *Id.* at 17.

Summary

FIF wishes to thank The Commission for this opportunity to reiterate these suggested improvements to the CAT design goals and implementation strategy that should reduce industry member's costs and assist FINRA in its efforts to retire duplicative reporting systems as quickly as possible. FIF welcomes the opportunity to further discuss these recommendations and the concerns on duplicative reporting with The Commission.

Sincerely,



William H. Hebert
Managing Director
Financial Information Forum

cc: The Honorable Jay Clayton, Chair, SEC
The Honorable Kara Stein, Commissioner, SEC
The Honorable Michael Piwowar, Commissioner, SEC

Ms. Heather Seidel, Acting Director, Division of Trading and Markets, SEC
Mr. Gary Goldsholle, Deputy Director, Division of Trading and Markets, SEC
Mr. David S. Shillman, Associate Director, Division of Trading and Markets, SEC

Ms. Ellen Greene, Managing Director, SIFMA
Mr. James Toes, President and CEO, STA

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