

The CAT NMS Plan

Overview of the SEC-Mandated
Consolidated Audit Trail Project

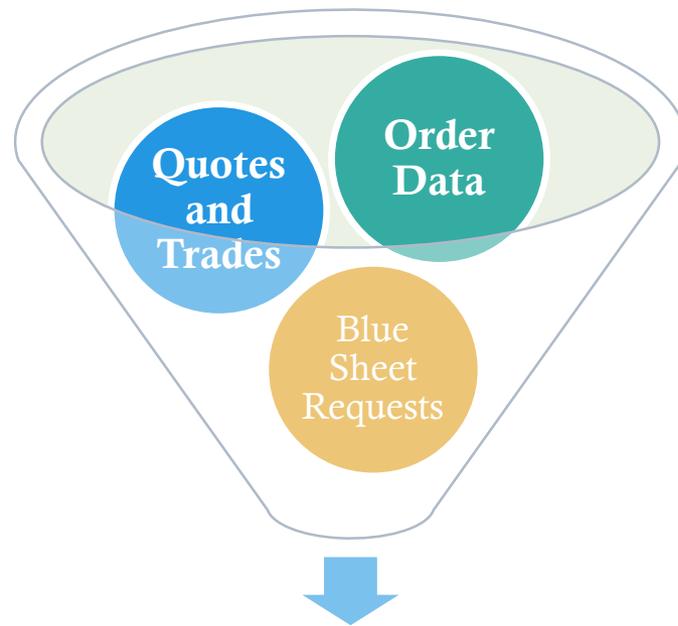


Introduction

What is the Consolidated Audit Trail?
Why is the SEC mandating it?

What is the CAT?

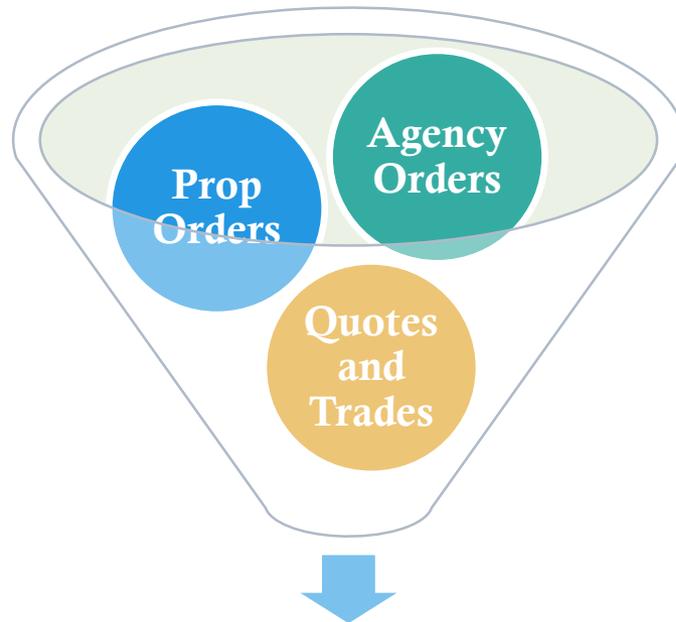
The SEC, FINRA and the exchanges currently rely on ad hoc aggregation of disparate sources of information to conduct market oversight, investigation and enforcement.



Ad Hoc Market Reconstruction

What is the CAT?

The CAT will collect daily order and trade data for equities and options, across all trading venues, into a single database. Data will be submitted daily by broker-dealers and exchanges.



Consolidated Audit Trail (“CAT”)

Why do we need the CAT?

“In performing their oversight responsibilities, **regulators today must attempt to cobble together disparate data** from a variety of existing information systems lacking in completeness, accuracy, accessibility, and/or timeliness – **a model that neither supports the efficient aggregation of data from multiple trading venues nor yields the type of complete and accurate market activity data needed** for robust market oversight.”

SEC Approval Order for Reg NMS Rule 613

July 11, 2012

Why do we need the CAT?

“A **consolidated audit trail**..., when implemented, should **substantially enhance the ability of the SROs and the Commission to oversee today’s securities markets** and fulfill their responsibilities under the federal securities laws.”

*SEC Approval Order for Reg NMS Rule 613
July 11, 2012*

Key Talking Points

- ◆ CAT will be the largest comprehensive data repository for securities transactions to date, processing more than 58 billion records (10 terabytes of data) daily.
- ◆ CAT will enable regulators to efficiently and effectively perform market reconstructions using a central data repository that stores standardized data elements.
- ◆ By centralizing and standardizing data collection and creating a single audit trail, CAT will enhance regulators' ability to identify unlawful trading such as attempted market manipulation and insider trading in either a single market or across multiple markets.

Industry Impact

Who is affected by the CAT?

What information has to be reported?

When is this all happening?

Who is affected?

CAT will collect information from exchanges and broker-dealers that were members of at least one SRO

- ◆ 4,406 registered broker-dealers as of June 30, 2014
- ◆ Approximately 1,800 registered broker-dealers quoted or executed transactions in NMS Securities, Listed Options or OTC Equity Securities

Broker-dealers will be assessed a fee (not specified yet) for maintaining the CAT, and will incur additional costs adapting systems to meet the enhanced reporting requirements

What has to be reported?

Every order, quote and event in the trade life cycle of NMS Securities will need to be reported to the CAT

- ◆ Receipt of an order from any person
- ◆ Modifications to an order
- ◆ Origination of any order by a member of an SRO
- ◆ Cancellations
- ◆ Routing an order between desks or departments within a broker dealer
- ◆ Executions
- ◆ Routing an order to another broker-dealer, national securities exchange or foreign exchange
- ◆ Customer Identification
- ◆ Any bid or offer (quotes)

What has to be reported?

What are NMS Securities?

- ◆ Exchange-listed equity securities and standardized options
- ◆ Does NOT include exchange-listed debt securities, securities futures, or open-ended mutual funds, which are not currently reported pursuant to an effective transaction reporting plan

Initially, the CAT Plan will cover all NMS stocks and options. Within six-months after it goes effective, the SROs must outline how non-NMS securities, including both primary and secondary transactions, could be added to the CAT.

When is this happening?

January	February	March
April	May	June
July	August	September
October	November	December

By one year after the Plan becomes effective,
all SROs must report order and trade information

January	February	March	
Ap	January	February	March
Ju	April	May	June
Oct	July	August	September
	October	November	December

By two years after the Plan becomes effective,
all members of an SRO must report order and trade information,
except small broker-dealers (as defined in SEC Rule 0-10(c))

January	February	March		
	January	February	March	
Ap				
	Ap	January	February	March
Ju	April	May	June	
Ju				
Oct	July	August	September	
Oct				
	October	November	December	

By three years after the Plan becomes effective,
all SRO members must report order and trade information,
including small broker-dealers

Key Talking Points

- ◆ Within two years (three for small BDs) of the CAT Plan becoming effective, broker-dealers will be required to report to the CAT on all events in the life-cycle of an order
- ◆ Broker-dealers will be assessed a fee by the SROs and incur costs to adapt to the CAT
- ◆ Currently, Rule 613 states that the CAT data will be available **ONLY** to the SEC and SRO regulatory staff
- ◆ There is no provision currently for BDs to access CAT data for surveillance and compliance purposes

The CAT Bid Process

Who are the key players?

Who's bidding to be the CAT Processor?

What will the CAT cost to implement?

Key Players



Securities and Exchange Commission

Self-Regulatory Organizations (SROs)



Development Advisory Group (DAG)

Credit Suisse Securities
Edward Jones
Fidessa Corporation
Financial Information
Forum
Goldman Sachs
Group One Trading
JP Morgan Chase
Keybank Capital Markets

Morgan Stanley
National Financial Services
Options Clearing Corporation
Securities Industry and
Financial Markets Association
Securities Traders Association
Wells Fargo Advisors
Wolverine Trading/Wolverine
Execution Services

Key Players



Securities and Exchange Commission

Primary Function

Advise SROs on various aspects of CAT, including impact on CAT participant firms and the broader industry

Development Advisory Group (DAG)

Credit Suisse Securities	Morgan Stanley
Edward Jones	National Financial Services
Fidessa Corporation	Options Clearing Corporation
Financial Information Forum	Securities Industry and Financial Markets Association
Goldman Sachs	Securities Traders Association
Group One Trading	Wells Fargo Advisors
JP Morgan Chase	Wolverine Trading/Wolverine Execution Services
Keybank Capital Markets	

Status of Bidding To Date

- ◆ In October 2015, each of the short-list bidders presented updated bids to the SROs and participated in a Q&A with SRO representatives
- ◆ In November 2015, the SROs announced the short-list of CAT bidders, culled from the first two rounds of bidding:*
- ◆ FINRA
- ◆ SunGard Data Systems, Inc.
- ◆ Thesys Technologies, LLC
- ◆ The SROs have not yet announced the timeline for selecting the winning bidder from among the three finalists

*Because it is bidding to be the CAT Processor, FINRA has recused itself from voting on the CAT Processor selection

Estimated Costs

The six short-list bidders were asked to estimate: the total one-time all-in cost to build the CAT; the annual cost for operating and maintaining the CAT in the first five years; and the annual peak year costs (cost for the year in which it will cost most to operate the CAT).

The table below summarizes the high, low, median and average costs across all bids.

Bidder Estimates Summary				
	Minimum	Median	Mean	Maximum
Build Costs (One-time)	\$30,000,000	\$46,100,000	\$53,000,000	\$91,600,000
Maintenance Costs (Annual)	\$27,000,000	\$42,200,000	\$51,100,000	\$93,000,000
Maintenance Costs (5 year)	\$135,000,000	\$211,200,000	\$255,600,000	\$465,100,000
Peak Year Maintenance	\$27,000,000	\$52,400,000	\$59,400,000	\$109,800,000

Impact on Broker-Dealers

How will this affect broker-dealers?

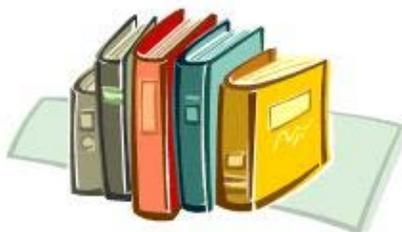
What issues are still unresolved?

Broker-dealer impacts

CAT will impose new and additional regulatory reporting requirements for broker-dealers. This may require:



New or updated training to educate operations personnel



New or updated written supervisory procedures



New or updated client on-boarding procedures

Broker-dealer impacts

CAT will also eventually eliminate legacy reporting systems

- ◆ OATS
- ◆ Electronic Blue Sheets
- ◆ Large Trade Reporting

Open Questions

- ◆ What will be the actual cost of building and maintaining the CAT?
 - ◆ How will costs be allocated between SROs and members?
 - ◆ Will SROs bear an equitable share of the CAT funding as a cost of doing business
 - ◆ Will allocated costs be determined by the amount of data submitted by the member?
- ◆ Can broker-dealers get access to information submitted for compliance and surveillance purposes?

Key Talking Points

- ◆ Implementation of the CAT will require broker-dealers to make changes to their own processes and systems in order to comply
- ◆ The CAT will streamline or supersede some existing processes and systems
- ◆ There are several open questions about cost allocation and use of data that have not been resolved yet

Commonly Used Terms

Glossary of Common Terms

CAT Reporter – Each national securities exchange, national securities association and Industry Member that is required to record and report information to the Central Repository pursuant to SEC Rule 613(c).

Business Clock – A clock used to record the date and time of any Reportable Event required to be reported under SEC Rule 613.

CAT System – All data processing equipment, communications facilities, and other facilities, including equipment, utilized by the CAT Processor or any third parties acting on the CAT Processor's behalf in connection with operation of the CAT and any related information or relevant systems.

Central Repository – The repository responsible for the receipt, consolidation, and retention of all information reported to the CAT pursuant to SEC Rule 613 and the CAT Agreement.

Development Advisory Group “DAG” – The DAG currently consists of the Participants, and 27 diverse firms and organizations (including broker dealers of varying sizes, the Options Clearing Corporation, a service bureau and three industry trade associations) with a variety of subject matter expertise.

Industry Member – A member of a national securities exchange or a member of a national securities association.

Glossary of Common Terms

Plan Processor – The company (Short-Listed Bidder) selected by the Operating Committee develop the CAT NMS Plan

NMS Security – Any security or class of securities for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan, or an effective national market system plan for reporting transactions in Listed Options.

Participant – Each national securities exchange and national securities association currently registered with the Commission would be a Participant in the CATS Plan.

PII – Personally identifiable information, including a social security number or tax identifier number or similar information.

Reportable Event – Order or trade related information that includes, but is not limited to, the original receipt or origination, modification, cancellation, routing, execution (in whole or in part) and allocation of an order, and receipt of a routed order.

Shortlisted Bidder – A Qualified Bidder that has submitted a bid selected as a Shortlisted Bid.

SRO – Self Regulatory Organization(s) i.e. NYSE, BATS, NASDAQ

For more information



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