



April 4, 2017

Via Electronic Mail

Bats BZX Exchange	ISE Gemini
Bats BYX Exchange	ISE Mercury
Bats EDGA Exchange	Miami International Securities Exchange LLC
Bats EDGX Exchange	MIAX PEARL, LLC
BOX Options Exchange LLC	NASDAQ BX
C2 Options Exchange	NASDAQ PHLX
Chicago Board Options Exchange	NASDAQ Stock Market
Chicago Stock Exchange	National Stock Exchange
Financial Industry Regulatory Authority, Inc.	New York Stock Exchange
International Securities Exchange	NYSE MKT
Investors Exchange LLC	NYSE Arca

Re: Selection of Thesys as the CAT Processor

Dear SRO Representatives:

The Securities Industry and Financial Markets Association (“SIFMA”)¹ submits this letter to the self-regulatory organizations (“SROs”) that are the participants of the National Market System Plan Governing the Consolidated Audit Trail (“CAT”) to provide the SROs with input and comments regarding the selection of Thesys as the CAT Processor. SIFMA has previously detailed industry concerns with CAT in comment letters to the SROs, the Securities and Exchange Commission (“SEC”) and through our engagement in the CAT Development Advisory Group. As the SROs and Thesys move forward with the design, development and implementation of CAT, SIFMA and its members stand ready to integrate and expeditiously provide guidance and feedback throughout the process. This level of engagement with SIFMA is critical to ensure that the industry is thoroughly integrated into the process, especially given the significance and complexity of the CAT.

¹ SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over \$2.5 trillion for businesses and municipalities in the U.S., serving clients with over \$20 trillion in assets and managing more than \$67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

SIFMA looks forward to commencing work with the SROs and Thesys. In the meantime, we reiterate some of our key concerns and issues about the development of the CAT itself.

- **Data Security and Privacy:** The CAT NMS Plan outlines the security requirements for the CAT Processor, which Thesys will be required to implement in the overall design of the CAT. The SIFMA comment letter submitted in July 2016 reflects feedback from member firm subject matter experts and includes recommended data security standards for the CAT Processor that will protect both the PII and transaction data in CAT, and we urge the SROs and Thesys to incorporate these recommendations into the CAT system. In particular, we stress the need to build the CAT in a manner that will keep all of the CAT Data in the CAT System and allow the SROs and the SEC to set up their own “sandboxes” inside the CAT perimeter to use the CAT Data. The issue of data security and privacy remains critically important to SIFMA.
- **Elimination of Systems:** As we have stated repeatedly, the establishment of the CAT must be accompanied by the prompt elimination of duplicative systems. In particular, the CAT must be built in a manner that will facilitate the elimination of FINRA’s OATS system. While the CAT NMS Plan provides the SROs up to six months to file plans with the Commission for the elimination of those regulatory reporting systems made redundant by the CAT, the industry requires a more definitive timeframe. The CAT will impose significant industry costs, with the SEC estimating \$2.1 billion in implementation costs for CAT reporting, and \$1.5 billion in ongoing annual operational cost. Additionally, the Commission estimates that broker dealers spend \$1.6 billion annually to fulfill their current regulatory data reporting. Without a definitive time frame to sunset existing reporting systems there will be an undefined period during which the industry will be responsible of paying for both existing and new duplicative reporting costs. In particular, it is essential that the CAT be designed to allow the elimination of OATS as soon as possible after broker-dealers begin reporting to OATS. Accordingly, SIFMA recommends that the initial technical specifications be designed to facilitate the immediate retirement of OATS and other duplicative reporting systems.
- **Implementation Timeline:** The implementation timeline should be reassessed and extended to allow for a more iterative specification development process. SIFMA strongly advocates for an implementation timeline that permits firms to onboard to the CAT production environment once the firm has successfully completed testing in a production-like test system to reduce their error percentage rate prior to going live on CAT. This will ensure that the SROs, FINRA and SEC have higher quality data (for surveillance purposes) once firms begin CAT reporting.
- **Data Usage:** SIFMA raised a series of points in our CAT NMS Plan comment letter about usage of data collected and processed by the CAT. For example: broker-dealers should be able to access their own processed CAT data; none of the processed CAT data should be able to be used for commercial purposes by the SROs or any other party; and in addition, the CAT processor should not be allowed to commercialize any data collected by raw data or any CAT Data. The SROs and SEC should design the regulatory use cases and surveillance models for CAT in the design phase to ensure the CAT fulfills the SEC’s goal for regulation and surveillance and reduce development costs. Finally, the SROs should only have access to

CAT data related to their market (*e.g.*, an exchange should not be able to access CAT data about off-exchange trading).

- **Operational Challenges:** The SROs should provide more detail as to what they mean by error rates and define if all errors are treated equally, and if there is a grace period to reduce the error reporting rate. In addition, we believe the scope and definition of systems subject to the clock synch requirements in CAT is too broad. We also question the requirement and impact of providing timestamps on allocations. As the CAT design process moves forward, we will provide more detailed recommendations on these issues.

In addition to these concerns, we continue to object to the SROs' plan for industry funding of the CAT and the overly broad funding authority they have claimed. SIFMA also continues to maintain that industry members should have direct voting representation in CAT governance.

I would like to reiterate that SIFMA stands ready, willing and able to provide support to the SROs and Thesys as they undertake the creation of the CAT. The CAT will be a unique regulatory tool, and it is essential that the SROs engage the industry in a meaningful, collaborative capacity, to ensure that CAT meets its stated goals and that redundant reporting systems can be retired expeditiously.

I look forward to discussing this in greater depth with you.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ken Bentsen".

Kenneth E. Bentsen, Jr.
President and CEO
SIFMA

cc: Michael Piwowar, Acting Chairman, SEC
Kara Stein, Commissioner, SEC

Gary Goldsholle, Deputy Director, Division of Trading and Markets, SEC
David Shillman, Associate Director, Division of Trading and Markets, SEC
David Hsu, Assistant Director, Division of Trading and Markets, SEC

Edward Boyle, Chief Executive Officer, BOX Options Exchange
Edward Tilly, Chief Executive Officer, Chicago Board Options Exchange
David Herron, Chief Executive Officer, Chicago Stock Exchange
Robert Cook, Chief Executive Officer, FINRA
Bradley Katsuyama, Chief Executive Officer, Investors Exchange LLC
Thomas Gallagher, Chairman and Chief Executive Officer, Miami International Securities Exchange

Adena Friedman, Chief Executive Officer, Nasdaq
Jeffrey Sprecher, Chief Executive Officer, Intercontinental Exchange