



November 8, 2017

Chairman Jay Clayton
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Rule 613 Consolidated Audit Trail (Adopting Release No. 34-67457; July 18, 2012) and Consolidated Audit Trail NMS Plan (Release No. 34-79318; File No. 4-698) – Request for Extension of Compliance Date and Consideration of Targeted Changes to the Rule

Dear Chairman Clayton:

The Securities Industry and Financial Markets Association (SIFMA)¹ appreciates the opportunity to share our concerns regarding the Consolidated Audit Trail (CAT) with the Securities and Exchange Commission (“SEC” or “Commission”). SIFMA members are experiencing and foresee significant and fundamental difficulties in their efforts to achieve compliance with the current large broker dealer implementation date of November 15, 2018.² These challenges include a governance structure that does not give the industry a significant voice, a timeline and implementation schedule that does not reflect the reality of large scale process changes, and proposals to eliminate duplicative regulatory reporting systems that are not sufficiently aggressive. The industry also has material concerns regarding CAT data security, as well as the ability of critical parties to protect this highly sensitive data, which includes personally identifiable information (PII) and proprietary transaction data. These concerns have been heightened following the highly publicized Equifax and SEC Edgar breaches. Accordingly, the SEC should examine the cost and benefit of the CAT collecting extremely sensitive PII given the serious concerns around data protection and the ability of the CAT, the SROs, the SEC and CAT Reporters to confidently secure the critical information it will contain. As a result, on behalf of our Members, we respectfully request prompt Commission action to delay the November 15, 2018 compliance date for large broker dealer reporting to the Consolidated Audit Trail for a meaningful period to provide enough time to address the complex issues described below.

The extension period would serve three important purposes.

- i. Allow the enhancement of the CAT governance structure to include a new collaborative industry steering committee responsible for the development and administration of a CAT implementation plan.

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 \$18.5 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>.

² Rule 613 Consolidated Audit Trail

- ii. Permit Thesys sufficient time to develop robust technical specifications with industry input, and provide for adequate time for software development and testing, which will pave the way for high-efficacy CAT data to facilitate a prompt retirement of duplicative reporting systems. In addition, a phased implementation approach would allow for a smoother implementation process.
- iii. Allow Thesys and the SROs to undertake a rigorous review of the CAT's data security (as required by the NMS Plan) and amend the Plan such that *no* data may be downloaded from the CAT. We believe the Commission should reconsider the need for individual investor PII in CAT as measured against the risk of a cyber breach.

1. Governance Recommendations

SIFMA recommends that the SEC empower a Consolidated Audit Trail Industry Steering Committee (CAT ISC), like the T+2 Industry Steering Committee that successfully oversaw the migration to a shorter settlement cycle,³ to directly interact with the CAT Operating Committee. This CAT ISC should consist of senior staff from Thesys, the SRO's (including FINRA and representative exchanges) and industry members representing retail and institutional customers, options firms, clearing firms, regional firms, small firms and service providers, resulting in a broad cross representation of the industry.⁴ The CAT ISC should engage with the Operating Committee and SEC on all aspects of industry member CAT implementation to ensure that 1) the design can be supported by firms; 2) data security standards are comprehensive for all CAT Reporters and users of the data, and 3) compliance reporting and the elimination of systems occur in a prompt and coordinated manner. The CAT ISC should have responsibility for the development and implementation of a CAT program management process that, in conjunction with Thesys and the SROs, would be responsible for the development of a project plan that includes final technical specifications, robust testing and a phased implementation approach.

SIFMA is committed to working as part of the CAT ISC to ensure that SIFMA Member firms who participate are senior industry professionals, creating a peer to peer group, focused on the development and implementation of CAT. The CAT ISC should hold regular meetings with the Operating Committee, as well as regular status meetings with the Commission to ensure sufficient progress is made on milestones, and guarantee a strong voice for the industry.

SIFMA recommends that a CAT ISC be recruited and convened immediately and should be tasked with the following:

- Work on revised timeline, which will be part of a formal project plan;

³ SIFMA believes that the industry's experience implementing the reduction in the settlement cycle for equities and other securities, from trade date plus three to trade date plus two, was a prime example of how to undertake a major regulatory implementation. The industry was fully engaged in the process, which was driven by a Steering Committee comprised of industry representatives on the sell- and buy-side, along with DTCC. The timeline was established after the requirements were identified, allowing for adequate time for the software development cycle, coordinated industry tests, and the necessary time to ensure a successful transition in September 2017. SIFMA recommends that the SEC utilize this initiative as a model for project management given its success at mitigating risk upon conversion.

⁴ Unlike the current CAT Advisory Committee, the CAT ISC should not be subject to a non-disclosure agreement (NDA) in order for its members to effectively solicit input from relevant industry group members and industry subject matter experts, when required. The CAT ISC should not need to be privy to confidential dealings of the CAT Operating Committee to achieve its goals of providing a collaborative forum to oversee the CAT industry member implementation program.

- Agree on phased equity and listed-options implementation approach;
- Completion of technical specifications;
- Design of a coordinated UAT;
- Pilot trial period (equities);
- Implementation of equity reporting;
- Pilot trial period (options).
- Implementation of options reporting
- Act as a resolution body

Once this governance structure is implemented, a collaborative approach will help drive meaningful progress toward a smoothly implemented and effective Consolidated Audit Trail.

2. Technical Specification Development, CAT Implementation and the Elimination of Systems

The CAT ISC should oversee the project management element of the CAT implementation period, like the industry's work on the move to a shorter settlement cycle. The T+2 Industry Implementation Plan, which was the key implementation guide for T+2 for all industry members, can serve as a good example of the type of plan the industry can assemble. It is evident that the SROs require assistance with the technical specifications as the CAT NMS Plan creates two, seemingly arbitrary and different timeframes for Thesys' development and finalization of technical specifications. Specifically, the NMS Plan rules regarding order data reporting technical specifications (Order Specs) only permits Thesys 75 days from the release of the first draft to finalization, currently due on November 15, 2017. On the other hand, the NMS Plan rules regarding the customer information reporting specification (Customer Spec) permit Thesys 120 days from the release of the first draft until the final version is released.

The SROs and SEC should not bind Thesys to the arbitrary technical specification finalization timeframes in the CAT NMS Plan. The finalization of detailed technical specifications is critical, and both the Order and Customer Specs should be released in draft version(s), allow for robust iterative feedback, and Thesys should only release these specifications as final following approval from the CAT ISC, described above.

Once the Order and Customer Specs are finalized, industry participants should be given a minimum of twelve months to complete the requirements gathering and analysis, internal design and development, and testing base upon these final specifications. Mandatory testing should follow, and include coordinated industry tests involving industry members, the exchanges, and FINRA to allow for the validation of CAT reports, exception reporting and processing, and interfirm linkages between firms and the exchanges. This should be followed by a trial, phased implementation approach with equities in the first tranche, allowing the industry time to perform error corrections and linkage validations.

This methodology will provide firms with an opportunity to reduce error rates during the trial period prior to onboarding to the CAT. Provided that FINRA and the SROs specify the data fields that are required to calculate the error thresholds (used to determine when OATS and other systems can be retired), an initial reporting period of only equities would allow FINRA and the SROs to sunset redundant regulatory upon the CAT compliance date. SIFMA notes that it is imperative that the SROs, FINRA and the SEC, during each of the specification development processes work with Thesys and the CAT ISC to ensure that all necessary data fields are included in the CAT technical specs in order to facilitate a timely retirement of redundant reporting systems. It is imperative that the SEC works with the SROs and FINRA to ensure that any surveillance programs which are impacted by CAT, can cut-over to the new data set at the commencement of the industry member reporting period.

3. Data Security

SIFMA urges a fundamental rethink of the data contained within CAT, and how that data is managed and protected, considering the material evolution of the cybersecurity threat landscape since the CAT was envisioned, in 2010. Once complete, the CAT will be the world's largest data repository for securities transactions, and one of the world largest databases of any type. Every day the system will ingest 58 billion records – orders, executions and quotes for the equities and options markets – and would maintain data on over 100 million customer accounts and their unique customer information. This data would grow to an estimated 21 petabytes within 5 years – the equivalent of over ten times the content of all U.S. academic research libraries, in a single database. Despite these serious data protection concerns, the CAT technical specifications that have been released to date include alarmingly few details on data security and protection.

SIFMA has serious concerns about the CAT's data security requirements, including the current state of readiness in advance of the November 15, 2017 SRO and FINRA reporting date. As the SEC and SROs prepare to move forward with the development of the CAT, SIFMA member firms want to ensure the CAT does not introduce new data protection risks. The CAT NMS Plan codifies a series of requirements that must be undertaken prior to the CAT going live in production. It is imperative that these steps occur prior to launch since the CAT will include proprietary trade data upon commencement of reporting in November. The SROs, FINRA and Thesys should leverage the CAT ISC to ensure the CAT's data security meets the highest industry standards. Additionally, Thesys and the CAT ISC should develop broader data resiliency and data sharing controls. Cybersecurity threats apply not only to the CAT system operator but also the regulators who are pulling data from the system.

With regards to the Participants ability to download data from CAT, the current system design is such that the CAT Repository will support 3,000 individual users. Accordingly, SIFMA requests that the NMS Plan be amended such that the SROs, FINRA and the SEC do not have the ability to (bulk) download data from the CAT. Rather, the NMS Plan should be amended to reflect a sandbox approach so that no data *ever* leaves the CAT. This would provide the regulators with access to perform (proprietary) surveillance runs in a secure and confidential manner without the risk of data being removed from the CAT. In addition, we believe that transmission of data from broker-dealers into the CAT will also require strong security.

At a more holistic level, the SEC should examine the cost and benefit of the CAT collecting extremely sensitive PII. Financial firms and regulatory agencies share a common goal in securing and protecting the data entrusted to them by clients and financial institutions. The current CAT development plan raises serious concerns around data protection and the ability to confidently secure the critical information it will contain. Importantly, just as the industry carefully considers whether sensitive information needs to be collected and retained, the SROs and FINRA must make the case that the CAT's collection, storage, and use of PII is required for effective surveillance. As part of this analysis, SIFMA urges the SEC to reconsider the requirement for the collection of retail investor PII to be included in CAT.

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SIFMA appreciates the SEC's consideration of our views and concerns with respect to the Consolidated Audit Trail. Please do not hesitate to contact Thomas Price at tprice@sifma.org or 212-313-1260 or Ellen Greene at egreene@sifma.org or 212-313-1287 if you have any questions or if we can be of any further assistance.

Chairman Jay Clayton
November 8, 2017
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Sincerely,

Handwritten signature of Thomas F. Price in black ink.

Thomas F. Price
Managing Director
Operations, Technology & BCP

Handwritten signature of Ellen Greene in blue ink.

Ellen Greene
Managing Director
Financial Services Operations

cc: Commissioner Michael Piwowar
Commissioner Kara Stein
Mr. Brett Redfearn, Director, Division of Trading and Markets
Gary Goldsholle, Deputy Director, Division of Trading and Markets