

**MEMO# 29900**

May 6, 2016

## **SEC Seeks Comment on a National Market System Plan to Implement the Consolidated Audit Trail**

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TO: EQUITY MARKETS ADVISORY COMMITTEE No. 16-16  
ICI GLOBAL TRADING & MARKETS COMMITTEE No. 17-16  
SEC RULES COMMITTEE No. 22-16 RE: SEC SEEKS COMMENT ON A NATIONAL MARKET SYSTEM PLAN TO IMPLEMENT THE CONSOLIDATED AUDIT TRAIL

The Securities and Exchange Commission (“SEC”) recently published for comment a national market system (“NMS”) plan to create a consolidated audit trail (“CAT”) designed to allow regulators to track all trading activity in the U.S. equity and options markets. [1] The proposed NMS plan details the methods by which self-regulatory organizations (“SROs”) and their members (i.e., broker-dealers) would record and report information to the CAT. The proposed NMS plan also sets forth information about how the central processor for the CAT would maintain data accuracy, integrity, and security. Comments on the proposed CAT NMS plan are due 60 days after publication of the draft plan in the Federal Register, which is expected soon.

ICI will hold a member call to discuss the proposed CAT NMS plan on Thursday, May 12 at 2:00 p.m. (Eastern). If you would like to attend that call, please contact Helenia Walker at [helenia.walker@ici.org](mailto:helenia.walker@ici.org).

### **Background**

Rule 613 of Regulation NMS requires the SROs to submit jointly an NMS plan to create, implement, and maintain a CAT that would capture—in a single, consolidated location—customer and order event information for equity and options orders from the time of order entry through routing, cancellation, modification, or execution. [2] The CAT required by the rule would enhance the information available to the SEC by, among other things, improving the SEC’s ability to track an order as it is routed through broker-dealers and trading centers and linking executed orders to subaccount allocations. The rule outlines a framework for the CAT, including the minimum data elements the Commission believes are necessary to create an effective CAT, but grants the SROs broad discretion to supply details of the CAT through an NMS plan.

## **CAT Framework**

The proposed CAT NMS plan provides that a plan processor selected by the SROs will build a central repository that would receive, consolidate, and retain the trade and order data reported to the CAT. The plan processor must operate, maintain and upgrade the central repository, ensure the security and confidentiality of all data reported to the central repository, and publish technical specifications containing detailed instructions for the submission of data to the central repository. The SROs have not yet selected the plan processor, so the proposed CAT NMS plan contains few details about how the plan processor would fulfill its duties.

The proposed CAT NMS plan specifies how SROs and broker-dealers would report various events in the lifecycle of an order, including origination, routing, modification/cancellation, and execution. The plan would require SROs and broker-dealers to submit certain information about each order event to the central repository, including:

- A unique identifier for the order and for the customer submitting the order;
- An identifier for the broker-dealer receiving, originating, routing, or executing the order;
- The date and time of the event; and
- The symbol, price, size, order type, and other material terms of the order.

The CAT NMS plan generally would require this data to be recorded contemporaneously with the order event and reported to the central repository by 8 a.m. on the day following the event. The CAT NMS plan would require the SROs and broker-dealers to synchronize their business clocks to within 50 milliseconds of the time maintained by the National Institute of Standards and Technology. Automated order events would be time-stamped with a minimum time stamp granularity of one millisecond, while manual order events would be time-stamped to the second.

## **Data Confidentiality**

The proposed CAT NMS plan would make the plan processor responsible for the security and confidentiality of all CAT data received and reported to the central repository. The plan would require the processor to ensure that individuals with access to the central repository agree to use the data held in the central repository only for appropriate surveillance and regulatory purposes and to employ safeguards to protect the confidentiality of CAT data. The proposed CAT NMS plan also would require the SROs to adopt and enforce policies and procedures to implement effective information barriers between their regulatory and non-regulatory staff with regard to access and use of CAT data. The proposed CAT NMS plan would give the plan processor broad discretion to establish an appropriate data security and confidentiality program, but the SROs have not selected the plan processor, so details about the specific measures that the plan processor will impose are not yet available.

## **CAT NMS Plan Governance**

The SROs propose to conduct the activities of the CAT through a Delaware limited liability company that they alone would control. An operating committee composed only of the SROs—each with one vote—would manage the company. An advisory committee consisting of, among others, broker-dealers, investors, and a person with significant regulatory experience, would provide informal input to the operating committee. Advisory committee members, however, would have no right to vote on plan decisions.

## Use of CAT Data

The proposed CAT NMS plan would provide that the SROs and the Commission would have access to the data contained in the central repository for regulatory and oversight purposes. The plan would also permit SROs to use the raw data that they report to the central repository for commercial or other purposes not prohibited by applicable law, rule, or regulation.

## Proposed Implementation Schedule

Consistent with Rule 613 of Regulation NMS, the proposed CAT NMS plan would fully implement the CAT over a three-year period according to the following schedule:

- Within two months of SEC approval of the plan, the SROs would be required to select the plan processor;
- Within one year of SEC approval of the plan, the SROs would be required to begin reporting data to the central repository;
- Within two years of SEC approval of the plan, large broker-dealers would be required to begin reporting data to the central repository;
- Within three years of SEC approval of the plan, small broker-dealers would be required to begin reporting data to the central repository.

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### endnotes

[1] See Notice of Filing of the National Market System Plan Governing the Consolidated Audit Trail, Securities Exchange Act Release No. 77724 (Apr. 27, 2016), available at <https://www.sec.gov/rules/sro/nms/2016/34-77724.pdf>.

[2] See Consolidated Audit Trail, Securities Exchange Act Release No. 67457 (Aug. 1, 2012), available at <https://www.gpo.gov/fdsys/pkg/FR-2012-08-01/pdf/2012-17918.pdf>.