

**MEMO# 32471**

May 20, 2020

# **SEC Adopts Amendments to CAT NMS Plan to Require Implementation Plan and Financial Accountability**

[32471]

May 20, 2020 TO: Chief Information Security Officer Committee  
Equity Markets Advisory Committee  
Technology Committee RE: SEC Adopts Amendments to CAT NMS Plan to Require Implementation Plan and Financial Accountability

The SEC recently adopted amendments to the national market system (“NMS”) plan governing the consolidated audit trail (“CAT”).[\[1\]](#) The amendments would require the self-regulatory organizations (“SROs”) to file and publish a CAT implementation plan and make them financially accountable for related delays.

## **CAT Implementation Plan**

SROs must file with the Commission and make publicly available a detailed implementation plan[\[2\]](#) and quarterly progress reports.[\[3\]](#) These documents would need to be approved by a supermajority vote of the CAT NMS Plan Operating Committee. To the extent that any document is not approved by a unanimous vote, each SRO whose Operating Committee member dissents would need to separately file with the Commission, and make publicly available online, a statement identifying itself and explaining why it dissented to the document in question.

Some commenters objected to the mandatory disclosures in the quarterly progress report due to information security concerns. The Commission, however, stated that the report would not disclose any specific system defects and remedies, nor would it include any confidential or sensitive information related to CAT information security.

## **Financial Accountability**

The amendments also make the SROs financially accountable for implementation delays by reducing their ability to recover implementation costs from non-SRO CAT reporting parties.

The SROs must meet four “financial accountability milestone” deadlines to collect the full amount of any assessed fees that are meant to cover CAT development and implementation fees:

- July 31, 2020: Initial Industry Member Core Equity and Option Reporting[\[4\]](#)

- December 31, 2020: Full Implementation of Core Equity Reporting Requirements
- December 31, 2021: Full Availability and Regulatory Utilization of Transactional Database Functionality
- December 31, 2022: Full Implementation of CAT NMS Plan Requirements

If SROs do not meet the deadlines, then the fee recovery will be reduced in 25% increments, based on varying lengths of the delay.<sup>[5]</sup>

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#### endnotes

<sup>[1]</sup> Securities Exchange Act Release No. 34-88890 (May 15, 2020), *available at* <https://www.sec.gov/rules/final/2020/34-88890.pdf>.

<sup>[2]</sup> The plan must include a timeline for achieving the operational milestones and be published on each SRO website or the CAT NMS Plan website no later than 30 days after the effective date of the amendments, which is 30 days after their publication in the Federal Register.

<sup>[3]</sup> The quarterly progress reports must describe, among other information, the status in meeting the milestones and reasons for any delays. These reports must be published no later than 30 days following the end of each calendar quarter.

<sup>[4]</sup> This initial milestone corresponds to the SEC's recent exemptive order that establishes new CAT reporting deadlines. That exemptive order allows core equity reporting for certain reporting parties to begin on June 22, 2020 and core options reporting to begin on July 20, 2020. Securities Exchange Act Release No. 34-88703 (Apr. 20, 2020), *available at* <https://www.sec.gov/rules/exorders/2020/34-88703.pdf>.

<sup>[5]</sup> Recovery of fees for missing the initial July 31 deadline will be reduced (i) by 25% if the SROs miss the deadline by less than 45 days; (ii) 50% if greater than 45 days, but less than 90 days; (iii) 75% if more than 90 days, but less than 135 days; and (iv) 100% if more than 135 days. For the remaining three financial accountability milestone deadlines, recovery of fees will be immediately reduced by 25% and then further reduced by 25% for every additional 90 days of delay.