

MEMO# 30007

June 29, 2016

Draft ICI Comment Letter to SEC on Proposed National Market System Plan to Implement the Consolidated Audit Trail Comment Requested by July 8

[30007]

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TO: CHIEF INFORMATION SECURITY OFFICER ADVISORY COMMITTEE
EQUITY MARKETS ADVISORY COMMITTEE No. 22-16
ICI GLOBAL TRADING & MARKETS COMMITTEE No. 29-16
SECURITIES OPERATIONS ADVISORY COMMITTEE
SEC RULES COMMITTEE No. 28-16 RE: DRAFT ICI COMMENT LETTER TO SEC ON PROPOSED
NATIONAL MARKET SYSTEM PLAN TO IMPLEMENT THE CONSOLIDATED AUDIT TRAIL
COMMENT REQUESTED BY JULY 8

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. [*] The proposed CAT 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.

ICI’s draft comment letter on the proposal is attached for your review. If you have any comments on the draft letter, please send them to George Gilbert at george.gilbert@ici.org by close of business on July 8.

Our draft comment letter addresses three key aspects of the proposal: data security and confidentiality, governance, and the format of data reported to the CAT (“CAT data”). Part I of the draft provides context for our support of the CAT and explains why we remain concerned about the confidential information of registered funds. Parts II and III explain how the data security and confidentiality provisions of the CAT pose risks to registered funds and their shareholders and demand certain measures that would improve the safeguards of CAT data and prevent its misuse. In particular, the scant detail provided in the proposal inspires little confidence that the CAT NMS plan would protect CAT data from cyber criminals and others who may seek to profit from this information. These sections urge the

Commission to require plan participants—the SROs—to enhance the data security and confidentiality provisions of the proposed plan. In Part IV, we examine the governance of the proposed CAT NMS plan and recommend that the Commission adopt a governance structure that includes representatives from industry participants other than SROs, including registered funds. In Part V, we suggest that the CAT NMS plan ensure that the plan processor accepts data in a commonly used format to increase the quality of reported data and decrease the cost of reporting to the CAT.

The draft letter contains several questions – in bold – regarding proposed positions in the letter and the arguments supporting those positions. We would very much appreciate feedback on these questions.

George M. Gilbert
Counsel

[Attachment](#)

endnotes

[*] See ICI Memorandum No. 29900 (May 6, 2016), available at <https://www.iciglobal.org/iciglobal/pubs/memos/memo29900>.

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