



# Client Alert

## Americas FS Regulatory Center of Excellence



### CAT releases technical specifications for SROs

The Consolidated Audit Trail (CAT) Technical Specifications for the Self-Regulatory Organizations (SROs) were released by the CAT Plan Processor on May 15, 2017. These CAT Technical Specifications provide both SROs and broker-dealers insight into the details of the new transaction reporting requirements.<sup>1</sup> SROs and broker-dealers should mobilize implementation working groups around these Technical Specifications, as SROs and broker-dealers can now assess their current reporting infrastructure against the rule requirements and the Technical Specifications to gain a more detailed understanding of the resources required to build their CAT technology and overall reporting framework. While the complete broker-dealer Technical Specifications have yet to be published,<sup>2</sup> this Alert provides highlights of the recently-released SRO Technical Specifications.

#### Background

The Securities and Exchange Commission (SEC) Rule 613 set forth a National Market System Plan to establish and maintain a consolidated audit trail of order, quote, execution and linkage information in the U.S. equities and options markets. Market participants will be required to submit reportable events<sup>3</sup> to a central repository operated by the Plan Processor. The reporting requirements under CAT will greatly expand the data that is currently captured and reported under OATS, Electronic Blue Sheets and COATS. Initially, CAT will require reporting of secondary market transactions in NMS Securities (which includes listed options) and OTC equity securities, but may expand to fixed income securities and primary market transactions.<sup>4</sup>

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<sup>1</sup> “SROs” as the term is used in this document refers to “Participants” in the CAT NMS Plan, which includes the equities and options exchanges as well as FINRA. “Broker-dealers” as the term is used in this document refers to Industry Members in the CAT NMS Plan which are members of a national securities exchange or members of a national securities association.

<sup>2</sup> Plan Processor is required to publish Industry Member technical specifications for broker-dealers by November 15, 2017, but they may be published as early as August 2017.

<sup>3</sup> A “Reportable Event” includes, but is not limited to, the original receipt or origination, modification, cancellation, routing, execution (in whole or in part) and allocation of an order, and receipt of a routed order.

<sup>4</sup> On May 15, 2017, SROs submitted a document to the SEC which outlines how CAT can be expanded to include primary market transactions in equity securities and debt securities



## SRO Technical Specifications and Next Steps for Broker-Dealers

The SRO Technical Specifications define the data formats and fields required for SRO CAT reporting.<sup>5</sup> Broker-dealer CAT working groups/committees should review the SRO Technical Specifications, as they provide some insight to formulate readiness assessments and planning. However, there are still many questions as to what the Industry Member Technical Specifications will require beyond what is currently required today in OATS, explicitly in the SEC and FINRA CAT rules, or in the SRO Technical Specifications. Among many other key pieces of information, the SRO Technical Specifications provide detailed information on the formats, fields, values, linkages, and validations of CAT and how reporters can extract that information from their current records infrastructure. The SRO Technical Specifications provide mobilization details that firms should consider as they review the document. KPMG has included a few highlights from the Technical Specifications, including:

### Data Formats

- **Formats:** The fundamental data formats, which are supported for CAT submissions, are JavaScript Object Notation (JSON) and Comma Separated Values (CSV) files.
- **Time and Timestamps:** CAT reportable events must be reported with timestamps in Coordinated Universal Time (UTC) time zone. As an alternative, timestamps can be submitted as a value in POSIX or UNIX time.

### CAT Field Descriptions

- **Field Categories:** Fields will be designated as Required, Conditional and Optional as opposed to Mandatory or Conditional for OATS.
- **Order Types:** CAT, and the SRO Participants, have defined the listing of acceptable order types for use and reporting. It should be

noted that additional order types can be added as the market may dictate.

- **Order Handling Instructions:** CAT has not yet defined the values associated with special order handling instructions. Guidance is forthcoming on the permissible values, but no mandate has been given as of the release of these SRO Participant Technical Specifications.
- **NBBO:** SRO Participants will be required to report the NBBO along with bid/ask price (but not quantity) at the time of each reportable event.
- **Symbol Master:** CAT will maintain a start-of-day 6:00AM symbol master for all equity securities and listed options. Participants will need to access the symbol master via a web API or by uploading a daily file.

### Other Notable SRO Participant Requirements -

- **Order Restatement:** For open orders that are carried over across business days (e.g. GTC orders), the SROs are required to restate that live order each day prior to reporting any other activity for that symbol.
- **Three-Sided Linked Reports:** Each reportable event will include three-sided daisy chain-linked reporting as exchange ID, routed order ID and exchange session ID by the CAT Reporter. Typical US regulatory reporting has been one- or two-sided, but under CAT, the buy order, sell order and execution print (exchange or TRF) is reported. Three-sided linked reports will aid the regulators in accomplishing the intended goal of seamless order linkage for any event and allow for field comparison by the regulators between the three different linked reports.<sup>6</sup>
- **Reportable Events:** For SRO reporting purposes, any orders rejected by the gateway are not reportable, but those orders which reach the SRO's matching engine are reportable. It would be expected that broker-

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<sup>5</sup> See SRO Technical Specifications available at <http://www.catnmsplan.com/wp-content/uploads/2017/03/Cat-Participant-Tech-Specs-Redacted.pdf>.

<sup>6</sup> For example, an order executed on an exchange will include reporting by the SRO and both broker-dealers. An order internalized by a broker-dealer will be reported by that broker-dealer as well as by the Trade Reporting Facility where the trade was reported.

dealers also would not be required to report instances of orders which do not receive an affirmative acknowledgement (e.g. malformed, etc.) or routed orders that do not reach the routed destination.

- **Clock Synchronization:** SRO Participants requirement is to synchronize their clocks to the NIST atomic clock within 100 milliseconds while broker-dealers are required to synchronize their clocks to 50 milliseconds.

### KPMG's CAT Readiness Assistance

By now, firms should have initiated formal committee meetings with key stakeholders, including the lines of business, technology, operations and compliance to begin assigning roles and responsibilities for impact assessments and comprehensive analysis. CAT readiness should include tackling some of the tougher issues within complex trading operations, such as centralizing disparate order and transaction data into a "golden source" data repository.

Firms should also be reviewing CAT's impact to overall compliance program elements, including roles and responsibilities, end-to-end process controls, documentation and amendments to policies and written supervisory procedures, metrics reporting, training and record retention requirements.

KPMG can help firms enhance their Compliance Programs, data governance, and target operating models for regulatory reporting. KPMG can also help firms through the CAT implementation, including program management, scoping and rollout. KPMG's experience in regulatory reporting along with KPMG's proprietary automated trade reporting tool can assist in pre- and post-implementation testing and ongoing analysis of timeliness, completeness and accuracy of data submissions.

KPMG stands ready to assist broker-dealers in their project management, scoping and rollout of the CAT implementation, including creating automated, repeatable and sustainable processes to help meet reporting requirements. KPMG's phased approach includes impact assessments, mobilization and testing (see below):

**Impact Assessments** to determine scope and approach to mobilization:

- Help identify current state of key data; elements across eco-system and related regulatory reporting infrastructure,
- Perform gap analysis of current state reporting regimes (OATS / COATS / LOPR as needed) with recommended action plans including new field capture analysis;
- Customer Information Approach analysis of firm's ability to provide pristine initial Customer Account Information and Customer Identifying Information of account holder(s) and any person who can submit instructions for an account; and submit daily updates of this information when modified;
- Create Unique Customer ID for all retail and institutional clients
- Analyze regulation and CAT Technical Specifications for controls mapping.

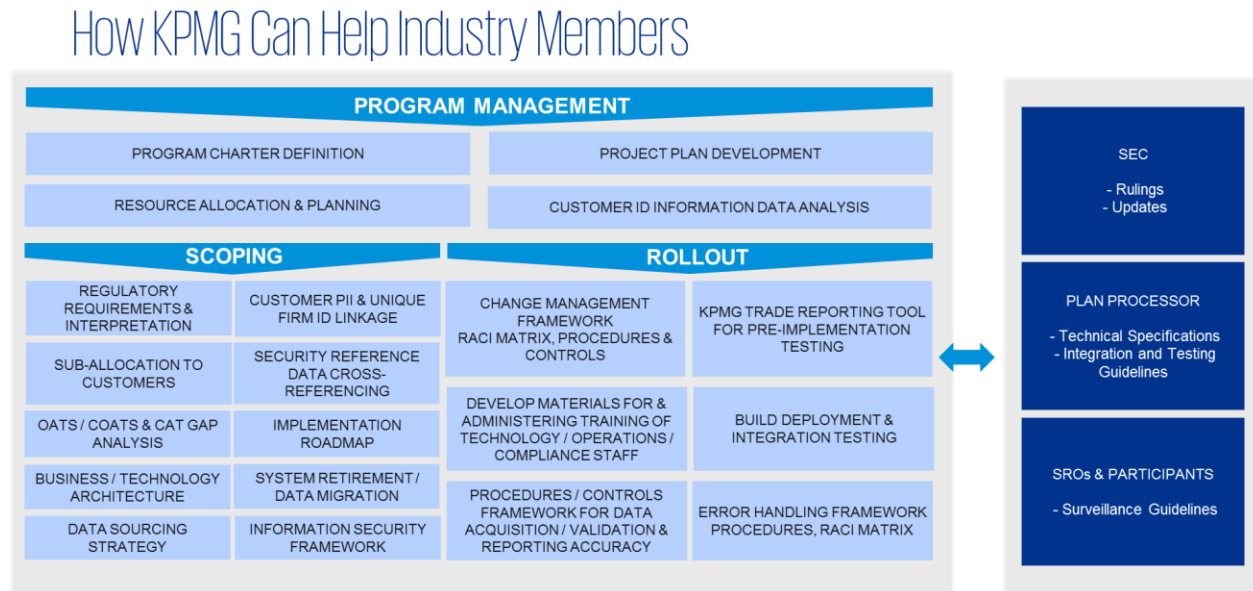
### Pre and Post Implementation Testing

- Help create test plan to determine coverage of functional and non-functional requirements
- Assist firms with testing of CAT reporting prior to go-live using KPMG's CRS trade reporting tool
- Test execution, interaction with development team to manage defect resolution
- Ongoing automated, repeatable and sustainable testing on a periodic basis to capture issues caused by technology, regulatory or business-related change management.

**Mobilization** of the program:

- Help develop sustainable governance structure, including integration with existing regulatory change framework and impacted BAU functions;
- Help create implementation plan with critical deliverables and milestones;
- Help identify high-level program risks and key dependencies.

A high-level illustration of KPMG's readiness assistance is depicted below:<sup>7</sup>



### Implementation Timeline

The next key date in the CAT implementation timeline is November 15, 2017, which marks the date that SROs will begin reporting to the CAT

Repository, and the date the Plan Processor must publish broker-dealer Technical Specifications. Other key CAT implementation dates are included below:



\* SEC has granted the following exemptions to Rule 613 –

- Options market makers do not have to submit quotes; the options exchanges will be responsible for submitting options quotation data
- Reporters do not have to provide unique Customer-IDs; the Plan Processor will create this based on PII and ID provided by Reporters for their customers
- Allocations do not have to be mapped to Executions
- Millisecond time stamping is not needed for manual orders
- The compliance date for business clock synchronization has been extended to February 19, 2018 for broker-dealers that do not currently capture millisecond time stamping

<sup>7</sup> CAT implementation services may not be permissible for KPMG LLP Audit Clients (or their affiliates).



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