

SEC OPEN MEETING

OVERVIEW

For questions on the note below, please contact [Kwon Park](#) at (202) 547-3035.

Today, the SEC held an open meeting to consider whether to publish for comment a proposed national market system (NMS) plan to create, implement, and maintain a consolidated audit trail (CAT), submitted pursuant to Rule 613 of Regulation NMS.

Please click [here](#) for the agenda.

Key Takeaways

- The Commissioners voted unanimously (3 – 0) to publish for comment the proposed NMS plan to create, implement, and maintain CAT, submitted pursuant to Rule 613 of Regulation NMS.
- Under the plan, self-regulatory organizations (SROs) will select a plan processor to build and maintain a central repository to retain and manage reported data. Market participants will report information, including the identity of the customer, resulting in a range of data elements that together provide the complete lifecycle of all orders and transactions in the U.S. equity and options markets including all routing, modification, and cancellation of orders.
- The Commission must decide whether to approve the CAT NMS plan within 180 days following its publication in the Federal Register. The public comment period is open for 60 days following its publication in the Federal Register. SEC staff will develop a recommendation to the Commission by the end of this year.

SUMMARY

Consolidated Audit Trail

[Chair Mary Jo White](#)

- CAT will be one of the world's most comprehensive and sophisticated financial databases, providing the complete lifecycle of all orders and transactions in the U.S. equity and options markets.
- CAT will enable regulators to more quickly analyze and reconstruct market events like the Flash Crash and the volatility of last August 24th. It will enable the SEC to more efficiently identify and investigate potential misconduct in high-volume, technology-driven markets, and enhance the ability to conduct research and monitor behavior throughout the equity markets.
- The proposed NMS Plan includes details on the operation of CAT, including how data would be reported by the exchanges and broker-dealers (BDs) and how that data will be made available to regulators. The plan also describes a variety of procedures to assure the timeliness, accuracy, and security of the data.
- The plan sets forth a maximum initial error rate of 5% for reporting data, and the expectations for how that initial rate will be lowered over time to 1% - interested to hear comments on the reasonableness of the error rate.

- The NMS Plan also proposes that the initial clock synchronization standard be within 50 milliseconds of the time maintained by the National Institute of Standards and Technology, and that it be reviewed annually to determine whether it remains appropriate – interested to hear comments on the practicability of this standard.
- Data contained in CAT contains highly sensitive information that includes unique customer-level information that needs to be secured – interested to solicit feedback on data security concerns.
- Implementation: data would begin to be reported by the exchanges and FINRA within one year of Commission approval, by large BDs within two years, and by small BDs within three years.

Commissioner Kara Stein

- Despite the four year delay, pleased to see that the SROs have finally proposed a CAT plan.
- The initial report on the Flash Crash took nearly four months to be issued - these month long delays on analyzing important market events are unacceptable as regulators need a clear and timely picture on what is happening in our markets to minimize risk and increase resiliency.
- The true value of CAT lies in tracking market orders from start to finish across multiple venues, and seeing how orders interact and impact other orders in our markets. Dislocations and market abuses can be more easily spotted and revealed.
- Concerns: maximum error rate, timeliness, completeness, accessibility, governance, incentives, and adverse impacts on competition.

Commissioner Michael Piwowar

- The Plan contemplates the retirement of duplicative regulatory data reporting systems, such as OATS, once the CAT is fully operational – interested to hear whether eliminating redundancies are realistic.
- Under the plan, personally identifiable information (PII) will be reported to the CAT, with special protections for such information - interested to hear about the risks of including PII and other customer-specific information.
- Also, interested to hear about the costs of implementing and maintaining the CAT.

Stephen Luparello, Division of Trading and Markets (TM)

- The plan provides SROs with the authority to select a plan processor that will build a central repository. SROs will manage the repository and determine what data elements are reported. The plan includes information on how regulators will access the data and confidentiality requirements.
- The Commission must decide within 180 days of publication whether to move forward with the plan. SEC staff will develop a recommendation to the Commission by the end of this year.

Davis Hsu, TM

- SROs will conduct activities by forming a jointly owned Delaware limited liability company - a supermajority of votes are needed for certain decisions.
- An advisory committee comprised of BDs, investors, and a person with significant regulatory experience will be formed to advise on the operation and administration of the central data repository.

- SROs will select a plan processor to build and maintain a central repository to retain the reported data.
- SROs and regulators will have direct access to the repository. The plan establishes requirements for: data security, connectivity, data transfer, encryption, storage, access, breach, maintenance, and etc.
- Previously issued Commission exemptive relief from certain requirements will grant SROs flexibility in managing the CAT. The Commission plans to eliminate rules and systems that seem duplicative of CAT.

Mark Flannery, Division of Economic and Risk Analysis (DERA)

- CAT will improve the quality of data available to regulators, and a single consolidated data repository will provide information to assess more events and products than currently available.
- Data enhancements will enhance regulators ability to oversee securities markets, analyze and reconstruct broad market events, and monitor overall market structure.
- The plan will result in costs to build and maintain the CAT, as well as cost to those reporting information. BDs will incur higher reporting costs at plan's inception until existing systems are phased out. In the long-run, BD reporting costs will be comparable to current reporting costs.