FINANCIAL INFORMATION FORUM

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January 31, 2013

Dear SRO Representatives,

The Financial Information Forum (FIF)[1] Consolidated Audit Trail (CAT) Working Group has reviewed the Information for CAT Bidders document[2] and, as requested, is submitting the following comments for consideration when defining the final RFP for CAT. The section numbers reference the corresponding section in the Information for CAT Bidders document. The comments have been qualified with responses received in the January 29, Pre-RFP Bidders Conference.[3]

1.1 Background

- The document does not specify that the RFP bidder should plan for extensions to other asset classes, e.g., fixed income. Although this was clarified in the January 29 Pre-Bidder's Conference, the RFP should be clear on this point.
- How can detailed cost benefit analysis be provided or design trade-offs be discussed in the RFP responses or the NMS Plan without the CAT Reporter perspective?
- FIF has experience in cost benefit analysis and industry cost modeling (e.g., OATS NMS Survey) and is offering to share its work and insights with the SROs assuming there is sufficient detail provided on the reporting interface requirements.

1.2 RFP and Build Timelines

- The current RFP timeline seems atypical of an infrastructure development project.
- The RPF calls for the design and development of a very large and complex technology infrastructure, and the subsequent day-to-day operation of this infrastructure. Yet the RFP does not include a description of the interfaces which will feed this infrastructure (reporting inputs). Nor does the RFP provide descriptions of the applications that will use this infrastructure for market surveillance and market reconstruction (outputs).

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[1] FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the financial technology industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

[2] Consolidated Audit Trail (CAT) National Market System (NMS) Plan, Information for CAT Bidders, dated January 18, 2013.

[3] http://catnmsplan.com/web/groups/catnms/@catnms/documents/appsupportdocs/p197774.pdf

- The bidders must respond within a very short two month window, with costs, but final approval of the bid may not happen for one year after submission of the bid. How will the bidder qualify the proposal and costs to be meaningful in 2013 while allowing for changes in costs, technology, resource availability, market forces that will likely occur by 2014? Isn't this requiring the RFP bidder to take on unreasonable risk?
- Will assistance in development of the NMS Plan be included as one of the responsibilities of the bidder?
- Would a staged RFP process better serve both the SROs and the industry and allow more reasoned approaches and cost assessments to be completed before a bidder is selected?
- The Build Timeframe calls for the exchange reporting to be implemented, concurrent with the publishing of the broker-dealer reporting specifications. This means that any conflicts identified during the development of the broker-dealer reporting specifications could require modifications to exchange implementations.
- The implementation time periods for exchanges is 6 months following publication of exchange reporting specifications and 12 months following publication of broker-dealer reporting specifications. That seems to be an aggressive schedule, given the complexity and breadth of Rule 613, and the potential impact to existing audit recording currently in place.

1.4 Response Evaluation Criteria
The document does not specify that the bidder should include their systems and data security experience. This is an important criterion for evaluating bidders – to evaluate both the bidder's technical solution as well as demonstrated experience that the bidder successfully managed a well-secured system in the past.

2.0 CAT Oversight and Management Structure
CAT functions should include System Monitoring/Reporting, Security Monitoring/Reporting, and Performance Measurement/Monitoring/Reporting.

3.1 Data Types and Sources
- The document specifies that all CAT Reporters will use the same reporting format. FIF would like clarification if that means that the RFP bidders should assume that both exchanges and B/Ds will use the same reporting format.
- The basis for the two thousand broker-dealers reporting to CAT is unclear. Additional information on the derivation of that number would be useful. FIF also recommends adding Order Sending Organizations (OSO) as another "data source" on the table on page 8.
- Following are comments on the table on page 9:
  - Allocations are not listed as a data type in the table on page 9.
  - Sponsored Access descriptions for broker-dealer and exchanges are different – can this be explained?
  - Should service bureaus be considered a different firm type?
  - Are self-help declarations included in Rule 613, or is this an extension to Rule 613?

o Should be possibility of the requirement for additional linkages (e.g., execution linkages or ticket-id) be raised in the RFP?

o In FIF's January 18, 2013 response to the Proposed RFP Concepts document (FIF January 18 response), FIF recommended that exchanges, not broker-dealers, should submit quotes.

- The RFP bidder should describe how the data will be secured during data transmission, ingestion, and storage. This was clarified in the January 29 Pre-Bidder's Conference, but should be included in the RFP.

3.4 Data Validation Requirements

- As previously commented in the FIF January 18 response, CAT Reporters should also be included on the Data Distribution side of the CAT Architecture. CAT Reporters should be able to view any of their own data (reporting or reference) submitted to the CAT.

- How can the error handling protocols, validations, etc. be specified in the RFP response when the reporting specifications including agreement on linkages haven't yet been defined?

4.1 Overview of Processing and Repository Data Flows

- As mentioned in comments for Section 3.4, the document does not include CAT Reporter as one of the audiences of Data Distribution (to view all of their own data submitted to CAT including "reference data", e.g., customer id definitions).

- In Figure 2, the diagram shows Market Reconstruction is a CAT component. In the January 29 Pre-Bidder's conference, it was explained that the Market Reconstruction application is outside the responsibilities of the CAT Processor, although the CAT Processor must provide the interface to allow data extraction to the SRO's and the SEC for market reconstruction. This should be clarified in the final RFP.

4.2 Order Lifecycle Assembly

- As previously commented in the FIF January 18 response, there are a number of questions on how to handle representative orders and allocation scenarios and the need to establish linkages back to orders. The answers to these questions may be important to the methodology used by the bidder for order lifecycle assembly.

- The RFP should reference a more complete set of CAT Reporter scenarios and CAT User scenarios as a framework in the design and development of the CAT Processor. As described in the FIF January 18 response, it was suggested that The OATS Order Reporting and Capacity Scenarios[4] could be referenced in the RFP, as a minimum set of scenarios.

4.3 Processing Timeframes

- As previously commented in the FIF January 18 response, FIF's view is that the error handling process needs to be a "continuous flow" model, not a one-time event on T+1 and T+4. Allocation records are not submitted to CAT until T+2. Amendments to records, especially allocation reports, occur frequently on T+2 and T+3. These records need to be accepted and re-

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[4] OATS Reporting Technical Specification, dated December 11, 2012, Sections 4.4 and 4.5

validated. Continuous acceptance of error corrections and re-validation will result in a more accurate record of the market status and essential for market reconstruction.

4.6 Technical Architecture
- The RFP should specify the availability criteria and the system redundancy required for the CAT Processor.
- Test and QA environments need to be provided by the CAT Processor for the CAT Reporters.

4.8 Security
- As mentioned in comments for Section 3.1, the method for storing and protecting sensitive data (like SSN) should be described.
- The physical environment is a key component of providing secure systems and data. The RFP should require the bidder to describe the physical plant and the security and availability characteristics afforded through the physical plant.

4.9 Data Access Tools and 5.3.1 CAT Reporter Support
- As mentioned above, in Section 3.4, access to CAT data and data tools are also required for CAT Reporters.
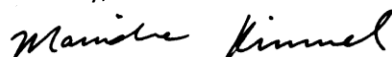
6.0 CAT Reporter Compliance
- Who is responsible for determining the maximum allowable error rate, and how will that threshold be determined?

8.0 Bidder's Cost Estimate
- The Information for CAT Bidders document specifies a three year horizon for the cost estimates. However, the cost model to invest in a physical plant, develop a software infrastructure and establish an operational organization within a three year time period seems almost prohibitive. The development time line alone of exchange reporting specifications through implementation of small broker-dealer reporting is a three year period. Should the cost estimates include costs accrued, presumably for assistance in the development of the NMS Plan, the time period between preliminary and final selection of bidder?

We understand that the Information to Bidders document was intended to give information on the anticipated content and structure of the RFP and hope these comments will be useful in the formulation of the final RFP.

Sincerely,

Manisha Kimmel
Executive Director
Financial Information Forum