

Allowing for Optional Use of Order ID on Allocation Report - Exemptive Relief Request Discussion Document

Proposed Exemptive Relief Request

FIF requests exemptive relief from the current Rule 613 obligation¹ that requires the CAT-Order-ID on allocation reports such that CAT-Order-ID would be an optional field and linkage would be established via the Firm-Designated ID. Currently, Rule 613 requires that the account number of any sub-accounts is included on the Allocation Report. The Firm Designated ID model establishes a process for all customer-identifying information including account number to be associated with the Firm-Designated ID.² Knowing the Firm-Designated ID on an allocation report would allow the CAT to link the sub-account holder to those with authority to trade on behalf of the account. In effect, linkage would be based on the customer rather than the order. Given that CAT will be able to identify the CAT Customer ID's associated with both orders and allocations, we believe this linkage should be sufficient to achieve the SRO/SEC surveillance goals without requiring a re-engineering of broker dealer middle and back office systems.

Background

As stated in previous discussions and documents shared with the SROs³, generally, the order and execution processes are handled via front office systems. The allocation process is the responsibility of middle/back office systems. These systems operate independently within the trade flow with linkages between these systems⁴ designed to facilitate the clearance and settlement of trades. Information available in front office systems regarding orders is not typically passed to middle and back office systems or from executing to clearing broker dealer. Likewise, allocation and clearing information is rarely stored in front office systems. Additionally, there exists a many-to-many relationship between orders and allocations. Given the widespread use of average price processing accounts, it is unclear to the clearing broker, prime broker or even the self-clearing firm which orders resulted in which allocations.

As documented in the FIF Large Trader Relief request⁵, to require firms to establish linkages across order and allocation processes would be very costly to the industry requiring extensive reengineering of middle and back office processes not just within a broker dealer but across firms. Issues include addressing average price processing accounts as well as creating new workflows across and within buy-

¹ Securities and Exchange Commission, Rel. No. 34-67457 Final Rule, Consolidated Audit Trail, Section c.7.vi, states: "If the order is executed, in whole or part, the following information:

(A) The account number for any subaccounts to which the execution is allocated (in whole or part);
(B) The CAT-Reporter-ID of the clearing broker or prime broker, if applicable; and
(C) The CAT-Order-ID of any contra-side order(s)."

² Additional background on the Firm-Designated ID model is included as an attachment.

³ FIF Consolidated Audit Trail (CAT) Working Group Response to Proposed RFP Concepts Document, January 18, 2013

⁴ In many cases, multiple vendor and proprietary systems and potentially different broker dealers are used to facilitate middle and back office processes.

⁵ See [January 12, 2012 FIF Large Trader Relief Request](#)

side firms, executing broker dealers and clearing broker dealers to address new data and linkage requirements. Unlike Large Trader Reporting, CAT includes customer identification on the order which addresses many of the surveillance goals of the SROs/SEC as we understand them. Some of the issues associated with the division of responsibilities of different broker roles in post-trade processing and the limited data passed between the firms are highlighted in the Post-Trade Order Handling Scenarios⁶ attached to this document.

FIF has proposed the use of the Firm-Designated ID as an alternate identifier to be included on allocation reports.⁷ The Firm-Designated ID, and associated customer identification process, allows each firm to define to the CAT multiple unique identifiers for one customer, i.e., multiple identifiers all relate to the same LEI. This will allow the firms to use a “master account” identifier for Order Reporting, but provide “sub-accounts” for Allocation Reporting. This would mimic the data available within the firms’ various systems at the points of order entry and allocations today, and reduce the impact to implement SEC Rule 613. Additionally, this approach would link the customer that placed the order with the accounts to which it was allocated.

In our discussions to date, we do not believe any significant benefits to requiring Order ID on allocations have been identified that would justify the large industry expenditure necessary to include Order ID on all allocations. Associating allocations with the Firm-Designated ID, would provide the most important regulatory and surveillance benefits without unnecessary burden to the industry.

⁶ Post Trade Order Handling Scenarios, December 11, 2013, submitted to DAG for discussion.

⁷ “As part of the customer definition process, multiple firm-designated customer identifiers will be supplied by a broker-dealer to identify a single customer to the CAT, i.e., refer to the same LEI. The firm-designated customer identifier available at the time of CAT reporting will be supplied on the report. For example, the “master account” firm-designated customer identifier could be supplied on a CAT Order Report and the “sub-account” firm-designated customer identifier could be supplied on a CAT Allocation Report.”, FIF Consolidated Audit Trail (CAT) Working Group Response to Proposed RFP Concepts Document, January 18, 2013