

SEC Rule 613 – Consolidated Audit Trail (CAT) OATS – CAT Gap Analysis

August 2016



Disclaimer

This OATS-CAT gap analysis is based only on Rule 613 requirements. The gaps identified herein may or may not be applicable to the implementation of the CAT based on the SEC-approved CAT NMS Plan and the CAT solution selected by the SROs.

Order Audit Trail System (OATS) – Overview

Currently, nine report types are submitted by broker-dealers to OATS.

OATS Report Type	Description
1 New Order Report	Records the receipt of an order from a customer, another member or non-member, or orders originated within a member firm
2 Route Report	Records the routing of an order to another member, ECN, non-member, or national securities exchange
3 Desk Report	Records the receipt of a full or partial transmittal to a desk or department within the member firm
4 Execution Report	Records the full or partial execution of an order
5 Cancel Report	Records the full or partial cancellation of an order
6 Cancel/Replace Report	Records the modification of an order
7 Combined Order/Execution Report	Records the receipt of an order from a customer, another member or non-member, or an order originated within a member firm and full execution on the same day
8 Combined Order/Route Report	Records the receipt of an order from a customer, another member or non-member, or an order originated within a member firm and full route of the order on the same day to another member, ECN, non-member or exchange
9 Order Display Modification Report	Applicable only for ATSS that display subscriber orders in NMS stocks, records the modification of the display price or size of a subscriber order

OATS and CAT Comparison

The following functions are captured in OATS and are in the scope of Rule 613:

Function
Required order events
Receipt
Modifications/cancellations
Transmission to other departments within the firm
Transmittal to another member or market center
Execution
Reporting obligations
Record required data elements immediately following order event
Timestamp
Record information in electronic form
Order life cycle creation
Linking orders across firms and to exchanges
Linking order events within a firm

OATS and CAT Comparison

The following compares OATS requirements to the requirements specified in Rule 613:

Items	OATS	Rule 613
1 Options	Not Required	Required
2 OTC equities	Required	Not Required (Currently required in the Plan)
3 Link the audit trail execution reports for buy and sell orders to the public trade report	Required	Not Required
4 Timestamp granularity	At least to seconds	At least to milliseconds
5 Market maker proprietary order submission	Not Required	Required
6 Customer information	Not Required	Required
7 Error correction timeline	Reject repair window is within 5 business days of final rejection delivery	The SROs proposed a reject repair window in the CAT NMS Plan filed with the SEC of 3 business days from the date the trade was executed
8 Exemptions for manual orders of certain broker-dealers/firms	In scope	Not in scope
9 Exclusions from definition of Reporting Member firms	In scope	Not in scope

OATS and Rule 613 Comparison

Approximately 95 data elements are currently captured in OATS reports submitted by broker-dealers. A list of these data elements, including a description of each, is included in Appendix A to the OATS Reporting Technical Specifications available on FINRA's web site at www.finra.org/industry/oats.

Since the adoption of Rule 613, one of the SROs' goals in creating and developing the CAT has been to incorporate all data elements into the CAT that are necessary to retire OATS and the OATS Rules. As part of the process of filing the CAT NMS Plan, the SROs undertook a review of the OATS data elements to identify those that are specifically required by SEC Rule 613 in 2015 and updated the analysis based on new OATS reporting requirements related to the Tick Size Pilot and ATS order books. As a result of these reviews, the SROs have identified 53 elements, listed below, that are not specifically required by Rule 613 that may be necessary to incorporate into the CAT so that OATS can be retired. The ultimate inclusion of some or all of these elements in CAT reports, as well as additional elements that are not reported to OATS, will depend upon the final Bidder solution and the Plan Processor's method for creating the order lifecycle.

• Action Type Code	• Arbitrage Code	• OATS Trade ID	• Cancel Type Flag
• Connection ID	• Correction / Deletion Timestamp	• Originating Broker / Dealer Number	• Do Not Reduce / Do Not Increase Code
• ATS Display Indicator	• Execution Type Indicator	• Expiration Date	• Expiration Time
• Information Barrier ID	• ISO Indicator	• Market Center ID	• Member Type Code
• Negotiated Trade Flag	• Order Origination Code	• Customer Instruction Flag	• Program Trading Code
• Received Method Code	• Receiving Terminal ID	• Record Type Code	• Rejected ROE ID
• Rejected ROE Resubmit Flag	• Replaced Firm Order ID	• Replaced Order Received Date	• Reporting Exception Code
• Routing Method Code	• Special Routing Condition	• Stop Price	• TMO Timestamp
• Trader Terminal ID	• Participation Flag	• Routable Flag	• Retail Investor Order Flag
• ADF Quote ID	• Display Price	• Display Size	• NBBO Bid Price
• NBBO Ask Price	• NBBO Source	• NBBO Ask Price at Execution	• NBBO Source at Execution
• NBBO Matching Engine Lookup Date	• NBBO Matching Engine Lookup Time	• NBBO Matching Engine Lookup Date at Execution	• NBBO Matching Engine Lookup Time at Execution
• Processing Sequence Number	• Participation Flag	• ATS Order Type	• NBBO Bid Price at Execution
• Order Display Modification Timestamp			

Retirement of OATS

As stated in the CAT NMS Plan, FINRA is committed to retiring OATS in as efficient and timely a manner as practicable. Before OATS can be retired:

1. The CAT must contain sufficient data to ensure that FINRA can effectively conduct surveillance and investigations of its members for potential violations of FINRA rules and federal securities laws and regulations.
2. Pursuant to Section 19 of the Exchange Act, the SEC must approve the amendment or elimination of OATS rules.

Key Considerations for the Retirement of OATS:

1. **Covered Securities:** The CAT NMS Plan includes OTC Equity Securities in the securities that must initially be reported to CAT in order to include these securities that are currently reported to OATS.
2. **Combining Complex Data:** FINRA is committed to working with the Plan Processor to utilize CAT Data in conjunction with OATS data to perform its regulatory obligations. The complexity of combining CAT Data with OATS data may be affected by the final Bidder solution and the Plan Processor's method for creating the order lifecycle.
3. **Quality and Reliability of the Data:** FINRA's ability to use CAT Data to perform surveillance and investigation is dependent on the quality and reliability of the data received from the CAT.
4. **Dual Reporting:** FINRA understands that firms do not want to report to both OATS and CAT simultaneously. However, FINRA anticipates that CAT Reporters that are also OATS Reporters will have to report to both OATS and CAT until FINRA can integrate CAT Data with OATS data in a manner that allows it to meet its regulatory obligations. FINRA is working internally and with the SEC staff to develop potential avenues for amending and ultimately retiring OATS, including potentially exempting firms from reporting to OATS once they are successfully reporting to CAT.
5. **Three-Year CAT Implementation Schedule:** Due to the rolling reporting obligations for CAT Reporters and because FINRA must continue to perform its surveillance obligations without interruption, OATS can be entirely eliminated only after all firms currently reporting to OATS are successfully reporting information to CAT.