

FINANCIAL SERVICES ALERT

CONSOLIDATED AUDIT TRAIL APPROVED BY THE SECURITIES AND EXCHANGE COMMISSION

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The Securities and Exchange Commission (“SEC”) approved a plan on November 15, 2016, to create the consolidated audit trail (“CAT”), a central data source to collect and accurately identify every order, cancellation, modification and trade execution for all exchange-listed equities and options across all U.S. markets. This plan is pursuant to SEC Rule 613, in order to enhance the ability of regulators to analyze trading activity. SEC Rule 613, adopted on July 11, 2012, requires self-regulatory organizations (“SROs”) to jointly submit a National Markets System (“NMS”) plan to create, implement, and maintain the CAT. The initial CAT NMS plan was filed by the SROs on September 30, 2014 and amended on December 23, 2015.

The SEC published the amended CAT NMS plan in May 2016 and requested public comments, later approving the plan.

The CAT NMS plan was created under the following principles:

- The CAT must achieve the goal of creating a single, comprehensive audit trail to enhance the ability to surveil the U.S. markets efficiently and effectively.
- The reporting requirements and technology must be flexible and scalable to changing market structures and volumes.
- Development, implementation, and operating costs should be minimized as much as possible.
- Industry input must be considered in creating the CAT.

Currently, each SRO uses its own separate audit trail system to track trade data in its respective markets, forcing regulators to accumulate large volumes of data from different entities in order to analyze market activity. In SEC press release 2016-240, Chair Mary Jo White stated that “through the CAT, regulators will have more timely access to a comprehensive set of trading data, enabling regulators to more efficiently and effectively conduct research, reconstruct market events, monitor market behavior, and identify and investigate misconduct.”

Under the approved CAT NMS plan, all exchanges, FINRA, and broker-dealers must report, quote and order information in Regulation NMS Securities to a newly created data repository. The data must be reported by 8 a.m. EST the following trading day. Reported data must be tagged and stored by the repository in a linked manner, so that regulators can track the life cycle of an order. Each broker-dealer and securities exchange must be assigned a unique identifier that is reported to the repository along with all transmitted data; and each customer (including any adviser to a customer who has trading discretion) must be assigned a unique customer identifier to be

reported to the repository for every order originated by the customer.

Under the published implementation timeline, the SROs must select a plan processor by January 15, 2017 who will build and operate the CAT central repository. SROs must begin reporting by November 15, 2017, large broker-dealers by November 15, 2018, and small broker-dealers by November 15, 2019. Although introducing brokers will have reporting obligations, it is anticipated that they may contract with their clearing firms or other vendors to transmit CAT data on the introducing broker’s behalf.

Mazars USA Can Help!

Please contact your Mazars USA Engagement Partner or one of the following individuals to have an in-depth discussion regarding the impact of these changes on your business.

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