FINANCIAL INFORMATION FORUM

5 Hanover Square
New York, New York 10004
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212-422-8568

Via Electronic Delivery

March 22, 2016

Brent J. Fields
Secretary, Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: SR-FINRA-2016-005: Notice of Filing of a Proposed Rule Change to Reduce the Synchronization Tolerance for Computer Clocks that are Used to Record Events in NMS Securities and OTC Equity Securities

Dear Mr. Fields,

The Financial Information Forum (FIF)[1] appreciates the opportunity to comment on SR-FINRA-2016-005 aimed at reducing the clock synchronization tolerance for reporting events associated with NMS Securities and OTC Equity Securities. While FIF members generally agree the 50 millisecond clock synchronization requirement is appropriate for order and execution events, our members are perplexed by the timing for implementation of this rule change as we are close to approval of the Consolidated Audit Trail National Market System Plan ("CAT NMS Plan" or "CAT")[2]. Also concerning are any potential differences that may arise in the scope of events covered by FINRA's requirements versus those that are ultimately approved in the CAT NMS Plan. Additionally, FIF reminds the regulators that the estimates provided in the FIF Clock Offset survey[3] were limited to costs associated with timestamps and offsets on order and execution events, and did not account for any costs that might be associated with increasing timestamp granularity or clock synchronization requirements for post-trade activities. These points are elaborated below.[4]

FIF members believe the CAT NMS Plan should set the policies and rules regarding clock synchronization requirements of recording events associated with applicable regulatory reporting requirements. Based on recent

[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] Letter from BATS Exchange, Inc., et.al. ("The Participants") to Mr. Brent J. Fields, February 8, 2016, "Clean Version" of the December 23, 2015 Amended and Restated Consolidated Audit Trail National Market System Plan (CAT NMS Plan) Submission
[3] FIF Clock Offset Survey – Preliminary Report, January 29, 2015
[4] Similar concerns were expressed previously in Manisha Kimmel's (Managing Director, FIF) letter to Ms. Marcia Asquith, February 20, 2014, Re: Regulatory Notice 14-47 – Proposal to Tighten Business Clock Synchronization Requirements

comments by Chair Mary Jo White[5] and Commission staff[6], the expectation is that the CAT NMS Plan will be approved before year end 2016. Clock synchronization will be required to be in place by CAT Reporters of all sizes within 4 months after CAT NMS Plan approval. CAT Reporters should be moving forward with their plans to ensure compliance with the CAT clock synchronization requirements, once the CAT NMS Plan is approved. While any difference in timing of implementation after adoption of the FINRA proposal and the CAT NMS Plan may be minimal for large firms, the misalignment with the phased approach suggested by FINRA for the smaller firms and/or less automated firms to comply could cause confusion, because the CAT Plan and FINRA's effective dates for clock synch would be very different. Changes in implementation plans to meet revised FINRA requirements could disrupt the current installation and uplift plans of the CAT Reporters to meet the CAT NMS Plan requirements. Additionally, any differences in the scope of applicability of the clock synch requirements will be problematic.

One of the clear benefits of SEC Rule 613[7] is the creation of a single audit trail with a consistent set of rules and regulations and the retirement of the various, and sometimes conflicting, duplicative reporting rules. This FINRA proposed rule change is contrary to the intended direction of Rule 613, and the timing seems unnecessary, given the expectation of CAT NMS Plan approval before year-end 2016. FINRA can, of course, adopt the clock synchronization rules included in the CAT NMS Plan, once approved, to ensure consistency across CAT and FINRA reporting requirements.

FINRA's proposal will "relocate the clock synchronization requirements from OATS rules to a rule set where it is clear the requirements apply to the recording of the date and time of any event that must be recorded under FINRA By-Laws or rules". While it does not appear to be FINRA's intent to expand the applicability of increased granularity of timestamps and clock synchronization requirements to post-trade events such as allocations, we wish to take this opportunity to remind the Commission and FINRA that FIF members are opposed to the future prospect of more stringent timestamp requirements on post-trade events. As an example, FIF has been contesting the inclusion of a time stamp on allocations reports on the CAT NMS Plan[8]. Thus, as FINRA consolidates and codifies the clock synchronization requirements under new Rule 4590 within FINRA's Rule 4500 Series (Books, Records and Reports), FIF wishes to stress that any events beyond "the time a trade was executed or the time an order was received or routed" are not nearly as time sensitive and should not require the same level of granularity in time stamps and precision of clock synchronization for regulatory purposes.

As stated in the FIF Clock Offset Survey, FIF supported a 50 millisecond clock offset for order and execution events based on data collected by the survey including the current state of clock management technology, the rate of adoption within the industry on order management and execution platforms and the compelling regulatory need for fine precision time stamps on order and execution events. However, FIF does not agree that there is a similar regulatory benefit for this precision when recording post-trade events, especially when considering the delta costs that would be incurred for the upgrade of post-trade servers to more precise clock management technologies. As noted, FIF has raised this concern to the CAT Participants regarding the CAT NMS Plan, and will provide further comment to the SEC when the CAT NMS Plan comment period is opened.

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[5] Chair Mary Jo White's interview with Bloomberg TV, March 8, 2016

[6] Testimony from Mr. Stephen Luparello, Director of Division of Trading and Markets, U. S. Securities and Exchange Commission at "Regulatory Reforms to Improve Equity Market Structure" Hearing, Committee on Banking, House and Urban Affairs Subcommittee on Securities, Insurance, and Investment, March 3, 2016

[7] SEC Release No. 34-67457, File No. S7-11-10, Consolidated Audit Trail (Effective Date October 1, 2012)

[8] Mary Lou Von Kaenel's (Managing Director, FIF) letter to BATS Exchange, Inc., et.al. ("The Participants"), February 10, 2016, Re: Technical Amendment to CAT NMS Plan, December 23, 2015

The FIF Clock Offset Survey is cited extensively in the referenced FINRA filing, using the costs reflected in that survey as part of its economic justification. This survey had a fundamental assumption[9] that limited the scope of the survey to order and execution events. At the time of the survey, a time stamp on post-trade allocation events was not a required element in Rule 613 or in the filed CAT NMS Plan[10]. Any eventual expansion of the 50 millisecond clock synchronization requirement to servers handling post-trade events significantly increases the costs of clock synchronization to the industry because servers capturing time stamps of non-order and trade execution events have never been considered time sensitive and therefore, the installation of modern clock management technologies on these servers has not been a priority for many firms.

Moreover, the FIF Clock Offset Survey recommends a nine-month implementation time period based on a survey of over 25 market participants. If the FINRA rule filing were to affect servers that have not previously been subject to stringent clock management regulatory reporting requirements, then the time required to be compliant is expected to increase by at least six months, due to the need for additional scoping, analysis and uplift of infrastructure that will require to be retrofitted with the latest clock synchronization technologies.

In summary, given the Consolidated Audit Trail ("CAT") National Market System ("NMS") Plan is expected to be approved by end of 2016, FIF members question the need and benefit of this rule filing at this time. FIF encourages FINRA to work through the CAT NMS Plan process to achieve their clock synchronization objectives and avoid redundant, and potentially conflicting, rule-making. Also as discussed, it is important that post-trade events do not, perhaps inadvertently, become subject to the requirements for more granular timestamps or more rigorous clock synchronization, as this would add significantly to the time and costs of implementation.

Thank you for consideration of FIF's concerns. Please do not hesitate to contact me with questions or to arrange for further discussion.

Regards,

Mary Lou Von Kaenel

Mary Lou Von Kaenel
Managing Director
Financial Information Forum

[9] "For the purposes of this survey, please assume that the term "**applicable systems**" includes all systems supporting quoting, order and execution reporting for NMS securities (options and stocks) as well as OTC equity securities that will be subject to CAT reporting.", FIF Clock Offset Survey – Preliminary Report, January 29, 2015

[10] "Initial CAT NMS Plan", filed September 30, 2014 with SEC