

FINANCIAL INFORMATION FORUM

December 8, 2023

By electronic mail

Brandon Becker
CAT NMS Plan Operating Committee Chair

Shelly Bohlin
President and Chief Operating Officer, FINRA CAT

Re: September 28, 2023 and November 7, 2023 FINRA CAT Billing Webinars; Implementation of CAT Billing

Dear Mr. Becker and Ms. Bohlin,

FIF is submitting this letter on behalf of FIF members as a follow-up to the letters that FIF submitted on October 10, 2023, October 26, 2023 and November 22, 2023 regarding the September 28 and November 7, 2023 CAT billing webinars and the implementation of CAT billing. FIF members appreciate the actions taken to date by the CAT Plan Participants and FINRA CAT to support reconciliation of CAT billing by industry members. FIF is submitting this letter on behalf of FIF members that are broker-dealers and vendors that support these broker-dealers.

To facilitate reconciliation by industry members, FIF members request that the CAT system allow for the break-out of invoices by CAT submitter and CAT reporter IMID.

Limiting the data provided to a CAT submitter in the monthly trade details file to the records submitted by the CAT submitter

There are reporting firms that use multiple CAT submitters to submit their order events to CAT. There are also reporting firms that submit a portion of their order events to CAT without using a CAT submitter and use one or more CAT submitters to submit other order events to CAT. In many cases, these CAT reporters intend to permission these CAT submitters to view the trade details files of the CAT reporters to assist with reconciliation. In the scenario where a CAT reporter has permissioned a CAT submitter to view the CAT reporter's trade details files and the CAT submitter has not submitted all order events for the CAT reporter, the CAT reporter will be disclosing to the CAT submitter confidential trade information of the CAT reporter and the CAT reporter's customers beyond the scope of the services provided by the CAT submitter to the CAT reporter.

To address this concern, FIF members recommend that any data for a CAT reporter provided to a submitting firm be limited to the data submitted by that submitting firm on behalf of the reporting firm. FIF members understand that this type of filtering would require additional processing by the CAT system, as discussed below.

Providing a break-out by CATReporterIMID for firms that report with multiple CATReporterIMID values

Some reporting firms report to CAT using multiple CATReporterIMID values. These multiple CATReporterIMID values can represent different business lines or different clearing arrangements. Because billing will be at the CRD level, and the trade details files will also be provided at the CRD level, it will be more difficult for these firms to reconcile the trade details files against their trading activity. To help address this concern, FIF members request that the CAT system incorporate the capability to generate separate invoices for a CAT reporter based on the CATReporterIMID reported by the CAT reporter. FIF members understand that this approach would involve additional processing by the CAT system, as discussed below.

CAT system linkage

The filtering requested by FIF members, as proposed above, can be achieved through the linkage provided through the CAT system. There are a number of trading workflows that would need to be considered. Below we describe various workflows and how the filtering requested above could be achieved for these workflows. We do not seek to identify all trading workflows, as the same general approach would apply across all trading workflows. FIF members are aware of three scenarios where the proposed linkage could not be achieved: scenarios involving a manual route by an industry member to an execution venue; scenarios where the execution venue and the industry member routing to the execution venue do not link in CAT because of a reporting error by one of the reporting parties; and scenarios where a Participant Option Trade Event links to an Option Quote event reported by an exchange on behalf of an industry member. These trades could be identified separately in any break-out of trades.

In the sections below, we discuss the following three categories of trade executions:

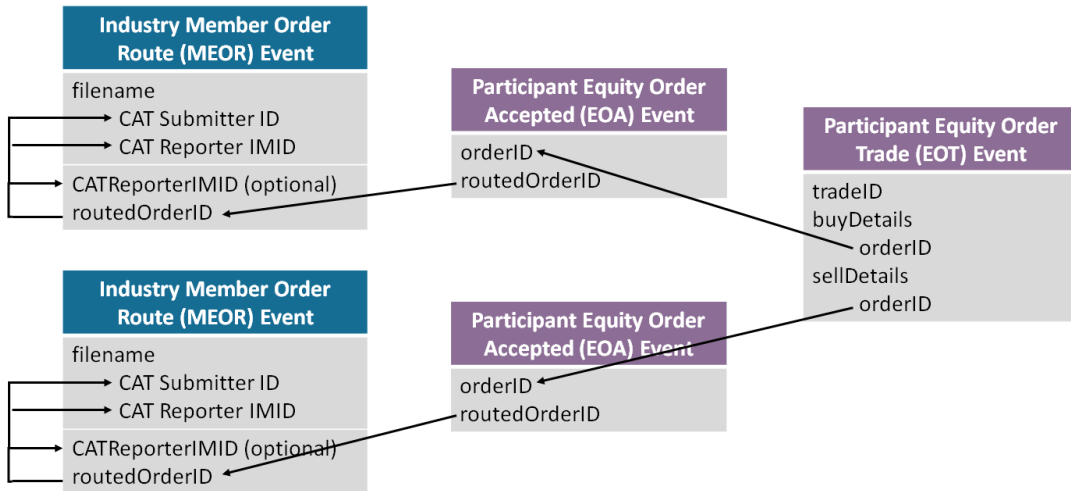
- Exchange executions for equities
- Off-exchange executions for equities
- Exchange executions for options

Exchange executions for equities

FIF members understand that, for exchange executions for equities, billing will be based on the Participant Equity Order Trade event. As illustrated in Diagram 1, the Participant Equity Order Trade event can be linked to the Participant Equity Order Accepted event for each side (based on the orderID), and the Participant Equity Order Accepted event for each side can then be linked to the Industry Member Order Route event for each side (based on the routedOrderID):

Diagram 1

Exchange Executions for Equities



The CAT system can then obtain the CAT Submitter ID and the CAT Reporter IMID from the filename of the file that includes the Order Route event. The CAT Technical Specifications also provide industry members an optional field for reporting the CATReporterIMID.

The following is one permutation of this workflow that the CAT system would need to address:

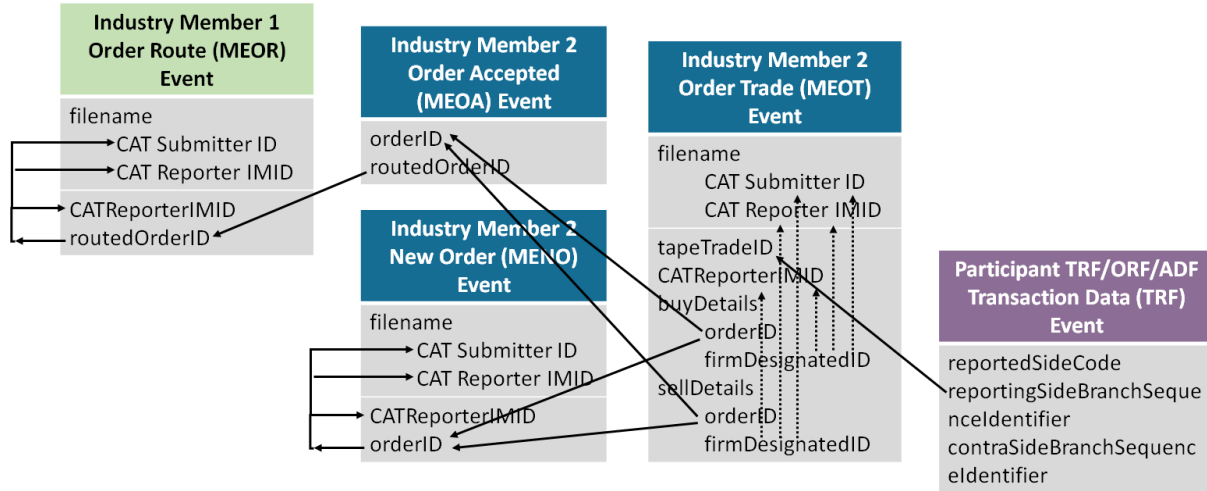
- The Participant Equity Order Trade event could link to a Participant Equity Order Modified event rather than a Participant Equity Order Accepted event. In this scenario, the CAT system could link the Participant Equity Order Modified event to an Industry Member Order Route event or Route Modified event and then use the Order Route event or Route Modified event to obtain the CAT Submitter ID and CAT Reporter IMID.

Off-exchange executions for equities

FIF members understand that, for off-exchange executions for equities, billing will be based on the TRF/ORF/ADF Transaction Data Event (reported by FINRA) (“TOATDE”). As illustrated in Diagram 2, the TOATDE reported by FINRA can be linked to the associated Industry Member Order Trade event (based on the reportingSideBranchSequenceIdentifier on the TOATDE and the tapeTradeID on the Industry Member Order Trade event):

Diagram 2

Off-Exchange Executions for Equities



If the Industry Member Order Trade event reports an FDID for a side of the trade, the CAT system can obtain the CAT Submitter ID and the CAT Reporter IMID from the filename of the file that includes the Industry Member Order Trade event or look to the CATReporterIMID field in the Industry Member Order Trade event (which is optional for firms to report). If the Industry Member Order Trade event reports an orderID for a side of the trade, the CAT system can link to the Order Accepted event for that side of the trade. This Order Accepted event, in turn, links to an Order Route event. The CAT system can then obtain the CAT Submitter ID and the CAT Reporter IMID from the filename of the file that includes the Order Route event or look to the CATReporterIMID field in the Order Route event (which is optional for firms to report). Alternatively, if the orderID links to a New Order event, the CAT system can obtain the CAT Submitter ID and CAT Reporter IMID from the file name associated to the New Order event or look to the CATReporterIMID in the New Order event (which is optional for firms to report).

There are various permutations of this workflow that the CAT system would need to address:

- The Industry Member Order Trade event could link to an Order Internal Route Accepted event (MEIR) or a Child Order event (MECO) rather than an Order Accepted or New Order event. In this scenario, the CAT system could link the MEIR or MECO to an upstream New Order event, or to upstream Order Accepted and Order Route events, to obtain the CAT Submitter ID and CAT Reporter IMID.
- The Industry Member Order Trade event could link to an Order Modified event rather than an Order Accepted event. In this scenario, the CAT system could link the Order Modified event to an Order Route event or a Route Modification event and then use the Order Route or Route Modification event to obtain the CAT Submitter ID and CAT Reporter IMID.

- The Industry Member Order Trade event could link to one or more Order Trade Supplement events. These Order Trade Supplements events, in turn, would link to Order Accepted, Order Modified, New Order, Order Internal Route Accepted and Child Order events, as discussed above.
- For negotiated executions, each side would report a one-sided Order Trade event to CAT. Linkage to upstream CAT events would then apply in the same manner as applied for two-sided Order Trade events, as described above.
- For certain OTC Link executions, the CAT system would need to look beyond the OTC Link Order Route (or Route Modification) event to link to the Order Route (or Route Modification) event of the non-executing OTC Link participant.

Exchange executions for options

To the extent that the workflows for exchange executions for options follow the workflows for exchange executions for equities, we do not repeat these workflows. The CAT system would need to consider the following workflows, which differ from the equity workflows:

- A Participant Option Trade event could link to an Option Quote event, which is also reported by the Participant. The submitter for the Option Quote event is the Participant.
- For certain manual executions on an exchange floor, the Participant Option Trade event could link back to an Industry Member Option Trade event for each side (see, for example, Reporting Scenarios 8.2.4 and 8.4.3). The Industry Member Option Trade events link to upstream CAT events, as discussed above.
- An Option Trade event reported by an industry member could link back to a Multi-Leg Order Accepted event (see, for example, Reporting Scenarios 8.2.5 and 8.4.3).

Additional questions

FIF members have the following additional questions relating to CAT billing for specific reporting scenarios:

- FIF members believe the following to be correct for the scenario where a FINRA member firm routes an order to a non-FINRA member firm and the non-FINRA member firm executes the order, and FIF members request confirmation on this point:
 - The tape report to the TRF cannot have a non-FINRA-member on it; FINRA does not allow this.
 - The only broker-dealer named on the TRF tape report will be the FINRA member.
 - Therefore, according to the CAT billing logic, CAT will bill the FINRA member twice for these trades: 1/3 for the buying broker's fee; and 1/3 for the selling broker's fee.
- FIF members request confirmation that for manual executions on an exchange floor where the exchange and the executing industry members report Trade events, the CAT system, for billing purposes, ignores the Trade events reported by the industry members (see, for example, Reporting Scenarios 8.2.4 and 8.2.5).

- Which parties are charged as the buyer and seller in Reporting Scenario 8.3.2 (BOX Options Floor Broker Receives Offsetting Orders for Crossing in Open Outcry (Floor Market Maker takes partial contra side))?

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Please note that, given the time constraints, FIF is submitting this letter on an expedited basis. FIF members continue to review and discuss the reconciliation process for CAT billing and will likely have additional comments and questions in the future.

If you would like clarification on any of the items discussed in this letter or would like to discuss further, please contact me at howard.meyerson@fif.com.

Very truly yours,

/s/ Howard Meyerson

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