

CAT Compliance – Industry Webinar

FINRA CAT, LLC and SRO CMRWG

July 29, 2020

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- Agenda
 - Cross Market Regulation Working Group
 - Framework for SRO CAT Regulation Functions
 - FINRA CAT's Role
 - SROs' Coordinated CAT Reporting Compliance Plan
 - Q & A

Cross Market Regulation Working Group

- In anticipation of CAT reporting by broker-dealers, the SROs' regulatory units established the Cross Market Regulation Working Group (CMRWG).
- The CMRWG is a working group under the U.S. Subgroup of the Intermarket Surveillance Group, an association of U.S. SROs focused on regulatory cooperation and information sharing.
- The SROs intend the CMRWG to provide a non-exclusive forum to reduce the potential for unnecessary regulatory duplication among the SROs.
- The SROs have worked through the CMRWG to discuss the regulatory arrangements among the SROs for conducting surveillance, investigations, examinations and enforcement functions related to their members' compliance with CAT reporting rules.

Framework for SRO CAT Regulatory Functions

- Regulatory Framework
 - The SROs have adopted a coordinated approach to regulate and enforce CAT Compliance Rules.
 - This approach is described in SRO memos that were recently issued, including FINRA Regulatory Notice 20-20, and consists of the following:
 - 17d-2 Agreement – Allocating responsibility for CAT Regulatory Functions among the SROs
 - FINRA Members – allocated to FINRA
 - Non-FINRA broker-dealers – allocated among the SROs of which they are a member
 - Regulatory Service Agreement – FINRA will perform CAT Regulatory Functions for non-FINRA members by contract and subject to the oversight of the SRO to which the firm is allocated
 - CAT Compliance Rules will (subject to SEC approval) be eligible for disposition under each SRO's Minor Rule Violation Plans (MRVPs).
- SROs' Coordinated Regulatory Program compared to FINRA CAT's Role

FINRA CAT's Role

- FINRA CAT does not have regulatory authority over CAT Reporters.
- FINRA CAT's compliance and operations programs monitor the CAT system to track and assess CAT Reporter operational compliance with SEC Rule 613.
- The compliance and operations programs also report and interface with the Plan Participants, CAT Reporters and the SEC on CAT Reporter issues.

FINRA CAT's Role

- **CAT Reporter Monitoring & Feedback Program**
 - Produce and provide reports and metrics to Participants, SEC and Operating Committee, including Compliance Threshold Reports
 - IM Reporter Portal
 - Reporting statistics and error rate reporting
 - CAT Reporter Compliance Monthly Report Cards
 - Data Monitoring
 - Help Desk Compliance Inquiries
 - CAT Reporter self-reporting of issues including erroneous events and clock synchronization violations
 - Providing information to the appropriate regulators, including on issues that warrant escalation

SROs' Coordinated CAT Reporting Compliance Plan

- Carried out via a combination of Surveillance Patterns and Examinations
 - Each SRO has identical CAT Compliance Rules.
 - Each SRO has added/is adding CAT Compliance Rules to their Minor Rule Violation Plans.
 - Will publish a Regulatory Notice on supervision of CAT reporting soon.
- Comparison of OATS Regulatory Oversight to CAT Regulatory Oversight

SROs' Coordinated CAT Reporting Compliance Plan

- **Surveillance Patterns**

- Will focus on non-reporting, timeliness and accuracy. Particular emphasis on non-reporting at the start of IM reporting.
- Will focus on both Equity and Option Reporting.
- Some patterns will rely on CAT Report Cards generated by FINRA CAT.

SROs' Coordinated CAT Reporting Compliance Plan

- **Investigative Process – A “Rapid Remediation” process will be utilized for many other compliance-related surveillance reviews.**
 - OATS reviews were conducted on a quarterly or trimester basis.
 - Under the Rapid Remediation approach, the staff utilizes a process involving more frequent delivery of alerts followed by immediate outreach to firms with the goal of attempting to resolve the underlying issue expeditiously.
 - Self-Reporting will be taken into consideration.

SROs' Coordinated CAT Reporting Compliance Plan

- Examination Focus
 - Policies/Procedures/Controls
 - Reporting process
 - Exception management
 - Control Processes
 - Data submissions
 - Third Party Reporting
 - Designated Principal
 - Demonstrations / Firm Provided Information
 - Trade life cycle event
 - Exception management
 - FDID assignments
 - Control processes
 - Data transmission

SROs' Coordinated CAT Reporting Compliance Plan

- Data Integrity Testing
 - Random sampling review – Equities orders/Options orders
 - Review data submissions for accuracy
- FINRA's exam program has begun conducting CAT Reporting reviews for Equities beginning with trading exams that were/will be announced in July 2020 or later.
- Options reviews will be conducted on trading exams announced in August 2020 and later.

Questions and Answers

- Q&As for FINRA CAT
 - Requirement and timeline to correct errors
 - See Erroneous Event Self Reporting [Form](#)
 - See Self Reporting Deviations of Clock Synchronization [Form](#) and CAT Alert [2020-02](#), *Standards for Self-Reporting Deviations of Clock Synchronization Standards to FINRA CAT*
- Q&As for SRO CMRWG
 - Error Rates and Compliance Thresholds
- Additional questions may be provided to the CMRWG by contacting Sarah McDowell (Chair) at smcdowell@cboe.com