Phase 2c Industry Webinar

September 23, 2020

Agenda

➢ Phase 2c Compliance Dates

➢ Phase 2c Test Plan

➢ Key Scope Differences

➢ Phase 2c Key Topics

- Representative Order Linkages
- Handling Instructions on Order Route Events
- Order Effective event (MEOE)
- eventTimestamp on Modifications and Cancellations
- Internal Route Modifications and Cancellations
- Route Rejected Flag
- Allocations

Phase 2c Compliance Dates

Validation	Available in Test Environment	Available in Production Environment	Compliance Go-Live Date
File Submission and Data Integrity	01/25/2021	04/26/2021	04/26/2021

Compliance dates are listed in the Timeline

Phase 2c Test Plan

- 2c Testing will be supported through a dedicated 2c Test Environment accessed through the existing Test Environment URL.

- There will be a dedicated 2a/2b Test Environment that will need to be accessed through a new URL.
  - Details will be provided in the near future.
  - Existing entitlements will be leveraged, firms and CRAs will not need to establish new entitlements.

- There will be no pre-compliance Production period for 2c.

New Phase 2c Scope

Phase 2c – Equities Part 2 Go Live 4/26/2021
Linkages to the customer order(s) being represented for **all** representative order scenarios including agency average price, net trading, aggregated orders, OMS-EMS scenarios
Marking as a representative order any order originated to work a customer order in price guarantee scenarios, such as a guaranteed VWAP
Rejected External Routes with flag indicating route was not accepted by receiving destination
Linkage of duplicate electronic messages related to a Manual Order Event between the electronic event and the original manual route
Special Handling instructions on Route Reports (limited to a defined set of values)
Reporting changes to client instructions regarding modifications to algorithms
Order Effective Time for orders that are received by an Industry Member and do not become effective until a later time.
Cancel and Modify Timestamp must represent cancel/modify confirm time
Internal Route modifications and cancels (equities)
Quote ID on Trade Events.
Responses to RFQs/solicitations through standard electronic messaging integrated with a firm's OMS/EMS (equities)
Allocations (equities)
All FDIDs with LTIDs for accounts with equity and option CAT Reportable events in Phases 2a, 2b and 2c (CAIS LTID – not covered today)

Representative Order Linkages

Beginning in Phase 2c, Industry Members are required to report linkages to customer order(s) being represented for **all** representative order scenarios including agency average price, net trading, aggregated orders, OMS-EMS, and guaranteed VWAP scenarios.

Appendix C of the IM Tech Spec includes detailed information regarding representative order linkage requirements including:

▸ Linkage Fields

▸ representativeInd and FulfillmentLinkType values

▸ Requirements for linkage and marking of representative orders

✓ Linkages are required between the customer/client order and the representative order for both executed and unexecuted orders.

✓ Executed orders must also have a link between the Order Fulfillment Event for the customer/client order and the representative order from which the fill came.

Linkage Fields

The following fields are used in the representative order linkage process:

▸ At the Order Level:

  ◦ *representativeInd* indicates if an order was originated to represent a customer/client order

  ◦ *aggregatedOrders* specifies the original order IDs and quantities being consolidated in the representative order

▸ At the Order Fulfillment Level

  ◦ *orderID* contains the firm side order that was used to fill the customer order

  ◦ *fulfillmentLinkType* indicates whether there is order level and trade level linkage, only trade level linkage (e.g., fill from the pre-existing customer order), or why the firm side details are not present

  ◦ FDID contains the firm account that was used to fill the customer order (only applicable when a fulfillmentLinkType of YE is populated)

  ◦ Linkage on the Order Fulfillment is indicated by the *fulfillmentLinkType*

Order Level Linkage

The *aggregatedOrders* field is defined in the IM Tech Spec as a Multi-Dimensional Array inclusive of the following fields:

- o *orderID* (conditional based on *representativeInd*)
- o *orderKeyDate* (conditional based on *representativeInd*)
- o *quantity* (required when a partial quantity of the order is being represented)
- o *originatingIMID* (required in instances of a merger or acquisition to support linkage to an event that was reported with a different CATReporterIMID)

representativeInd Values for Representative Orders:

Value	Definition
Y	Representative order, linkage required
YS	Representative order, linkage required; details in supplement event
YP	Representative order, pricing guarantee, no linkage required
YE	Representative eligible - Order eligible for customer fills via an unlinked system
N	Not a representative order, linkage is not applicable

▶ 'YF' will no longer be an allowable value for 2c

Fulfillment Level Linkage

The *firmDetails* field is defined in the IM Tech Spec as a Multi-Dimensional Array inclusive of the following fields:

- *orderID* and *orderKeyDate* (conditional based on *fulfillmentLinkType*)
- *side* (required for *firmDetails)*
- *quantity* (optional, should always equal quantity on the record)
- *firmDesignatedID* and *accountHolderType* (conditional based on *fulfillmentLinkType – must only be used with YE)*
- *originatingIMID* (required in instances of a merger or acquisition to support linkage to an event that was reported with a different CATReporterIMID)

fulfillmentLinkType Values for Representative Orders:

Value	Definition
Y	Representative order, linkage required
YP	Fill from pre-existing Principal order, linkage required
YE	Representative eligible - Order eligible for customer fills via an unlinked system (unlinked OMS-EMS or position fill workflow)
YS	Client order filled from multiple representative orders, linkage required; details provided in a supplement event
FOR	Fulfillment on an order routed to a foreign destination, no linkage required

▶ 'YF' will no longer be an allowable value for 2c
▶ 'YS' is a new value for 2c that supports a customer order being filled from multiple representative orders through an Order Fulfillment Supplement event, which is being introduced in Phase 2c

Representative Order Resources

▸ Appendix C of the IM Technical Specifications includes detailed reporting requirements for Representative Order scenarios.

▸ Section 2.3 of the IM Reporting Scenarios document includes detailed reporting requirements for Representative Order scenarios.

▸ Also refer to Industry Webinar - Equity Representative Orders Deep Dive (August 13, 2019) for additional information.

Handling Instructions on Order Route Events

▸ Beginning in Phase 2c Industry Members will be required to report *handlingInstructions* on Order Route events. This includes any implicit or default instructions agreed to between the Industry Member and its customer or client. (FAQ D30) *This guidance is currently under consideration by the Participants*

▸ If the routing instructions are the same as the instructions received by the firm, then the firm may populate the handlingInstructions field with the value "RAR" (Routed as Received). (FAQ E13)

▸ If an order is received with instructions to send the order to another member or exchange for execution with specific terms and conditions that the executing venue must follow, the Industry Member must report the instructions it received as to how it was instructed to handle the order. (FAQ E14)

handlingInstructions Value 'ALGMod'

- Beginning in Phase 2c, Industry Members are required to report the 'ALGMod' *handlingInstructions* value to CAT.

- ALGMod must be populated when an order originally received with instructions to work using a trading algorithm is later modified by the customer/client to use a different trading algorithm or change the settings of the trading algorithm.

Order Effective Event

- The Order Effective event is used to indicate that an order, or an underlying condition of an order, has become effective. This event is applicable to orders such as conditional (Refer to FAQ D26), Stop, Stop Limit, Trailing Stop, Stop on Quote, and Stop Limit on Quote orders. This event is NOT applicable to Stop Stock transactions.

- The Order Effective event must be reported by the party that was holding the order at the time the order or condition became effective.

- Additional STOP and Conditional order scenarios are under review and further guidance will be provided as appropriate.

Order Effective Event – Example

▸ Industry Member receives an order from a customer that is conditional on a Market Condition. When the Market Condition is met, the order becomes effective and can be routed to the exchange for execution. The Industry Member must report:
  ◦ MENO w/ 'CND' representing the receipt of the customer order
  ◦ MEOE at the time the condition is met and the order becomes effective
  ◦ MEOR when the order is routed to the exchange for execution

▸ Industry Member receives a STOP order from a customer with a STOP price of 18.00. When the market price meets or falls through the stop price, the order is routed to the exchange as a market order.
  ◦ MENO w/ 'STOP=18.00' representing the receipt of the customer order
  ◦ MEOE at the time the market price meets or falls through 18.00
  ◦ MEOR when a market order is routed to the exchange

▸ Additional Scenarios can be found in Section 2.15 of the Scenarios document.

eventTimestamp in Order Modified and Order Cancelled events

▶ Beginning in Phase 2c, the *eventTimestamp* in Order Modified and Order Cancelled events must equal "The date/time the order was modified (e.g., the time that the order was confirmed to be modified in the firm's OMS/EMS)"

▶ The time the order modification is confirmed in a firm's OMS varies from firm to firm and is dependent on the firm's order flow. Examples include:

   ◦ The time acknowledgment is received from the destination venue
   ◦ Simultaneous to the receipt or origination of the modification/cancellation request

Internal Route Modifications/Cancellations

- Beginning in Phase 2c, Industry Members are required to report Internal Route Modified/Cancelled events to CAT.
  - orderIDs are not required to change on Internal Route Modified/ Cancelled events in Phase 2c.
  - The same eventTimestamp requirements for Order Modified/Cancelled events apply to Internal Route Cancelled/Modified events.

Rejected Routes

▸ Unlike in Phase 2a/2b, rejected routes are required to be reported to CAT in Phase 2c by populating the *routeRejectedFlag* field.

▸ Linkage is attempted on all Order Route events that contain a *routeRejectedFlag* as 'true', however, if no link is found, the firm will not receive an unlinked error if the *routeRejectedFlag* is populated as 'true'.

▸ Additional guidance regarding when the *routeRejectedFlag* field should be populated with 'true' (for example, in instances of "no response") is under consideration.

Allocation Events – Reporting Obligation

▸ The reporting obligation for Allocation events belongs to the firm performing the allocation. This will generally be the clearing firm or self-clearing firm processing the allocation.

▸ The obligation to report Allocation events is <u>separate and distinct</u> from the obligation to report New Order events, which belongs to the firm receiving or originating the order.

> ❖ *This means that the firm with the new order reporting obligation must establish and register with CAT the FDIDs it uses for new order reporting <u>and</u> the firm with the reporting obligation for the allocation report must separately establish and register with CAT the FDIDs it uses for allocation reporting.*

▸ Also refer to <u>Industry Webinar - FDID Refresher and Introduction to Allocation Reporting (2/19/2020)</u> for additional information regarding reporting obligations for allocations.

Allocation Events

▸ For CAT Reporting purposes, an Allocation includes:
- ◦ Placement of shares/contracts into the same account for which an order was originally placed
- ◦ Placement of shares/contracts into an account based on allocation instructions (e.g., subaccount allocations)

▸ Allocation events must be reported to CAT beginning in Phase 2c for all (equity) allocations to a client account. This includes:
- ◦ Orders placed directly in a customer account
- ◦ Allocations to sub-accounts
- ◦ DVP account allocations

▸ Allocations to accounts other than a client account (e.g. proprietary accounts, step outs, correspondent flips) may be optionally reported to CAT

Order Fulfillment vs. Allocation Report

	Order Fulfillment	Allocation Report
Firm System Generating	Front or Middle office	Back office
Directly linked to original order and street side trade	Yes	No
Firm with reporting obligation	Executing Firm	Custodial Firm
FDID represents	Account placing the order	Account receiving the final allocation

Allocation Example

A money manager manages two client accounts of an introducing broker (IBFA). IBFA is a fully disclosed correspondent of Clearing Firm A (CLFA). The money manager places a single order with IBFA to be later allocated between the two accounts. Shares are booked to an average price account designated for the money manager at IBFA until the sub-account allocations are made to the individual customer accounts.

CAT IM Order Data											
CAT Reporter IMID	CAT Event	Order ID	Event Timestamp	Symbol	B/S	Quantity	Price	Account Holder Type	FDID	Dest.	Routed Order ID
IBFA	MENO	A12345	20190708T101830.52	ABC	B	10,000	10.00	A	2548		
IBFA	MEOR	A12345	20190708T101930.24	ABC	B	5,000	10.00			EXO	EX1234
IBFA	MEOR	A12345	20190708T102010.18	ABC	B	5,000	10.00			EXP	EX7897

CAT IM Allocation Data														
CAT Reporter IMID	CAT Event	Sym	Trade Date	Settle Date	IB/ Corr CRD#	Allocation FDID	New Order FDID	Price	B/S	QTY	Alloc Time	Inst - FINRA 4512(c)	Alloc Type	PB/ Cust	Allocation Instruction Time
CLFA	MEPA	ABC	7/8/19	7/11/19	555	2548	2548	10.00	B	10,000	140000	Y	Custody		
CLFA	MEPA	ABC	7/8/19	7/11/19	555	98765	2548	10.00	B	6,000	141830	N	Custody		
CLFA	MEPA	ABC	7/8/19	7/11/19	555	87654	2548	10.00	B	4,000	141830	N	Custody		

NOTE: because the shares are initially placed in an account for the money manager, this represents a client allocation and must be reported. If the shares were initially placed in a firm owned account of the IB, the interim Allocation event would not be required.

DVPCustodianID Field

- DVPCustodianID must reflect the settlement instructions on the account (not the entity) to which shares are placed, or from which shares are delivered, at settlement.
  - Broker-dealers must populate the clearing number.
  - If the custodian is not a broker-dealer and does not have a clearing number, populate the DTC Number.
  - If the custodian is a foreign entity and DTC Number is available, populate 'FOREIGN.'

Allocation Amendments

▸ Amended Allocation events are required to be reported to CAT when an allocation is updated such that a CAT reportable attribute is changed after the shares/contracts were originally booked in a client account. (FAQ U14)

▸ Amended Allocation events are not required in scenarios where:
  ◦ An Industry Member makes a correction via a debit/credit to the customer's account instead of modifying the allocation given to the customer.
  ◦ Changes do not impact CAT reportable attributes of the allocation.

Reporting Changes to an Allocation

▸ If the terms of an allocation are changed in the firm's system, and a new allocation is not created, an Amended Allocation event must be reported linking to the original Post-Trade Allocation event.

▸ If the original allocation is cancelled and a new allocation is created, a COR event must be reported to append the *cancelFlag* and *cancelTimestamp* to the original allocation, and a new Post-Trade Allocation must be reported with the new details.

▸ If an Industry Member reports an allocation (Post-Trade Allocation event) and a reportable change to the allocation (Amended Allocation event) and then cancels the original allocation, the Industry Member must cancel the original allocation since there is no *cancelFlag* or *cancelTimestamp* on the Amended Allocation event.
   ◦ Cancelling the original allocation indicates that the Amended Allocation event was also cancelled.

Q&A

How to Ask a Question during Today's Call

- **For participants using computer audio:**
  - Click the "Raise Hand" button at the bottom of the participants window.
  - A visual prompt will indicate that your line has been unmuted.

- **For participants using phone audio:**
  - Enter *9 on your phone keypad.
  - An audio prompt will indicate that your line has been unmuted.

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Questions may be directed to the FINRA CAT Helpdesk at 888-696-3348 or help@finracat.com