



CONSOLIDATED AUDIT TRAIL INDUSTRY WEBINAR: FEE MODELS

SEPTEMBER 22, 2021



ROADMAP

- March 31, 2021 Proposed Plan Amendment
- Alternative Fee Model A: Message Traffic
- Alternative Fee Model B: Sales Value Fee
- Alternative Fee Model C: Executed Share Volume
- Comparison of Funding Models
- Closing Remarks

MARCH 31, 2021 PROPOSED PLAN AMENDMENT

- On March 31, 2021, the Operating Committee filed with the SEC a proposed amendment to the Plan to implement a proposed funding model for the CAT and to establish a fee schedule for Participant CAT fees.
- The proposed funding model would:
 - Divide CAT costs between Industry Members (75%) and Participants (25%), rather than a model that would divide costs between Industry Members (other than Execution Venues) and Execution Venues;
 - Allocate costs to Industry Members based on message traffic and to Participants based on market share;
 - Eliminate the use of tiers in calculating CAT fees for Industry Members and Participants;
 - Adopt certain minimum and maximum CAT fees for Industry Members and Participants; and
 - Impose certain discounts for market making activity when calculating Industry Member CAT fees.
- On July 20, 2021, the SEC issued an order instituting proceedings to determine whether to approve or disapprove the proposed Plan amendment. The Participants do not plan to withdraw the proposed Plan amendment, but they are currently exploring potential alternatives.

ALTERNATIVE FEE MODEL A: MESSAGE TRAFFIC

- Model A would set fees for Industry Members and Participants based on message traffic.
- This model would provide CAT Reporters with a per message rate, subject to certain discounts discussed below, that would apply prospectively to each CAT Reporter's message traffic. The per message rate would be determined based on forecasts using prior message traffic volume and adjusted periodically as needed.
- Certain discounts would apply to market making and option quoting, meaning the messages subject to the per message rate would be discounted as follows:
 - Equities market making discount based on trade-to-quote ratio would be applied to all message traffic reported to the CAT by an equities market maker related to an order originated by the market maker in its market making account for a symbol in which it is registered as a market maker, regardless of where the order is ultimately routed or executed. Based on Q1 2021 data only, the equities market making discount would be approximately 95.28%.
 - Options market making discount based on trade-to-quote ratio would be applied to message traffic reported to CAT by an options market maker and options exchange quote updates/cancels related to an order originated by the market maker in its market making account for a symbol in which it is registered as a market maker, regardless of where the order is ultimately routed or executed, and to all message traffic for which a quote sent time is reported by an options exchange on behalf of the options market maker. Based on Q1 2021 data only, the options market making discount would be approximately 99.99%.

ALTERNATIVE FEE MODEL B: SALES VALUE FEE

- Model B would be modeled after Section 31/sales value fee programs and be based on transaction sales values.
- The per sales value fee rate would be calculated by dividing the annual CAT budget by the projected total industry transaction sales values. The sales value fee rate would then be multiplied by a given trade's sales value and the resulting fee would then be assessed to the applicable Industry Member Sell-Side Clearing Firm (2/3) and Participant (1/3).
- All transactions would be counted equally based on sales value with the same rate applying to all products subject to CAT reporting (NMS Stocks, Listed Options and OTC Equities).

ALTERNATIVE FEE MODEL C: EXECUTED SHARE VOLUME

- Model C would allocate costs equally to Industry Member buyers (1/3), Industry Member sellers (1/3) and exchange/non-exchange executors (1/3) based on executed share volume.
- A per share fee would be calculated by dividing the annual CAT budget by the projected total industry volume. The fee would then be multiplied by the number of executed shares.
 - Each options contract traded would count as 100 shares (or an applicable contract multiplier).
 - OTC equities volume discounted to 1% of actual volume.
 - No discounts for market making or options quoting.

COMPARISON OF FUNDING MODELS

| Model | Allocation | Discounts / Adjustments |
|-----------------------|---|--|
| Message Traffic | No formal Industry Member / Participant split; allocation based on each CAT Reporter's message traffic | Yes – quote to trade ratio for certain equities and options market maker messages reported by Industry Members and exchanges |
| Sales Value Fee | <ul style="list-style-type: none"> • 2/3 Industry Member Sell-Side Clearing Firm • 1/3 Participant | N/A |
| Executed Share Volume | <ul style="list-style-type: none"> • 1/3 IM Buyer • 1/3 IM Seller • 1/3 Exchange / Non-Exchange Executor | Rate applied per share for NMS Stocks, for options each contract traded would count as 100 shares (or applicable multiplier), and for OTC equities volume would be discounted to 1% of actual volume |

CLOSING REMARKS