



CONSOLIDATED AUDIT TRAIL INDUSTRY WEBINAR: PROPOSED FUNDING MODEL

APRIL 6, 2022



ROADMAP

- Background
- Executed Share Model
- Transparency
- Overall Costs
- Possible Alternative Model
- Closing Remarks

BACKGROUND

- Although the Participants have paid the full cost of the CAT since 2012, Rule 613 and the CAT NMS Plan contemplate that both Participants and Industry Members will share the cost of the CAT. Accordingly, the Participants have been evaluating different funding models for the CAT that involve the contribution of Participants and Industry Members.
- Since the Industry Webinar on the funding model this past September, the Participants have withdrawn the fee proposal filed in 2021. The 2021 Fee Proposal would have divided CAT costs between Industry Members (75%) and Participants (25%), adopted certain minimum and maximum fees, and allocated costs to Industry Members based on message traffic and to Participants based on market share, among other factors.

BACKGROUND

- During the September Industry webinar, the Operating Committee discussed three potential funding models:
 - **Message Traffic Model.** This model would set fees based on message traffic. It would provide CAT Reporters with a per message rate, subject to certain discounts, 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.
 - **Sales Value Fee.** This model would set fees 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).
 - **Executed Share Model.** This model 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.
- After evaluating the pros and cons of these three models (among others), the Operating Committee has approved a resolution to propose to amend the CAT NMS Plan to incorporate the Executed Share Model.

EXECUTED SHARE MODEL: OVERVIEW

- The Executed Share Model would charge fees based on the executed equivalent share volume of transactions in Eligible Securities.
- For each transaction, the fee obligation would be allocated equally among the clearing firm on the buy-side of the transaction (“Buy-Side Industry Member”) (1/3), the clearing firm on the sell-side of the transaction (“Sell-Side Industry Member”) (1/3) and the applicable Participant for the transaction (1/3).
 - For each transaction in Eligible Securities, the Sell-Side Industry Member, Buy-Side Industry Member, and the applicable Participant for the transaction each would pay a fee calculated by multiplying the number of executed equivalent shares in the transaction and the applicable fee rate and dividing the product by three.
 - The applicable Participant for the transaction would be the national securities exchange on which the transaction was executed, or FINRA for each transaction executed otherwise than on an exchange.

EXECUTED SHARE MODEL: OVERVIEW

- The applicable fee rate would be calculated by dividing CAT costs by the projected executed equivalent share volume of all transactions in Eligible Securities.
 - Actual costs would be used to calculate historical fees. Budgeted costs would be used to calculate ongoing CAT fees.
 - The ongoing fee rate would be the same for Participants, Sell-Side Industry Members and Buy-Side Industry Members.
- In considering this model, the Participants note the following:
 - The Operating Committee believes that market activity, measured by share volume, is a reasonable method to allocate costs among Participants and Industry Members.
 - The Executed Share Model is modeled after (although not identical to) other existing funding models, including the SEC's Section 31 fees (and related SROs' sales value fees), FINRA's trading activity fee, and options regulatory fees utilized by options exchanges.
 - This proposal provides Participants and Industry Members with predictable fees.

EXECUTED SHARE MODEL: FEE RATE FOR ONGOING COSTS

- The Participants propose to charge Participants and Industry Members ongoing fees to address budgeted CAT costs going forward. The fee rate for these ongoing fees would be calculated based on the following:
 - **Annual CAT Budget.** Each year, the Operating Committee will determine the budgeted CAT costs for the upcoming year. The budget may be adjusted during the year in response to updated information regarding anticipated costs that varies from the original budget.
 - **Projected Total Volume.** Periodically, the Operating Committee will determine projected volume based on the total executed equivalent share volume of transactions from the prior six months.
 - **Executed Equivalent Shares.** Executed equivalent shares will be counted as follows:
 - Each NMS Stock traded would count as 1 share.
 - Each options contract traded would count as the equivalent number of underlying shares (100 shares or other multiplier applicable to the contract).
 - OTC equities volume would be discounted to 1% of actual volume.
- Once an initial fee rate is established, it will apply on an ongoing basis. Similar to the approaches taken for the SEC's Section 31 fees and Options Exchanges' ORFs, it is anticipated that the rates would be adjusted if/as needed generally two times per year, once near the beginning of the calendar year and once mid-year.

EXECUTED SHARE MODEL: HISTORICAL FEES

- The Operating Committee proposes to charge Industry Members fees to collect two-thirds of a certain subset of historical CAT costs.
 - The Participants have already paid all historical CAT costs to date through notes. The Participants would remain responsible for (i) a subset of historical costs that they have determined will not be charged to Industry Members, and (ii) one third of the remaining historical costs.
 - Regarding the historical costs that will not be charged to Industry Members, the Operating Committee has determined not to seek to recover certain costs related to the original Plan Processor, among other costs.
- Buy-Side and Sell-Side Industry Members would pay historical fees based on current transactions, using an historical fee rate. The historical fee rate would be calculated based on the following:
 - **Actual CAT Costs.** Actual past CAT costs would be used in calculating the fee rate.
 - **Projected Total Volume.** The Operating Committee would determine projected volume based on the total executed equivalent share volume of transactions from the prior six months.
 - **Executed Equivalent Shares.** Executed equivalent shares would be counted in the same way as previously discussed with regard to fees for prospective costs.

TRANSPARENCY

- The Operating Committee is committed to providing transparency regarding the funding model.
- All audited financial statements for Consolidated Audit Trail LLC and its predecessor are and have been available on the CAT NMS Plan website.
 - The financial statements provide operating expenses, including technology, legal, consulting, insurance, professional and administration, and public relations expenses.
- The Operating Committee is considering additional transparency proposals related to the funding model.

OVERALL COSTS

- The significant and increasing overall CAT costs are driven by the requirements in the CAT NMS Plan to process record data volumes in accordance with complex reporting and linkage requirements, within the narrow timeframes required by the SEC.

Plan Required Timelines

- T+1 Noon Linkage Feedback – 4 Hour Processing Window
- T+5 8AM – Final Data Ready for Regulators with Plan Processor Enrichments, including CAT Order ID and FDID/CCID

Data Volumes

- Volumes currently at year 10 projections
- Massive parallel processing cloud-based architecture is the only viable solution
- Storage and query tools required to support online access to 6 years of data exceeding an exabyte in size

Complexity

- Multi-faceted linkages not originally contemplated
- Two-sided duplicative reporting - adds to linkage volumes
- Support of multiple reporting designs (stateless vs. batch)

OVERALL COSTS

- The Operating Committee is focused on reducing CAT costs responsibly while appropriately funding regulatory obligations.
 - The Operating Committee discussed these efforts in the March 29th industry webinar entitled “Cost Savings and Processing Efficiencies”.
- The CAT NMS Plan requires the Company to operate on a “break-even” basis. Any surplus fees collected will be treated as an operational reserve to offset future fees and will not be distributed to the Participants or Industry Members.
 - As set forth in the Plan, the Operating Committee aims to accumulate the necessary funds to establish an operating reserve through the CAT fees charged to CAT Reporters.

POSSIBLE ALTERNATIVE MODEL

- In our review of the proposal with the Advisory Committee, a possible alternative funding model came up: utilizing the Executed Share Model, but allocating the fee to one Industry Member (e.g., Sell-Side Clearing Firm), rather than using the proposed 1/3, 1/3, 1/3 allocation.
- This allocation would more closely parallel the existing Section 31 fee allocation structure that is already in place.
- The reasoning for this proposal was that, if, as a practical matter, Industry Members and SROs were to pass their fees through to the ultimate investors anyway, then there is no need to allocate the fee among Industry Members and SROs at the outset. Possible advantages include, among others:
 - Provides for a more transparent funding process for investors.
 - Eliminates complexity from the model.

CLOSING REMARKS

- While there will be a live Q&A session during the webinar, CAT LLC requests that persons who would like to submit questions do so in advance by April 6th at 12pm EST. CAT LLC also requests that any additional feedback/comments after the presentation be submitted by Friday April 15th.
- Both questions and feedback/comments should be submitted to the following inbox: feeinquiries@catnmsplan.com.