

SEC Rule 613 Consolidated Audit Trail

Why it Is Important

Rule 613/CAT requires FINRA and national security exchanges (Self-Regulatory Organizations or SROs) to submit a plan detailing how they would develop, implement, and maintain a consolidated audit trail that collects and accurately identifies every order, cancellation, modification, and trade execution for all exchange-listed equities and options across the U.S. markets. To that end, Participants to the Plan (SROs) and Industry Members (broker-dealers) are instructed to report all transactions and customer account information to a single processor for the purposes of creating and maintaining a life cycle for each order. The Plan Processor (FINRA CAT) traces each order's respective steps within and between Industry Members, from order origination to termination (execution or cancellation). Phased-in CAT implementation continues through 2022 with both the rollout of the Customer and Account Information System (CAIS) as well as updates to Industry Member Transaction Reporting. In addition to implementation requirement schedules, regulators recently began making inquiries into past CAT reporting.

What Your Firm Needs to Consider

Industry Members have an obligation to report their customer account information and order ticket/transaction data to CAT based on the phased-in schedule, including life cycle information and linkages between transaction and customer account data (based on defined linkage keys). Industry Members are also required to respond to inbound regulatory inquiries in a timely manner. Failure to do so could result in meaningful consequences, *i.e.*, more formal findings and respective fines.

New Obligations

While a similar structure (FINRA OATS) had been in place for the reporting of equities, it is worth noting that CAT presents several new obligations for Industry Members, including:

- Creation of a Firm-Designated ID ("FDID") to link an order to its originator. The FDID is a unique and persistent identifier for each trading account, as designated by Industry Members, for purposes of providing data to the Central Repository; however, please note that such identifier may not be the account number for such trading account if the trading account is not a proprietary account. All corrections must be made and submitted by 8 a.m. Eastern time on T+3.
- For the first time, Participants and Industry Members must report transaction and customer account data for options to a consolidated processor. As such, Industry Members who trade in options may have to establish new internal processes and procedures to help ensure all options information is reported timely and correctly, including details of the legs of complex options, *i.e.*, the two or more different options series sent as a single order.
- Creation of a Transformed Identifier (TID), defined as a hashed version of an individual entity's, *e.g.*, customer's, Input Identifier, *e.g.*, Social Security number or EIN.

Technical Specifications

- The Industry Member Technical Reporting Specifications (Industry Reporting Specs) define the requirements for order ticket/transaction reporting, while the Full CAIS Technical Specifications for Industry Members define the requirements for customer account reporting. While each set of specifications provides definitions of the data elements required for each file type, the Industry Reporting Specs also present the reportable events for each order/transaction state.

Required Data Elements

Each set of specifications sets out several required elements, including:

Transaction Reporting

- FDID
- Time – presented in either string or number format, with electronic order minimum of milliseconds, manual orders in seconds
- Handling Instructions: specifications on an order, *e.g.*, pegging, Intermarket Sweep, minimum quantity

CAIS

- FDID, including dates of opening and closing of account
- Large Trader ID (LTID)
- Transformed Identifier (TID)

Source: FINRA CAT

Transaction Reportable Events

The Industry Reporting Specs introduce and define several types of Reportable Events, each representing a different stage of an order's life cycle.

- MENO: New Equities Order
- MEOR: Equity Route
- MEOC: Equity Cancel
- MENQ: New Equity Quote
- MONO: New Options Order
- MOOR: Options Route
- MOOA: Options Order Accepted
- MEPA: Post-Trade Allocation

Linkage Keys

To link Reportable Events together using a daisy-chain approach, the Industry Member Specs introduced sets of linkage keys, which define the data elements used to link Events into a single life cycle. One set of linkage keys include:

Linkage Key	Description	Fields
Order Keys – Duplication of Order Keys results in the rejection of all events with the same key		
Order Key	Links together the events of the same order within an Industry Member. For example, Order Key links an Order Accepted event to a subsequent Order Route event.	<ul style="list-style-type: none"> ▪ orderKeyDate ▪ CATReporterIMID ▪ symbol (or optionID) ▪ orderID
Prior Order Key	Links modifications to the original order. For example, Prior Order Key links an Order Modify event to the previous Order Accepted event.	<ul style="list-style-type: none"> ▪ priorOrderKeyDate ▪ CATReporterIMID ▪ symbol (or optionID) ▪ priorOrderID
Parent Order Key	Links Child (Option) Order events and (Option) Order Internal Route Accepted events to the parent order event. For example, links to an Order Internal Route Accepted event to a parent New Order event.	<ul style="list-style-type: none"> ▪ parentOrderKeyDate ▪ CATReporterIMID ▪ symbol (or optionID) ▪ parentOrderID
Manual Order Key	Links an order event representing a duplicate electronic message to the previously reported order event representing the original manual order.	<ul style="list-style-type: none"> ▪ manualOrderKeyDate ▪ CATReporterIMID ▪ symbol (order optionID) ▪ manualOrderID

Regulatory Inquiries

Some recent FINRA inquiries include:

- Timestamps in milliseconds for electronic orders
- Matching of CAT submissions to Order Tickets, *i.e.*, handling instructions
- Inclusion of linkage for representative orders
- Complete representation of legs of complex options

How We Can Help*

FORVIS can assist your firm with the rule requirements compliance by conducting an assessment of your firm's end-to-end CAT reporting process, from order origination and fix messages through transformation and enrichment to CAT events and file generation. We can also assist on a plan to remediate past report errors through corrected submissions as well as refine processes that help promote rule requirements compliance.

Please reach out to a professional at FORVIS for more information.

*Services may only be available to non-assurance clients.

Source: CAT Reporting Technical Specifications for Industry Members section 2.6.1