The wait is over

The Consolidated Audit Trail is a reality

With the approval of the Securities and Exchange Commission (SEC) Rule 613, Consolidated Audit Trail (CAT) National Market System (NMS) plan, and the selection of Thesys[1] as the Plan Processor, the industry timelines for the implementation of the CAT are in effect and now is the time for broker-dealers to kick off their compliance programs. All broker-dealers conducting business in the US equity and options markets will have reporting obligations starting in November 2018 for Large Industry Members and November 2019 for Small Industry Members[2]. With the complexities of planning for CAT's fundamental operational and technical changes, as well as the simple reality of budget cycles, it is crucial for firms to seize the opportunity to assess the impact the CAT will have on their regulatory reporting operations and to understand the potential opportunities to enhance their broader business operations—in surveillance, data analytics, and client-relationship management.

[1] http://www.prnewswire.com/news-releases/sros-select-thesys-technologies-llc-as-consolidated-audit-trail-plan-processor-300392226.html?tc=eml_cleartime

[2] "Small Industry Member" means an Industry Member that qualifies as a small broker-dealer as defined in SEC Rule 613

Key rule requirements and high-level timeline

- Broker-dealers conducting business in the US equity and options markets will be required to report order life cycles for equities and options markets on a daily basis, including orders, quotes, cancels, routes (including internal routes), and allocations.
- Firms will have to provide internal identifiers for these records (e.g., order, customer IDs) to support CAT linkage processes. Unlike existing regulatory regimes, customer-identifying information must be included, which will require reporting firms to locate consistent "golden source" data for all customers.
- Firms should note that CAT is not simply "Order Audit Trail System (OATS) on steroids"—it will include substantial additional requirements, such as options data, allocations, and customer data. These new datasets may require firms to rethink about their target reporting architectures. Additionally, unlike OATS, the CAT will have no exemptions to these reporting requirements.

The first compliance date that broker-dealers must be aware of is March 2017 followed by the November 2018 reporting date for Large Industry Members.

High-level timeline

2017

All industry members must synchronize business clocks by **March 15, 2017**.[3]

Participants must report data to the CAT by **November 15, 2017**.

Plan Processor publishes technical specifications for Large Industry Member submission of order data no later than **November 15, 2017**.

2018

Plan Processor publishes technical specifications for Large Industry Member to report customer account information no later than **May 15, 2018**.

Large Industry Members must begin connectivity and acceptance testing no later than **August 15, 2018**.

Large Industry Members must report data to the CAT by **November 15, 2018**.

2019

Small Industry Members must begin connectivity and acceptance testing no later than **August 15, 2019**.

Small Industry Members must report data to the CAT by **November 15, 2019**.

Given lead times for budgeting, implementation, and testing, it is in broker-dealers' best interests to start their compliance programs now.

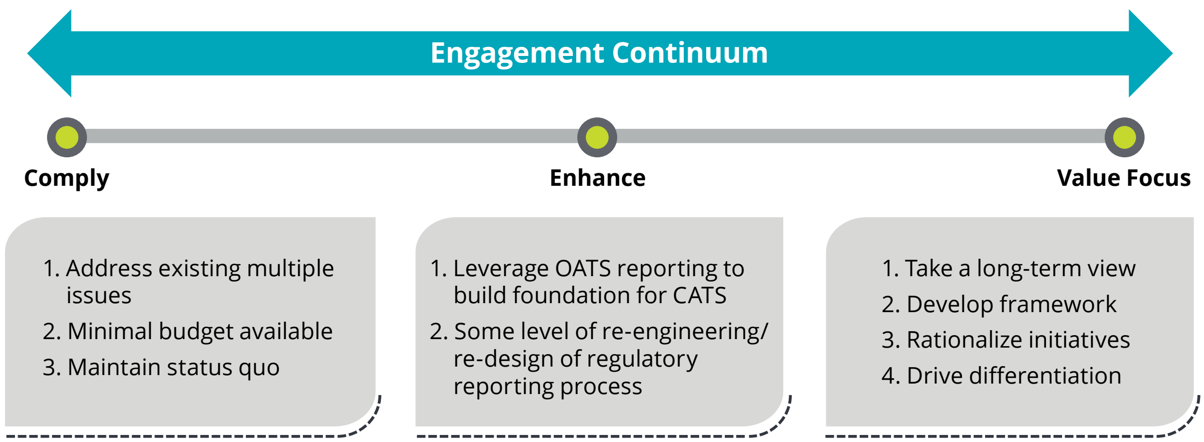
The time to start? Now!

With a November 2018 compliance deadline for Large Industry Members, it is imperative, given budgetary, software development, and testing timelines, that firms start planning today—starting with understanding the impact the CAT will have on their trading, reference data, and reporting environments. Firms should look to break down the CAT's reporting requirements and assess them against their current regulatory reporting regimes. Firms should seize this window of opportunity to gain a better understanding of their own regulatory reporting landscape and current data reporting architectures and how they will be affected by CAT requirements and to put into place a robust nonfinancial regulatory reporting program. It is in every firm's best interest to assess technical and architectural designs; understand internal data flows and source systems; testing

[3] The SEC has granted a limited exemption extending the clock synchronization compliance date from March 15, 2017 to February 19, 2018 with respect to Industry Members with Business Clocks that do not capture time in milliseconds.

internal units, systems, and integration; and comprehend changes to control environments early. As it relates to the drafting of technical specifications, Thesys has emphasized its flexibility in accepting technical specifications and its interest in working with the industry to reduce strain on the industry and create a smooth and seamless reporting process.

To accomplish all of these tasks, broker-dealers should start to define their readiness and planning efforts, determine budgets, and establish governance structures as soon as possible. Additionally, firms should start to consider their compliance strategy—tactical versus strategic. Given that the CAT will provide regulators with a complete end-to-end picture of a broker-dealer's activities and will provide advanced analytical functionality to regulators to surveil this activity, firms should consider whether the CAT is an opportunity to strengthen their own internal surveillance programs—before their regulators understand their activities better than they do. To avoid falling behind regulators, broker-dealers should embrace this as a call to action and use it as an opportunity to mature their internal surveillance and analytics programs and to further enhance their current surveillance practices.



What Deloitte can do to help

Deloitte has been assisting the SROs to stand up and implement the CAT since 2012. Deloitte has been closely involved with the development of the requirements that went into the CAT NMS plan, as well as the request-for-proposal process. Deloitte is currently assisting the SROs to manage the implementation of the CAT NMS, LLC, the CAT central repository, and readying the CAT program for the onset of reporting by exchanges in 2017 and broker-dealers in 2018. Given this experience, Deloitte has a unique perspective and understanding of the CAT's requirements and functionality.

Deloitte can help firms understand the rule, its interpretation, and provide deep understanding of the impact the rule will have on their business. Deloitte can help firms design a compliance program, including target architecture designs, operating models, and road maps. Deloitte has also developed tools and accelerators, such as the CAT Impact Assessment Framework and a CAT Requirements Mapping, that are ready to deploy at any time to support these efforts.

The CAT is here to stay. Firms need to focus their effort on preparing for the implementation of the CAT, acquiring budgets, building teams, and establishing the required reporting environment. The time to act is now.

Contact us:

Bob Walley
Principal | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
+1 212 436 3212
rwalley@deloitte.com

Roy Ben Hur
Managing Director | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
+1 973 602 4233
rbenhur@deloitte.com

Sriram Gopalakrishnan
Managing Director
Deloitte Consulting LLP
+1 973 602 5240
sgopalakrishnan@deloitte.com

Cyndi Nutini
Managing Director
Deloitte Consulting LLP
+1 704 574 6350
cynutini@deloitte.com

Jim Weber
Managing Director | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
+1 512 226 4666
jamweber@deloitte.com