



May 31, 2024

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File Number 4-698 – Cost Saving Measures

Dear Ms. Countryman:

The Securities Industry and Financial Markets Association (“SIFMA”) respectfully submits this letter to the U.S. Securities and Exchange Commission (“Commission” or “SEC”) to comment on the proposal filed by the Consolidated Audit Trail, LLC (“CAT LLC”), on behalf of self-regulatory organizations as the Participants in the National Market System Plan Governing the Consolidated Audit Trail (the “CAT NMS Plan” or “Plan”), regarding certain amendments to the Plan designed to save costs related to the operation of the CAT (the “Cost Savings Amendments”).¹

For the reasons described below, SIFMA supports Commission approval of the proposed Cost Savings Amendments (and the relatively modest savings that should flow from such amendments).² Furthermore, SIFMA urges CAT LLC and the Commission to pursue more significant and extensive cost savings and, more fundamentally, to provide Industry Members with a more meaningful opportunity to contribute their experience and expertise to the CAT’s budget setting and cost-savings processes. This should include our most recent recommendation that the Participants establish a separate working group that includes Industry Members to focus on ways the CAT system can be made more efficient from a cost perspective while still achieving its goals.³ Without more direct involvement by Industry Members in the CAT budgeting process, there is an insufficient structural framework and incentives to bring CAT costs under control. SIFMA agrees with the objective expressed in the Participants’ cover letter submitting the Cost Savings Amendments that the CAT achieve “its regulatory objectives in an efficient and cost-

¹ See Release No. 34-99938 (April 10, 2024), 89 FR 26983 (April 16, 2024).

² SIFMA continues to believe that the Commission’s order approving the funding model for the CAT is contrary to the Securities Exchange Act of 1934 and arbitrary and capricious. See Brief of Amicus Curiae SIFMA, Am. Sec.Ass’n v. SEC, No. 23-13396 (11th Cir.) (filed Feb. 15, 2024). SIFMA accordingly reserves all rights.

³ See (<https://www.sec.gov/comments/sr-finra-2024-002/srfinra2024002-442279-1128282.pdf>).

effective manner.”⁴ Like CAT LLC, SIFMA notes the unfortunate fact that “operating costs continue to increase substantially due to processing costs, storage costs, and the complexity of reporting requirements that are currently imposed under the CAT NMS Plan.”⁵ As a fundamental matter, the only reliable method to limit CAT costs is to provide Industry Members with a genuine role over, or meaningful participation in developing, the CAT budget.

SIFMA further believes that the SEC and the Participants should assess their own CAT usage patterns and needs to identify further cost saving measures. The CAT should be operated to meet the reasonable and legitimate needs of regulators, and not as a monolith to address any regulatory use case regardless of the costs.

A. Optimize Processing and Storage Requirements for Options Market Maker Quotes

The reporting and processing of options market maker quotes have been problematic from CAT’s inception. The enormity of this data set, which derives from the unique attributes of options market structure, has created costs and challenges far beyond those envisioned when CAT was approved. SIFMA therefore supports this aspect of the Cost Savings Amendments.

The quote-to-trade ratio in listed options markets is so large that the operational costs of linking quotes to trades is an unreasonable burden. Moreover, the ratio keeps increasing, with our member data showing the most recent peak of 32,000 quotes per trade in the U.S. options market in December 2023. This ratio is nearly 4 times greater than the ratio described in the SEC’s approval order.⁶ There do not appear to be any forces to constrain the increase in this ratio; in fact, certain SEC market structure initiatives might only accelerate the increase.⁷

Today, FINRA CAT is required to process this enormous amount of data – which has been represented by the Participants to be 75% of total transaction volume – to create a complete order lifecycle. While it may be seen as advantageous for CAT to create a complete lifecycle of an order, the SEC and Participants must consider the real-world implications of doing so in the context of the options market where an extremely small number of quotes have a corresponding trade.

When Rule 613 was adopted and when the CAT NMS Plan was approved, the SEC and Participants did not anticipate the costs of linking quotes to trades in listed options. We now understand that such processing and storage costs were approximately \$30 million in 2023,

⁴ See Letter from Brandon Becker, CAT NMS Plan Operating Committee Chair, CAT LLC, to Vanessa Countryman, Secretary, SEC, at 1 (Mar. 27, 2024) (<https://www.catnmsplan.com/sites/default/files/2024-03/03.27.24-Proposed-CAT-NMS-Plan-Amendment-Cost-Savings-Amendment.pdf>).

⁵ *Id.*

⁶ See Release No. 34-79318 (November 15, 2016), 81 FR 84696 (November 23, 2016). at 84750

⁷ The Commission’s tick size proposal has the potential to significantly expand the amount of quoting activity in the equities and listed options markets. See Release No. 34-96494 (December 14, 2022), 87 FR 80266 (December 29, 2022)

which is a significant amount of overall CAT costs for the year.⁸ Such sums are unreasonable on their face and have not been supported by any cost-benefit analysis.

Importantly, under the proposed Cost Savings Amendments, the quotes will continue to be reported to CAT, and if circumstances warrant, the SEC or a Participant can use the quote data as part of its surveillance or investigation patterns, albeit with the need to perform some additional computations.

B. Move Raw Unprocessed Data and Interim Operational Copies of CAT Data Older Than 15 Days to a More Cost-Effective Storage Tier

With CAT costs running at unsustainable and unsupportable levels, the SEC should be actively considering whether its recordkeeping requirements are appropriate and whether reasonable alternatives, such as different storage tiers, might be appropriate. When it approved Rule 613, the Commission was sensitive to the costs and burdens relating to the “time and method” by which data in the central repository would be available and emphasized that access requirements should be “flexible” so as to be “cost effective” rather than “establishing a strict deadline for all data to be accessible from the central repository.”⁹

A requirement that six years of raw unprocessed CAT data be available to the SEC without any manual intervention is yet another example of how the CAT needs further refinement. SIFMA strongly supports adopting more cost-effective storage solutions and recommends the SEC to not only approve this element of the Cost Savings Amendments, but to embark on a more comprehensive undertaking about what other data can be moved to more cost-effective storage solutions. The Commission committed to being flexible with respect to its data access needs, and a reassessment of its data storage needs is long overdue.

C. Provide an Interim CAT-Order-ID on an “As Requested” Basis

In adopting Rule 613 and approving the CAT NMS Plan, the Commission sought to make data available as early as practicable. With the benefit of hindsight, we now understand that creating an interim CAT-Order-ID on T+1 on an ongoing basis comes at an annual cost of approximately \$2 million. The Participants have proposed to provide an interim CAT-Order-ID on an as needed basis and in doing so would realize substantial cost savings. Importantly, if there was a need for an interim CAT-Order-ID, one could be created on an ad hoc basis at a modest cost.

SIFMA believes changes such as these are essential and long overdue. Decisions made by the SEC years ago about what it thought it needed in terms of the timeliness and availability of interim data must be re-examined by the SEC in light of its real-world experience and its

⁸ See (<https://www.catnmsplan.com/sites/default/files/2023-11/11.07.23-CAT-2023-Financial-and-Operating-Budget.pdf>).

⁹ See Release No. 34-67457 (July 18, 2012), 77 FR 45722 (August 1, 2012), at 45777.

understanding of the incremental costs to provide such data. This is yet another illustration of incurring costs without a corresponding regulatory benefit.

D. Incorporate Exemptive Relief Permitting Deletion of Industry Test Data Older Than Three Months and Include CAIS Data

The Participants' fourth proposal in the Cost Savings Amendments is to incorporate into the Plan previously-granted exemptive relief clarifying that Industry Member and Participant test data for the CAT order and transaction system may be deleted after three months. The Participants also seek to expand this relief to also apply it to test data used in connection with the CAT customer account and information system ("CAIS"). SIFMA supports this proposal, as it incorporates into the Plan previously-granted relief as well as applies that relief to test data used in connection with the CAT CAIS.

E. Additional Suggestions

While SIFMA supports these Cost Savings Amendments, it believes there is much more work to be done regarding the cost structure and governance of the CAT. In a separate letter to the CAT NMS Plan Operating Committee, SIFMA will recommend additional cost savings measures. SIFMA strongly recommends that the Commission facilitate a more robust dialogue on other areas that can lead to cost savings that should involve Industry Members, rather than relying on a "Cost Management Working Group" that consists of solely the Participants. Indeed, above and beyond the Cost Savings Amendments, SIFMA members stand ready to bring to bear their operational and technical expertise acquired during their own moves to cloud providers in suggesting significant further savings that ensure the Plan's regulatory objectives are met.

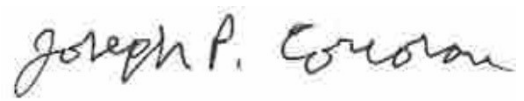
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SIFMA appreciates the opportunity to submit this letter to the Commission regarding the Cost Savings Amendments and recommends that the Commission approve the proposal. If you have any questions or need any additional information, please contact Ellen Greene at (212) 313-1287 or Joe Corcoran at (202) 962-7383.

Sincerely,



Ellen Greene
Managing Director
Equities & Options Market Structure

A handwritten signature in black ink that reads "Joseph P. Corcoran". The signature is written in a cursive style with a clear, legible font.

Joseph Corcoran
Managing Director, Associate General Counsel
SIFMA