

FINANCIAL INFORMATION FORUM

11 Hanover Square
New York, NY 10005

December 4, 2020

By electronic mail to rule-comments@sec.gov

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Attn: Secretary

Re: Proposed Amendments to the National Market System Plan Governing the Consolidated Audit Trail to Enhance Data Security (File No. S7-10-20)

Dear Secretary,

The Financial Information Forum (FIF)¹ appreciates the opportunity to comment on the “Proposed Amendments to the National Market System Plan Governing the Consolidated Audit Trail to Enhance Data Security” issued by the Securities and Exchange Commission (the “Commission”) on August 21, 2020.² We refer to the Commission’s proposed amendments as the “Proposed Amendments”; we refer to the proposing release as the “Proposing Release”.

Our comments are focused on proposed amendments to the National Market System Plan Governing the Consolidated Audit Trail (the “CAT NMS Plan” or “Plan”)³ set forth in Section II.E. of the Proposing Release, which relate to the reporting of CAT Customer and Account Attributes. We refer to the system for reporting Customer and Account Attributes to the Consolidated Audit Trail (“CAT”) as the “Customer and Account Information System” or “CAT CAIS”.

The comments in the letter are based on a series of meetings among FIF and our members to identify challenges contained within the Proposed Amendments relating to CAT Customer and Account Attributes and potential solutions to address those challenges.

The following are some of the key points discussed in this letter:

¹ FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the securities industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

² Securities Exchange Act Release No. 89632 (August 21, 2020), 85 FR 65990 (October 16, 2020).

³ The Limited Liability Company Agreement of Consolidated Audit Trail, LLC is the CAT NMS Plan.

- FIF members support the proposed changes to require the reporting of: the year of birth, instead of date of birth, for a natural person customer; a Transformed Identifier, instead of an SSN or ITIN, for a natural person customer; and Firm Designated IDs in place of actual account numbers.
- FIF members have significant concerns relating to the reporting requirements for authorized traders resulting from the fact that many categories of authorized traders are not considered customers under existing rules and regulations. Further, if industry members are required to collect and maintain authorized trader personally identifiable information (“PII”) as outlined in the proposed requirements, this presents significant data security risks.
- FIF members propose that the requirement to report sub roles be removed since many firms do not classify accounts based on these sub roles. More generally, FIF members are concerned about any requirement to report data based on classifications that are not aligned with their existing books and records.
- The regulators should provide clarifications relating to customer data reporting requirements to address various scenarios such as customers having multiple addresses and customers providing different information for different accounts. The regulators should further clarify the scope of reporting for account transfers, including a clarification that ACATS transfers are asset transfers rather than account transfers.
- The proposed inconsistency management process will impose significant costs for industry members and generate a very high percentage of false positives based on the reporting of multiple permitted permutations for the same customer. The process as proposed would provide minimal benefit for regulators since the filing of a common Transformed Identifier provides regulators the ability to link a customer’s trading activity across accounts at the same or different firms.

Scope and complexity of CAT

The Consolidated Audit Trail (“CAT”) is an immense project that provides the Commission, Financial Industry Regulatory Authority, Inc. and the other Participants (as defined in the CAT NMS Plan) with automated access to a level of audit trail data that exceeds the level of audit trail data available to any other regulator or exchange in the world. As previously stated by FIF:

“FIF fully supports SEC Rule 613 requiring the creation, implementation, and maintenance of a CAT. We view CAT as an opportunity to improve and modernize the ability of the Participants and the Commission to oversee the securities markets. Better oversight will lead to greater confidence in the markets. This increased transparency will benefit all stakeholders, including CAT Reporter Broker-Dealers (“industry members”), individual investors, and the public. Once implemented, Rule 613 will also allow regulators to source transactional and customer information from a more centralized location, providing an opportunity for faster and more efficient surveillance of the markets. A fully functioning CAT should also facilitate the retirement of legacy and

outdated regulatory reporting mechanisms (i.e. OATS, EBS) in favor of a more centralized surveillance tool.”⁴

CAT is a valuable initiative that enhances oversight of, and investor confidence in, the U.S. securities markets. Industry Members (as defined in the CAT NMS Plan) have played a significant role in the design and implementation of CAT and continue to devote extensive resources towards CAT implementation. The many successes of the CAT implementation to date, as discussed below, have been the result of the high levels of cooperation among the Commission, the Participants, the Plan Processor (FINRA CAT, LLC) and Industry Members.

FIF members support reporting of year of birth for natural persons

FIF members support the proposed change to require the reporting of the year of birth, instead of date of birth, for a natural person customer.

FIF members support reporting of Transformed Identifier instead of SSN or ITIN for a natural person

FIF members support the proposed change to require the reporting of a Transformed Identifier, instead of an SSN or ITIN, for a natural person customer.

FIF members support reporting of FDIDs in place of actual customer account numbers

FIF members support the proposed change to require the reporting of Firm Designated IDs in place of actual customer account numbers.

FIF members support new defined terms for Customer and Account Attributes

FIF members support the Commission’s proposal to replace the defined term of “Customer Account Information” with the defined term of “Account Attributes”; FIF members also support the Commission’s proposal to replace the defined term of “Customer Identifying Information” with the defined term of “Customer Attributes”. FIF members believe that the new defined terms more clearly differentiate between customer and account information, which is an important distinction in the Plan.

Reporting Customer Attributes for authorized traders

CAT definition of Customer, by including authorized traders, is broader than definitions under existing regulations

Rule 613(j)(3) of the Commission’s Regulation NMS defines a “customer” as:

“(i) The account holder(s) of the account at a registered broker-dealer originating the order; and

⁴ See letter dated October 28, 2019 from Christopher Bok, Director, Financial Information Forum, to Vanessa Countryman, Secretary, Securities and Exchange Commission, p. 1.

(ii) Any person from whom the broker-dealer is authorized to accept trading instructions for such account, if different from the account holder(s).”⁵

Rule 613 differentiates between an “account holder” that is a beneficial owner of an account and an “authorized trader” for an account that is not an account holder. We use the terms “account holder” and “authorized trader” in this letter to identify these two roles.

The definition of customer under Rule 613 is broader than the definition of customer in other current rules and regulations that apply to broker-dealers. As a result, there are various types of authorized traders that FIF members do not consider to be customers. Further, FIF members do not maintain the same level of data for these authorized traders as they do for account holders. For purposes of this letter we use the defined term “Customer” to refer to the definition of that term as set forth in Rule 613.

The difference in wording among Rules 17a-3(a)(9), 17a-3(a)(17) and 17a-4(b)(6) under the Securities Exchange Act⁶ highlights the different regulatory treatment for account holders and authorized traders. Under Rule 17a-3(a)(9), broker-dealers must record for any account “the name and address of the beneficial owner of such account”. Rule 17a-3(a)(17) further requires broker-dealers to record the tax identification number and date of birth and other information for these persons. In contrast, Rule 17a-4(b)(6) requires broker-dealers to maintain “all guarantees of accounts and all powers of attorney and other evidence of the granting of any discretionary authority given in respect of any account, and copies of resolutions empowering an agent to act on behalf of a corporation,” but Rule 17a-4(b)(6) does not require that firms maintain an address, SSN, ITIN or date or year of birth for these parties that have discretionary authority.

The CAT definition of Customer similarly is broader than the definition of that term under the Customer Identification Program rule for broker-dealers jointly adopted by the Department of the Treasury’s Financial Crimes Enforcement Network (FinCEN) and the Commission (also referred to as the “CIP Rule”).⁷ Under the CIP Rule:

“(i) Customer means:

- (A) A person that opens a new account; and
- (B) An individual who opens a new account for:
 - (1) An individual who lacks legal capacity; or
 - (2) An entity that is not a legal person.

(ii) Customer does not include:

- (A) A financial institution regulated by a Federal functional regulator or a bank regulated by a state bank regulator;
- (B) A person described in §103.22(d)(2)(ii)-(iv); or

⁵ 17 C.F.R. §242.613(j)(3).

⁶ 17 C.F.R. §§17a-3(a)(9), 17a-3(a)(17) and 17a-4(b)(6).

⁷ 31 C.F.R. §1023.100(d).

(C) A person that has an existing account with the broker-dealer, provided the broker-dealer has a reasonable belief that it knows the true identity of the person.”⁸

In the adopting release for the CIP Rule, the Commission and FinCEN make clear that authorized traders generally are excluded from the definition of customer:

“After revisiting this component of the ‘customer’ definition, we have determined that requiring limited resources to be expended on verifying the identities of persons with authority over accounts could interfere with a broker-dealer’s ability to focus on identifying customers and accounts that present a higher risk of not being properly identified. Accordingly, the final rule does not include persons with authority over accounts in the definition of ‘customer.’ Instead, paragraph (b)(2)(ii)(C) of the final rule requires a broker-dealer’s CIP to address situations where the broker-dealer will take additional steps to verify the identity of a customer that is not an individual by seeking information about individuals with authority or control over the account in order to verify the customer’s identity.”⁹

The different treatment for account holders and authorized traders under existing regulations leads to various challenges for firms in complying with the proposed CAT CAIS reporting requirements, as described in the following sub-sections.

Broad definition of Customer in CAT presents significant compliance and operational challenges for firms

FIF members have identified a number of challenges with reporting Customer Attributes for authorized traders. These challenges result from the broad definition of Customer in Rule 613 relative to other regulatory definitions of that term, as discussed above. In particular, firms often do not maintain the proposed Customer Attributes for authorized traders, including address and SSN.¹⁰ Where firms do maintain this information for authorized traders, firms often do not maintain this information in electronic format. In many cases, firms request this information from authorized traders, and authorized traders do not respond to these requests or refuse to provide the requested information. In other cases, firms might obtain this information at the time of the commencement of the relationship and possibly on a periodic basis thereafter, but there is no ongoing update process. In many cases, a natural person could be an authorized trader for an account, as defined in Rule 613(j) (e.g., a power of attorney), but the person has not requested authorization to trade for the account nor has the firm granted the person authorization to trade for the account.

CAT CAIS is not intended to impose new recordkeeping requirements relating to authorized traders

⁸ 31 C.F.R. §1023.100(d).

⁹ Securities Exchange Act Release 47752 (April 29, 2003), 68 FR 25113 (May 9, 2003).

¹⁰ While the Proposed Amendments would require firms to report a Transformed Identifier rather than an SSN, firms would need to have the SSN in order to generate a Transformed Identifier.

FIF members are concerned that the reporting requirements for authorized traders will require firms to record and maintain information that firms are not currently required to record and maintain.

The adopting release for CAT provides as follows:

In adopting this revised definition, the Commission is clarifying its intent that, with respect to the “account holder” reference under Rule 613(j)(3), the NMS plan submitted to the Commission for its consideration must require broker-dealers to capture information on only the individuals or entities that currently are required to be recorded in the books and records of the broker-dealer pursuant to Rule 17a-3(a)(9) under the Exchange Act. Because this provision does not require broker-dealers to obtain information about their account holders beyond what they are required to obtain today, the Commission believes the modification to the proposed Rule is appropriate because it will reduce the proposed Rule’s burden on broker-dealers in recording and reporting information about a “customer,” as that term will be defined under Rule 613(j)(3).¹¹

While the section above is focused on account holders and not authorized traders, this section evidences the understanding of FIF members of the more general principle that CAT is not intended to impose new customer record creation and retention requirements on firms.

Proposed requirements relating to authorized traders present a security risk for customer data

To comply with the reporting requirements for authorized traders, firms will need to collect certain information, including PII, that they do not presently collect. In addition, firms will need to systematize and store this information in a manner that will enable reporting to the CAT CAIS system. Firms also will need to systematize and electronically store certain information that they currently collect and maintain in paper, but not electronic, format (e.g., paper trading authorization forms). This data stored at each firm, including PII, will become a target for hackers and other malicious third parties. Firms will need to expend considerable resources to protect this data consistent with the associated privacy and security risks, including higher insurance costs. Notwithstanding these efforts across many firms, there is a significant risk that malicious third parties will unlawfully seek to access this data. In addition to the enhanced security risk at each reporting firm, there is a further risk that additional customer-related data, including PII, will be transmitted to and stored within the CAT CAIS system.

FIF member recommendations

FIF members are currently engaging in discussions on how to address the challenges identified above. While FIF members continue to discuss these challenges and potential solutions and might provide additional recommendations in the future, FIF members recommend the following at this time:

- **Registered personnel.** As proposed, Transformed Identifiers can be generated from SSNs, ITINs and EINs. For authorized traders who are registered personnel, it should be acceptable for firms

¹¹ Securities Exchange Act Release No. 67457 (July 18, 2012), 77 FR 45721 (August 1, 2012) (“CAT Adopting Release”), at pp. 139-140.

to report the name and Central Registration Depository (“CRD”) or Investment Adviser Registration Depository (“IARD”) number of the authorized trader instead of a Transformed Identifier based on an SSN since the Plan Processor can link the CRD or IARD number to an SSN and thereby generate a Transformed Identifier.¹²

- **Persons authorized through legal entity resolutions.** The adopting release for CAT clarifies that individuals who transact in the name of a trading firm that is an account holder are not considered customers:

“Furthermore, in cases where multiple individuals in the same trading firm transact through a single account maintained at a broker-dealer in the name of that trading firm, the Rule will require the NMS plan to require recording and reporting of the Customer-ID of the trading firm associated with that account, and not the Customer-IDs of the individual traders who had placed the orders. The Commission understands that in some cases broker-dealers may have knowledge of the individual traders transacting within the same firm-wide account, and may even provide reports to the firm holding the account that summarizes trade activity according to individual trader. Because such information is not captured by the Rule, but may be useful in informing regulators about the potential manipulative activities, the SROs may wish to consider how such information might be incorporated into the consolidated audit trail in the future.”¹³

Footnotes 386 and 388 similarly provide:

“For the purpose of Rule 613(j)(3), natural persons who are employed by an entity that is an account holder, and who are authorized to trade for that account, are not considered different from the account holders, and are therefore not covered by Rule 613(j)(3)(i).

...

This is because, for the purpose of Rule 613(j)(3), natural persons who are employed by an entity that is an account holder, and who are authorized to trade for that account, are not considered different from the account holders, and are therefore not covered by Rule 613(j)(3)(ii).

If an individual creates and operates two separate entities (as an employee of each such entity) that each maintain a trading account at one or more broker-

¹² The North America Securities Administrators Association website provides information about the CRD and IARD systems. See <https://www.nasaa.org/industry-resources/crd-iard/>. A sample Form U4 (used for CRD and IARD registration for natural persons) in PDF format is provided on the FINRA website at <https://www.finra.org/sites/default/files/form-u4.pdf>.

¹³ CAT Adopting Release, at pp. 140-141.

dealers, the broker dealers would be required to record and report the Customer-IDs of those entities, and not the customer ID of the individual trader.”¹⁴

The sections above are focused on account holders. FIF members request clarification that the same guidance would apply for authorized traders. In other words, an individual employed by an authorized trader should not be considered a customer in the same manner that an individual employed by an account holder would not be considered a customer.

FIF members further request that the guidance above be applied not just for employees, but also for other natural persons authorized through a legal entity resolution. For many legal entity accounts, firms obtain resolutions from the legal entity authorizing specific natural persons to trade for the account, but it is not clear whether the natural persons are employees of the legal entity. Accordingly, any natural person authorized through resolutions adopted by a legal entity should not be considered an authorized trader. The legal entity should be considered the authorized trader. This should apply without the broker-dealer having to validate whether the natural person is an employee of the legal entity.

- **Existing accounts and relationships.** If any reporting obligations are imposed with respect to authorized traders, the requirement to provide a Transformed Identifier and other identifying information for authorized traders should only apply for new accounts and relationships. It is not feasible to require firms to contact authorized traders to obtain this information for millions of existing accounts, and firms expect that in many cases the authorized traders either will ignore the firm’s request or refuse to provide the requested information. In many cases, firms would need to prevent persons from accessing their assets through authorized agents that they designate. In certain cases, firms could be subject to liability under state law for improperly denying an authorized trader relationship.¹⁵ Industry members hope that these types of scenarios can be avoided and, alternatively, would need regulatory guidance on how to handle these types of scenarios.
- **New accounts and relationships.** For new accounts and relationships, if any reporting is required, reporting should be limited to name and Transformed Identifier as firms often do not maintain addresses for authorized traders. As noted above, as a result of the requirement to collect and report data relating to authorized traders, firms that cannot obtain this data would need to prevent persons from accessing their assets through authorized agents that they designate. Accordingly, firms request that any requirements in this area be limited to what is absolutely necessary to achieve the primary objective of the Consolidated Audit Trail, which is the linking of customer trading activity across all accounts of a customer at the same or different broker-dealers.

¹⁴ CAT Adopting Release, at pp. 140 and 142.

¹⁵ See, for example, Fla. Statutes, Title XL, Chapter 709, “Power of Attorney and Similar Instruments”, §709.2120(5).

Proposed requirements for reporting sub roles are inconsistent with existing broker-dealer books and records

Under the current Plan and the Proposing Release, Customer Attributes for a natural person include an “individual’s role in the account (e.g., primary holder, joint holder, guardian, trustee, person with the power of attorney).” FIF members recommend that the requirement to report the role of an individual for an account should be limited to reporting whether the individual is a beneficial owner of the account or a person with trading authorization who is not also a beneficial owner of the account.

The roles of guardian, trustee and power of attorney are described as “sub roles” in the most recent “CAT Reporting Customer & Account Technical Specifications for Industry Members” published by FINRA CAT, LLC.¹⁶ FIF members typically do not classify accounts using these sub roles and use other classifications instead (for example, minor, custodian, full authorization, limited authorization). These classifications vary from firm to firm, and often it is not clear whether a specific arrangement represents a guardian, trustee, power of attorney or other form of relationship. Firms would need to map their current classifications to the CAT classifications. This would require significant work for firms and not represent the actual books and records of the firm in many cases. FIF members also question the value of reporting these sub roles if firms are already required to identify whether a CAT customer is an account holder or an authorized trader. FIF members further note that there is nothing in Rule 613 of Regulation NMS or in the adopting release for CAT that provides for the reporting of these or any other sub roles.

As discussed in the section above relating to authorized traders, FIF members do not believe that CAT is intended to create new customer recordkeeping obligations for firms. Based on the above points, FIF members propose that the sub roles identified above be removed from the definition of Customer Attributes.

FIF members also propose that the roles of primary holder and joint holder be removed from the definition of Customer Attributes as this will already be known to the Participants based on whether one or multiple account holders are reported for an account.

Customer Type should be a Customer Attribute and not an Account Attribute

Customer Type should be a Customer Attribute; it should not be an Account Attribute. Rule 613 does not provide for separate definitions of customer and account information. Instead, Rule 613 provides one definition of “Customer Account Information” that combines the two concepts. The Plan and the Proposed Amendments separate these two concepts.

As an analogy, an apple would have an apple type (McIntosh, Gala, Fuji, etc.) and a pear would have a pear type (Bosc, D’Anjou, Red Anjou, etc.), but an apple would not have a pear type, and a pear would

¹⁶ “CAT Reporting Customer & Account Technical Specifications for Industry Members”, DRAFT Version 2.0, June 30, 2020, available at <https://catnmsplan.com/sites/default/files/2020-09/09.04.20-DRAFT-CCID-Technical-Specification-v2.0.pdf>.

not have an apple type. In the same manner, Customer Type should be a Customer Attribute and not an Account Attribute.

Name and address details

In the Proposing Release, the Commission “proposes that for the name field, the first, middle, and last name must be reported; and for the address field, the street number, street name, street suffix and/or abbreviation (e.g., road, lane, court, etc.), city, state, zip code, and country must be provided.”

FIF members have the following comments on these requirements:

- **Middle name.** Middle name should be optional since customers often do not have or provide a middle name.
- **Name suffix.** An optional name suffix field should be provided.
- **Multiple addresses.** Many firms have multiple addresses for the same account or Customer (for example, customers with different legal and mailing addresses and customers who have second summer or winter addresses). FIF members propose that a firm can adopt any reasonable procedure for identifying which address should be reported to CAIS when there are multiple addresses.
- **Different name or address data for the same natural person.** Even within an individual firm, the same natural person might provide different name or address data. For example, a Customer might provide the name “Susan Smith” for one account that she opens at a broker-dealer and provide the name “Sue Smith” for a second account that she opens at the same broker-dealer. Firms would be concerned about any requirement to alter the data provided by a Customer. Accordingly, firms should have the ability to report multiple records for the same Customer. As long as the same Transformed Identifier is reported by the firm for each record for a Customer, the Participants have the ability to link all trading activity by the Customer, even if multiple Customer records are reported.
- **Addresses recorded at the account level; primary and secondary holders.** Many firms record addresses at the account level rather than the customer level. These firms will need to update their records to comply with the CAT CAIS reporting requirements by recording addresses at the customer level and not just at the account level. In this scenario, if there is one holder for an account, firms can apply the account level address to the holder. When there are multiple holders for an account, certain firms maintain the address for the primary holder but not the secondary holders. FIF members propose that firms only be required to report a Customer’s address where the Customer is a primary holder of an account.
- **Format for address records.** Certain firms record customer addresses based on the electronic blue sheets format. Other firms record addresses through other formats that involve multiple fields. Other firms record addresses as a single field. FIF members propose that firms be permitted to report the address for a Customer either using the electronic blue sheets format or as a single field. FIF members would be concerned about any requirement to alter the format of their current books and records. While the Proposing Release indicates that specificity relating

to name and address fields is collected by broker-dealers,¹⁷ FIF members note that, in many cases, the fields are not broken-out in the manner listed in the Proposing Release.

- **Address details.** Many addresses do not include values for all of the address fields specified in the Proposing Release, as quoted above. For example, many addresses do not include a street number or street suffix.
- **Non-US customers.** There is no uniform identifier that firms obtain for foreign customers.

Please also see the specific comments above relating to the reporting of data for authorized traders.

Account transfers

The Plan should distinguish between account and asset transfers

The Proposing Release provides that CAT CAIS “must be able to link accounts that move from one Industry Member to another.” It is important to clearly define what constitutes an account transfer, which would be reportable to CAT CAIS, as opposed to a transfer of assets, which would not be reportable to CAT CAIS.

Proposed glossary of terms relating to account transfers

FIF members propose the following glossary of terms to assist firms in distinguishing between account and asset transfers:

- **priorCATReporter.** The delivering broker-dealer in a bulk account transfer.
- **Delivering broker-dealer.** The broker-dealer that maintains the accounts prior to a bulk account transfer.
- **Receiving broker-dealer.** The broker-dealer that maintains the accounts after a bulk account transfer.
- **Bulk account transfer.** The transfer of a group of accounts from one broker-dealer to another broker-dealer based on an agreement between the two broker-dealers and where the account transfer is not initiated by the customer. [NASD Notice to Members 02-57, “Bulk Transfer of Customer Accounts - Use of Negative Response Letters for the Bulk Transfer of Customer Accounts”](#) identifies the following scenarios that involve bulk account transfers:
 - A member experiencing financial or operational difficulties
 - An introducing firm no longer in business
 - Changes in a networking arrangement with a financial institution
 - Acquisition or merger of a member firm
 - Change in clearing firm by an introducing firm.

The [SIFMA Bulk Transfer Initiative Playbook](#) provides extensive detail on the processes relating to bulk transfers. The SIFMA Playbook focuses on bulk transfers of all customer accounts and assets from a failing carrying firm to a viable carrying firm under a highly condensed timeline, but much of the guidance in the Playbook is applicable to all bulk transfer scenarios.

¹⁷ Proposing Release, at p. 126.

ACATS transfers are asset transfers

ACATS transfers are asset transfers, as opposed to account transfers. Accordingly, the priorCATReporter should not be reportable for an ACATS transfer. The Depository Trust and Clearing Corporation (DTCC), which provides the ACATS service, describes the service as an asset transfer service:

“The Automated Customer Account Transfer Service (ACATS) is a system that automates and standardizes procedures for the transfer of assets in a customer account from one brokerage firm and/or bank to another.”¹⁸

This section provides detail relating to ACATS transfers in support of this point.

Customers can request full or partial transfers of account assets. These transfers can be effected through the ACATS service operated by DTCC or outside of ACATS. When a transfer is effected through ACATS, the delivering and receiving broker-dealers must confirm the specific assets to be transferred.

The full or partial transfer of account assets, whether through ACATS or otherwise, does not require the closing of the account at the delivering broker-dealer. As an example of why the delivering broker-dealer would not close an account, the delivering broker-dealer could receive a dividend or interest payment on the account whose assets were transferred and would then remit the dividend or interest payment to the receiving broker-dealer. A receiving broker-dealer would not necessarily know whether a delivering broker-dealer is closing an account and is not impacted by that action.

Some delivering broker-dealers leave an account open for an extended period of time (for example, six months) after a transfer of assets. In some cases when account assets are transferred, certain securities (for example, securities that are not tradeable), remain in the account, and the delivering broker-dealer does not close the account. In some cases, the delivering broker-dealer could assign the account a dormant status.

As part of a transfer, the assets from multiple accounts at a delivering broker-dealer can be transferred to one account at a receiving broker-dealer. These individual transfers can be full or partial transfers. Alternatively, the assets from one account at a delivering broker-dealer can be transferred to multiple accounts at a receiving broker-dealer.

A full or partial asset transfer can result in an account at a receiving broker-dealer with a different account type or different account information as compared to the account at the delivering broker-dealer. For example, in connection with a full or partial transfer of assets, an account can change from an individual to a joint account, from a joint to an individual account, from an individual to a trust account, or from a trust to an individual account.

¹⁸ See http://www.dtcc.com/clearing-services/equities-clearing-services/acats?gclid=EAlaIqObChMI8L3W8tyY7QIVS0KGCh189wNyEAAYASAAEgLW-vD_BwE.

All of the scenarios above demonstrate that an ACATS transfer involves the transfer of assets as opposed to the transfer of an account. This is different from bulk transfer scenarios, which involve the transfer of accounts.

Material inconsistencies

Proposed inconsistency management process will impose significant costs for limited benefits

FIF members are concerned that the proposed inconsistency management process, which requires attestation by industry members, will impose significant costs on industry members while providing limited, if any, benefit to the regulators. In particular, FIF members are concerned about the heavy burden that will be imposed on Operations, Technology, Compliance and other personnel for limited benefit. FIF members, therefore, propose that the SROs do not implement an inconsistency management process that requires attestation by industry members.

The proposed inconsistency management process will generate a very high percentage of false positives, resulting in a significant burden for firms

The following example illustrates the complexity of the proposed inconsistency management process:

Customer record 1 First name: James Middle name: William Last name: Smith Suffix:	Customer record 2 First name: James Middle name: Will Last name: Smith Suffix:	Customer record 3 First name: James Middle name: Last name: Smith Suffix:	Customer record 4 First name: James Middle name: W. Last name: Smith Suffix:
Customer record 5 First name: Jim Middle name: William Last name: Smith Suffix:	Customer record 6 First name: Jim Middle name: Will Last name: Smith Suffix:	Customer record 7 First name: Jim Middle name: Last name: Smith Suffix:	Customer record 8 First name: Jim Middle name: W. Last name: Smith Suffix:
Customer record 9 First name: James Middle name: William Last name: Smith Suffix: Sr.	Customer record 10 First name: James Middle name: Will Last name: Smith Suffix: Sr.	Customer record 11 First name: James Middle name: Last name: Smith Suffix: Sr.	Customer record 12 First name: James Middle name: W. Last name: Smith Suffix: Sr.
Customer record 13 First name: Jim Middle name: William Last name: Smith Suffix: Sr.	Customer record 14 First name: Jim Middle name: Will Last name: Smith Suffix: Sr.	Customer record 15 First name: Jim Middle name: Last name: Smith Suffix: Sr.	Customer record 16 First name: Jim Middle name: W. Last name: Smith Suffix: Sr.

The example above identifies 16 different ways in which the same person's name can be reported, and many more permutations for this same person could be provided. This is, in fact, a relatively straightforward example. When you consider other scenarios, such as people with maiden and married names, people who legally change their names, people with hyphenated names, people with multiple first, middle or last names, and people with prefixes such as "Van", "Von" or "Mac" that can be a middle name or part of a last name, the potential number of permutations increases significantly.

Addresses involve exponentially more complexity than names. In addition, as noted above, many people have multiple addresses.

The example above illustrates that the proposed inconsistency management process will result in a significant number of false positives. FIF members estimate that the percentage of false positives could potentially exceed well over 99%.

Industry members are not aware of any material benefit that would result from the proposed inconsistency management process

In the example above, all 16 records, whether provided by a single firm or multiple firms, will have the same Transformed Identifier and thereby link to the same CCID. This will enable the Participants to link all activity of this Customer, even though the Customer provided different permutations of the same name. In fact, allowing the same Customer to have different permutations of a name or address provides a more accurate audit trail for regulators because it reflects the actual books and records of each firm and also is more likely to reflect the actual data provided by the Customer.

It is unclear the types of errors that the proposed inconsistency management process is intended to address

There are different potential causes for an inconsistency, as follows:

- As discussed above, multiple acceptable permutations for the same name, address or other record are reported.
- A customer could provide incorrect data, whether by phone, in writing or electronically.
- A firm could incorrectly transcribe a phone instruction to a written or electronic record or a written record to an electronic record.

FIF members anticipate that the first cause, involving multiple acceptable permutations for the same name, address or other record, will represent well over 99% of inconsistencies. FIF members believe that requiring firms to conduct a validation for the 2nd and 3rd scenarios would impose a significant burden on firms for no apparent benefit since the Participants will still be able to link a customer's trading activity across accounts through a common Transformed Identifier and CCID.

FIF appreciates the Commission publishing the Proposed Amendments. FIF welcomes the opportunity to discuss the considerations raised in this letter. If you would like clarification on any of the items discussed in this letter or would like to discuss further, please contact me at howard.meyerson@fif.com.

Very truly yours,

/s/ Howard Meyerson

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