

FINANCIAL INFORMATION FORUM

September 6, 2023

By electronic mail

Brandon Becker
CAT NMS Plan Operating Committee Chair

Shelly Bohlin
President and Chief Operating Officer, FINRA CAT

Re: July 31, 2023 Updates to the CAT Reporting Technical Specifications for Industry Members (Version 4.0.0 r20)

Dear Mr. Becker and Ms. Bohlin,

This letter presents comments and questions from Financial Information Forum (“FIF”) members on the July 31, 2023 updates to the CAT Reporting Technical Specifications for Industry Members (the “Technical Specifications”). Most of the comments and questions below relate to CAT reporting for NIA RFQ responses (as defined in the Technical Specifications). Simultaneously with this letter, FIF is submitting a letter to the Securities and Exchange Commission (the “Commission”) as a follow-up to a letter submitted by FIF to the Commission on June 1, 2023 relating to NIA RFQ responses. FIF is attaching a copy of this letter.

Please note the following in connection with your review of the comments and questions below:

- FIF members continue to discuss CAT reporting for NIA RFQ responses and, given the complexity of this topic, will likely have additional comments and questions in the future.
- FIF members do not consider NIA RFQ responses to be quotes and use the term Quote just to reference the CAT event type that the Technical Specifications require for reporting these RFQ responses (to the extent they are reportable).
- The RFQ responses described in this letter refer to NIA RFQ responses.

1. Quote display time

As noted in the FIF letter to the Participants in the National Market System Plan Governing the Consolidated Audit Trail (the “CAT Plan Participants”) and FINRA CAT, LLC (“FINRA CAT”) dated June 1, 2023, RFQ platforms allow for an RFQ response to indicate the time through which the RFQ response

remains valid (for example, through a ValidUntilTime or QuoteTimeout FIX tag). RFQ platforms also provide default values for this tag if the responder does not specify a value. FIF members request that a field to indicate the time through which an NIA RFQ response is valid be added as a conditional field to the applicable CAT quote events. A responder should be required to populate this field in CAT when RFQFlag = true. If a responder does not provide a “valid until time,” “quote timeout time” or similar time for an NIA RFQ response, the responder should report “not specified” (or an equivalent value provided by CAT) for this field. This value would signify to CAT that the responder did not specify a time value in its response.

One reason that FIF members request this change is for the scenario where a solicitor selects an RFQ responder as the winning bidder and routes an order to the responder, and the responder does not execute against the order because the responder received the order after the “valid until time” communicated by the RFQ responder. Including a “valid until time” in CAT will reduce the number of inquiries that firms receive for this type of scenario and will also provide additional relevant information to surveillance personnel.

2. RFQ response cancels

FIF members request confirmation that if an NIA RFQ response expires, the responder would not be required to report a cancel of the RFQ response. Reporting a cancel in this scenario would be an inaccurate reporting of the data that is actually communicated between the parties because the responder never sent a cancel. This type of reporting also would be inconsistent with the data that the applicable RFQ platform would provide to the responder in this scenario.

FIF members also request confirmation that the CAT Plan Participants and FINRA CAT are not requiring that a solicitor report the cancel of a received quote under any circumstances.

3. FLEX Percent Option Symbols (Section 2.4.4.1)

FIF members request confirmation of reporting for the following scenario:

- At 1:00 pm on August 7, a CAT reporter receives and routes an order for a FLEX Percent option
- At 1:01 pm on August 7, the order is executed
- At 4:01 pm on August 7, the exchange assigns a permanent symbol
- At 4:05 pm on August 7, the CAT reporter allocates the executed contracts to a customer account
- At 1:00 am on August 8, the CAT reporter submits these events to the CAT system, and the CAT system accepts these events.

FIF members request confirmation whether, in the scenario above, the CAT reporter should report the interim symbol for the receipt and routing of the order (MENO and MEOR) and the permanent symbol for the allocation (MEPA).

4. CAT Linkage Keys (Section 2.6.1 and other sections)

FIF members recommend that RFQID be removed from the Quote Key because CAT will already link based on the Quote ID. Including RFQID in the Quote Key is redundant. FIF members note that RFQID is not included in the Prior Quote Key, which is the correct approach.

5. Summary of Route and Linkage Keys (Section 2.6.3)

The linkage key for Quote Routes includes “symbol (or option ID)”. FIF members note that a Multi-Leg Route would not necessarily have an option ID at the parent level. FIF members understand that, when a Multi-Leg Route does not have an option ID at the parent level, linkage is based on the symbol and optionID values in the legs. FIF members request that the linkage key be clarified for the scenario where a Multi-Leg Route does not have an option ID at the parent level.

6. Responses to RFQs and Solicitation: Scope (Section 3.4.1)

Section 3.4.1 provides:

Industry Members are not required to report the following manual activity in Phases 2c/2d:

- Responses not communicated in standard electronic format (e.g., phone call, IM/chat).
- Responses that are communicated in standard electronic format directly to an Industry Member’s OMS/EMS with an understanding that further action is required before a trade can be executed/routed (not immediately actionable).

FIF members note that “responses that are communicated in standard electronic format” are not “manual activity” and request that this section be updated.

7. Description of RFQID field in New Order event (Section 4.1)

The Technical Specifications provide the follow description for the RFQID field in the New Order (MENO) event:

For New Order events representing a response to an RFQ or solicitation, the ID assigned to the related RFQ or solicitation being responded to. Must be populated when available.

FIF members note that a New Order event is not a response to an RFQ or solicitation. A New Order event follows the selection by a solicitor of a winning bidder for an RFQ. The description of the RFQID field in the New Order event should be updated to reflect this point.

8. Quotes (Section 4.10)

Section 4.10 of the Technical Specifications provides as follows:

The following guidance applies to quotes in OTC Equity Securities and NMS Securities sent to an interdealer quotation system or electronic RFQ responses sent to an RFQ platform in standard electronic format that are not immediately actionable that need to be reported to CAT:

...

- Electronic RFQ responses that are not immediately actionable that need to be reported to CAT, sent to an RFQ platform operated by an Industry Member must be reported using the New Quote event.
- Electronic RFQ responses that are not immediately actionable that need to be reported to CAT, received by an Industry Member CAT Reporter operating an RFQ platform using the Quote Received event.

FIF members have the following comments on this section:

- The Technical Specifications should clarify that there are two specific scenarios where reporting of Quote events for NIA RFQ responses is required: first, where an RFQ response is sent to a Third Party RFQ Platform not operated by an Industry Member; and second, where an RFQ is sent directly by an Industry Member solicitor to one or more responders and the responders respond directly to the solicitor. FIF members would not consider the second scenario to be an “RFQ platform”. Accordingly, the reference to “RFQ platform” in the introductory section above should be modified to cover the second scenario. If FIF members have not accurately described the two scenarios where the CAT Plan Participants expect CAT reporting of NIA RFQ responses, please explain.
- The first bullet quoted above refers to NIA RFQ responses “sent to an RFQ platform operated by an Industry Member.” At present, RFQ platforms are not operated by industry members. This bullet should be modified to reference the two scenarios we describe in the preceding bullet: first, where an RFQ response is sent to a Third Party RFQ Platform not operated by an Industry Member; and second, where an RFQ is sent directly by an Industry Member solicitor to one or more responders and the responders respond directly to the solicitor.
- FIF members have the same comment on the second bullet.

9. Description of New Quote event (Section 4.10.1)

Section 4.10.1 provides as follows:

The New Quote Event is used to report the following:

...

- Electronic RFQ responses that are not immediately actionable that need to be reported to CAT, ultimately sent to an RFQ system operated by an Industry Member.
- Electronic RFQ responses that are not immediately actionable, that need to be reported to CAT, ultimately sent to a Third Party RFQ Platform not operated by a CAT Reporter.

FIF members understand that the first bullet refers to the scenario where an Industry Member solicitor sends RFQs from its own internal systems directly to one or more responders, and the responders respond directly to the soliciting Industry Member. FIF members request that the Technical Specifications be updated to clarify this point in the description because Industry Members do not typically refer to this type of workflow as involving an “RFQ system.”

10. New Quote Event (Section 4.10.1): firmDesignatedID

RFQ responses typically do not originate from an account and, as a result, RFQ responses sent to an RFQ platform or directly to a solicitor typically do not have an associated account. Accordingly, firmDesignatedID should not be a required field for a New Quote event. In the typical case, reporting a firmDesignatedID for an RFQ response would be an inaccurate depiction of a firm’s account records (i.e., a firm would need to fabricate, for CAT reporting purposes only, an association -- between an RFQ response and a firmDesignatedID -- that does not exist in the firm’s account records).

It is also unclear which accountType and fdidType values would be reportable to CAIS. In addition to fabricating FDID values, firms will need to fabricate accounts for the sole purpose of enabling required CAIS reporting.

11. New Quote Event (Section 4.10.1): relative price on one side only

FIF members request guidance on how a firm should report if an NIA RFQ response has a relative price on one side (for example, the bid side) and a fixed price on the other side (for example, the ask side).

12. New Quote Event (Section 4.10.1): data type for relativePrice

The data type for relativePrice should be “Name/Value Pairs” instead of “Boolean”.

13. Description of Routed Quote Event (Section 4.10.3)

Section 4.10.3 of the Technical Specifications provides:

The Routed Quote Event is used to report the following:

- Electronic RFQ responses that are not immediately actionable that need to be reported to CAT, sent to an RFQ platform operated by an Industry Member
- Electronic RFQ responses that are not immediately actionable that need to be reported to CAT, sent to a quotation venue not operated by a CAT Reporter.

FIF members have the same comments as set forth above with respect to Section 4.10.1, including the fact that RFQ platforms are not operated by Industry Members. In addition, FIF members have the following comments:

- The reference to “quotation venue” should be changed.

- The first bullet refers to “Industry Member”; the second bullet refers to “CAT Reporter”. This terminology should be consistent, or the Technical Specifications should explain the difference between these two terms.

14. Description of Quote Cancelled Event (Section 4.10.6)

Section 4.10.6 of the Technical Specifications provides:

If a RFQ Response (not immediately actionable) is cancelled that was sent to by an Industry Member to an Industry Member operating an RFQ platform, then the sender of the RFQ Response must report Quote Cancelled events.

As discussed above, at present, RFQ platforms are not operated by industry members. This sentence should be updated to reflect the two scenarios described above: first, where an RFQ response is sent to a Third Party RFQ Platform not operated by an Industry Member; and second, where an RFQ is sent directly by an Industry Member solicitor to one or more responders and the responders respond directly to the solicitor.

15. Multi-Leg Quote Supplement Event (Section 5.2.8.3)

FIF members request that the following sentence be deleted from the description for Field 7 (quoteID): “May be required in future phases of CAT.”

The Linkage Key for this event includes orderKeyDate and orderID. Presumably, these should be changed to quoteKeyDate and quoteID, respectively.

16. Multi-Leg Quote Cancelled Event (Section 5.2.8.5)

FIF members request that the following sentence be deleted: “Reported when an Multi-Leg Quote is cancelled.” FIF members do not consider NIA RFQ responses to be quotes, and the scope of when a Multi-Leg Quote Cancelled Event is required is described in the immediately following sentence of the Technical Specifications. More generally, FIF members request that FINRA CAT remove from the CAT documentation any references to an NIA RFQ response being a quote.

17. Linkage Error Feedback (Section 7.5.1.4)

FIF members do not consider NIA RFQ responses to be quotes. Accordingly, FIF members request that the references to the sending and receipt of a quote in the following sentence from Section 7.5.1.4 be revised:

An unlinked Industry member quote event occurs when any of the following linkages fail:

- Industry Member sends a quote to an Inter-dealer Quotation System or RFQ platform
- Inter-dealer Quotation System or RFQ platform receives a quote from an Industry Member.

18. destinationType (Appendix G: Data Dictionary)

FIF members believe that the destinationType of 'S' (Display-only Facility operated by a national securities association) would be used for Quote Events but not for Order Events.

19. quotePriceType (Appendix G: Data Dictionary)

The description of the "Total Cash" value for this field refers to a "100 multiplier," but the multiplier for an option is not always 100 shares. For example, if there is a stock split or reverse stock split, the number of underlying shares per contract is adjusted.

20. receivedQuoteID (Appendix G: Data Dictionary)

The receivedQuoteID field has the following description in Appendix G:

Identifies the quote ID as received by the ATS, RFQ platform, or broker dealer, it must match the routedQuoteID in the New Quote/New Option Quote/New Multi-Leg Quote event reported by the issuer of the quote.

This description should reference the Routed Quote events in place of the events currently referenced.

21. relativePrice (Appendix G: Data Dictionary)

FIF members have the following comments and questions relating to this field.

Permitted values

FIF members request clarification as to why M (midpoint peg) is provided as a permitted value for relativePrice but P (primary peg) and R (market peg) are not provided as permitted values for this field. M, P and R are all permitted values for the handlingInstructions field, but only M is a permitted value for the relativePrice field. More generally, FIF members recommend that the CAT Plan Participants and FINRA CAT consult with the RFQ platform operators to identify the specific values that these operators permit.

Data type for this field

The data type for this field should be "Name/Value Pairs" rather than "Name/Value Pair".

Table 3

In the description of the Name/Value Pairs data type in Table 3, the following sentence, which is included for both JSON and CSV, should apply for CSV but not for JSON: "A Boolean attribute should only include the Name." With respect to JSON, this sentence is contrary to the immediately following sentence in the Technical Specifications, which requires that a value be provided for a Boolean attribute: "For example, if a handlingInstructions value of AOK (Auction or Kill) applies to an event, then it should

be reported as "AOK": true." FIF members note that the current wording quoted in this paragraph was included in the Technical Specifications prior to the July 31, 2023 updates.

Scenario involving multiple relativePrice values

FIF members request guidance on how a firm should report for the relativePrice field where a bid/ask price is in basis points per share priced as a spread from the closing NAV. In this scenario, should the firm report NAV and OFF?

22. RFQFlag (Appendix G: Data Dictionary)

Because FIF members do not consider NIA RFQ responses to be quotes, FIF members recommend the following (or equivalent) changes to the description for this value (proposed changes are marked in green):

Indicates if the ~~quote was originated in~~ Quote Event is reporting a response to an electronic RFQ.

Allowed Values

true Quote ~~Event is being reported was received or originated~~ as the result of a response to an electronic RFQ.

false Quote ~~Event is not being reported was not received or originated~~ as the result of a response to an electronic RFQ.

23. RFQ responses that are immediately actionable

FIF members request confirmation that if a responding firm sends an RFQ response that is immediately actionable (i.e., an RFQ response that can be executed by the solicitor without any further affirmative action by the responding firm), the responding firm should always report an MEOR and not an MERQ.

24. Receiving an NIA RFQ response from a responder that is not a CAT reporter

FIF members request confirmation that if a solicitor (that is a CAT reporter) receives an NIA RFQ response from a responder that is not a CAT reporter (for example, a responder that is a foreign broker-dealer), the solicitor is not required to report the NIA RFQ response to CAT.

25. Scenario involving RFQs for foreign equities

FIF members request guidance on the following scenario involving RFQs for foreign equities:

- ABCD is listed on an exchange outside the US
- ABCD is not dually-listed in the US but has an 'F' share that trades OTC in the US

- The solicitor, an SEC-registered broker-dealer, sends an RFQ for ABCD to multiple responders, including Responder A
- All the responses are non-actionable; the solicitor will send an order to the firm that the solicitor selects as the winning responder
- Responder A is an SEC-registered broker-dealer
- Responder A, if selected by the solicitor as the winning responder, will not execute the order but will instead route the order to an affiliate outside the US for execution by the foreign affiliate.

As a threshold question, is the RFQ response in this scenario a type of RFQ response that is reportable to CAT? This question will require guidance from the Commission defining when a non-actionable RFQ response is CAT-reportable. FIF members note that the Commission has not yet responded to the request for guidance that FIF sent to the Commission on June 1.

Assuming that the RFQ response in this scenario is a type of RFQ responses that is reportable to CAT, is there an exemption if the solicitor and responder both know that any resulting execution will occur outside the US? What if only the responder knows this?

26. Scenario where RFQ platform displays pegged NIA RFQ response as fixed price

Certain RFQ platforms have functionality where they receive a pegged NIA RFQ response from a responder and display that price to the solicitor as a fixed price. When the NBBO (or other reference price) changes, the RFQ platform displays an updated fixed price to the solicitor even if the responder has not sent an updated NIA RFQ response to the platform.

FIF members request confirmation of the following approach recommended by FIF members:

- The solicitor (and responder) should report to CAT based on the pegged price, not based on the fixed price.
- If the RFQ platform displays an updated fixed price to the solicitor based on a change in the NBBO or other reference price (where the responder did not send an updated RFQ response), the solicitor would not be required to report the receipt of a new RFQ response (or the modification of the prior RFQ response).

The approach requested above by FIF members would avoid linkage issues. Specifically, if the solicitor reports an RFQ response to CAT when the NBBO changes, and the responder does not report a new RFQ response, this will lead to a CAT mismatch that the parties would not be able to resolve. Considering the rate at which the NBBO changes for many stocks, this would mean a significant number of mismatches that would not be resolvable.

The approach requested by FIF members also is consistent with the prior guidance provided by the CAT Plan Participants and FINRA CAT that where an ATS receives a pegged order, the ATS is not required to report a modification to CAT every time there is a change in the NBBO.

27. CAT reporting on NIA RFQ responses for switch trades

RFQ platforms allow a solicitor to enter an RFQ for multiple legs where the solicitor will route a separate order for each leg to the winning responder. For example, the RFQ could be to buy ABC stock and sell DEF stock. The responder provides pricing for each leg to the RFQ platform. The RFQ platform displays to the solicitor the price for each leg and the net price for all legs for each responder. The solicitor clicks on the net price for a particular responder to select a winning responder. The solicitor then routes separate orders for each leg to the winning responder. This is sometimes referred to as a “switch trade”. The legs have distinct quoteID values but have the same RFQID value.

FIF members request confirmation that, in the scenario above, the responder and solicitor should report separate Quote-related events (Quote event, Routed Quote event, Quote Received event, etc.) for each leg.

28. RFQ responders that manually input RFQ responses into an RFQ platform user interface; RFQ solicitors that manually view RFQ responses

RFQ responders can communicate RFQ responses to an RFQ platform automatically (for example, through FIX messages) or manually (for example, through a trader manually inputting the terms of an RFQ response into a user interface provided by the RFQ platform). In each case, the RFQ platform communicates the RFQ response terms to the solicitor either automatically (for example, through a FIX message), through the RFQ platform’s user interface, or through both methods. FIF members request guidance as to whether each of these workflows would be reportable to CAT. More specifically, are the following workflows considered manual or electronic for purposes of CAT reporting: the workflow where a trader manually inputs the terms of an RFQ response into a user interface provided by an RFQ platform; and the workflow where an RFQ platform communicates RFQ response terms to a solicitor through the RFQ platform’s user interface.

29. Future changes to RFQ workflows

FIF members note that there could be future changes to RFQ workflows. Certain of these workflow changes could require changes to the CAT Technical Specifications. If that is the case, it will be necessary to provide sufficient advance notice to industry members. As one potential example, RFQ platforms currently are not operated by industry members, but the RFQ platform operators typically have affiliated broker-dealers. Based on regulatory changes proposed or adopted by the Commission, a firm could decide in the future to operate its RFQ platform through a broker-dealer. If that is the case, significant changes to CAT reporting for NIA RFQ responses would likely be required. Potentially, an approach similar to the one currently used for reporting OTC Link activity to CAT could be required. This approach was complex to design for OTC Link, based on existing workflows. Trying to design CAT reporting for this type of workflow at present when this type of workflow does not currently exist is not feasible.

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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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