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June 10, 2021

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Ms. Vanessa A. Countryman

Secretary

U.S. Securities and Exchange Commission

100 F Street, NE

Washington, DC 20549-1090

**RE: Release No. 34-91555; File No. 4 - 698**

Dear Ms. Countryman,

The Security Traders Association<sup>1</sup> ("STA") appreciates the opportunity to provide comments in response to the above-referenced notice of filing of proposed amendments to the National Market System Plan Governing the Consolidated Audit Trail ("Proposed Funding Model") submitted by the Operating Committee for Consolidated Audit Trail, LLC ("CAT") on behalf of the self-regulatory organizations ("Plan Participants" or "SROs") that are parties to the National Market System Plan Governing the Consolidated Audit Trail (the "CAT NMS Plan" or "Plan"). In this filing, the Plan Participants propose to amend their fee schedules to establish the fees for Plan Participants and Industry Members.

STA is an organization comprised of individuals involved in the trading of securities in the U.S and Canada. Our members represent companies with many of the business models in the financial services sector including, but not limited to retail brokerage firms, equity and options market makers and liquidity providers, agency only broker dealers, and asset owners and managers.

### Summary Remarks

STA does not support the Proposed Funding Model and we recommend the Commission deny the Filing and instruct the Operating Committee for CAT to address issues involving collaboration with Industry Members and transparency on costs, allocations and fees before re-submitting a revised funding proposal.

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<sup>1</sup> STA is a trade organization founded in 1934 for individual professionals in the securities industry. STA is comprised of 24 affiliate organizations in North America with individual members who are engaged in the buying, selling and trading of securities. STA is committed to promoting goodwill and fostering high standards of integrity in accord with the Association's founding principle, Dictum Meum Pactum – "My Word is My Bond." For more information, visit <https://securitytraders.org/>.

In its design of the advisory working group responsible for recommendations on the Proposed Funding Model, the Operating Committee did not allow participation by Industry Members. STA believes this represented a flaw in the process for designing the Proposed Funding Model. STA believes the Proposed Funding Model lacks material information pertaining to costs associated with building, implementing, and maintaining CAT. The Proposed Funding Model applies fees to Industry Members to recoup such costs. Absent this information, Industry Members are unable to provide meaningful input that would ensure CAT achieves its intended goals on an efficient basis.

Additionally, STA believes it would be beneficial to further the public discourse of CAT funding through debate and vetting of an alternative funding model proposed in the May 10, 2021, letter<sup>2</sup> to the Commission by NYSE, Inc. (“NYSE Letter”).

### **Industry Collaboration**

Since March 2012, it has been STA’s experience that the amount and quality of collaboration between Industry Members and the parties responsible for designing CAT has been inconsistent and at times flawed. In a March 7, 2012, letter<sup>3</sup> to the Commission, STA wrote that in order for CAT to effectively meet its objectives, extensive business analysis and expertise in order, trade and post-trade systems and processes would be needed. Such an analysis would require involving industry working groups that would report back to the larger audiences, soliciting feedback and consensus.

In March 2013, STA became a member on the Development Advisory Group, (the “DAG”) formed after a selection process by the national securities exchanges and FINRA (the “SROs”). DAG provided extensive feedback on the development of the CAT NMS Plan to the SEC Staff, Commissioners and Plan Participants. When DAG was scuttled in accordance with the approved CAT NMS Plan, STA submitted a letter<sup>4</sup> to the Commission to express concern that while the language within Rule 613 and Section 4.13 of the CAT NMS Plan facilitated industry representation in the creation and operation of the CAT, the role of advisory committees in the Plan was flawed. We believe the lack of well-organized advisory committees played a contributing role in the failure of the original Plan Processor to succeed in its implementation of CAT.

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<sup>2</sup> See NYSE, Inc. Letter to Ms. Countryman, Secretary, U.S. Securities and Exchange Commission dated May 10, 2021 <https://www.sec.gov/comments/4-698/4698-8779961-237701.pdf>

<sup>3</sup> See STA Letter to Ms. Elizabeth M. Murphy, Secretary, U.S. Securities and Exchange Commission dated March 7, 2012 [https://securitytraders.org/wp-content/uploads/2012/03/STA-Comment-Letter\\_CAT\\_2012.03.07.pdf](https://securitytraders.org/wp-content/uploads/2012/03/STA-Comment-Letter_CAT_2012.03.07.pdf)

<sup>4</sup> See STA Letter to Mr. Brent Fields, Secretary, U.S. Securities and Exchange Commission dated July 25, 2016 <https://www.sec.gov/comments/4-698/4698-22.pdf>

More recently, STA became a member of the CAT Industry Member Tech Spec Working Group. A group of Industry Members who interact with the Participants and FINRA CAT (“Plan Processor”) on matters pertaining to the technical specifications for reporting to the CAT Processor. Our experience on this working group and the interactions it affords with Industry Members and the Participants has been satisfactory. Meetings are held on a regular basis, and agendas and open items are distributed far enough in advance to allow Industry Members to gather and provide meaningful input to the Participants and in return receive clarity on technical specifications. The advisory working group responsible for recommendations on the design of the Proposed Funding Model was designed to only include Participants. This decision was intended to protect the Participants from harm caused by proprietary information becoming known to Industry Members. While STA certainly respects this decision, it is our view that the advisory working group could and should have sought meaningful input from the industry in ways that did not involve proprietary information.

Finally, on the matter of collaboration, STA agrees with remarks in the Securities Industry and Financial Markets Association (“SIFMA”) letter<sup>5</sup> which states the failure of CAT Operating Committee to fulfill the SROs’ Guiding Principle in developing the CAT to “consider industry feedback before decisions are made with respect to reporting requirements and cost allocation models.”

### **Material Information**

In addition to representing our members’ interests on matters pertaining to CAT, STA is privileged to be a member on the Financial Information Forum<sup>6</sup> (“FIF”) CAT Working Group. Our experience as a member of this working group informs our view that Industry Members lack required material information pertaining to the costs associated with building, implementing, and maintaining CAT and the applied fees to Industry Members which seek to recoup such costs. While STA understands that certain information associated with costs is proprietary, and thus rightfully exclusive to the Participants, we believe there is basic information that should be made available to Industry Members, such as data storage and operating costs.

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<sup>5</sup> See SIFMA Letter to Ms. Countryman, Secretary, U.S. Securities and Exchange Committee dated May 12, 2021 <https://www.sec.gov/comments/4-698/4698-8790951-237769.pdf>

<sup>6</sup> FIF ([www.fif.com](http://www.fif.com)) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the financial technology 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.

## **NYSE Letter**

STA is encouraged by the alternative funding model proposed by NYSE in their letter to the Commission. We believe it offers a better path forward on ensuring the costs for CAT are recouped efficiently and fairly. However, we are unable to support the letter in its entirety for the same reasons we do not support the Proposed Funding Proposal. We lack transparency and material data on CAT costs, and input from Industry Members has been naturally limited due to it only being made publicly known for one month.

Having said this, STA would like to make several remarks on NYSE's letter with the goal of advancing public awareness and discourse on its recommendations.

NYSE's views, as summarized in their letter, make the following four (4) points:

1. NYSE does not support the Amendment.
2. The Amendment does not establish an adequate basis for its allocation methodology, nor does it adequately articulate the composition of the CAT costs it would allocate to the industry.
3. We recommend the SROs instead propose a structure that is (1) based on executed volume instead of message traffic and (2) administered like SEC Section 31 fees.
4. We recommend establishing a cost allocation model that evenly splits the per share cost three ways: 1/3 to the buyer, 1/3 to the seller, and 1/3 to the Exchange or TRF.

STA agrees with the NYSE views outlined in points #1 and #2, above.

On the recommendation to propose a structure that is based on executed volume instead of message traffic, STA believes that such a structure would be easier for Industry Members to understand, calculate and administer.

On the recommendation to propose a structure that is administered like SEC Section 31 fees, STA believes such a process is simpler to understand and administer. It would also provide transparency into the fees which seek to recoup costs and a vehicle to pass-thru fees to the ultimate beneficiary of each trade.

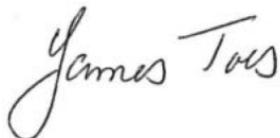
On the recommendation to establish a cost allocation model that evenly splits the per share cost three ways: 1/3 to the buyer, 1/3 to the seller, and 1/3 to the Exchange or TRF, STA has reservations with such an allocation model. Our reservations are based on a fundamental belief that costs to FINRA will be passed directly onto Industry Members in the form of FINRA's Transaction Fee ("TAF").

**Conclusion**

Our markets are complex, and market wide implementations such as CAT require a high level of collaboration and transparency among the effective parties from the early stages of the project's design through its implementation and maintenance. STA recognizes that there are situations involving proprietary information of SROs which do not allow for broad collaboration and transparency with Industry Members. However, even a justified situation is not an excuse for no or a de minimis levels of engagement between SROs and Industry Members.

In the event that the Commission denies the Proposed Funding Model, or the SROs withdraw it, STA recommends that the Operating Committee finds the means to engage Industry Members on a fair and equitable funding model for CAT, while also protecting the proprietary interests of the Participants.

Sincerely Yours,



James Toes  
President & CEO  
STA



Andrew D'Amore  
Chairman of the Board  
STA

cc: Chairman Gary Gensler  
Commissioner Hester M. Peirce  
Commissioner Elad L. Roisman  
Commissioner Allison Herron Lee  
Commissioner Caroline A. Crenshaw