



## Talking Points – August 22, 2018

### Who We Are

STA is comprised of 24 affiliate organizations covering the entire US and Canada. The STA national board of governors is comprised of past presidents and industry specific leaders. Our membership represents INDIVIDUALS from varying business models – buy-side, sell-side, hedge funds, exchange traders and market makers- dealing in equity and derivative trading.

### STA Issues:

- \*Consolidated Audit Trail, (“CAT”): Industry Reliance on Vendors; Testing Timelines; Proposed Regulatory Conformance Period and FINRA autonomy on decisions affecting OTC securities.
- \*Access Fee Pilot: Treatment of ETFs; Coordination with the Canadian Securities Administrators
- \*Exchange and Industry Working Group on Listed Options
- \*Tick Size Pilot Assessment Report

### Specific Comments:

#### Consolidated Audit Trail, (“CAT”):

#### ***Industry Reliance on Vendors; Testing Timelines & Proposed Regulatory Conformance Period.***

- \*It is reasonable to expect that a majority of firms will rely on third party vendors for their data capture and reporting obligations under CAT.
- \*Data capture falls into broad categories: expansion of existing data capture and new data capture. The former is less complex but both require vendors to have all the data requirements and formats in place prior to any work/testing being done by firms they service.
- \*As it pertains to testing for CAT, this two-step work flow of; vendors testing followed by testing with firms is a sequential and not parallel process. Firms cannot begin work on delivering data to their vendors until they have received the specifications from them.
- \*STA is supportive of the remarks and recommendations made by the Financial Information Forum in their letter to the Commission, dated August 20, 2018, in particular,

*“...FIF supports the proposed Regulatory Conformance Period, which should allow Members the necessary 6-month test period to test their systems, work to reduce reporting errors and perform additional data validation checks prior to regulatory scrutiny while meeting the Industry Member CAT Reporting implementation dates.”*

#### ***FINRA autonomy on decisions effecting OTC securities and CAT***

- \*CAT Requirements for OTC Securities are currently driven by the NMS plan which is primarily dominated by exchange SROs. OTC Securities trading activities historically have been (and for the foreseeable future) will continue to be primarily overseen and monitored by FINRA and not by the SROs of exchanges.
- \*It is clear that the rules applicable to the trading OTC Securities are unlike the rules associated with trading NMS securities. It is therefore likely that there will be certain surveillance requirements for NMS securities that are not requirements for OTC Securities and visa-versa.
- \*FINRA is in the best position to make the determination as to the oversight requirements for OTC securities and the corresponding CAT reporting obligations. Under current CAT governance FINRA’s interest for OTC securities surveillance may have to compete with the interests of the SRO exchanges.
- \*We believe that FINRA should be able to do this autonomously through their rule promulgation process rather than through debates with the NMS plan participants.



### **Access Fee Pilot**

#### ***Exchange Traded Funds and Products (“ETPs”)***

\*ETPs are unique investment vehicles which offer investors exposure to the performance of indices or desired exposures. While the equity market structure generally works well for ETPs, unique characteristics of ETPs merit consideration in equity trading rules.

\*As it pertains to the Access Fee Pilot, industry feedback which expresses concern on competitive dynamics of ETPs which offer similar exposures offers recommendations which fall into two broad categories:

- ETPs should not be included in the Pilot
- ETPs should only be included if an elegant solution to the competitive dynamics of ETPs which offer similar exposure can be devised.

\*STA believes evidence exists that when liquidity provision is encumbered, ETPs become less efficient, therefore STA believes that special consideration, perhaps even exemptions, be considered for them.

#### ***Canadian Securities Administrators (“CSA”) Initiative to Study Marketplace Rebates***

\*In a letter to Chair White, dated November 13, 2014, Canadian STA, (“CSTA”) brings to the attention of the Commission the opportunity to conduct a cross border study of the effect of market place rebates on market quality in dually-listed securities.

\*Many respondents to the CSA's proposal expressed concerns that without U.S. involvement, a pilot would lead to dramatic differences in the trading economics on inter-listed stocks between Canadian and U.S. markets. For this and other reasons, the CSA did not move forward with its proposed pilot study.

\*STA recommends that the Commission approach the Canadian Securities Administrator to determine if an opportunity exists to coordinate efforts on an access fee pilot.

#### **Exchange and Industry Group letter requesting committee on the options markets**

\*In a letter to Mr. Brett Redfearn, Director, Division of Trading & Markets, SEC, dated June 4, 2018, Cboe, SIFMA and STA requested the formation of a working group with the purpose of making recommendations towards improving to enhance displayed liquidity in all options classes, including greater size and smaller spreads.

\*This working group was formed to address concerns regarding the current state of the U.S. options market structure generally. This working group is comprised of one representative from each the options Exchange parent organizations; SIFMA; Options Clearing Corporation, “OCC” and STA.

\*Exchanges must ensure that any collective activity on their part conforms with all applicable laws, in particular with the antitrust laws.

#### **Tick Size Pilot Assessment Report**

\*Section VIII of the Tick Size Pilot Plan requires the Plan Participants to submit to the Commission and make publicly available a joint assessment of the impact of the Pilot. The Participants submitted the joint assessment to the Commission on Tuesday, July 3, 2018 and a revised version on August 3, 2018. STA and many of its members are only recently aware that this report was made public.