

**United States Senate Committee on
Banking, Housing and Urban Affairs**

Full Committee Hearing

Oversight of the Status of the Consolidated Audit Trail

Tuesday, October 22, 2019

10:00 am

Dirksen Senate Office Building 538

Comments by Judy McDonald, Chair of CAT NMS LLC Advisory Committee

My name is Judy McDonald, I am the head of Regulatory Technology at Susquehanna International Group, LLP (“SIG”), a global quantitative trading firm headquartered in Bala Cynwyd, PA. In my role at SIG I have been evaluating the Consolidated Audit Trail (“CAT”) NMS Plan since its inception and participated in the CAT Development Advisory Group prior to the Plan Processor selection. Since February 2017, I have served along with 13 other industry participants on the Advisory Committee, and since March 2019 have served as the Chair of the Advisory Committee.

Today I can confidently state that the effort to deliver CAT is moving forward in a very positive manner. Since February 2019, when FINRA CAT became the new Plan Processor, the Self Regulatory Organizations (SROs), FINRA CAT and industry members have been in a virtuous cycle of iterative deliverables and collaboration on the Plan. FINRA CAT brings subject matter expertise, depth of resources, and leadership to the effort. These capabilities have resulted in improvements ranging from well written policies and procedures, to capable project management, to delivery on portions of a large, complex, distributed system.

The Advisory Committee is satisfied that the intermediate milestones of the past year have been met and that significant progress has been made toward processing SRO reporting and the completion of industry member technical specifications for the first equity and option reporting phases.

However, there are a few areas of concern as the implementation of CAT progresses,

1. **Data Security.** This is undoubtedly the most significant concern as the CAT will gather and store an unprecedented amount of information that previously has not been centrally located nor specifically identifiable. The concerns can be broken down into three categories: (a) Trading records for institutions, (b) Personally Identifiable Information (“PII”) for retail customers, and (c) the Security Policies of the regulators:

Trading Records

There is significant concern about the security of the CAT data repository and the misuse of trading records by those with “authorized” access. Trading records will be less secure than PII and accessible by a broader set of individuals. This highly proprietary information results from significant investments, and Broker Dealers (BDs) are very concerned that trading strategies could be reverse-engineered by competitors, by academics, or by rouge actors. Further, SROs

compete with each other and BDs; this is beneficial to investors and could be compromised with the misuse of data.

PII Data

We are encouraged by the progress to avoid the collection of social security numbers and other sensitive PII data. With this progress we believe some focus should be shifted to address the retirement of the legacy Electronic Blue Sheet (“EBS”) system, which currently collects PII data and is less secure than CAT.

Security Policies

The Advisory Committee has little insight into the security programs at the regulators and whether security policies and procedures have changed commensurate with the increased value of the CAT data and the increased threat of compromise. We cannot emphasize enough the harm that could come from an external bad actor gaining access to trade information once data is bulk downloaded from the central FINRA CAT repository.

In summary, I appreciate the critical nature of securing CAT data. Two of the best ways to achieve data security is to limit the number of people with access and to control the use of the data as tightly as possible. The Advisory Committee urges reconsideration of allowing the 22 exchanges and the SEC to bulk download CAT data.

2. **Verbal and Manual Quotes.** There is a significant open issue with respect to the capture and reporting of verbal and manual quotes. Human interaction with highly electronic markets is a deeply challenging issue that affects a small but very important part of the market and if disrupted, could dramatically reduce market liquidity particularly during periods of extraordinary volatility. The Advisory Committee recommends a step-wise approach for reporting verbal and manual quotes.
3. **Fees.** Another area of concern is the current lack of insight into fees that may be applied to BDs. The absence of a fee schedule creates uncertainty around the effort and unnecessarily challenges firms budgeting to comply with CAT. It also raises the concern of chasing more firms out of business and imposing yet another barrier to entry, all to the detriment of market liquidity and competition.
4. **The SEC proposal for Financial Accountability Milestones.** The SEC proposal centers on the best-practice goals of increasing accountability and transparency of the CAT project. While we are supportive of these goals, legitimate unforeseen circumstances may occur where fixed deadlines work against the collective best interest of the CAT implementation. There must be some flexibility in place to address unforeseen situations.

In closing, I look forward to continuing my work on the CAT project and will be happy to address any specific questions you have.