

We are in Webinar Mode this morning

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Tech Spec Working Group

9/8/2020

Agenda

- ▶ Upcoming Industry Webinars
- ▶ Too Late to Cancel Guidance
- ▶ Foreign FAQs
- ▶ Update on Industry Feedback re: Error Correction and CAT Reporter Portal Functionality
- ▶ Appendix- Foreign FAQs Redline

Upcoming Industry Webinars

- ▶ On Wednesday, September 16, 2020 at 10 am ET, Consolidated Audit Trail, LLC and FINRA CAT, LLC will host an industry webinar focusing on Exchange Route Matching.
- ▶ On Wednesday, September 23, 2020 at 10 am ET, Consolidated Audit Trail, LLC and FINRA CAT, LLC will host an industry webinar focusing on Phase 2c, highlighting the differences from Phase 2a/2b with a specific focus on allocations.

Too Late to Cancel Guidance

B42. Are Industry Members required to report the receipt of a cancellation or modification instruction to the CAT if the order is terminal (i.e., it has already been fully executed or cancelled)?

Updated: 09/02/2020

No. Industry Members are not required to report an Order Modification Request or Order Cancel Request event to CAT to the extent the order is terminal (i.e., the order has already been fully executed or cancelled) in Phase 2d. However, this activity may be required in future phases of CAT.

Foreign FAQs Summary

- ▶ Order events in NMS securities that are also listed on a foreign exchange are always reportable to CAT even if all executions occur in a foreign market
- ▶ Order events in foreign securities that are OTC Equity Securities are reportable to CAT if any executions are subject to transaction reporting under FINRA Rule 6622
 - If an order can only be executed in a foreign market not subject to transaction reporting under FINRA Rule 6622, the order is not required to be reported to CAT
 - If an order remains unexecuted at the end of the CAT Trading Day and there is a possibility that any portion of the order could be executed and subject to transaction reporting under FINRA Rule 6622, the order and all subsequent events are required to be reported to CAT even if all executions ultimately occur in a foreign market not subject to transaction reporting under FINRA Rule 6622

Industry Feedback

- ▶ Counterparty Statistics Screen
 - Including the ability to see statistics for resolved Named Errors (*included in September release*)
- ▶ Provide enhanced Corrections Feedback via SFTP for Errors including:
 - Errors that remain Outstanding (*targeted for October 2020*)
 - Errors that have been repaired (*under consideration*)
- ▶ Deliver Named Errors to CAT Reporting Agents designated by the firms (*under consideration*)

Appendix

- ▶ Foreign FAQs (Redline)

Foreign FAQs– 11

11. Are orders in foreign securities reportable?

Updated: 08/27/2020

The origination or receipt of an order involving any security that meets the definition of an NMS security pursuant to SEC Rule 600 must be reported to the CAT, regardless of where the order is ultimately executed. This includes any NMS security that is also listed on a foreign exchange (“dually listed”). If the order is sent to a foreign market for execution, the CAT Reporter is required to report the relevant Reportable Events for the order (e.g., origination or receipt of the order and the routing of the order to the foreign market). All prices must be converted into U.S. dollars based on the conversion rate applicable at the time of the transaction.

Orders in foreign **equity** securities that ~~do not meet the definition of an NMS stock pursuant to SEC Rule 600~~ are OTC Equity Securities are required to be reported ~~to the CAT only in those instances~~ where the resulting execution is subject to ~~the~~ transaction reporting ~~requirements in under~~ FINRA Rule 6622. Pursuant to FINRA Rule 6622(g), the following ~~The requirements of FINRA Rule 6622 do not apply to~~ transactions in foreign equity securities that are OTC Equity Securities provided that are not reportable: (1) the transaction is executed on and reported to a foreign securities exchange; or (2) the transaction is executed ~~over over the the~~-counter in a foreign country and ~~is~~ reported to the regulator of securities markets of that country. CAT reportable orders in foreign securities that are OTC Equity Securities must be reported to CAT using the US symbol, and all prices must be converted into U.S. dollars based on the conversion rate applicable at the time of the transaction.

The CAT reporting requirement for foreign securities is consistent with FINRA’s OATS reporting requirements for foreign securities. (See OATS OTC FAQs for Foreign Equity Securities Traded in the US and Foreign Equity Securities available at <http://www.finra.org/industry/faq-oats-otc-faq>; and OATS for all NMS Stocks FAQ 6 available at <http://www.finra.org/industry/faq-oats-all-nms-stocks-faq>)

Foreign FAQs– I2

I4I2. If a firm receives an order in a foreign **equity** security **traded in the US** that is an OTC Equity Security and routes the order to another broker-dealer who then executes the order in the US, what is the Reporting obligation of the routing firm?

Updated: 09/02/2020

Because the resulting execution of the order was subject to ~~the~~ transaction reporting ~~requirements of~~ under FINRA Rule 6622, both the routing firm and the firm ultimately executing the order have a CAT reporting obligation, and must report the order to CAT using the US Symbol and the price in US Dollars.

If, by the end of the CAT Trading day, the Industry Member does not know the market of execution, or if the destination venue has not informed the broker-dealer of the market of execution, the Industry Member will have an obligation to report all order events for that order to CAT. Refer to FAQ I4 for additional guidance if the market of execution is not known by the end of the CAT Trading day.

Foreign FAQs– 13

13. If an order in a foreign security that is an OTC Equity Security is broken up and executed across multiple markets, ~~both foreign and Domestic~~ i.e., part of the order is executed in the US and part of the order is executed and reported in the foreign market, what are the CAT reporting obligations?

Updated: 08/27/2020

Orders received for foreign ~~equity~~ securities ~~traded in the US~~ that are OTC Equity Securities must be reported if any resulting executions are subject to ~~the requirements of~~ transaction reporting under FINRA Rule 6622. CAT reportable orders for foreign securities that are OTC Equity Securities must be reported to CAT using the US symbol and price in US dollars.

In this example, ~~since~~ part of the order is executed ~~over~~ over-the the-counter in the US by the Industry Member and is therefore subject to ~~the requirements of~~ transaction reporting under FINRA Rule 6622, and the other part of the order is executed and reported in the foreign market and therefore not subject to transaction reporting under FINRA Rule 6622. Thus, the firm would have an obligation to record and report a New Order event reflecting the receipt of the order, an Order Route event for each component sent abroad, an Order Fulfillment event for the portion executed and reported abroad, and a Trade event for each component executed by the Industry Member in the US. Refer to FAQ I4 for additional guidance if the market of execution is not known by the end of the CAT Trading day.

Foreign FAQs– 14

142. If an order is received under the US symbol of a foreign **equity** security ~~(the security also trades in the US)~~ that is an OTC Equity Security, and the market of execution is not known by the end of the CAT Trading day ~~the order is executed on a foreign market the following day~~, does the firm have a CAT reporting obligation?

Added: 09/02/2020

Yes. As stated in FAQ 11, Orders received for foreign securities that are OTC Equity Securities must be reported if any resulting executions are subject to transaction reporting under FINRA Rule 6622. If an order is received in the US symbol and the market of execution is not known by the end of the CAT Trading day on which the order was received, all events for the order must be reported to CAT.

For example, if a firm receives an order in a foreign ~~listed equity~~ security ~~also trading in the US~~ that is an OTC Equity Security that is routed to a foreign market, and the order is not executed before the time the firm is required to report to CAT (i.e. the firm does not know if there will ultimately be a transaction reporting requirement under FINRA Rule 6622), then the firm should submit the New Order ~~e~~Event and an Order Route event to CAT. If the order is later fully or partially executed and reported in a foreign market, since an Order Route event was previously reported to CAT, ~~then~~ the firm would submit an Order Fulfillment ~~Route~~ event indicating that the order was filled on the foreign ~~sent to a foreign broker-dealer or~~ market, as applicable.

Refer to FAQ 16 for guidance on orders that can only be executed and reported in a foreign market.

Foreign FAQs– 16

16. ~~A firm~~ If an order is received under the US symbol of a foreign security that is an OTC Equity Security, and the customer directs ~~ed orders from customers for foreign equity securities that are also traded over the counter in the United States and meet the definition of OTC equity. The customer instructions require the firm to~~ that the order only be executed the order in a particular foreign market, ~~and the order cannot be executed, in whole or in part, in the United States.~~ is this type of directed order required to be reported if the order is not executed by the end of the CAT Trading day?

Added: 08/27/2020

No. If the terms of the directed order require the firm to execute the order in a foreign market, and the firm knows that the order will be executed and reported in the foreign market (and thus not subject to transaction reporting under FINRA Rule 6622), the firm would not be required to report to CAT any events related to that order.

Foreign FAQs – 17

17. If an A-firm order is received under the US symbol of a foreign security that is an OTC equity security, and the firm has determined to Route send the order to a foreign market to for be executed and reported, has already closed before the end of the current CAT Trading Day. Therefore, the order cannot be executed until the following day after the foreign exchange has opened for trading. Since the order is not executed before the time the firm is required to report information to CAT on the day the order is received, must the order be reported to CAT even though, absent unusual circumstances, it will be executed on and reported to a foreign market? but the order ultimately gets executed in the US, does the firm have a CAT reporting obligation?

Added: 08/27/2020

~~No.~~ If an order is received in a foreign symbol or the equivalent US symbol and the firm has decided to send the order to a foreign market ~~for to be executed on and reported~~ (and thus there would be no transaction reporting requirement under FINRA Rule 6622), the firm would not be required to report to CAT any events related to that order. However, ~~the order is not CAT reportable.~~ For example, if a firm receives an order in a foreign-listed equity security that also trades in the US, and has decided to send the order to a foreign market for execution, but the order can not be executed before the end of the current CAT Trading Day because the foreign market is closed, the order would not be CAT reportable. ~~I~~ if, for any reason, the order is ~~not~~ ultimately executed ~~on the foreign market,~~ in the US (and thus subject to transaction reporting under FINRA Rule 6622), the firm would be required to submit all CAT reportable events related to that order with the original time of order receipt as the eventTimestamp. CAT will mark these events late. Firms that display a pattern or practice of reporting orders late may be subject to formal review for potential violations of the CAT Rules.