

**CONSOLIDATED AUDIT TRAIL, LLC**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 AND 2022**

**CONSOLIDATED AUDIT TRAIL, LLC**  
**INDEX TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023 AND 2022**

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	<b><u>Page</u></b>
<b>Report of Independent Certified Public Accountants</b>	1
<b>Financial Statements:</b>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to the Financial Statements	6

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Chairman, Operating Committee  
Consolidated Audit Trail, LLC

**Opinion**

We have audited the financial statements of Consolidated Audit Trail, LLC (a Delaware Limited Liability Company) (the "Organization"), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for opinion**

We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of management for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Grant Thornton LLP*

New York, New York  
June 10, 2025

# CONSOLIDATED AUDIT TRAIL, LLC

## STATEMENTS OF FINANCIAL POSITION

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<b><u>ASSETS</u></b>		
	December 31,	
	<b><u>2023</u></b>	<b><u>2022</u></b>
<b>Assets:</b>		
Cash	\$ 170,169	\$ 3,168,529
Developed technology, net of accumulated amortization of \$25,147,500 and \$14,752,222, respectively	29,601,272	35,558,306
Prepaid expenses	<u>947,549</u>	<u>1,107,649</u>
<b>Total Assets</b>	<b><u>\$ 30,718,990</u></b>	<b><u>\$ 39,834,484</u></b>
<b><u>LIABILITIES AND NET DEFICIT WITHOUT RESTRICTIONS</u></b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 28,493,474	\$ 31,544,503
Notes payable to SROs (members)	<u>631,746,336</u>	<u>442,446,336</u>
<b>Total Liabilities</b>	<b><u>660,239,810</u></b>	<b><u>473,990,839</u></b>
<b>Commitments and Contingencies (Note 5)</b>		
<b>Net Deficit Without Restrictions</b>	<b><u>(629,520,820)</u></b>	<b><u>(434,156,355)</u></b>
<b>Total Liabilities and Net Deficit Without Restrictions</b>	<b><u>\$ 30,718,990</u></b>	<b><u>\$ 39,834,484</u></b>

See Notes to the Financial Statements.

# CONSOLIDATED AUDIT TRAIL, LLC

## STATEMENTS OF ACTIVITIES

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	For the Years Ended December 31,	
	<u>2023</u>	<u>2022</u>
<b>Revenues</b>	\$ -	\$ -
<b>Operating Expenses:</b>		
Technology costs	174,889,070	171,231,630
Legal	5,634,670	5,750,375
Amortization of developed technology	10,395,278	5,274,009
Consulting	1,760,377	1,672,809
Insurance	1,793,572	1,714,430
Professional and administration	799,098	640,603
Public relations	92,400	92,400
Total Operating Expenses	<u>195,364,465</u>	<u>186,376,256</u>
<b>Change in Net Deficit from Operating Activities</b>	<u>(195,364,465)</u>	<u>(186,376,256)</u>
<b>Change in Net Deficit Without Restrictions</b>	(195,364,465)	(186,376,256)
<b>Net Deficit Without Restrictions:</b>		
Beginning of year	<u>(434,156,355)</u>	<u>(247,780,099)</u>
End of year	<u>\$ (629,520,820)</u>	<u>\$ (434,156,355)</u>

See Notes to the Financial Statements.

# CONSOLIDATED AUDIT TRAIL, LLC

## STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	<u>2023</u>	<u>2022</u>
<b>Cash Flows from Operating Activities:</b>		
Change in net deficit from operating activities	\$ (195,364,465)	\$ (186,376,256)
Adjustments to reconcile change in net deficit to net cash used in operating activities:		
Amortization of developed technology	10,395,278	5,274,009
Increase/(decrease) in:		
Prepaid expenses	160,100	(184,399)
(Decrease)/increase		
Accounts payable and accrued expenses	(4,371,029)	4,032,809
Total Adjustments	<u>6,184,349</u>	<u>9,122,419</u>
Net Cash Used in Operating Activities	<u>(189,180,116)</u>	<u>(177,253,837)</u>
<b>Cash Flows from Investing Activities:</b>		
Investment in developed technology	<u>(3,118,244)</u>	<u>(5,795,903)</u>
Net Cash Used in Investing Activities	<u>(3,118,244)</u>	<u>(5,795,903)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from notes payable to SROs (members)	<u>189,300,000</u>	<u>178,113,859</u>
Net Cash Provided by Financing Activities	<u>189,300,000</u>	<u>178,113,859</u>
<b>Net Decrease in Cash</b>	<b>(2,998,360)</b>	<b>(4,935,881)</b>
<b>Cash:</b>		
Beginning of year	<u>3,168,529</u>	<u>8,104,410</u>
End of year	<u>\$ 170,169</u>	<u>\$ 3,168,529</u>
<b>Supplemental Schedule of Non-Cash Investing Activity:</b>		
Investment in developed technology included in accounts payable	<u>\$ 1,320,000</u>	<u>\$ 661,123</u>

See Notes to the Financial Statements.

# **CONSOLIDATED AUDIT TRAIL, LLC**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **NOTE 1 - ORGANIZATION BACKGROUND AND DESCRIPTION**

#### **Securities and Exchange Commission Rule 613**

Effective October 1, 2012, the Securities and Exchange Commission (“SEC”) adopted Rule 613, under the Securities Exchange Act of 1934 (“Rule 613”) to create a consolidated audit trail (the “CAT System”) that would allow regulators to efficiently and accurately track all activity throughout the U.S. markets in National Market System (“NMS”) securities. Among other things, the rule required the national securities exchanges and the Financial Industry Regulatory Authority (“FINRA”), collectively the self-regulatory organizations, (“SROs” or “members”) to jointly submit a plan, called an NMS plan, to create, implement and maintain a consolidated audit trail of the NMS activity. Rule 613 specifies the type of data to be collected and when the data is to be reported to a central repository.

On September 30, 2014, the SROs submitted to the SEC the proposed NMS plan in accordance with Rule 613, which was eventually amended and replaced in its entirety on February 27, 2015, with the amended and restated CAT NMS Plan (“CAT NMS Plan”). On November 15, 2016, the SEC voted to approve the amended and restated CAT NMS Plan. Subsequent to the SEC’s approval of the CAT NMS Plan, CAT NMS, LLC (“CAT NMS”) was formed by the SROs in response to SEC Rule 613 to create, implement and maintain the CAT System.

#### **Formation and Description of Consolidated Audit Trail, LLC**

On August 29, 2019, the SROs formed a new Delaware limited liability company, Consolidated Audit Trail, LLC (the “Organization” or “CAT LLC”), an exempt organization under Internal Revenue Code (“IRC”) Section 501(c)(6), for the purpose of conducting activities relating to the CAT System. Pursuant to an amendment to the CAT NMS Plan filed with the SEC on August 29, 2019, the limited liability company agreement of CAT LLC now serves as the CAT NMS Plan. The Organization shall continue in perpetuity, unless dissolved, as outlined in the Organization’s operating agreement. The Organization’s sole members are the SROs. The SROs, as members, have the same rights, powers, preferences and privileges, and are subject to the same restrictions, qualifications and limitations. Each SRO is entitled to one vote and has an equal interest in the Organization.

# CONSOLIDATED AUDIT TRAIL, LLC

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 1 - ORGANIZATION BACKGROUND AND DESCRIPTION (CONTINUED)

#### Formation and Description of Consolidated Audit Trail, LLC (Continued)

To develop the CAT System and pay for operating and support expenditures of the Organization, the Organization was historically funded by each of the SROs through notes payable to the SROs (Note 4). On March 13, 2023, the Organization, on behalf of the SROs, filed with the SEC a proposal to amend the CAT NMS Plan to implement a revised funding model for CAT LLC and to establish a fee schedule for SRO fees, which was approved by the SEC on September 6, 2023 (the “CAT Funding Model”). Under the CAT Funding Model, CAT fees are allocated one-third to SROs and two-thirds to industry members, defined in the CAT NMS Plan as members of a national securities exchange or association (“Industry Members”). As described below, the fees to recover certain historical costs from Industry Members have been filed with the SEC by the SROs under Section 19(b) of the Securities Exchange Act of 1934.

The Organization formed an operating committee (the “Operating Committee”) to manage the Organization. The Operating Committee has the general charge and supervision of the business and is the sole manager of the Organization. The Operating Committee is comprised of one voting member and one alternate member from each of the SROs, with one elected Chair, who will serve a two-year term. No later than three months prior to the expiration of the then current term, the Operating Committee will elect a successor. No person may serve as Chair for more than two successive full terms. A successor Chair was elected to the operating Committee in February 2023 to serve until August 2023. Subsequently, the successor Chair was elected to serve another term through August 2025. Actions of the Operating Committee are outlined in the Organization’s operating agreement.

No new SROs were admitted to the Organization in 2023 or 2022. MIAX Sapphire, LLC was admitted to the Organization in 2024.

#### Plan Processor Agreement

Effective March 29, 2019 (the “Effective Date”), FINRA CAT, LLC (“FINRA CAT” or the “Plan Processor”), an affiliate of FINRA, and CAT NMS entered into a Consolidated Audit Trail Plan Processor Agreement (“FCAT PPA”) to create, implement and maintain a consolidated audit trail with respect to the trading of national market system securities and which has been extended to OTC equity securities as approved by the SEC. Such FCAT PPA was assigned to the Organization on August 30, 2019, pursuant to an Assignment and Assumption Agreement.

# CONSOLIDATED AUDIT TRAIL, LLC

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 1 - ORGANIZATION BACKGROUND AND DESCRIPTION (CONTINUED)

#### **Plan Processor Agreement (Continued)**

Beginning with the initiation of the billing of Industry Members in October 2024, the FCAT PPA provides for the Organization to retain and not transfer or otherwise distribute any profits, revenue or other funds it has or receives, until it has built up a reserve, prior to the first anniversary of the Effective Date of at least \$2,000,000 and, after the first anniversary of the Effective Date, a reserve of at least \$6,000,000 and, thereafter, shall maintain such reserve during the term to be used as a non-exclusive source to fund its payment obligations under the FCAT PPA.

The initial term of the FCAT PPA is for seven years, through March 29, 2026, and automatically renews for successive three-year periods, unless terminated, and provides for fixed price recurring operating fees, milestone fees, and variable fees as defined, until 2029 (Note 5).

Effective April 18, 2023, the FCAT PPA was amended to transition certain subcontracted services performed by a third-party vendor to FINRA CAT, the Plan Processor, as set forth in the 2023 Technology Services Agreement between FINRA CAT and this third-party vendor. Such subcontracted services are related to the CAT System's Customer and Account reporting sub-system ("CAIS").

The amended FCAT PPA provides for (i) a fixed price recurring annual fee plus annual fee increases, for ongoing operation, maintenance and support of CAIS, (ii) variable cloud hosting fees incurred by the Plan Processor for cloud hosting services provided by another third-party vendor, as a subcontractor, (iii) implementation and transition plan milestones, (iv) license fees for use of the licensed materials, (v) third party pass-through costs, (vi) termination fees and (vii) licensed materials and escrow materials.

#### **Risks and Uncertainties**

##### Technology

The Organization's principal purpose is to create, implement and maintain a consolidated audit trail pursuant to Rule 613. The Organization has developed and continues to develop technology to meet this principal purpose. The Organization is subject to risks and uncertainties that such technology may not ultimately meet its required functionality and intended purpose.

# CONSOLIDATED AUDIT TRAIL, LLC

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 1 - ORGANIZATION BACKGROUND AND DESCRIPTION (CONTINUED)

#### Risks and Uncertainties (Continued)

##### Funding Model, Fee Filings, Notes Payable, and Short-Term Loans

On October 17, 2023, the American Securities Association and Citadel Securities petitioned the United States Court of Appeals for the Eleventh Circuit to vacate the CAT Funding Model. On January 17, 2024, the court granted the Organization's motion to intervene. On November 27, 2024, after the parties had fully briefed the petition, the court denied a motion to stay SRO collections of CAT fees pending the appeal. The court heard argument in the appeal on February 3, 2025, and has yet to issue its decision. If the Court were to vacate the CAT Funding Model, it would delay the Organization's ability to recover historical or prospective fees from Industry Members.

On April 16, 2024, Erik Davidson, John Restivo, and the National Center for Public Policy Research filed a complaint against Gary Gensler, then-Chair of the SEC; the SEC; and CAT LLC. Their complaint does not attack the funding model directly, but it could result in an order finding the CAT unlawful. On May 24, 2024, the plaintiffs filed a motion for a stay and a preliminary injunction; the defendants moved to dismiss and opposed the preliminary-injunction motion. After oral argument on October 15, 2024, the court denied the motion for a stay and a preliminary injunction and contemplated deferring ruling on the motions to dismiss to rule on them together with cross-motions for summary judgment. Plaintiffs filed amended complaints on November 15, 2024 and March 17, 2025. The court also entered a combined briefing schedule on plaintiffs' renewed motions to dismiss and the parties' cross-motions for summary judgment; pursuant to that schedule, absent any extensions, the motions to dismiss and for summary judgment will be fully briefed on October 30, 2025. The court will likely hold oral argument on the motions at some point thereafter. Future rulings by the Court in this case could impact the Organization's ability to recover fees from Industry Members.

On July 17, 2024, Citadel Securities petitioned the United States Court of Appeals for the Eleventh Circuit for review of an SEC order granting a temporary conditional exemption under Rule 608(e) of Regulation NMS under the Securities Exchange Act of 1934. The SEC's order under review in this appeal bears on compliance with certain benchmarks for implementation of the CAT, which in turn concern who will bear certain CAT costs. CAT LLC filed a motion to intervene, which the court granted. This appeal has been held in abeyance pending resolution of the American Securities Association appeal.

# CONSOLIDATED AUDIT TRAIL, LLC

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 1 - ORGANIZATION BACKGROUND AND DESCRIPTION (CONTINUED)

#### Risks and Uncertainties (Continued)

##### Funding Model, Fee Filings, Notes Payable, and Short-Term Loans (Continued)

In January 2024, the SROs submitted fee filings to implement fees to be payable by Industry Members to recover certain historical costs covering the period through December 31, 2021, in accordance with the CAT Funding Model. On January 17, 2024, the SEC temporarily suspended the SRO fee filings and initiated proceedings to determine whether or not to approve them. On August 8, 2024, the SROs revised and resubmitted the aforementioned prior fee filings, which became immediately effective. The terms of such fee filings in the form of Historical CAT Assessment 1 are described in Note 6.

Upon satisfaction of the Period 4 Financial Accountability Milestone (“FAM 4”) described in Section 11.6 of the CAT NMS Plan, the SROs can submit fee filings (i) to recover certain historical costs covering the period from January 1, 2022 through the date FAM 4 is satisfied (provided, however, that such recovery would be subject to the SEC granting exemptive or other relief from the requirements of FAM 4); and (ii) to collect future prospective fees subsequent to the date on which FAM 4 was satisfied. FAM 4 was satisfied as of July 15, 2024.

Through July 15, 2024, the Organization was funded by the SROs primarily through notes payable to the SROs. From July 16, 2024, through October 31, 2024, the Organization was funded by the SROs primarily through short-term loans payable to the SROs. After October 31, 2024, the Organization has been funded by billings and collections of prospective CAT fees payable by Industry Members and SROs. CAT fees charged to Industry Members become effective in accordance with the requirements of Section 19(b) of the Exchange Act. CAT fees charged to SROs are implemented via an approval of the CAT fees by the Operating Committee in accordance with the requirements of the CAT NMS Plan.

On July 31, 2024, the Operating Committee for the CAT NMS Plan voted to establish a Prospective CAT Fee for Industry Members, referred to as CAT Fee 2024-1, and the SROs subsequently filed fee filings to implement CAT Fee 2024-1 for immediate effectiveness. Such fee filings describe CAT Fee 2024-1 in detail. CAT Fee 2024-1 operated as follows:

- Each CAT Executing Broker received its first invoice for CAT Fee 2024-1 in October 2024, which sets forth the fees calculated based on transactions in September 2024, and received an invoice for CAT Fee 2024-1 for each month thereafter until January 2025.

# CONSOLIDATED AUDIT TRAIL, LLC

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 1 - ORGANIZATION BACKGROUND AND DESCRIPTION (CONTINUED)

#### Risks and Uncertainties (Continued)

##### Funding Model, Fee Filings, Notes Payable, and Short-Term Loans (Continued)

- Each month, invoices for CAT Fee 2024-1 set forth a fee for each transaction in Eligible Securities executed by the CAT Executing Broker in its capacity as a CAT Executing Broker for the Buyer and/or the CAT Executing Broker for the Seller from the prior month as set forth in CAT Data. The fee for each such transaction was calculated by multiplying the number of executed equivalent shares in the transaction by the fee rate of \$0.000035 per executed equivalent share.

In addition, the Operating Committee for the CAT NMS Plan voted to establish a CAT fee payable by SROs related to CAT Fee 2024-1, which was calculated using the same fee rate as CAT Fee 2024-1 and was in effect during the same period as CAT Fee 2024-1.

On November 19, 2024, the Operating Committee for the CAT NMS Plan voted to establish a Prospective CAT Fee, referred to as CAT Fee 2025-1, and the SROs subsequently filed fee filings to implement CAT Fee 2025-1 for immediate effectiveness. Such fee filings describe CAT Fee 2025-1 in detail. Upon its implementation, CAT 2025-1 replaced CAT Fee 2024-1. CAT Fee 2025-1 operates as follows:

- Each CAT Executing Broker received its first invoice for CAT Fee 2025-1 in February 2025, which sets forth the fees calculated based on transactions in January 2025, and will receive an invoice for CAT 2025-1 for each month thereafter until July 2025.
- Each month, invoices for CAT Fee 2025-1 set forth a fee for each transaction in Eligible Securities executed by the CAT Executed Broker in its capacity as a CAT Executing Broker for the Buyer and/or the CAT Executing Broker for the Seller from the prior month as set forth in CAT Data. The fee for each such transaction is calculated by multiplying the number of executed equivalent shares in the transaction by the fee rate of \$0.000022 per executed equivalent share.

In accordance with the requirements of Section 11.3(a)(i)(A)(III) of the CAT NMS Plan, notwithstanding the last contemplated invoice date of July 2025 for CAT Fee 2025-1, CAT Fee 2025-1 will continue in effect after July 2025, with each CAT Executing Broker receiving an invoice for CAT Fee 2025-1 each month, until a new subsequent CAT Fee is in effect with regard to Industry Members in accordance with section 19(b) of the Exchange Act.

# CONSOLIDATED AUDIT TRAIL, LLC

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 1 - ORGANIZATION BACKGROUND AND DESCRIPTION (CONTINUED)

#### **Risks and Uncertainties (Continued)**

##### *Funding Model, Fee Filings, Notes Payable, and Short-Term Loans (Continued)*

In addition, the Operating Committee for the CAT NMS Plan voted to establish a CAT fee payable by SROs related to CAT Fee 2025-1, which was calculated using the same fee rate as CAT Fee 2025-1 and will be in effect during the same period as CAT Fee 2025-1.

CAT Fee 2024-1 and 2025-1 are separate from and in addition to any Historical CAT Assessment to Industry Members. The Historical CAT Assessment 1 is described in Note 6.

In the event that the collection of prospective CAT fees were to be disallowed or discontinued, it would result in a funding shortfall. Under the CAT NMS Plan, no SRO can be required to loan any funds to the Organization if it does not agree to do so. To the extent there is a funding shortfall and to the extent the Organization is unable to obtain alternative funding, including, for example, through additional voluntary funding from the other SROs, to address any funding shortfall, the funding sources of the Organization may not be sufficient to fund the Organization's obligations as they come due, thereby impacting the Organization's ability to continue as a going concern.

See the following Available Resources and Liquidity section with respect to the Organization's ability to fund its obligations as they come due.

#### **Available Resources and Liquidity**

The Organization has incurred significant deficits during the years ended December 31, 2023 and 2022, with a large cumulative net deficit as of December 31, 2023. Its financial asset consists of cash of approximately \$170,000, which is available to meet the Organization's operational needs. As of April 30, 2025, the Organization's financial assets consist of cash of approximately \$69,843,000 and due from FINRA CAT, representing cash collected by FINRA CAT on behalf of the Organization of approximately \$44,641,000.

The Organization regularly monitors the liquidity required to meet its operating needs and other contractual commitments. Through an ongoing budgeting process, the Operating Committee reviews projected expenditures and funded the Organization's operating needs through the issuance of promissory notes and short-term loans from SROs through October 31, 2024. Commencing in October 2024, the Organization

# CONSOLIDATED AUDIT TRAIL, LLC

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 1 - ORGANIZATION BACKGROUND AND DESCRIPTION (CONTINUED)

#### **Available Resources and Liquidity (Continued)**

began billing CAT fees for prospective costs, which are based on budgeted costs plus a 25% liquidity reserve. The billing and collection of such fees is expected to provide the Organization with sufficient liquidity to fund its operations as they come due. See Note 6 for a summary of the funding of the Organization subsequent to December 31, 2023.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Accounting**

The accompanying financial statements of the Organization have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and are presented pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 958, *Not-for-Profit Entities*.

Net assets of the Organization are classified based upon the existence or absence of imposed restrictions. The net assets of the Organization are not subject to any restrictions and therefore are available for the general operations of the Organization.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions involved in preparing the financial statements include assumptions related to developed technology, specifically the estimated useful lives and commencement dates assigned to the components of the asset and the assessment of potential impairment. Actual results could differ from those estimates.

#### **Program Services and Supporting Activities**

Program services consist of the application development stage costs of the developed technology; a portion of which costs have been capitalized and a portion have been recorded as operating expenses. Expenses relating to supporting activities are presented by their natural expense classification in the accompanying statements of activities.

# CONSOLIDATED AUDIT TRAIL, LLC

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Developed Technology**

The developed technology asset, which represents capitalizable application development stage costs incurred in the development of the CAT System, is stated at cost. At the inception of the FCAT PPA, the developed technology was in the application development stage and, accordingly, such costs were capitalized. Application development stage costs should be amortized over the term of the associated developed technology on a straight-line basis commencing at the point when the software is ready for its intended use, after all substantial testing is completed and ending at the expiration of the initial contract term. The Organization evaluates the remaining useful life of the developed technology asset that is being amortized each reporting period to determine whether events or circumstances warrant a revision to the remaining period of amortization.

If the estimate of the remaining life is changed, the remaining carrying amount of the developed technology assets will be amortized prospectively over the revised remaining useful life. Preliminary project stage costs and developed technology operating costs are expensed in the period incurred (Note 3). Capitalized developed technology is being amortized on a straight-line basis over the initial seven-year term of the FCAT PPA.

#### **Impairment of Long-Lived Assets**

The Organization reviews the carrying value of its long-lived assets, namely the developed technology asset, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. When it is no longer probable that the software being developed will be completed and placed in service, the asset shall be reported at the lower of the carrying amount or fair value, if any. Indications that the software may no longer be expected to be completed and placed in service include circumstances when the software is not expected to provide substantive service potential or significant changes are made to the software. An impairment loss is recognized if the carrying amount of the asset exceeds its fair value. There were no impairment losses during the years ended December 31, 2023 and 2022.

# CONSOLIDATED AUDIT TRAIL, LLC

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Income Taxes

The Organization follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Organization is exempt from federal income tax under IRC section 501(c)(6), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the IRC. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated business income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. In addition, the Organization has not recorded a provision for income taxes as it has no material tax liability from unrelated business income activities.

#### Evaluation of Going Concern

The Organization adheres to the provisions of FASB ASC 205, Subtopic 40, *Presentation of Financial Statements - Going Concern, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASC 205"). ASC 205 extends the responsibility for performing the going concern evaluation to the Operating Committee based on relevant conditions and events that are known and reasonably knowable at the time the financial statements are available to be issued. ASC 205 also extends the period for which the Operating Committee must consider whether there is substantial doubt about the Organization's ability to continue as a going concern to one year after the date that the financial statements are available to be issued. The Operating Committee has assessed the Organization's liquidity, financial position, and expected cash flows, and has concluded that the Organization has sufficient resources to sustain operations for the foreseeable future. Accordingly, these financial statements have been prepared under the going concern basis of accounting.

# CONSOLIDATED AUDIT TRAIL, LLC

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 3 - DEVELOPED TECHNOLOGY AND TECHNOLOGY COSTS

#### Developed Technology

Developed technology, created, implemented and maintained by FINRA CAT, an affiliate of FINRA, pursuant to the FCAT PPA, consists of the following:

	<u>For the Years Ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Developed technology	\$ 54,748,772	\$ 50,310,528
Less: Accumulated amortization	<u>(25,147,500)</u>	<u>(14,752,222)</u>
	<u>\$ 29,601,272</u>	<u>\$ 35,558,306</u>

Amortization expense of developed technology was \$10,395,278 and \$5,274,009 for the years ended December 31, 2023 and 2022, respectively.

The estimated amortization expense through the end of the initial term of the FINRA CAT PPA on March 29, 2026, is as follows:

<u>Years Ending December 31,</u>	
2024	\$ 12,643,508
2025	13,663,537
2026	3,294,227

#### Technology Costs

In addition to the above developed technology costs for the years ended December 31, 2023 and 2022, the Organization incurred the following technology costs:

	<u>For the Years Ending December 31,</u>	
	<u>2023</u>	<u>2022</u>
Cloud hosting services	\$ 128,050,600	\$ 135,671,810
Operating fees	26,054,493	25,589,243
Data service fees	20,476,754	9,847,500
Change request fees	<u>307,223</u>	<u>123,077</u>
	<u>\$ 174,889,070</u>	<u>\$ 171,231,630</u>

# CONSOLIDATED AUDIT TRAIL, LLC

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 4 - RELATED PARTY TRANSACTIONS

#### Notes Payable to SROs (Members)

The Organization has historically been funded by each of the SROs through secured, non-interest bearing notes payable. The notes payable are secured by the assets of the Organization. The notes are payable on demand, if requested in writing by the holders of the notes representing at least two-thirds of the outstanding principal amount of indebtedness represented by all notes. Any repayment shall be concurrent with a corresponding pro-rata repayment of all other notes.

The notes payable liability is comprised of the following as of December 31, 2023 and 2022:

#### Notes payable to SROs (members):

<b>Balance as of December 31, 2021</b>	<b><u>\$ 264,332,477</u></b>
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January 2022 issuance date	37,079,324
April 2022 issuance date	52,401,677
July 2022 issuance date	38,747,459
October 2022 issuance date	<u>49,885,399</u>

<b>Balance as of December 31, 2022</b>	<b><u>\$ 442,446,336</u></b>
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January 2023 issuance date	12,900,000
February 2023 issuance date	16,400,000
March 2023 issuance date	18,950,000
April 2023 issuance date	17,000,000
May 2023 issuance date	15,100,000
June 2023 issuance date	16,750,000
July 2023 issuance date	16,000,000
August 2023 issuance date	16,550,000
September 2023 issuance date	13,450,000
October 2023 issuance date	15,850,000
November 2023 issuance date	14,400,000
December 2023 issuance date	<u>15,950,000</u>

<b>Balance as of December 31, 2023</b>	<b><u>\$ 631,746,336</u></b>
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# **CONSOLIDATED AUDIT TRAIL, LLC**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **NOTE 4 - RELATED PARTY TRANSACTIONS (CONTINUED)**

#### **Due to Related Party**

The net amount due to FINRA CAT was \$27,680,839 and \$31,843,128 and is included in accounts payable and accrued expenses in the accompanying statements of financial position at December 31, 2023 and 2022, respectively.

#### **Guarantee of Affiliate Notes Payable**

The Organization has guaranteed the payment obligations under the notes payable made by CAT NMS to the SROs for costs related to the CAT System for the period prior to the creation of the Organization, in the aggregate amount of \$112,733,082 as of December 31, 2023 and 2022. The Organization has not been called to pay any of the guaranteed amounts as of June 10, 2025.

### **NOTE 5 - COMMITMENTS AND CONTINGENCIES**

#### **Cash Concentration Risk**

Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash deposits. Accounts at each institution are insured by the FDIC up to \$250,000. As of December 31, 2023, the Organization had no deposits in excess of the FDIC-insured limit with Bank of America and as of December 31, 2022, the Organization had deposits of approximately \$2,919,000 in excess of the FDIC-insured limit with Bank of America.

#### **FINRA CAT Commitments**

The FCAT PPA became effective on March 29, 2019, with an initial term of seven years. The FCAT PPA provided for build and operating milestone fees, as defined, of \$16,500,000, \$20,700,000 and \$1,500,000 for the years ending December 31, 2019, 2020, and 2021, respectively, and provides for recurring operating fees, as defined. Such recurring operating fees are also subject to change requests as outlined in the FCAT PPA.

# CONSOLIDATED AUDIT TRAIL, LLC

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 5 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### FINRA CAT Commitments (Continued)

The minimum recurring operating fees and change request fees, through the end of the initial seven-year term are as follows:

<u>Years Ending December 31,</u>	<u>Recurring Operating Fees</u>	<u>Change Request Fees</u>	<u>Total</u>
2024	\$ 25,200,000	\$ 2,155,000	\$ 27,355,000
2025	25,800,000	2,538,000	28,338,000
2026	<u>6,588,000</u>	<u>748,000</u>	<u>7,336,000</u>
	<u>\$ 57,588,000</u>	<u>\$ 5,441,000</u>	<u>\$ 63,029,000</u>

In addition, the FCAT PPA provides for other variable fees, primarily consisting of cloud hosting services and customer/account database fees.

### NOTE 6 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 10, 2025, which is the date the financial statements were issued.

#### Funding and Repayments

##### Notes Payable

In January through October 2024, the Organization was funded by issuing the following additional notes payable to the SROs:

<u>Month</u>	<u>Amount Funded</u>
January	\$ 11,800,000
February	16,850,000
March	18,200,000
April	18,250,000
May	13,850,000
June	18,550,000
July	16,700,000
August	16,125,040
September	10,270,101
October	<u>9,700</u>
Total	<u>\$ 140,604,841</u>

As of April 30, 2025, the Organization paid \$29,199,297 to SROs in partial repayment of the outstanding notes payable.

# CONSOLIDATED AUDIT TRAIL, LLC

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 6 - SUBSEQUENT EVENTS (CONTINUED)

#### Funding and Repayments (Continued)

##### Short-Term Loans

In August through October 2024, the Organization was funded by issuing the following short-term loans to the SROs:

<u>Month</u>	<u>Amount Funded</u>
August	\$ 1,596,770
September	10,529,899
October	<u>17,390,300</u>
Total	<u>\$ 29,516,969</u>

The aggregate balance of outstanding short-term loans in the amount of \$29,516,969 was fully repaid to SROs as of January 31, 2025.

#### Historical CAT Assessment 1

On August 8, 2024, the Operating Committee for the CAT NMS Plan voted to establish a Historical CAT Assessment (“Historical CAT Assessment 1”), and the SROs subsequently filed fee filings to implement Historical CAT Assessment 1 for immediate effectiveness. Such fee filings describe Historical CAT Assessment 1 in detail. Historical CAT Assessment 1 operates as follows:

- Each CAT Executing Broker received its first invoice for Historical CAT Assessment 1 in November 2024, which sets forth the Historical CAT Assessment 1 fees calculated based on transactions in October 2024, and will receive an invoice for Historical CAT Assessment 1 for each month thereafter in which Historical CAT Assessment 1 is in effect.
- The Organization shall provide each CAT Executing Broker with an invoice for Historical CAT Assessment 1 on a monthly basis. Each month, such invoices will set forth a fee for each transaction in Eligible Securities executed by the CAT Executing Broker in its capacity as a CAT Executing Broker for the Buyer and/or the CAT Executing Broker for the Seller (as applicable) from the prior month as set forth in CAT Data. The fee for each such transaction will be calculated by multiplying the number of executed equivalent shares in the transaction by the fee rate of \$0.000013 per executed equivalent share.

# CONSOLIDATED AUDIT TRAIL, LLC

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 6 - SUBSEQUENT EVENTS (CONTINUED)

#### Historical CAT Assessment 1 (Continued)

- Historical CAT Assessment 1 will remain in effect until \$212,039,879 (two-thirds of Historical CAT Costs 1) are collected from CAT Executing Brokers collectively, which is estimated to be approximately two years, but could be for a longer or shorter period of time, depending on the number of executed equivalent shares during the period in which Historical CAT Assessment 1 is in effect. The Organization will provide notice when Historical CAT Assessment 1 will no longer be in effect.

Through April 30, 2025 pursuant to the Historical CAT Assessment 1 fee filings, the Organization has invoiced and collected approximately \$64,902,000 and \$52,973,000, respectively.

#### Prospective CAT Fees

Through April 30, 2025, the Organization has invoiced and collected approximately \$161,247,000 and \$161,083,000, respectively, for the period of CAT Fee 2024-1 and \$85,435,000 and \$55,095,000, respectively, for the period of CAT Fee 2025-1.