

FIF CAT WG Discussion Document – Firm-Designated ID Walk-Through

Originally Submitted: April 8, 2013, Updated August 5, 2014

This document is a consolidation of FIF comments submitted to the SROs on CAT Customer ID and the CAT customer definition process using a Firm-Designated ID model. The Appendix of this document contains an extraction of Chapter 4 from the January 18 FIF Response to the SRO RFP Concept document, which focuses on Firm Designated ID approach. The body of this document provides specific examples from retail and institutional firms of how the CAT customer definition process and subsequent order and allocation reporting could work.

It is intended to be used to facilitate discussions on this topic to resolve outstanding issues and problems that have been identified to-date with RFP Concepts and potentially with Rule 613 or interpretation of the Rule.

1 Retail Customer Identification

1.1 Customer Definition Process

Note: Many retail firms use account numbers as the unique key to associate investment advisor and customer information. An account number as defined by the record layout in FINRA Regulatory Notice 12-47 is an 18 digit alphanumeric field.

1.1.1 Investment Advisor Master Account

CAT Reporter

- Retail Customer Firm, Firm A, sets up an account for InvAdv, Inc. with the CAT, through a Customer Definition Event, by passing the information shown below to the CAT.

Identifies Account	Reporter-ID	Firm A
	Firm-designated ID	IA222222
	Firm-designated ID type	Account Number
	Effective date	Jan. 31, 2013
Identifies Customer		
	Name	InvAdv, Inc.
	Address	35 5 th Ave., NY
	Role ¹	Investment Advisor
	SSN / Tax-ID	53472-5890
	Large Trader ID	N/A
	LEI	N/A

CAT Processor

- Syntactic and semantic checks performed on new account submission

¹ Additional discussion is required on what roles are required by Rule 613 to be included in the CAT Customer definition. Note that one customer account can exercise multiple roles within an account.

- CAT processor determines if the identified customer (InvAdv Inc.) is already defined in the CAT by searching on unique identifying information, e.g., the Tax-ID. If the Customer is already defined to CAT, the CAT links the new account to the CAT assigned Customer-ID(s). If there is no match with existing CAT Customer IDs, CAT assigns a new CAT Customer-ID and links the account information with the CAT assigned Customer-ID, e.g., CAT99999999 to Account# IA222222.

1.1.2 Retail Account where Investment Advisor has Trading Authority

CAT Reporter

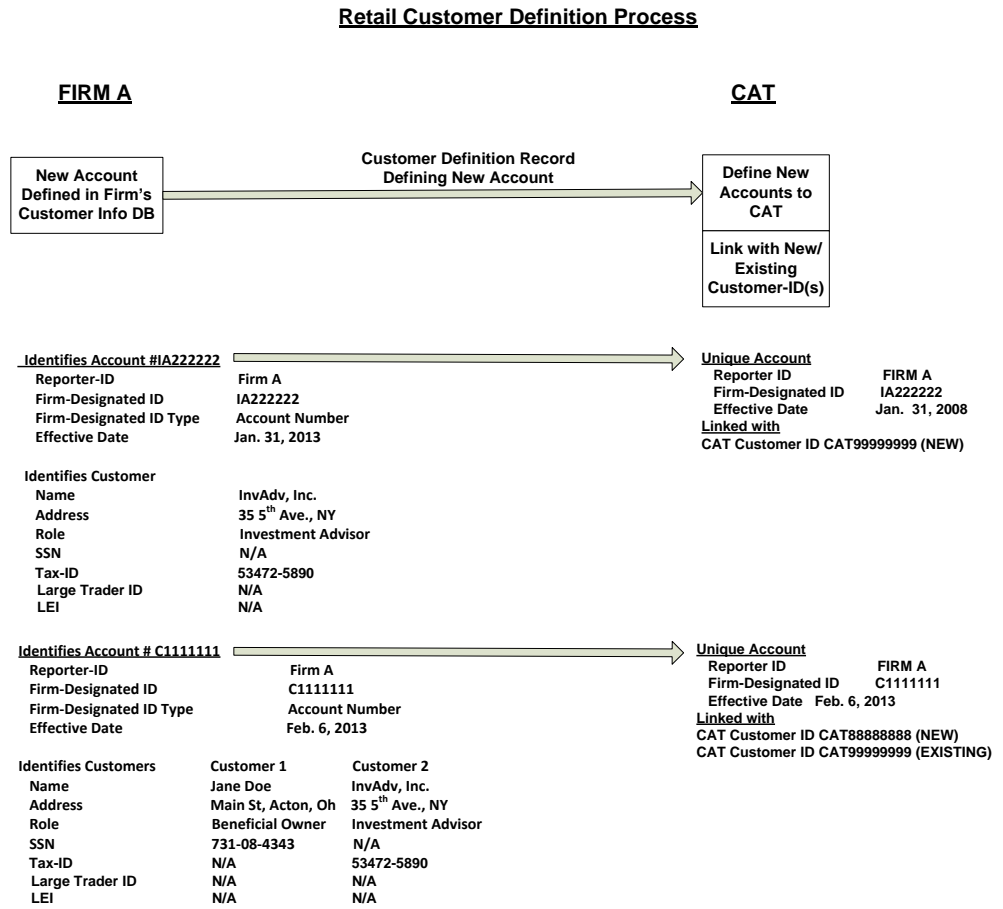
- Retail Customer Firm, Firm A, defines a new account for the account holder, Jane Doe to the CAT.
- InvAdv, Inc. is the investment advisor for Jane Doe so this role must also be defined during the CAT customer definition process.

Identifies Account	Reporter-ID	Firm A	
	Firm-designated ID	C1111111	
	Firm-designated ID type	Account Number	
	Effective date	Feb. 6, 2013	
Identifies Customers		Customer 1	Customer 2
	Name	Jane Doe	InvAdv, Inc.
	Address	Main St., Acton, Oh	35 5 th Ave., NY
	Role	Beneficial Owner	Investment Advisor
	SSN / Tax-ID	731-08-4343	53472-5890
	Large Trader ID	N/A	N/A
	LEI	N/A	N/A

CAT Processor

- Syntactic and semantic checks performed on new account submission
- The CAT must first search the CAT database to determine if the customers identified by this new account already exist within the CAT.
 - Assume Jane Doe is a new customer definition. CAT assigns a CAT Customer-ID for Jane Doe of CAT88888888.
 - Assume InvAdv, Inc. already has a CAT Customer ID. By matching on Tax-ID, CAT Processor identifies InvAdv's CAT Customer ID as CAT99999999.
- CAT Processor links Jane Doe's CAT Customer ID (CAT88888888) and InvAdv's CAT Customer ID (CAT99999999) to the newly submitted account, C1111111.

Figure 1. Retail Customer Definition Process for New Account IA222222 and New Account C1111111



1.2 CAT Order Events

1.2.1 Order Origination from Account Number C1111111

CAT Reporter - An order is originated through Retail Customer Firm, Firm A, when Jane Doe places an order. Firm A reports this order through the Order Origination Event providing the following data:

Reporter-ID	Firm A
Firm-designated ID (Account No.)	C1111111
Date	Feb. 6, 2013
Order ID	9878654
Other Order Info	etc.

CAT Processor - The three fields highlighted in yellow allow the CAT to link to CAT Customer-ID CAT88888888 for Jane Doe and CAT Customer-ID CAT9999999 for InvAdv, Inc.

1.2.2 Investment Advisor Places an Order from Account # IA222222

CAT Reporter - InvAdv, Inc. places an order through their master account at Retail Customer Firm, Firm A, on behalf of Jane Doe. Firm A reports this order through an Order Origination Event providing the following data:

Reporter-ID	Firm A
Firm-designated ID (Account No.)	IA222222
Date	January 31, 2013
Order ID	9988776
Other Order Info	etc.

CAT Processor - The three fields highlighted in yellow allow the CAT to link to CAT Customer-ID CAT9999999 and the related customer information for InvAdv, Inc.

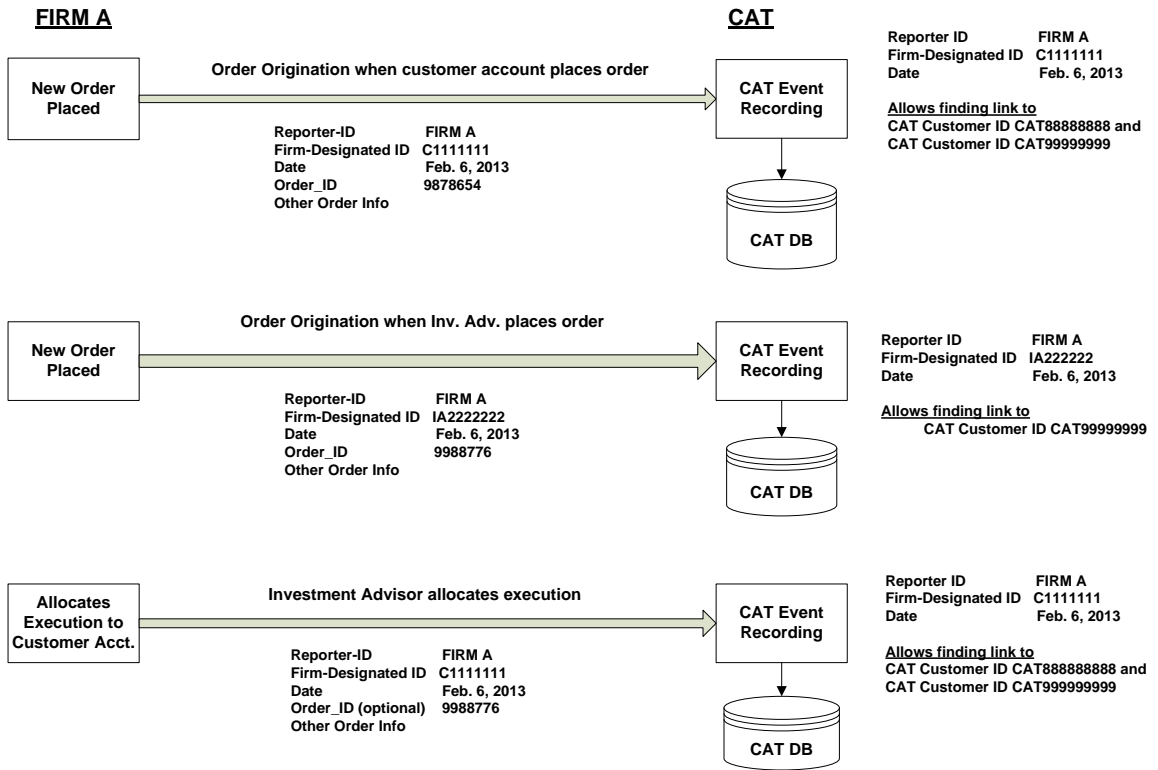
1.2.3 Investment Advisor Allocates Executions to Account # C1111111

CAT Reporter - Once the order is executed, the Investment Advisor will allocate the execution to a customer account and report this transaction through the Allocation Event to the CAT. The following information is sent to the CAT.

Reporter-ID	Firm A
Firm-designated ID (Account No.)	C1111111
Date	Feb. 6, 2013
Order ID (optional)	9988776
Other Order Info	etc.

CAT Processor - The three fields highlighted in yellow allow the CAT to link to CAT Customer-ID CAT8888888 (Jane Doe) and to CAT Customer-ID CAT9999999 (Jane Doe's Investment Advisor, InvAdv, Inc.).

Figure 2. Retail Customer ID Process for Order Processing Events



2 Institutional Customer Definition Scenario

2.1 Institutional Customer Definition Process

2.1.1 Define Entity XYZ

CAT Reporter - Institutional Firm, Firm B, defines a new entity id account for customer, XYZ, with the CAT, through the Customer Definition Event, by passing the information shown below to the CAT.

Identifies Entity	Reporter-ID	Firm B
	Firm-designated ID	XYZ
	Firm-designated ID type	Entity ID
	Effective date	May 23, 2012
Identifies Customer		
	Name	XYZ
	Address	Boston, Ma.
	Role	Fiduciary
	SSN / Tax-ID	N/A
	Large Trader ID	11843253-0000
	LEI	AB3333GH555556677KRT

Note – Unique identifying information for entities is not required today, and may not be available for all institutional firms’ customers.

CAT Processor

- Syntactic and semantic checks performed on new account submission
- The CAT determines if the identified customer (XYZ) is already defined in the CAT by searching on unique identifying information, e.g., LEI. If the Customer is already defined to CAT, the CAT links the new account to the CAT assigned Customer-ID(s). If there is no match with existing CAT Customer IDs, CAT assigns a new CAT Customer-ID and links the Entity ID with the CAT assigned Customer-ID, e.g., CAT55555555 to Entity ID XYZ.

2.1.2 Define sub-accounts for XYZ clients

CAT Reporter - Institutional Firm, Firm B, defines customer sub-accounts representing XYZ’s clients, the beneficial owners of the orders being placed through Firm B by XYZ. Two sub-accounts will be defined, both of which reference the same customer.

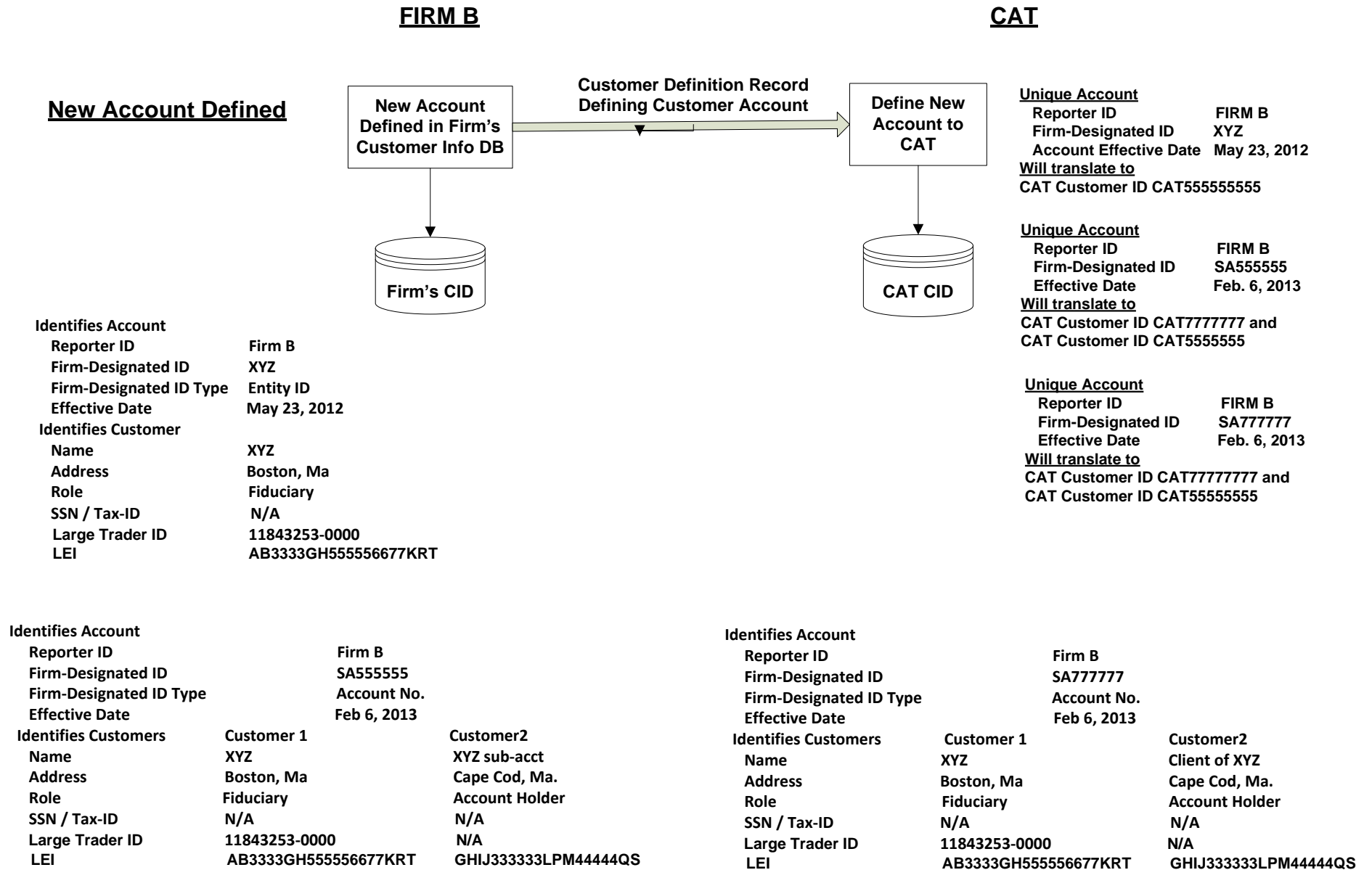
Identifies Account	Reporter-ID	Firm B	
	Firm-designated ID	SA555555	
	Firm-designated ID type	Account Number	
	Effective date	Feb. 6, 2013	
Identifies Customers		Customer 1	Customer 2
	Name	XYZ	XYZ sub-account
	Address	Boston, Ma.	Cape Cod, Ma.
	Role	Fiduciary	Account Holder
	SSN / Tax-ID	N/A	N/A
	Large Trader ID	11843253-0000	N/A
	LEI	AB3333GH555556677KRT	GHIJ333333LPM44444Q5

Identifies Customer Account	Reporter-ID	Firm B	
	Firm-designated ID	SA777777	
	Firm-designated ID type	Account Number	
	Effective date	Feb. 6, 2013	
Identifies Customer		Customer 1	Customer 2
	Name	XYZ	Client of XYZ
	Address	Boston, Ma.	Cape Cod, Ma.
	Role	Fiduciary	Account Holder
	SSN / Tax-ID	N/A	N/A
	Large Trader ID	11843253-0000	N/A
	LEI	AB3333GH555556677KRT	GHIJ333333LPM44444Q5

CAT Processor

- Syntactic and semantic checks performed on each new account submission
- The CAT must first search the CAT database to determine if the customers identified by the new account already exist within the CAT.
 - Assume Client of XYZ is a new customer definition. CAT assigns a CAT Customer-ID for Client XYZ of CAT7777777.
 - Assume XYZ already has a CAT Customer ID. By matching on LEI, CAT Processor identifies XYZ’s CAT Customer ID as CAT5555555.
- CAT Processor Links Client XYZ’s CAT Customer ID (CAT7777777) and XYZ’s CAT Customer ID (CAT5555555) to the newly submitted accounts, SA555555 and SA777777.

Figure 3. Institutional Customer Definition Process for New Entity ID and Two Sub-Accounts



2.2 Institutional Customer Order Process

2.2.1 Order Origination when XYZ places an order

CAT Reporter - XYZ, as an authorized trader, places an order through a broker-dealer, Firm B. Firm B reports this order through the Order Origination Event to CAT providing the following data:

Reporter-ID	Firm B
Firm-designated ID (Entity ID)	XYZ
Date	Feb. 6, 2013
Order ID	77733776
Other Order Info	etc.

CAT Processor - The three fields highlighted in yellow allow the CAT to link to CAT Customer-ID CAT555555, which points to customer information for XYZ.

2.2.2 Allocation of Executions to Subaccounts

CAT Reporter

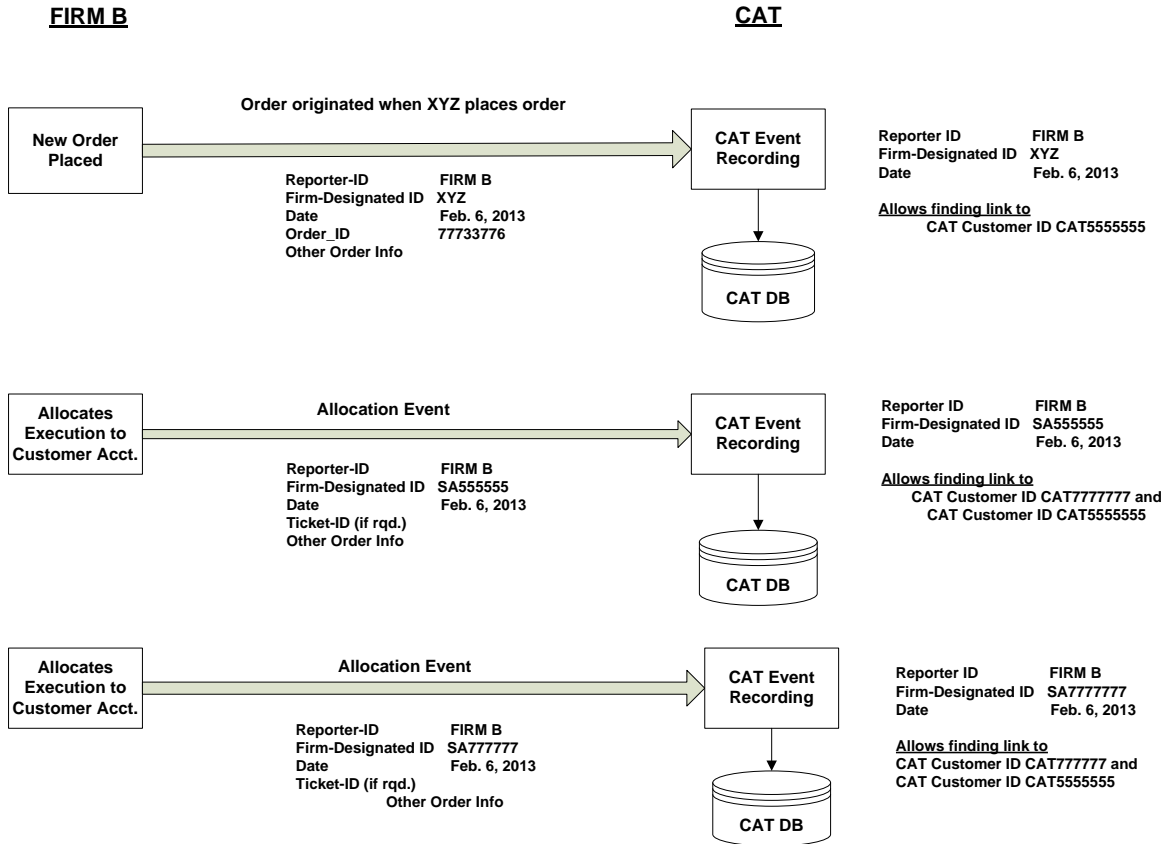
When the executions are completed, XYZ will allocate the executions based on instructions from XYZ's client. In this case, the allocations are directed to sub-accounts SA555555 and SA777777. The information sent to CAT on Allocation Event records as follows:

Reporter-ID	Firm B
Firm-designated ID (Account No.)	SA555555
Date	Feb. 6, 2013
Order ID	Optional (FIF Recommendation)
Other Order Info	etc.

Reporter-ID	Firm B
Firm-designated ID (Account No.)	SA777777
Date	Feb. 6, 2013
Order ID	Optional (FIF Recommendation)
Other Order Info	etc.

CAT Processor - The three fields highlighted in yellow allow the CAT to link to CAT Customer-ID CAT555555 (XYZ) and CAT Customer-ID CAT777777 (client of XYZ).

Figure 4. Institutional Customer Definition - Order Processing Events



Appendix

(To facilitate review of the FIF comments on Customer ID and the customer definition process, an extract is provided here of Chapter 4 from the FIF CAT WG RFP Concepts Response document, dated January 18, 2013).

4 CAT Customer-ID: Firm-designated Customer Identifier Approach

Introduction – This section discusses CAT Customer-ID, supporting the SRO alternative approach of not requiring use of CAT Customer-ID in CAT reporting, but rather having CAT Reporters supply firm-designated customer identifiers (unique within each firm) which can be translated by the CAT Processor to a CAT Customer-ID.

Proposed RFP Concepts – The SROs are considering an alternative approach to capture customer information and assign Customer-IDs that would not require broker-dealers to obtain and store a unique Customer-ID (“Customer-ID Approach”) from the CAT known as the Account Number Approach.

SEC Rule 613 – “The term *customer* shall mean:

- The account holder(s) of the account at a registered broker-dealer (originating the order) and ,
- Any person from whom the broker-dealer is authorized to accept trading instructions for such account, if different from the account holder(s).”²

Note - a broker-dealer when routing orders to another firm is excluded from the definition of customer based on SEC 15c3-3: “The term *customer* shall mean any person from whom or on whose behalf a broker or dealer has received or acquired or holds funds or securities for the account of that person. The term shall not include a broker or dealer, a municipal securities dealer, or a government securities broker or government securities dealer. The term shall, however, include another broker or dealer to the extent that broker or dealer maintains an omnibus account for the account of customers with the broker or dealer in compliance with Regulation T (12 CFR 220.1 through 220.19).”³

The term **Customer-ID** shall mean, with respect to a customer, a code that uniquely and consistently identifies such customer for purposes of providing data to the central repository.⁴ Customer-ID is currently required for the Original Receipt/Origination of an order. However, the SROs have indicated a willingness to request a Plan amendment to allow for an Account Number Approach.

The term **customer account information** shall include, but not be limited to, account number, account type, customer type, data account opened, and large trader identifier (if applicable).⁵

SEC Rule 17a-3(a)(9), among other things, requires a broker-dealer to make and keep a record of the name and address of the “beneficial owner” of each cash or margin account with the broker-dealer.

Current Business Processes - Broker-dealers have a number of different identifiers used to classify firms/clients including the following:

- Entity id
- LEI

² Securities and Exchange Commission, Rel. No. 34-67457 Final Rule, Consolidated Audit Trail, Section, j.3, Definitions, p. 348 (Footnote 15 of [FIF Response to SRO RFP Concepts document](#))

³ [240.15c3-3](#) (Footnote 16 of the [FIF Response to SRO RFP Concepts document](#))

⁴ Securities and Exchange Commission, Rel. No. 34-67457 Final Rule, Consolidated Audit Trail, Section, j.5, Definitions, p. 348 (Footnote 17 of the [FIF Response to SRO RFP Concepts document](#))

⁵ () Securities and Exchange Commission, Rel. No. 34-67457 Final Rule, Consolidated Audit Trail, Section, j.4, Definitions, p. 348 (Footnote 18 of the [FIF Response to SRO RFP Concepts document](#))

- Customer short name
- Top account number
- Master account number
- Counterparty account number
- Retail customer account number
- Investment Advisor master account number
- Processing accounts numbers (e.g., average price processing account number)

Any of these identifiers can be used within a firm to uniquely identify a customer of the firm.

A general flow for defining a new customer to a Broker-dealer is to first secure the necessary information from the customer which uniquely identifies the customer to the Broker-dealer and satisfies the legal/regulatory requirements for customer identification. The information provided by the customer is stored in a Customer Information Repository by the firm. The customer is assigned a unique identifier within the firm. In addition, the customer's account structure and relationships (top account, sub-accounts, counterparty account, etc.) may be defined to the firm at this time.

Once the customer definition is complete in the Customer Information Repository, then the appropriate account structure for the client/firm must be defined in each system through which the customer's orders will be processed. Large institutional clients and Investment Advisors handling many clients will often have very complex account and sub-account relationship structures that are continually being updated to reflect their ever changing business needs.

The new customer definition process and any subsequent sub-account modifications is a time critical process because a new customer often wants to initiate business transactions immediately. It is most important for customer relationships to not unduly delay the customer definition process to interfere with the initial and subsequent business transactions.

Customers do terminate business relationships with broker-dealers. Some firms permit the re-use of the firm's account identifiers for a customer after a specified period of time (which varies across firms). Therefore, a firm's unique identifier for a customer may be time dependent, e.g., it can represent Customer A from October 30, 2003 through June 15, 2009 and then represent Customer B from January 3, 2011 through to December 20, 2012. If a firm does re-use account numbers, and the account number is used as the firm's designated customer identifier for the CAT, then it is recommended that a Customer Definition event be defined so that a firm can notify the CAT when a firm's designated customer identifier will no longer be associated with a particular customer any longer.

Concerns/Issues with the Proposed RFP Concepts – FIF needs to emphasize that the cost of adding a customer identifier to order reporting will introduce significant cost and change to the broker-dealer community. While FIF and its members understand the need for this information in order to build a consolidated audit trail, there will be considerable system modifications and business process changes required to implement this Rule. Steps must be added to the customer definition process to include notifying the CAT of new customers. This is a time-critical step because often new customers want to trade immediately and delays need to be minimized. All systems that handle order flow will need to be modified to carry/maintain the correct firm-designated customer identifier that must be included in the CAT Order Report. And lastly, the customer definitions, especially for large clients, are quite dynamic and the CAT Customer-ID modification process must be inserted into the firm's customer definition change process. Any CAT facilities or definitions that can further reduce the impact of adding a firm-designated customer identifier to the Order Report should be explored.

FIF has serious concerns regarding the implementation impact to the broker-dealers if a CAT unique Customer-ID needs to be maintained and provided in subsequent CAT reporting events, as previously shared with the SROs.⁶ However, the alternative approach identified in the Concepts Document has the potential to reduce implementation impact to the Broker-dealers.

The CAT customer definition process must be flexible enough to accommodate differing types of firm-designated customer identifiers, of varying syntaxes. For example, one firm may currently identify a customer using an account number consisting of eight (8) alphanumeric digits, while another firm identifies a customer using an entity identifier consisting of fifteen (15) alphanumeric digits, including special characters. In addition, because of the ability to re-use firm-designated customer identifiers following account closings, the firm-designated customer identifier submitted to the CAT must be capable of referencing different customers depending on the period in which the customer account was opened within the firm. Each firm guarantees that a firm-designated customer identifier will be unique within the firm to identify a single customer (i.e., a LEI) within any single business day.

Each firm needs the ability to define to the CAT multiple unique identifiers for one customer, i.e., multiple identifiers all relate to the same LEI. This will allow the firms to use a “master account” identifier for Order Reporting, but provide “sub-accounts” for Allocation Reporting. This would mimic the data available within the firms’ various systems at the points of order entry and allocations today, and reduce the impact to implement SEC Rule 613.

FIF Recommendations – FIF supports the alternative approach to capturing Customer IDs that would not require broker-dealers to obtain and store a unique Customer-ID from the CAT as outlined in the Concepts Document. FIF believes the SRO Account Number Approach should be renamed the Firm-designated Customer Identifier Approach in order to acknowledge that it would be up to a broker-dealer to determine whether an Account Number or an Entity ID or some other id may be the most appropriate identifier to share with the CAT Processor.⁷ The Firm-designated Customer Identifier approach would require the broker-dealer to submit sufficient information to the CAT Processor to allow for the assignment of a CAT Customer-ID that would only be available to CAT end users (i.e., the SROs and SEC).

In the Firm-designated Customer Identifier approach, broker-dealers agree to maintain uniqueness of firm-designated customer identifiers within their firm such that there would be no duplicate firm-designated customer identifiers within each CAT Reporter ID. Uniqueness to a specific customer would be the firm-designated customer identifier for an effective date, allowing broker dealers to re-use firm-designated customer identifiers.

Because broker-dealers are excluded from the 15c3-3 definition of a customer, it is assumed that they do not need to be defined as a customer through the CAT Customer-ID definition process. However, for some firms, it may be advantageous to be defined through the CAT Customer-ID definition process and be able to use a firm-designated identifier, rather than MPID for CAT reporting.

⁶ FIF has referred to the Customer-ID Approach as the Two Way Approach in previous discussions with the SROs to emphasize the concerns with broker-dealers having to store and maintain the CAT Customer-ID internally. The FIF One Way Approach is similar to the Account Number Approach presented by the SROs. (Footnote 19 of [FIF Response to SRO RFP Concepts document](#))

⁷ FIF has referred to the Customer-ID Approach as the Two Way Approach in previous discussions with the SROs to emphasize the concerns with broker-dealers having to store and maintain the CAT Customer-ID internally. The FIF One Way Approach is similar to the Account Number Approach presented by the SROs. (Footnote 20 of [FIF Response to SRO RFP Concepts document](#))

Broker-dealers (BDs) would supply the CAT Processor with key data points regarding their customers (name, address, account number, date of birth, tax ID/SSN, account opening date) as part of a separate customer definition process to populate a CAT Customer database.

- The Legal Entity Identifier (LEI) should be one of the identifiers that can be supplied by the broker-dealers to aid the CAT in uniquely identifying customers across firms. If the LEI is supplied as an identifier to the CAT when defining a Customer-ID to CAT, additional reference data elements to uniquely identify the customer should not be required, because the LEI definitions can be independently referenced by CAT.
- As part of the customer definition process, multiple firm-designated customer identifiers will be supplied by a broker-dealer to identify a single customer to the CAT, i.e., refer to the same LEI. The firm-designated customer identifier available at the time of CAT reporting will be supplied on the report. For example, the “master account” firm-designated customer identifier could be supplied on a CAT Order Report and the “sub-account” firm-designated customer identifier could be supplied on a CAT Allocation Report.
- Because some broker-dealers permit re-use of account numbers following customer account closing/purge process, the CAT Processor must have the ability to associate the same firm-designated customer identifier with different customers. For match purposes, the identifier supplied on a CAT Order report should be qualified with the associated order date of the event. The identifier supplied on a CAT Allocation report should be qualified with the associated trade date of the associated allocation (because allocations can occur on subsequent days following an execution).
- Broker-dealers would need to update the data fields supplied during the customer definition process as they change providing adds/modifications/deletes as opposed to a complete refresh of a database. This would not be tied to any CAT report submission.
- Standards for data submission (e.g., postal address) would need to be established.
- Standards regarding the syntactic requirements of the firm-designated customer identifier would need to be sufficiently broad to accommodate the current and varied account numbering structures and firm-designated customer identifiers in use today across the firms.