# Deloitte.

Consolidated audit trail (CAT) data:
New insights, latest information

September, 2023

The consolidated audit trail program has been considered a significant tool for regulators to understand market structure, identify market misconduct, and identify nefarious behaviors. Since June 2020, industry members have been submitting vast amounts of data to the repository, and by 2024, customer and account data will be the last phase to go live. To date, industry members have spent millions of dollars to stand up their regulatory reporting program to submit complete and accurate information. However, very few industry members are mining CAT data for their own value and usage.
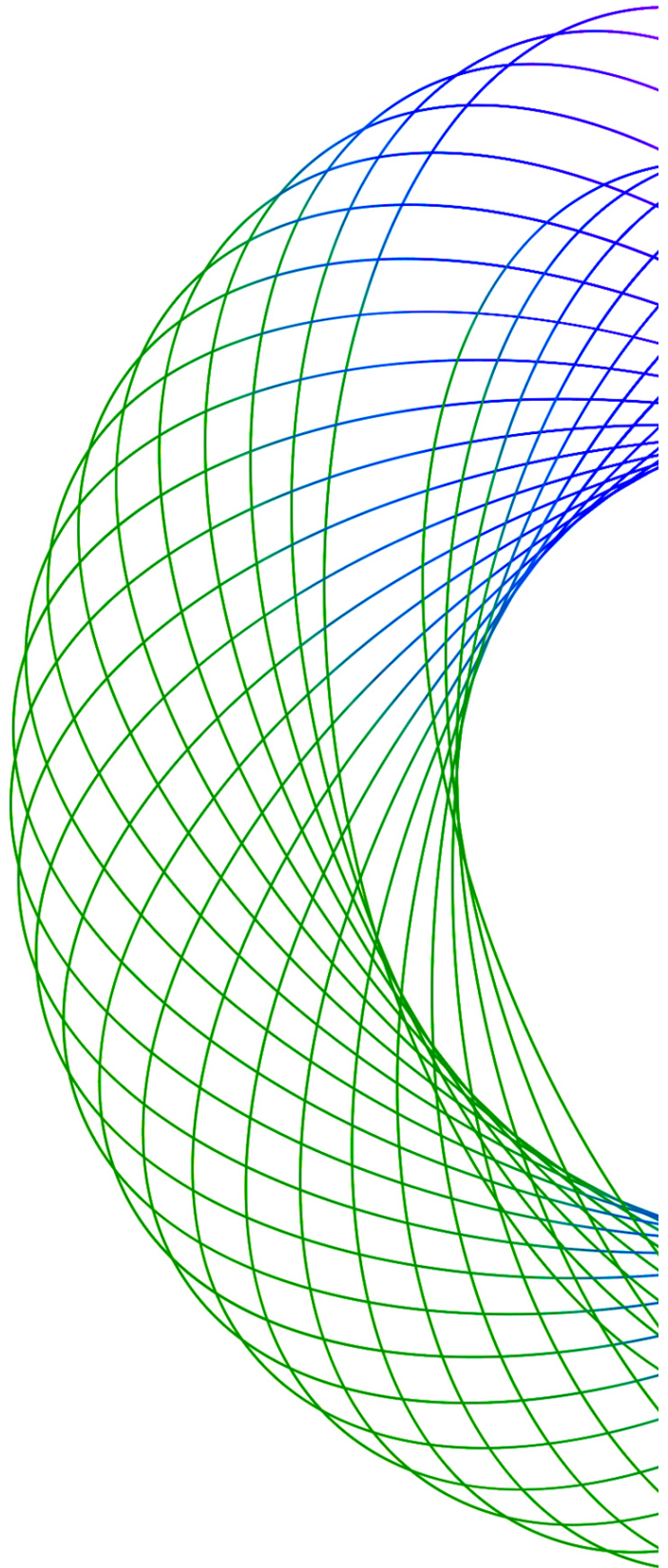
On September 6, 2023, the Securities and Exchange Commission (SEC) approved the CAT NMS (National Market System) Plan fee filing. Industry members will need to continue investing in their CAT reporting operations and pay the regulatory fees for their data submissions — a significant expense with little payback. The Industry members are drowning in vast amounts of data yet craving for valuable insights. Now is the time to monetize these costs and extract the value from CAT data. There are meaningful opportunities for industry members to leverage CAT data across numerous use cases and extract the value from the investments that have already been made to meet their compliance obligations. Industry members have an opportunity to mine a treasure trove of trade data they have built.

This paper discusses the opportunities industry members have and the potential insights to be gained from the regulatory reporting programs.

1. What is CAT:[1]

CAT is a data repository built and operated by FINRA (Financial Industry Regulatory Authority) CAT, LLC and overseen by the self-regulatory organizations (SROs). The FINRA CAT collects and manages data from broker-dealers, exchanges, and FINRA for quotes, orders, routes, and trade executions for exchange-listed equities and options, including related events such as cancellations, modifications, and acceptances of an order or route, as well as customer and account information. CAT allows for the prompt and accurate recording of material information about orders in NMS securities. This information is readily available to regulators in a uniform electronic format.

2. Who are the regulators using CAT?

SEC Rule 613 establishes that CAT data is used for regulatory purposes. As such, the SEC and FINRA are the primary users of the CAT repository. It is important to differentiate FINRA and FINRA CAT, LLC as different entities with distinct roles. FINRA CAT, LLC is the organization contracted by the SROs to build and operate the CAT data repository. FINRA, the regulator, is responsible for enforcing the securities industry's rules and regulations. They have a responsibility to surveil the traded markets and safeguard market integrity.

3. How the regulators are leveraging CAT data:[2]

The FINRA Surveillance and Exam staff are using CAT data regularly and are working to further capitalize on the granularity of CAT by building new reviews. FINRA's Exam staff will be introducing a pilot program this year whereby they will look at CAT data in lieu of a blotter. Currently, FINRA is focusing on the accuracy and integrity of industry member reported data. Simultaneously, they are working

to migrate toward leveraging CAT data for market surveillance. While CAT provides regulators unprecedented insight, regulators are cognizant of the sensitivity of CAT data and recognize they need to be cautious in how it can be used.

The following are some of the potential ways in which FINRA could use CAT data:

A. Monitoring customer-level conduct, including public customers, and making quicker referrals to the SEC.

B. Cross-market and cross-product surveillance reviews for options; for instance, looking at how options are being impacted by swap trading.

C. Reviewing activity relative to individual accounts and traders to tie together accounts across broker-dealers and have a coordinated picture of trading activity. This may result in more surgical regulatory and 8210 requests.

D. Promptly reconstructing recent market events.

E. Leveraging CAT's reporting of representative orders (firm orders created to fill an underlying customer order) to analyze how industry members are pricing the representative orders and what prices are getting passed back to customers on the order fills. FINRA is also leveraging CAT to evaluate whether the order marking for fractional share orders is correct (i.e., held versus not held).

F. F. Regulators can compare CAT to other Non-Financial Regulatory Reports (NFRRs) to evaluate the accuracy and consistency across regulatory reports.

G. G. As FINRA continues to refine its use of CAT, it is exploring the opportunity to retire other reporting obligations for industry members.

4. How industry members can obtain additional value from CAT:

Across the industry, industry members have spent hundreds of millions of dollars to become compliant with CAT reporting requirements. The data CAT produced has implications well beyond producing accurate trade reports to the regulator. It can be used across the organization to analyze a variety of operational and technical efficiencies.

A. **Surveillance:** FINRA has transitioned its surveillance to leverage CAT so that it can mine the significantly more granular data available to it. FINRA is employing new patterns and methods of surveillance on detailed order events allowing for more efficient screening of false positive results, particularly from front-running routines because CAT data allows the detection of principal and riskless principal activity. FINRA continues to develop new surveillance methods based on the new level of detail CAT data provides it.

Industry members' surveillance processes are made more efficient by leveraging a single, normalized data source across desks and reportable products.

B. **Economics:** CAT data can be leveraged to evaluate economic metrics throughout the trade life cycle such as analyzing current routing practices. Industry members can view routing trends across desks, products, and customers and overlay pricing metrics to highlight profitability by route.

New data fields (including National Best Bid Offer price, source, and time stamp) required by CAT allow industry members to analyze best execution performance assisting them in confirming compliance with other regulatory responsibilities.

C. **Operational performance: By normalizing and consolidating the trade life cycle across products, desks, and symbols, industry members have simplified opportunities to assess their operational performance across many dimensions.** Operational efficiency can be analyzed as redundant routes or reporting events, indicating practices ripe for refinement. Normalized view of industry members' trade life cycles also identifies latency within the trade life cycle for certain customers or products allowing them to focus resources and attention on improving.

D. **Business development:** CAT centralizes the trading patterns, current behaviors, and trends of clients in addition to counterparty transactions in a normalized and cleaned data set. This normalized data set enhances market intelligence to develop and refine insights and talking points for traders to bring to their clients. Likewise, industry members can develop customized and adaptable product sets based on trends identified through CAT analytics for various customer or market segments. By using CAT data across clients and segments, industry members have a simplified way to target clients with potential trades and products based on observations across similar clients.

Clearing firms have additional breadth now being able to analyze uniform data across correspondents and customers.

E. **Customer segmentation:** The normalized and cleansed nature of CAT data provides a significant opportunity for industry members to segment their business from a variety of perspectives using the same data set. Individual desks can be compared by profitability and efficiency, client performance can be viewed across products and desks.
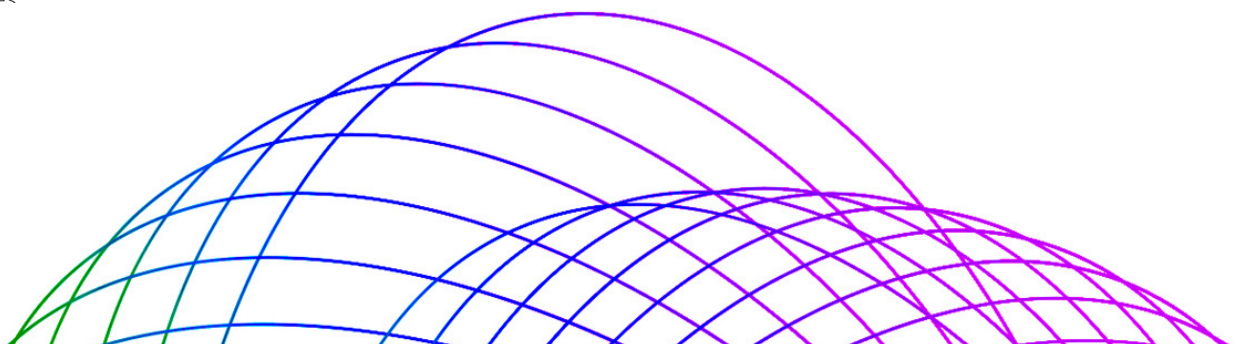
Industry members have already and continue to invest in the resources required to comply with CAT reporting and should explore "the art of the possible" with CAT data. Firms can gain insights and derive additional value from their investments beyond solely complying with the regulatory requirements.

Deloitte's experience in CAT reporting and its insights from servicing various lines of defense make us well positioned to assist you with developing use cases and scenarios and defining the business justification, as well as designing meaningful analytics. Additionally, we can provide the subject-matter knowledge in data sourcing and requirements, the data factory model, and the implementation of an effective program by leveraging our regulatory baseline framework and accelerators.

Contact Us

Bob Walley
Principal
Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
rwalley@deloitte.com

George Black
Principal
Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
geblack@deloitte.com

Gabriela Huaman
Managing Director
Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
ghuaman@deloitte.com

Michael Jones
Senior Manager
Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
michjones@deloitte.com

Contributors: **Daniel Krill, Supriya Shrivastava, Alex Tsusaki, Jalin Towler**

Endnotes

1 SEC Rule 613, *Consolidated Audit Trail*, last modified January 11, 2023.
2 2023 FINRA Annual Conference (Washington, DC), May 16–18, 2023.

Deloitte.