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Via Email (Secretarys-Office@sec.gov)

Paul S. Atkins, Chairman
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: Petition for Rulemaking and Exemptive Relief to Reduce the Costs of the Consolidated Audit Trail (CAT)

Dear Chair Atkins:

Nasdaq and Cboe (collectively the “Exchanges”)¹ applaud the Commission’s recent actions to reduce the costs of operating the CAT. The Commission’s December 12, 2024, Order Approving Amendments to the CAT NMS Plan will save the industry millions of dollars annually once fully implemented.²

Even with those savings, the CAT continues to impose a significant burden on the industry and the self-regulatory organizations that share the burden of funding CAT. The CAT has become far more expensive to operate than the SEC anticipated when it approved the CAT NMS Plan in 2016.³ While in 2016, the SEC estimated the average annual costs of CAT to be

¹ The Nasdaq Exchanges include Nasdaq BX, Inc., Nasdaq GEMX, LLC, Nasdaq ISE, LLC, Nasdaq MRX, LLC, Nasdaq PHLX LLC and The NASDAQ Stock Market LLC; and the Cboe Exchanges include Cboe Exchange, Inc., Cboe BYX Exchange, Inc., Cboe C2 Exchange, Inc., Cboe EDGA Exchange, Inc. and Cboe EDGX Exchange Inc.

² Exchange Act Release No. 34-101901; File No. 4-698. Agency delay in approving these changes cost the industry \$35 million savings in 2024. The changes underlying the Exemptive Relief were first proposed to Commission staff in January 2024, and the changes approved in the Plan Amendment were officially filed in March of 2024 but were not approved until December 2024.

³ See Commissioner Hester M. Peirce, “Who’s Paying: Statement on the CAT’s Funding Model,” dated Sept. 6, 2023, at <https://www.sec.gov/news/statement/peirce-statement-cat-funding-090623> (“The CAT has been expensive, far more costly than anyone imagined it would be.”).

\$55 million,⁴ by 2025, annual CAT costs are now approximately \$244 million.⁵ Those cost increases are a direct result of the fact that the CAT processes and stores considerably more data than the SEC projected. In 2016, the SEC projected CAT would process 50 billion messages per day, but in the fourth quarter of 2024, the CAT processed nearly *one trillion* messages per day.⁶ Where the 2016 CAT NMS Plan states that “the Central Repository will grow to more than 29 petabytes of raw, uncompressed data,”⁷ today that repository contains nearly *1,000 petabytes* of data.

If the proposals described below are collectively implemented, the Exchanges believe that the regulatory benefits of CAT can be preserved under a revised operating mode that would make CAT operate more efficiently and at half of the cost, thereby saving the industry and SROs \$100 million or more annually. Accordingly, the Exchanges hereby petition the Commission, pursuant to the Securities Exchange Act⁸ and SEC regulations,⁹ to adopt the following straightforward changes to the CAT NMS Plan:

1. ***Retire the Customer and Account Information System (CAIS).*** The collection of personal names, addresses and other customer and account information through CAIS is not necessary and should be retired. There are alternative solutions that would provide regulators with unique customer identifiers without requiring the collection of customer and account information.
2. ***Stop Collecting Voluminous and Unhelpful Options Data.*** Reporting options market maker quotes adds little regulatory value but, even with recent cost savings initiatives related to options market maker quotes, that data is still a major cost driver for both storage and computation. The unique nature of the listed options market and options market maker activity make it such that consolidated collection of the options market maker quote data detail is not necessary for effective regulatory oversight nor cost-justified.
3. ***Right-sizing the Service Level Agreement.*** While CAT is not a real-time system (data is initially reported to the Central Repository on a T+1 basis and processed over a T+1 through T+5 cycle), rapid deadlines (e.g., 4 hours) for processing CAT data utilize the most expensive cloud services; expanding the times for processing would not significantly impact regulatory activities and could save tens of millions of dollars annually.

⁴ CAT NMS Plan, App C-44, <https://www.catnmsplan.com/sites/default/files/2020-02/34-79318-exhibit-a.pdf>.

⁵ See https://www.catnmsplan.com/sites/default/files/2024-11/11.20.24-CAT-LLC-2025-Financial_and_Operating-Budget.pdf.

⁶ See *id.*

⁷ See <https://www.catnmsplan.com/sites/default/files/2020-02/34-79318-exhibit-a.pdf>.

⁸ Securities Exchange Act of 1934, 15 U.S.C. § 78a *et seq.* (the “Act”).

⁹ See 17 C.F.R. 201.192(a).

4. ***Eliminate Online Query Tools.*** The Commission requires CAT to maintain Online Targeted Query Tools with costly performance requirements but that account for fewer than 10 percent of queries.
5. ***Reduce Record Retention Requirements from Six Years to Two Years.*** The Exchanges believe CAT can achieve significant annual savings with limited impact to data availability and integrity.
6. ***Eliminate All “Late to the Lifecycle” Processing and Relax Linkage Processing Deadlines.*** CAT spends millions of dollars re-processing large volumes of existing data to accommodate late CAT reports within tight, costly deadlines.
7. ***Reduce Staff Control of CAT Appendix D Specifications.*** Commission Staff has driven performance and technical requirements that increase costs and resisted changes that decrease costs. Removing Appendix D would help fix that problem by providing CAT with greater flexibility to work with Commission Staff and manage CAT without the need for the Commission to approve every change either in the form of an amendment to the CAT NMS Plan or exemptive relief.

The Exchanges understand the Commission’s desire for a consolidated audit trail. The Exchanges have worked diligently to manifest the Commission’s vision, advancing nearly \$450 million of approximately \$915 million in non-interest bearing loans to fund CAT’s development and operations between 2012 and mid-2024, spending millions more to integrate CAT data into their regulatory programs, and contributing key personnel to develop and manage CAT. We continue that work today and seek only to put CAT on a more sustainable path.

1. Retire the Customer and Account Information System (CAIS).

The Exchanges support the complete retirement of CAIS because it is not necessary for regulators to conduct effective market surveillance. We suggest an alternative where the collection of customer information is limited to a unique customer identifier (CCID) and masked account (FDID) reported on order origination events in the CAT Transaction System, without need for names, addresses, years of birth or any other information currently included in CAIS. This would provide regulators with the ability to effectively identify activity by individuals acting through multiple trading members and in multiple markets. When additional information is needed, regulators could leverage the FDID information and a request-response process to gather information from the submitting Industry Member, as is contemplated in the SEC’s recent CAIS exemption order.¹⁰ The savings attributable to the retirement of CAIS would be in the tens of millions of dollars annually.

¹⁰ Securities Exchange Act Release No. 34-102386 (February 10, 2025), 90 FR 9642 (February 14, 2025).

2. Eliminate SRO Reporting of Options Market Maker Quotes.

Options quotes comprise approximately 98% of all data that SROs report to the CAT and approximately 80% of all data that the CAT stores.¹¹ The costs and benefits balance of reporting option quotation information to the CAT, which has always been debatable, is now demonstrably unjustified. In the CAT Adopting Release, the SEC acknowledged that the collection of options quotation information might be costly, but it stated its belief that “many of the benefits of a consolidated audit trail can only be achieved if all orders and quotations are included.”¹² It reasoned that these quotations “represent a significant amount of order and transaction activity of U.S. markets,” and that access to such information through the CAT “would allow regulators to efficiently surveil for manipulative and other illegal activity by market making ... firms” and “permit SROs to more efficiently monitor the market for violations of SRO rules.”¹³ These assertions have not proven to be true. In fact, the central collection of options quotation information is not needed to conduct efficient surveillance. Options exchanges use their own internal quote data to conduct market making quoting requirement surveillance; they do not use CAT-stored options quotes to run their surveillance programs. Likewise, SROs have internal data sufficient to detect violations of and enforce compliance with their own rules.

In sum, the substantial costs associated with the collection of options quotation information significantly outweigh any purported benefits. Accordingly, the Commission should amend SEC Rule 613(c)(7)¹⁴ and the CAT NMS Plan to exclude the reporting of options market maker quotations. We estimate that these steps would potentially reduce CAT costs by several million dollars per year.

3. Relax the Service Level Agreement Deadlines for Processing CAT Data.

Currently, SROs and the industry deliver data to the CAT for processing by 8:00 am on a T+1 basis, and then CAT is required to provide error feedback and unlinked, validated data to regulators by noon the same day (T+1 at 12:00 noon). This SLA deadline and others are aggressive and unjustifiably costly. For CAT to meet its noon data processing deadline, it must procure an extraordinarily large amount of server capacity in the cloud to enable it to process all the data it receives within four hours of receipt. Procuring this amount of cloud server capacity requires CAT to spend millions more when compared to overnight processing or spreading processing over several days. On balance, the cost to obtain the processed data in the mandated four-hour window, as compared to overnight or over several days, particularly for a system that

¹¹ In October 2023, CAT hit a new peak of 665 billion messages per day, which translates to over 530 billion options quotes.

¹² Securities Exchange Act Release No. 34-67457 (July 18, 2012), 77 FR 45722, at 45746 (Aug. 1, 2012) (the “CAT Adopting Release”).

¹³ Id.

¹⁴ See 17 C.F.R. 242.613(c)(7).

is not operating in real-time¹⁵ (and which takes additional time to fully process, allow for corrections and enrich the data), can no longer be justified.

The Commission imposed the four-hour data processing deadline based on estimates of data volumes and costs that are not reflective of the current size of CAT. As stated above, CAT now processes over 23 times more data than originally scoped. The SEC needs to reevaluate the CAT NMS Plan's SLA to account for this reality. It should relax the T+1 noon deadline for processing data by moving it to T+2 at 8:00 am. Doing so would enable the CAT to process data over a longer period while using fewer servers, with a significant annual cost savings. Moreover, this change would not meaningfully impair regulatory access to CAT data. Relaxing the T+1 at 12:00 noon period to T+2 at 8:00 am, combined with the extension of final processing from T+5 at 8:00 am to T+6 at 8:00 am, the CAT NMS Plan would continue to provide regulators with data in a timely manner to meet their regulatory obligations at greatly reduced costs.

4. Eliminate Redundant CAT Query Tools.

The Commission currently requires that CAT Data be accessible through multiple different query tools, including through an Online Targeted Query Tool ("OTQT"), which is designed for less sophisticated regulatory users, as well as through user-defined direct queries and bulk extract tools. In 2024, approximately 90% of regulator queries were conducted via the direct query and bulk extract tools, whereas less than 10% of regulator queries were conducted via OTQT. OTQT is subject to costly performance requirements related to query response times and parallel processing of queries, which was the subject of prior litigation. Eliminating OTQT would save millions per year while fully preserving regulators' ability to query CAT Data via the existing direct query and bulk extract tools.¹⁶

5. Reduce Record Retention Requirements from Six Years to Two Years.

The Commission currently requires the CAT to maintain six years of CAT Data. Today, there are over 900 petabytes of data in storage, representing 5.5 years of data. In 2023, CAT added 200 petabytes of new data; in 2024 it added 190 petabytes of new data. Because volumes continue to increase, CAT will continue storing more data at higher cost even as earlier years of data roll out of the system. Accordingly, reducing the retention timeframe from six years to two years would result in estimated annual savings of millions of dollars. Under Rules 17a-1 and Rule 17a-4, the underlying data from SROs and broker-dealers would continue to be available to the Commission for the additional three years.

¹⁵ Real-time, same day trading data is not available via CAT. To the extent there is any need for access to real-time information, that continues to be within the purview of the markets and broker-dealers themselves.

¹⁶ In the absence of OTQT, we recognize that some regulatory users may need to rely on users with programming skills to assist them in querying CAT data. However, given the small number of OTQT searches that are conducted now, the cost of maintaining OTQT cannot be justified and the costs of obtaining programming assistance pales in comparison to the cost of maintaining the tool.

6. Eliminate “Late to the Lifecycle” Processing and Relax Linkage Processing Deadlines.

The Plan Participants developed “Late to the Lifecycle” processing after the commencement of CAT to reduce the costs associated with re-processing existing data when late and/or corrected CAT reports are subsequently submitted. However, this processing is still expensive, and eliminating “Late to the Lifecycle” processing would result in annual savings of approximately \$10 million. Under this proposal, all late/corrected data (i.e., data received after T+5) would remain accessible to regulators but would no longer undergo linkage re-processing. Data received prior to T+5 would be unaffected. Additionally, the Commission could relax the strict reporting and linkage processing deadlines under the existing CAT NMS Plan by approximately one business day, which would enable cheaper computation options and reduce capacity reservations necessary to satisfy the current T+1 noon deadline. This additional change would result in additional annual savings of several million dollars.

7. Eliminate Appendix D to the CAT Plan and Reduce Staff Micromanagement of CAT.

The Commission more generally should eliminate Appendix D from the CAT NMS Plan to reduce the burden on the Commission and the Staff to manage the CAT and also to facilitate more and faster cost reductions. Appendix D, which contains detailed technical specifications for CAT operations, was never intended by the SROs to be part of the CAT NMS Plan; rather, it was required by the Staff. As a result, any change to Appendix D, no matter how minimal, requires Commission approval of a Plan amendment or exemptive relief.

This dynamic has been a significant impediment to controlling CAT costs. In addition to delays approving the CAT Plan Amendments described earlier, following discussions with the Staff, a proposal that would have resulted in several million in annual savings was withdrawn.¹⁷ Separately, the Exchanges and the other Plan Participants were forced to litigate against the Commission to avoid interpretations of the CAT NMS Plan that would have imposed tens of millions of dollars in additional unnecessary costs on CAT, and thus Plan Participants and Industry Members.

Eliminating Appendix D from the CAT NMS Plan would allow the Participants and the Plan Processor the reasonable flexibility to actively manage the CAT in a cost-effective and efficient manner that achieves the objectives of the system, while relieving the Commission from being involved in every minutia of the CAT’s operation. The Commission would still retain the ability to enforce compliance with the broad requirements of Rule 613 and the CAT NMS Plan itself.

¹⁷ Following discussions with the Staff, the Participants withdrew a proposal to deliver an interim CAT-Order-ID on an “as requested” basis, as opposed to on a daily basis even where no regulatory need exists. Delivering an interim CAT-Order-ID upon request by the Staff would have resulted in significant additional cost savings.

Conclusion

The CAT operating requirements and their attendant costs were the result of Commission mandates; those requirements and costs continue to be driven and controlled by the Commission and Commission Staff, and only the Commission can change those requirements. The Exchanges hope to work constructively with the Commission to accomplish the changes outlined above.

Respectfully submitted,



John A. Zecca



J. Patrick Sexton

Cc: Secretary of the Commission
The Honorable Mark T. Uyeda, Commissioner, SEC
The Honorable Caroline A. Crenshaw, Commissioner, SEC
The Honorable Hester M. Peirce, Commissioner, SEC
David Saltiel, Acting Director, Division of Trading and Markets
Greg Hoogasian, EVP, Chief Regulatory Officer, Cboe
Eun Ah Choi, SVP, Global Head of Regulatory Operations, Nasdaq