

Consolidated Audit Trail (CAT) is live, what's next?

by Alex Rabaev | Nov 20, 2019

Compliance beyond Phase 2a/b – Top 5 things firms should be considering as they near initial go-live milestones.

It seems that the industry has resigned to the fact that CAT going live is no longer a matter of 'IF' but 'WHEN'. FINRA's ability to work through thorny issues and keep up with deliverables / promises to date has been proving the naysayers wrong. General view is that 2a will most definitely happen on time!

While the industry at large is working very hard to achieve go-live with successful testing and April 2020 go-live of 2a, this article aims to give firms time to pause and consider other critical items. The list is not exhaustive and there is no intention to cover the obvious challenges i.e. Phases 2c / d, Legal Entities and FDID, linkages, representative orders, customer data, error corrections, etc. That's entirely a different topic and would require appropriate focus.

Regardless of your CAT solution (i.e. internal, vendor, etc.) the aim is to provide practical considerations that will yield appropriate fruits and make CAT implementation more accurate, meaningful, and sustainable.

Readiness Assessment

CAT implementation modification from 'big bang' to 'phased out' go-live has been of tremendous benefit to the industry, and according to some experts, CAT would not have been anywhere near as far along if not for this change. There is a tremendous opportunity for the industry to avoid a typical costly and draining 'remediation process'.

With CAT there is a unique opportunity to take a pulse check very early on, as you progress through phases by conducting an independent 'Health Check', which will yield very important output, e.g. Inform soundness of current implementation, influence future controls, inform upcoming phases, and make overall change managements much more cohesive.

BAU Transition

Due to multiple go-live dates, the transition to BAU is not a trivial / typical exercise as it relates to CAT. The resources working on the immediate implementation will likely have to continue to roll out future phases. The strategy will be unique to each firm / size / location etc. To get you started, some low hanging fruits are: Knowledge transfer, documentation, training materials, regional ownership vs. follow the sun, initial headcount requirements and ways to scale as the scope grows, among others.

Controls

Controls are fabric that gives senior management, auditors, regulators some level of comfort to ensure accuracy, timeliness, and completeness when it comes to regulatory reporting. Unfortunately, controls are typically built in 'hind-sight' after a major flaw is uncovered or audit points out a specific weakness. Although, at times necessary, the sequence for building controls on the back of an incident is far from ideal. Firms should build solid controls unique to their implementation, 'new business' process and risk tolerance. Consider using independent tools to conduct some controls that can help your firm establish credibility in addition to benefiting from 'crowd sourcing' approach to controls and thereby avoiding a siloed viewpoint.

Service Level Agreements (SLAs)

One of the hot button topics for the industry is the 'error correction cycle' and its impact on 'exception management'. Essentially firms will have 1 ½ days to correct errors (T+3 correction requirement is from Trade Date and FINRA will provide broker dealers with errors by 12pm next day). Drafting and finalizing SLAs with key players in the process (e.g. Middle Office, Trade Capture, Technology team, etc.) to make appropriate changes needed to facilitate a reasonable exception management and error corrections process is a very worthwhile exercise.

Traceability

With the passing of time, and natural attrition of your SMEs working on the implementation, knowing the 'why' 'how' 'who' 'when' as it relates to your program will be critical. It is inevitable that assumptions are made, unique rule interpretation specific to a business line are penned, and a bespoke code to deal with a unique problem are developed. It may be obvious now why something was done or implemented a certain way; it is NOT the case with the passing of time. Ensuring that you have clear traceability, evidence of sign off, approval of critical decisions, will not only shield your work and withstand the test of time, it will make the lives of people who own the process after you that much easier. Although this item will not show up for a very long time, eventually your due diligence will pay off and earn your work a solid reputation.

All in all, as with any other complicated topic, there are multiple other items that firms should be thinking about now i.e. Impact on surveillance, data lineage and governance, change management, etc. 5 that were covered above seem to be most practical to tackle at this stage, but you should NOT stop here! Wishing you a smooth implementation and a successful go-live!