

# Reading Between the Lines: FINRA's 2021 Examination Program Report

**A closer look at FINRA's report and recent TFCE examination program**

## Background

FINRA recently published its 2021 Report on FINRA's Examination and Risk Monitoring Program report. To no one's surprise, CAT and Large Trader reporting were focal points for Market Integrity. This is consistent with FINRA's TFCE examinations since the go-live of CAT Phase 2a/2b, which have focused on CAT as well as Rule 606 – another major regulatory change in 2020. See our summary for CAT CAIS and Large Trader reporting [here](#).

## What does this mean for firms?

In reviewing the CAT section of FINRA's report, firms need to be especially well-prepared to answer the following questions:

- How does your firm confirm that the CAT data reported by your firm (or on your firm's behalf) is complete and accurate?
- Does your firm conduct ongoing reviews of CAT reports against order and trade records, as well as customer/account reference data?
- Does your firm have a robust exception management process that facilitates timely submission of repairs/corrections/deletions for both FINRA CAT feedback and self-identified issues?

The FINRA report uncovers several implications that firms must be aware of, including data completeness and accuracy, overlaps across regulatory reporting obligations and inadequacy of periodic or sampling-based reviews.

## **DATA ACCURACY AND COMPLETENESS IS KEY**

In this context, firms must also consider the importance of parallel reconciliation and validation with OATS reporting (until retirement) and TRF/ORF reporting, as well as the strength of their exception management processes for FINRA CAT feedback and self-identified issues. While timely remediation of errors supplied in FINRA CAT's feedback is critical, firms must also have robust correction, deletion, and late submission capabilities for self-identified errors. Unlike FINRA's OATS reporting, which only provides a 5-day window for firm-initiated (voluntary) corrections and deletions, FINRA CAT supports corrections and deletions at any time after initial submission – though firms are incentivized to submit corrections and deletions within the established T+3 window (i.e., the records won't be marked as late). Stated simply, whether firms self-identify a CAT reporting issue on T+1 or T+365, the expectation is that firms are submitting corrections, deletions or (late) reports, as needed, to ensure the accuracy and completeness of CAT data for regulators.

## **CONSIDER OVERLAPS ACROSS REGULATORY REPORTING OBLIGATIONS**

Additionally, it's critical that firms understand the relationships and overlap across their entire regulatory reporting obligations, particularly clearing firms. Both the SEC and FINRA have been public about their efforts (in some cases, dedicated teams) to compare various sources of data / regulatory reporting and identify discrepancies – often leading to inquiries / enforcement action (e.g., the SEC compares Blue Sheet data with NSCC data). As the SEC and FINRA continue to expand their validation and cross-report comparison efforts, it's imperative that firms implement similar control frameworks that span all like regulatory reports and compare against available data sources.

## **PERIODIC OR SAMPLING-BASED REVIEWS NO LONGER ADEQUATE**

Lastly, with all of this in mind, our view remains that periodic or sampling-based reviews are no longer adequate in the age of CAT, particularly with regulators devoting more and more resources to data reconciliation and validation. A single data issue, such as an incorrect account HolderType value, could go undetected for months and lead to an inquiry / self-report, burdensome correction and resubmission effort, and potential enforcement action.

### **How n-Tier can help**

- A fully automated and continuous (daily) reconciliation and validation of CAT reporting (CAT vs OATS vs Source Data) and exception management module for repairs/corrections/deletions in response to FINRA CAT feedback and firm self-identified issues.
- Reconciliations and validations of CAT and CAT CAIS with other regulatory reporting obligations and sources of data.