

Testimony of Chris Concannon

President and Chief Operating Officer

Cboe Global Markets, Inc.

Before the Subcommittee on Capital Markets, Securities, and Investment

Thursday, November 30, 2017

Mr. Chairman and members of the Subcommittee, I am Chris Concannon, President and Chief Operating Officer of Cboe Global Markets, Inc. I have over 20 years of experience as an exchange executive, trading firm executive, and a regulator. I served as CEO of Bats Global Markets, Inc. prior to its combination with CBOE Holdings earlier this year. Our company's new name is Cboe Global Markets ("Cboe"). We are one of the world's largest exchange holding companies. Cboe operates six national securities exchanges consisting of four options markets, including the largest U.S. options exchange, and four equity markets, comprising the second-largest U.S. stock exchange operator. Cboe also operates a U.S. futures exchange, the largest European exchange and a foreign exchange platform. I would like to thank the Subcommittee for inviting me to testify today regarding the Consolidated Audit Trail ("CAT").

In August 2012, the Securities and Exchange Commission ("Commission") adopted Rule 613 under the Securities Exchange Act of 1934 to require national securities exchanges and FINRA to submit a national market system plan to create, implement, and maintain a consolidated order tracking system with respect to the trading of NMS securities, which would capture customer and order event information for orders in NMS securities, across all markets, from the time of order inception through routing, cancellation, modification, or execution. The primary rationale behind the establishment of the CAT was to improve upon and consolidate a regulatory framework

supported by disparate audit trail sources to allow for superior market surveillance, investigation, enforcement, and market reconstructions and analyses.

The SROs initially submitted the CAT Plan to the SEC on September 30, 2014. The Commission approved the CAT Plan, as amended, on November 15, 2016. For several years, including during the last year since that approval, the 20-plus SROs party to the CAT Plan have been working diligently on execution of the CAT project. This has entailed, among other things, a comprehensive bidding process to determine the operator of the CAT Plan processor, selection of the CAT Plan processor, negotiation of a contract with the chosen entity, and commencement of the building of the CAT itself. Accomplishing each of these steps is no small feat given that there are over 20 SROs operated by multiple holding companies that must effectively agree every step of the way.

Per the milestones set forth in Rule 613, the Plan processor was selected in January of this year, and the development of specific details in the CAT design framework, including data submission layouts and, in particular, security protocols, has taken some time. Pursuant to Rule 613, the phase one implementation of the CAT reporting process (requiring SROs to report data to the repository) was due to go live on November 15th of this year (which is one year after the original CAT Plan approval). However, work on the CAT is not complete. In planning for the completion of the CAT project, the SROs have taken into account the heightened need to maximize the CAT repository's security planning and protocols given the recent proliferation of data breaches that have occurred around the globe, and the tremendously vast amount and highly sensitive nature of the data that will be stored in the CAT repository. The SROs have also thoroughly consulted and forecasted with the CAT Plan processor, and considered ample feedback

from industry participants on deliverables and expectations. The resulting revised schedule takes into account these factors as well as forecasting based on the detailed framework plans.

We continue to work in good faith towards expeditiously completing the CAT project. Indeed, our efforts on the CAT have been substantial. By way of example, consider the following figures:

- To date, Cboe has spent over \$10 million on CAT.
- Cboe has over a dozen employees meaningfully involved in the CAT project on a regular basis.
- Cboe has spent approximately 30,000 man-hours on CAT to date.

I commend the Subcommittee for conducting this hearing and for continuing to focus on ensuring that the CAT is developed efficiently and effectively while insisting that data security around the CAT is vigorous and robust. I am concerned about the risks associated with storing PII in the CAT database, and can assure you that Cboe is very interested in working with the Commission and other stakeholders on exploring whether and/or to what extent PII is a necessary component of CAT, and, if so, applicable security protocols. While I recognize there are benefits to be derived from the CAT, I also would like to point out that costs associated with projects like this are ultimately funded by investors. As such, ongoing cost-benefit and risk-benefit analyses are critical to determine whether improvements to the audit trail and the accompanying regulatory benefits outweigh the costs and risks associated with this endeavor.

We are committed to building the CAT as currently contemplated, and remain committed to maintaining a strong regulatory program; however, we are also willing to revisit these issues with the Committee, the Commission and others stakeholders. While the CAT build-out is

completed, please let there be no doubt that our existing surveillance and regulatory framework is robust, and our markets are well-protected. Indeed, the U.S. financial markets are the most efficient and liquid markets in the world, and the regulatory framework around those markets, led by the SEC, is second to none. The CAT will be an important component of that framework and we look forward to the completion of a smart, secure and efficient CAT system. Thank you for the opportunity to appear before you today, and I am happy to answer any questions you may have.