

June 22, 2026

Via Electronic Mail

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: MFA Comment Letter on Consolidated Audit Trail (CAT) Concept Release (File No. S7-2026-12; RIN 3235-AN54)

Dear Ms. Countryman:

MFA¹ appreciates the opportunity to submit comments to the U.S. Securities and Exchange Commission (“**Commission**” or “**SEC**”) in response to the concept release regarding the Consolidated Audit Trail (“**CAT**”) and related funding mechanisms (“**CAT Concept Release**”).²

MFA believes the CAT Concept Release presents an important opportunity for the Commission to reassess the CAT’s current cost and funding structure. As we have noted in prior comment letters, we have consistently emphasizes that the CAT’s associated costs should be allocated in a fair, transparent, and sustainable manner.³ In particular, we have expressed concern that the existing funding approach places a significant and growing financial burden on broker-dealers and, ultimately, on investors, despite the fact that the CAT is a regulatory system designed primarily for use by the Commission.

Accordingly, and consistent with our prior advocacy, we believe the Commission should use this opportunity to reevaluate the CAT funding model and adopt an approach under which the SEC fully funds

¹ Managed Funds Association (MFA), based in Washington, D.C., New York City, Brussels, and London, represents the global alternative asset management industry. MFA’s mission is to advance the ability of alternative asset managers to raise capital, invest it, and generate returns for their beneficiaries. MFA advocates on behalf of its membership and convenes stakeholders to address global regulatory, operational, and business issues. MFA has more than 180 fund manager members, including traditional hedge funds, private credit funds, and hybrid funds, that employ a diverse set of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors diversify their investments, manage risk, and generate attractive returns throughout the economic cycle.

² SEC, Concept Release on Consolidated Audit Trail, 91 Fed. Reg. 20945 (Apr. 20, 2026), available at: <https://www.govinfo.gov/content/pkg/FR-2026-04-20/pdf/2026-07651.pdf>.

³ See Letter from MFA to Brent J. Fields, Secretary, SEC (Jul. 28, 2017), available at: https://www.mfaalts.org/wp-content/uploads/2020/04/MFA-Ltr-SEC-Review-of-CAT-Fees.final_7.28.17.pdf; see also MFA Joins Amicus Brief on CAT Funding Model (Feb. 15, 2024), available at: <https://www.mfaalts.org/letter/mfa-joins-amicus-brief-on-cat-funding-model/>.

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the CAT. This approach would better align CAT funding with its regulatory purpose and support a more appropriate allocation of costs.

I. Background

The Commission adopted CAT in 2012 pursuant to Rule 613 under the Securities Exchange Act of 1934 (“**Exchange Act**”) to create a comprehensive system for collecting and analyzing trading data across U.S. equity and options markets.⁴

A. CAT Has Grown Significantly Beyond Expectations

When the Commission approved the CAT, it did so based on expectations that the system would require relatively modest development and ongoing operating costs. In practice, however, the CAT has expanded considerably in both scope and complexity. The scale of data collection, storage, and analysis required to support the system has resulted in costs far exceeding those initially anticipated. This divergence between expected and actual costs is significant. The CAT is now a large and evolving regulatory infrastructure project, and its continued expansion underscores the need to reassess not only its operational design, but also how its costs are distributed. A funding model that may have appeared reasonable based on initial projections is no longer appropriate given the system’s current scale and trajectory.

While the Commission initially estimated annual operating costs of approximately \$55.8 million, actual costs have far exceeded those projections, rising to over \$248 million annually in the SROs’ 2025 budget.⁵ These increases reflect, in part, higher-than-anticipated trading volumes, greater data processing and storage demands, and ongoing market structure developments. These costs are now largely borne by broker-dealers—either directly or through fees imposed by SROs—placing a growing burden on market participants and investors.

Under the existing framework, broker-dealers bear the vast majority of CAT costs, with the remainder allocated to exchanges. In practice, however, many of these costs are passed through such that broker-dealers and their customers ultimately shoulder most of the financial burden. This outcome is inequitable. Broker-dealers do not determine the CAT’s scope, design, or budget, yet they are required to fund its operation. The result is a funding structure that places substantial costs on private market participants for a regulatory system over which they have limited control.

⁴ See Rel. No. 34-67457, 77 Fed. Reg. 45722 (Aug. 1, 2012) (adopting Rule 613 under the Exchange Act).

⁵ See CAT Concept Release, *supra* note 2; see also Hester M. Peirce, Commissioner, SEC, “Cattywampus: Statement on the CAT Concept Release” (Apr. 16, 2026), available at: <https://www.sec.gov/newsroom/speeches-statements/peirce-statement-04162026-cattywampus-statement-cat-concept-release> (noting CAT costs have “expanded” from initial estimates of approximately \$55 million annually to nearly \$250 million, underscoring the scale of the system’s growth and the importance of reassessing its structure and funding).

These costs do not remain confined to broker-dealers. They are typically passed through to investors through higher trading costs, reduced liquidity, or wider spreads. As a result, the CAT's funding model effectively shifts the cost of a regulatory initiative onto the investing public, including long-term savers such as pension beneficiaries. In addition, because CAT fees are tied to trading activity, they function in practice as a tax on market transactions. Such a structure risks distorting market behavior by increasing the cost of trading and discouraging participation in U.S. securities markets. Over time, these effects may reduce liquidity and impair market efficiency.

The governance structure of the CAT further exacerbates these concerns. Market participants that bear the majority of the costs do not have meaningful authority over budgetary or operational decisions. This separation between cost responsibility and decision-making authority reduces incentives for cost discipline and increases the risk of continued cost growth. These concerns are not new. As MFA previously noted, the CAT's governance structure raises potential conflicts of interest, as self-regulatory organizations play a central role in determining how CAT costs are allocated while those costs are borne largely by broker-dealers and investors. At the same time, market participants that ultimately bear these costs have limited participation in CAT governance, and there are limited independent mechanisms to assess whether CAT costs are reasonable. These structural concerns persist and have become more significant as CAT costs have grown.

B. Litigation and Subsequent Developments

The CAT's funding model has also been challenged in *American Securities Association and Citadel Securities LLC v. U.S. Securities and Exchange Commission*, where the U.S. Court of Appeals for the Eleventh Circuit vacated the Commission's 2023 funding order as arbitrary and capricious, citing its failure to justify shifting costs to broker-dealers and its reliance on outdated economic analysis.⁶ MFA, together with other industry groups, submitted an amicus brief raising concerns regarding the inequitable allocation of CAT costs.

Following the Eleventh Circuit's decision, the Commission issued exemptive relief designed to reduce CAT operating costs by allowing the Plan Participants to eliminate certain interim lifecycle linkages, ease requirements for reprocessing late records, scale back certain query-tool functionality, and permit cheaper storage and deletion of older CAT data.⁷ Shortly thereafter, industry participants filed petitions and comment letters arguing that CAT LLC should not be permitted to continue funding CAT operations

⁶ *Am. Sec. Ass'n v. SEC*, No. 23-13396 (11th Cir. 2024) (noting significant increases in CAT implementation and operating costs since initial estimates), available at: <https://media.ca11.uscourts.gov/opinions/pub/files/202313396.pdf>.

⁷ *See* Order Granting Conditional Exemptive Relief, pursuant to Section 36(a)(1) of the Securities Exchange Act of 1934 and Rule 608(e) of Regulation NMS, from Certain Requirements of the National Market System Plan Governing the Consolidated Audit Trail, Rule 613 of Regulation NMS, and Rule 17a-1 under the Exchange Act, Rel. No. 34-104144 (Sep. 30, 2025), 90 Fed. Reg. 47853 (Oct. 2, 2025), available at: <https://www.govinfo.gov/content/pkg/FR-2025-10-02/pdf/2025-19315.pdf>.

through reserve funds accumulated under the vacated funding model and requesting that those funds either be preserved or returned.⁸

In March 2026, the SEC approved a revised interim CAT funding framework known as the “Executed Share Model.”⁹ The order allocates CAT costs among Participants and executing brokers, includes restrictions on direct fee pass-throughs by Participants, and establishes the funding model on a temporary basis through March 2028 while the Commission conducts a broader review of the CAT’s governance, functionality, and costs.

II. CAT Concept Release: An Opportunity to Fundamentally Revisit the CAT

The Commission seeks to revisit the funding framework for the CAT in light of the system’s significantly increased costs and the concerns raised by market participants regarding the current allocation of those costs through a concept release.¹⁰ In particular, the CAT Concept Release evaluates whether the existing model—under which SROs are permitted to pass through most or all CAT costs to broker-dealers—remains appropriate, and requests comment on potential alternative approaches to funding the CAT. As noted by Director Selway, the Concept Release raises “fundamental questions” regarding CAT funding, governance, functionality, and security, underscoring the need for a comprehensive reassessment of the system.¹¹

The CAT Concept Release reflects the Commission’s recognition that the current funding structure may not adequately account for the CAT’s evolution into a large-scale regulatory system used primarily by the Commission to carry out its oversight and enforcement responsibilities. The concept release also acknowledges the need to ensure that the CAT is funded in a manner that is equitable, transparent, and

⁸ See Citadel Securities LLC, Petition for Rulemaking to Amend CAT NMS Plan to Direct Proper Use of CAT LLC Reserve (Jan. 15, 2026) (arguing CAT LLC should be prohibited from spending reserve funds absent a lawful funding model), available at: <https://www.citadelsecurities.com/wp-content/uploads/sites/2/2025/11/Citadel-Securities-Response-to-the-2025-CAT-Funding-Proposal.pdf>; SIFMA, Prohibition on the Use of Reserve Funds by the Consolidated Audit Trail National Market System Plan (Dec. 19, 2025) (arguing reserve funds should be escrowed or otherwise preserved), available at: <https://www.sifma.org/advocacy/letters/prohibition-on-the-use-of-reserve-funds-by-the-consolidated-audit-trail-national-market-system-plan>.

⁹ Joint Industry Plan; Order Approving an Amendment to the National Market System Plan Governing the Consolidated Audit Trail, as Modified by the Commission, Regarding Implementation of a Revised Funding Model, Rel. No. 34-105003, File No. 4-698, 91 Fed. Reg. 13410 (Mar. 19, 2026), available at: <https://www.govinfo.gov/content/pkg/FR-2026-03-19/pdf/2026-05350.pdf>.

¹⁰ CAT Concept Release, *supra* note 2, at 20945.

¹¹ See Jamie Selway, Director, Division of Trading and Markets, SEC, “CAT on a Hot Tin Roof” (May 27, 2026), available at: <https://www.sec.gov/newsroom/speeches-statements/selway-remarks-isg-conference-052726>.

sustainable over the long term, while minimizing unnecessary burdens on market participants and investors.

To that end, the Commission has requested input on a range of potential changes, including adjustments to the allocation of CAT costs among market participants, mechanisms to improve cost controls and governance, and whether alternative funding approaches—including greater Commission responsibility for CAT costs—may better align with the CAT’s regulatory purpose.

As discussed below, MFA supports the Commission’s decision to reconsider the CAT’s funding framework and believes the CAT Concept Release presents an important opportunity to adopt a more appropriate and sustainable approach to funding the CAT.

III. The SEC Should Fully Fund the CAT

MFA believes that the most appropriate and effective solution is for the Commission to assume full financial responsibility for the CAT. The CAT is fundamentally a regulatory system created to support the Commission’s oversight and enforcement responsibilities. While market participants provide data, the primary user and beneficiary of the system is the Commission itself. As such, it is appropriate for the costs of the CAT to be borne by the Commission as part of its core regulatory functions.

Funding the CAT through SEC appropriations would better align the system’s costs with its purpose. It would also introduce meaningful accountability by subjecting CAT expenditures to the budgetary process, requiring the Commission to evaluate costs in the context of its broader priorities. An appropriate funding model would encourage greater discipline in the design and operation of the CAT. It would help ensure that decisions regarding system enhancements, data collection, and operational expansion are evaluated in light of their costs and regulatory benefits.

IV. Incremental Revisions Are Not Sufficient

The Commission has taken steps to refine the CAT funding framework, including efforts to improve transparency and introduce certain cost controls. While these efforts are constructive, they do not address the fundamental issue: the CAT continues to be funded primarily through fees imposed on market participants who neither control the system nor are its primary beneficiaries. Incremental adjustments to cost allocation or fee structures are unlikely to resolve these structural concerns. A more comprehensive approach is necessary—one that aligns funding responsibility with the CAT’s role as a regulatory tool and ensures that costs are borne in a manner that is equitable and economically sound.

Moreover, given the scale and sensitivity of the data collected by the CAT, it is essential that governance and funding mechanisms adequately support robust cybersecurity safeguards. Ensuring the protection of CAT data from unauthorized access, misuse, or cyber threats is critical not only to investor privacy and market integrity, but also to maintaining confidence in the system as a foundational regulatory utility.

V. Conclusion

The CAT represents an important advancement in the Commission's ability to oversee U.S. securities markets. However, its current funding structure is unsustainable and inequitable. Costs have significantly exceeded original expectations, and those costs are borne disproportionately by market participants and investors.

MFA respectfully urges the Commission to adopt a funding model under which the SEC fully funds the CAT. Aligning funding responsibility with the CAT's regulatory purpose would improve accountability, enhance cost discipline, and better support efficient and competitive U.S. capital markets.

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MFA appreciates your consideration of our recommendations. We believe these changes can reduce unnecessary costs while preserving the CAT's core regulatory benefits. We look forward to working with the Commission to enhance market oversight in a manner that protects investors, supports U.S. economic growth, and promotes capital formation. We would welcome the opportunity to discuss our recommendations in greater detail. Please do not hesitate to contact Matthew Daigler (mdaigler@mfaalts.org) or the undersigned (jhan@mfaalts.org) with any questions regarding this letter.

Sincerely,

/s/ Jennifer W. Han

Jennifer W. Han
Chief Legal Officer & Head of Global Regulatory Affairs
MFA

cc: The Hon. Paul S. Atkins, Chairman
The Hon. Hester M. Peirce, Commissioner
The Hon. Mark T. Uyeda, Commissioner
Jamie Selway, Director, Trading and Markets