

**Background:**

The NASD has issued a Notice to Members to solicit comments from members and other interested parties on proposed changes to the OATS Rules (Rules 6950 through 6957). The OATS Rules impose obligations on member firms to record in electronic form and report to NASD on a daily basis certain information with respect to orders originated or received by NASD members relating to securities listed and traded on The NASDAQ Stock Market, Inc. (NASDAQ). NASD staff is seeking comment on three proposed changes to the OATS Rules, which would require members to record and report to OATS:

- Order information relating to exchange-listed and OTC equity securities (OTC Bulletin Board (OTCBB) and PinkSheets);
- Enhanced information, including execution data, relating to orders routed to non-members or exchanges
- Order information relating to proprietary orders generated during the course of market-making activities.

**FIF Opinion:**

The FIF welcomes the opportunity to comment on these proposed rule changes. One general comment is that having two separate processes to report orders, OATS for NASDAQ products, and OTS for NYSE Listed products is overly burdensome in that it will be very costly to maintain multiple systems and infrastructures to perform essentially the same function. Additionally, having a single security that may be reportable in either OTS or OATS would produce a complicated reporting structure, and further complicates books and records and audit requirements. Based on a discussion at a recent FIF Service Bureau Meeting, and the documents produced at our August 11 workshop we have the following comments:

- Inclusion of OTC BB (Pink Sheets) issues is relatively straightforward, but would present a change on how reporting is done.
  - o Service Bureaus will need adequate time to make the required system changes.
- How will information routed to non-members be reported to OATS?
  - o Any time a that service bureau needs to create an OATS report on an order that did not originate in its system, it results in significant data integrity and synchronization issues. These are the same issues discussed when reporting orders that include multiple OSO's. During the August FIF Workshop, the issues were raised in regards to orders routed from a service bureau to trade order management systems for execution. In this scenario, the orders are being routed to a non-member for execution, but the same underlying issues and problems are present.
    1. Who is responsible for reporting non-member orders? (The Service Bureau who does not have the detailed information, or the non-member firm, who does not report to the NASD)

2. How will the service bureau collect the required information about the non-member orders (Is there a standard file layout, and process in mind)?
  3. How will the member or the services bureau validate information received from the non-member?
  4. What will the impact be on supervisory responsibilities of the member firm
- What order information relating to proprietary orders (or market making activity) is required?
    - In many instances order information is not entered in trade order management systems, only execution details are available. In this regard, systems and trading business practices will have to be modified to allow the entry of order information on all proprietary orders. What are the specific order details that will need to be reported?
  - Other Issues
    - o Detailed specifications will allow us the opportunity to more adequately assess the impact of the proposed changes. We also believe that consideration should be given to other significant industry initiatives such as the SEC Reg. NMS, Reg. Sho, and Reg. SRO proposals that require the attention of the same management and development resources. In addition, we suggest that the NASD provide the industry with reasonable time frames to implement the required changes.

**Next Steps:**

We look forward to meeting to discuss these points, and to work cooperatively with the NASD on technical and implementation issues.

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