

INFORMATIONAL

OATS Limit Order Display Indicator

NASD Regulation Reiterates Requirement That Members Correctly Report Order Audit Trail Information

SUGGESTED ROUTING

The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.

- Legal & Compliance
- Operations
- Senior Management
- Training

KEY TOPICS

- Limit Order Display
- Order Audit Trail System (OATS)

Executive Summary

The purpose of this *Notice* is to reiterate to members one of the requirements of the National Association of Securities Dealers, Inc. (NASD[®]) Rules 6950 through 6957 (Order Audit Trail System (OATSSM) Rules). When recording and reporting information on certain customer orders, members must indicate whether or not the customer provided instructions concerning the display or non-display of limit orders. It has come to the attention of NASD Regulation, Inc. (NASD RegulationSM) staff that several member firms consistently misreport this information to the NASD's OATS.

Questions/Further Information

Questions regarding this *Notice* should be addressed to the OATS Support Center at (800) 321-NASD (6273); or the Legal Section of the Market Regulation Department at (301) 590-6410.

Limit Order Display Indicators

As outlined in OATS Rule 6954(b), member firms that receive or originate orders in Nasdaq[®] securities must report certain information about these orders to OATS via a New Order Report.¹ One of the data elements required in the New Order Report is the Limit Order Display Indicator (indicator). The indicator provides information to NASD Regulation as to whether the customer provided specific instructions concerning the display/non-display of the limit order. OATS allows two permissible values in the indicator field, "Y" and "N."

"Y" Indicator

The "Y" indicator means that a customer **provided**:

- (a) specific instructions not to display a limit order that generally should be displayed under the terms of the Limit Order Display Rule²; or
- (b) specific instructions to display a block size order (orders with at least 10,000 shares or with a market value of at least \$200,000) that is not subject to the Limit Order Display Rule.

In both cases, the customer gave instructions regarding the display of an order, therefore the value reported in the indicator field should be "Y."³

"N" Indicator

The "N" indicator means that a customer **did not provide** specific instructions on:

- (a) not displaying a limit order that generally should be displayed under the terms of the Limit Order Display Rule; or
- (b) displaying a block size order that is not subject to the Limit Order Display Rule.

Incorrect Use Of The Indicators

Many firms currently are assigning an incorrect value in the indicator field. This may be caused by setting "Y" as a default or by incorrectly reporting "N" when the customer asks that the order not be displayed.

The NASD Regulation Market Regulation Department uses, among other things, automated surveillance systems to surveil for compliance with the Limit Order Display Rule. When firms incorrectly report the value in the indicator field, it impedes the Market Regulation Department's ability to use OATS data for this purpose. Additionally, these types of errors can cause a significant waste of NASD Regulation's regulatory resources and the firm's resources in responding to unnecessary inquiries.

Please be advised that when Market Regulation's automated systems identify firms as not complying with the Limit Order Display Rule based on incorrectly reported values in the indicator field, the staff may bring a disciplinary action for violation of the OATS Rules. Such violations

will be resolved by imposing appropriate sanctions to address the seriousness of the violation. Intentional misreporting of this information will be resolved through the imposition of sanctions. Member firms are urged to review their systems and procedures to ensure that they are reporting the data appropriately.

Endnotes

¹Orders in Nasdaq securities originated in the normal course of market making are exempt from OATS reporting. All other proprietary orders in Nasdaq securities are reportable to OATS.

²Securities and Exchange Commission Rule 11Ac1-4. Specialists and OTC Market Makers must display the following: customer limit orders for exchange-traded securities, Nasdaq National Market, and SmallCapSM securities. A customer may request that its order not be displayed. Odd-lot orders, all or

none orders, orders that are executed immediately upon receipt, and block size orders (at least 10,000 shares or with a market value of at least \$200,000) need not be displayed.

³Values allowed in the Limit Order Display Indicator field are defined in Appendix A, the Data Dictionary, of the OATS Reporting Technical Specifications (Technical Specifications) dated July 29, 1999. The specifications for the Limit Order Display Indicator are found on page A-5 of the Technical Specifications. The Technical Specifications are available via the OATS Web pages located at the NASDR Web Site (www.nasdr.com) or by calling the OATS Support Desk at (800) 321-NASD (6273).

©2000, National Association of Securities Dealers, Inc. (NASD). All rights reserved. Notices to Members attempt to present information to readers in a format that is easily understandable. However, please be aware that, in case of any misunderstanding, the rule language prevails.