

NASD Notice to Members 99-27

Order Audit Trail System
Phase 2 Firms Required
To Register; Firms
Should Register By
April 1, 1999

Suggested Routing

- Senior Management
- Advertising
- Continuing Education
- Corporate Finance
- Executive Representatives
- Government Securities
- Institutional
- Insurance
- Internal Audit
- Legal & Compliance
- Municipal
- Mutual Fund
- Operations
- Options
- Registered Representatives
- Registration
- Research
- Syndicate
- Systems
- Trading
- Training
- Variable Contracts

Executive Summary

In accordance with National Association of Securities Dealers, Inc. (NASD®) Rules 6950 through 6957 (the OATS Rules), the NASD has established a registration process for member firms and third parties that will begin reporting to the Order Audit Trail SystemSM (OATSSM) in Phase 2 (August 1, 1999) and Phase 3 (July 31, 2000). In Phase 2, NASD member firms are required to report all electronic orders for Nasdaq® securities. All manual orders for Nasdaq securities must be reported by Phase 3.

Organizations reporting to OATS should complete registration approximately 120 days before they are required to report (April 1, 1999, for Phase 2; April 1, 2000, for Phase 3) in order to allow sufficient time for familiarization and testing. NASD member firms that handle orders in Nasdaq securities and fail to complete and return the *OATS Subscriber Initiation and Registration Form* or fail to perform all required registration activities will not be able to report OATS data to the NASD; failure to report order information by the specified OATS implementation date is a violation of NASD Rules 6955 and 3110.

Registration for Phase 1 (March 1, 1999) began in September 1998. Parties registered for Phase 1 have begun reporting order data to OATS. (See *NASD Notices to Members 98-33, 98-73, and 99-04* for a complete description of the OATS Rules, OATS Registration process for Phase 1, and OATS Rules amendments.)

For Phase 2 and Phase 3 registration, the NASD has revised the existing *OATS Subscriber Initiation and Registration Form*. The form is available at www.nasdr.com/3370.htm. Member firms and third parties that will be transmitting to OATS directly or via

another entity during Phases 2 and 3 are required to complete Sections 1 through 4 of the revised registration form and return it to the NASD prior to the date when they intend to begin reporting.

The completed form must be accompanied by a request for an initial user account. The request must be on letterhead, and contain the organization's name, address, broker/dealer number (if appropriate), and the user's name, telephone number, and fax number.

All member firms and third parties that will report to OATS in Phase 2 or 3, including those that have previously registered but do not intend to report to OATS in Phase 1, should refer to the Registration Activity Checklist contained in the registration form to ensure that they have performed all required registration activities, including requesting an initial user account. **Any party that intends to use the OATS private network to report to OATS by Phase 2 via File Transfer Protocol (FTP) or CONNECT:Direct, formerly known as Network Data Mover or NDM, must complete a contract with MCIWorldCom by April 1, 1999.**

Questions regarding OATS or the *OATS Subscriber Initiation and Registration Form* may be directed to NASD Business and Technology Support Services via phone at (800) 321-NASD, via fax at (888) 345-6275, or via e-mail at supportservices@nasd.com. Business Support is available from 8 a.m. to 6 p.m. Monday through Friday, Eastern Time (ET). Technical Support is available from 8 a.m. Monday through 7:30 a.m. Saturday, ET. Information about OATS and copies of the revised registration form and other OATS-related publications are available on the NASD Regulation, Inc. (NASD RegulationSM) Web Site (www.nasdr.com).

Background

The OATS Rules were approved by the Securities and Exchange Commission (SEC) in March 1998 and amended in July 1998. The OATS Rules require that all electronic orders for Nasdaq securities, including SmallCapSM and Nasdaq National Market[®] securities, and convertible bonds, received at the trading desk by Market Makers and Electronic Communication Networks (ECNs) be reported to OATS by March 1, 1999 (Phase 1); all electronic orders for Nasdaq securities received by member firms be reported to OATS by August 1, 1999 (Phase 2); and all non-electronic, or manual, orders for Nasdaq securities received by member firms be reported to OATS by July 31, 2000 (Phase 3).

Discussion Registration For OATS Reporting

Information requested on the *OATS Subscriber Initiation and Registration Form* is necessary to register member firms and non-member third parties to report order information to OATS. NASD member firms that fail to complete and return this form or fail to perform all required registration activities will not be able to report OATS data to the NASD; failure to report order information by the specified OATS implementation date is a violation of NASD Rules 6955 and 3110. Organizations reporting to OATS should complete registration approximately 120 days before they are required to report in order to allow sufficient time for familiarization and testing.

The registration form includes a question regarding the Phase when the member firm is required to report to OATS or the non-member entity will begin transmitting to OATS and a question regarding the mechanism

that the member firm or non-member third party will use to transmit directly to OATS. The available mechanisms include FTP, CONNECT:Direct, e-mail, and the OATS Web interface. Member firms that will not be transmitting directly to OATS are asked to identify the third parties that will be reporting on their behalf and the Phase when reporting will begin.

The registration form also contains a Registration Activity Checklist, which should be used to ensure that the organization has completed all of the steps required to begin reporting to OATS. (Firms should already have used the *OATS Reporting Technical Specifications*, *OATS Subscriber Manual*, and OATS Frequently Asked Questions to prepare a system to report order information to OATS. Alternatively, they should have contracted with one or more third parties to provide this service. No member firm or third party may begin transmitting data to the OATS production environment on its implementation date unless it has already successfully transmitted to the OATS testing environment.)

Registration activities include returning the completed registration form, accompanied by a request for an initial user account, to the NASD. The request for an initial user account must be on letterhead, and contain the organization's name, address, broker/dealer number (if appropriate), the name of the user who is requesting the account, and that user's telephone number and fax number. The initial user account will provide the organization access to the OATS Web interface, which can be used to create and update OATS contact information, view the status of submitted files, view reporting statistics, view and repair record rejections, submit new records, and request additional user accounts.

The completed form and the request for initial user account should be mailed or faxed to:

NASD Regulation, Inc.
Business & Technology Support
Services
ATTN: OATS Registration
9513 Key West Avenue
Rockville, MD 20850
Fax: (888) 345-6275

Other registration activities include obtaining from the NASD an Order Sending Organization ID, a Reporting Date to begin transmitting to OATS, and the initial User ID and Password; using the OATS Web interface to create and update OATS contact information for an OSO Administrator, Technical Contact, and Compliance Contact; ordering a connection to the OATS private network (if submitting to OATS via FTP or CONNECT:Direct); and reporting to the OATS production environment.

Organizations that intend to transmit to OATS using either FTP or CONNECT:Direct must submit to MCI-WorldCom a completed order for a connection to the OATS private network. **The completed circuit orders are due by April 1, 1999, for organizations that must transmit to the OATS production environment by August 1, 1999 (Phase 2) and by April 1, 2000, for organizations that must transmit to the OATS production environment by July 31, 2000 (Phase 3).** This deadline provides time for testing. Any delay may limit the amount of time available for testing via the private network. *No member firm or third party will be allowed to transmit data to the OATS production environment until it has successfully transmitted to the OATS testing environment.* For information about obtaining a connection to the private network or an OATS Service Order Package, contact

MCIWorldCom at (800) 825-9196. Organizations that will be submitting to OATS via e-mail, the OATS Web interface, or one or more third parties, and will not use FTP or CON-

NECT:Direct, should not obtain a connection to the private network.

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