

Special NASD Notice to Members 98-33

SEC Approves New Order Audit Trail System (OATS)

Suggested Routing

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Executive Summary

On March 6, 1998, the Securities and Exchange Commission (SEC) approved new National Association of Securities Dealers, Inc. (NASD[®] or Association) Rules 6950 through 6957 (Rules), which establish an Order Audit Trail SystemSM (OATSSM).¹ The new Rules will be effective according to an implementation schedule that is described below. The text of the new Rules and a matrix that will assist members in understanding the phasing-in of the OATS requirements are attached. The *Notice* also generally discusses the OATS Reporting Technical Specifications and when they will be available and the forums that NASD Regulation, Inc. (NASD RegulationSM) will be conducting to inform firms about the new OATS Rules.

The OATS Support Center is the primary source of OATS information for NASD member firms. The Center is open Monday through Friday from 8:00 a.m. until 6:00 p.m., ET. The telephone numbers are 1-888-700-OATS and (301) 590-6503. The Center's e-mail address is oatssc@nasd.com. General information will be maintained on the OATS Web page located at the NASD Regulation Web Site (www.nasdr.com).

Background

NASD Regulation has received SEC approval to establish and operate a new Order Audit Trail System. OATS will impose obligations on member firms to record in electronic form and to report to NASD Regulation certain items of information with respect to orders they receive to effect transactions in equity securities traded in The Nasdaq Stock MarketSM (Nasdaq[®] or Nasdaq Market). NASD Regulation will combine this order information with transaction data currently reported by members through the Automated Confirmation Trans-

action ServiceSM (ACTSM) and quotation information disseminated by members through Nasdaq to construct an integrated audit trail of quotation, transaction, and order data, thus greatly enhancing NASD Regulation's surveillance and examination capabilities. In addition, member firms will be required to synchronize their business clocks to a source designated by the NASD.

The OATS Rules require that each member receiving an order relating to equity securities traded in the Nasdaq Market must electronically capture specified information related to the order, record this information to the hour, minute, and second, and electronically transmit this information to OATS. These requirements apply both to orders originated by customers and to proprietary orders originated by a department of a member firm and sent to its trading desk or to another member for execution. Further, for both a customer order and an order originated by a department within the same member firm, the requirement to capture and transmit information would apply whenever the order is transmitted to another department of the same firm, other than to the trading department.

Order information must be submitted to OATS in one or more electronic file transmissions on the same day that the order, or the specific information pertaining to the order, was received, originated, transmitted, modified, canceled, or executed. Where information containing a particular order is not complete or changes, because, for example, the order is only partially executed on the day that it is received, but the order remains outstanding, or if the order is canceled, the additional information must be transmitted on the day that the information first becomes available.

The Rules allow a firm to enter into an arrangement with a third party pursuant to which the third party agrees to report order information on its behalf, in the same way that firms now contract with others to report transaction data to ACT. In each case, however, the member that actually receives or originates the order would remain primarily responsible for fulfilling each of its obligations under the OATS Rules.

In addition to the recording and data transmission requirements, the Rules require members to synchronize their business clocks used for purposes of recording order data with reference to a source designated by the NASD for this purpose, and to adopt such procedures as may be necessary to maintain such synchronization during each trading day. This provision is designed to ensure that the times of various events that are reported pursuant to the OATS Rules are recorded in conjunction with a single and verifiable reference point.

The implementation schedule for the OATS Rules has been revised in response to comment letters received by the SEC when it published notice of the proposed OATS Rules in the *Federal Register*.² The SEC received 18 comment letters on the proposed rule change. The majority of the commenters supported the regulatory objectives of the proposal. However, many of them raised a number of concerns, primarily addressed to the timing of the implementation schedule, which was revised in response to the comments. The implementation schedule is described in detail below. Also, attached to this *Notice* is a matrix showing the implementation schedule in table form.

The text of the new Rules is set forth below. For a complete description of the new Rules, members should review in detail the

SEC's approval order, which is available on NASD Regulation's Web Site (www.nasdr.com).

Implementation Schedule: Recording And Reporting Requirements Phase One—March 1, 1999

The OATS reporting requirements initially will be limited to electronic orders received by Electronic Communications Networks (ECNs) and electronic orders received at the trading departments of members that are market makers in the securities that are the subject of the orders. These requirements will be effective on March 1, 1999. Market makers initially will be required to record and report only certain information items to OATS. These information items in general correspond to those items that are expected to be readily available at the trading desk at the time that orders are received. Members operating ECNs will be required to record and report to OATS only the information items that are available to the ECN with respect to the order.

The items that must be recorded and reported in Phase One when an electronic order is originated or received by a market maker include: the order identifier assigned to the order by the receiving Reporting Member;³ the identification symbol assigned by the Association to the security; the market participant symbol assigned by the Association to the transmitting and receiving Reporting Members; the identification of any department or the identification number of any terminal where an order is received directly from a customer; where applicable, the identification of the Reporting Member's Reporting Agent; the number of shares to which the order applies; the designation of the order as a buy or sell order; the designation of the order as a short sale order; the des-

ignation of the order as a market order, limit order, stop order, or stop limit order; any limit or stop price prescribed by the order; the date on which the order expires, and, if the time in force is less than one day, the time when the order expires; the time limit during which the order is in force; any request by a customer that an order not be displayed, or that a block size order be displayed, pursuant to Securities Exchange Act of 1934 (Exchange Act) Rule 11Ac1-4(c); special handling requests specified by the Association; the date and time the order is originated or received; and an identification of the order as related to a Program Trade or an Index Arbitrage Trade. Although firms will not be required to report the type of account for which the order is submitted, this information must be reported to the extent it is available. Other relevant information must be recorded and reported when the order is modified, canceled, or executed.

The items that must be recorded and reported in Phase One when an order is received by a member operating an ECN include only the items that are available to the ECN with respect to the order. The items that must be recorded and reported include: the fact that the order was received by an ECN; the order identifier assigned to the order by the member operating the ECN; the identification symbol assigned by the Association to the security; the market participant symbol assigned by the Association to the transmitting Reporting Member and to the ECN; where applicable, the identification of the Reporting Member's Reporting Agent; the number of shares to which the order applies; the designation of the order as a buy or sell order; the designation of the order as a market order, limit order, stop order, or stop limit order; any limit or stop price prescribed by the order; the date on which the order expires,

and, if the time in force is less than one day, the time when the order expires; the time limit during which the order is in force; special handling requests specified by the Association; and the date and time the order is received. Other relevant information must be recorded and reported when the order is modified, canceled, or executed.

Starting in August 1998, NASD Regulation will begin testing the capabilities of its systems. NASD Regulation also will identify, test, and certify the firms that will be required to record and report information to OATS in March 1999 (market makers and ECNs). As a result, all testing will be completed and NASD Regulation and the firms will be ready to implement Phase One on the effective date of March 1, 1999.

Phase Two—August 1, 1999

The OATS recording and reporting requirements will be effective for all electronic orders on August 1, 1999. At this time, all firms, with the exception of firms operating ECNs, must record and report all information items specified in Rules 6954(b), (c), and (d) with respect to all electronic orders. As in Phase One, ECNs will be required to record and report only the information items with respect to electronic orders that are available to the ECN with respect to the order. Similar to the testing and certification that will occur prior to the implementation of Phase One, starting in March 1999, NASD Regulation will test its own systems and test and certify the firms that will be required to record and report information in Phase Two. As a result, all testing will be completed, and NASD Regulation and the firms will be ready to implement Phase Two on the effective date of August 1, 1999.

Phase Three—July 31, 2000

The OATS recording and reporting requirements will be effective for all manual orders on July 31, 2000. Firms will be required to record and report to OATS only certain information items. For market makers and other non-ECNs, these information items in general correspond to those items that are expected to be readily available at the trading desk, or at other desks that receive or handle orders manually, at the time that orders are received. ECNs will be required to record and report only those information items that are available to the ECN with respect to the order. No further requirements will be applicable to manual orders.

The items that must be recorded and reported in Phase Three when an order is originated or received by a market maker or other non-ECN include: the fact that the order was received manually; the order identifier assigned to the order by the receiving Reporting Member; the identification symbol assigned by the Association to the security; the market participant symbol assigned by the Association to the transmitting and receiving Reporting Members; where applicable, the identification of the Reporting Members' Reporting Agent; the number of shares to which the order applies; the designation of the order as a buy or sell order; the designation of the order as a short sale order; the designation of the order as a market order, limit order, stop order, or stop limit order; any limit or stop price prescribed by the order; the date on which the order expires, and, if the time in force is less than one day, the time when the order expires; the time limit during which the order is in force; any request by a customer that an order not be displayed, or that a block size order be displayed, pursuant to Exchange Act Rule 11Ac1-4(c); special handling requests specified by

the Association; the date and time the order is originated or received; and an identification of the order as related to a Program Trade or an Index Arbitrage Trade. Although firms will not be required to report the type of account for which the order is submitted, this information must be reported to the extent it is available. Other relevant information must be recorded and reported when the order is manually transmitted to another member or when the order is modified, canceled, or executed. As in Phases One and Two, the items that must be recorded and reported in Phase Three by a member operating an ECN are those items that are available to the ECN with respect to the order, as described above.

Similar to the testing and certification that will occur prior to the implementation of Phases One and Two, starting in August 1999, NASD Regulation will test its own systems and test and certify the firms that will be required to record and report information in Phase Three. As a result, all testing will be completed, and NASD Regulation and the firms will be ready to implement Phase Three on the effective date of July 31, 2000.

Implementation Schedule: Clock Synchronization

Members will be required to synchronize business clocks according to the following schedule: computer system clocks must be synchronized on August 7, 1998, and mechanical clocks must be synchronized by July 1, 1999. NASD Regulation will provide further information in *Notices to Members* and in the OATS Reporting Technical Specifications described below as to the precise parameters that will apply to synchronization.

Forums

In order to inform member firms about their responsibility to comply

with the OATS Rules, NASD Regulation is presenting a series of industry forums about OATS in cities across the country. Dates, time, and locations are currently being finalized; however, forums are being planned in the following cities: Atlanta, Boston, Chicago, Dallas, Denver, Detroit, Fort Lauderdale, Los Angeles, Minneapolis, New Orleans, New York, Philadelphia, Richmond, St. Louis, San Francisco, and Washington, D.C. When the forum dates are finalized, announcements and registration forms will be sent to all firms that have indicated to NASD Regulation a responsibility to report to OATS. Member firms also will be able to register via the OATS Web page located on the NASD Regulation Web Site (www.nasdr.com), by calling the OATS Support Center at 1-888-700-OATS and (301) 590-6503, or via the OATS e-mail address at oatssc@nasd.com.

Information presented will include interpretation of the OATS Rules and details about implementation, registration, certification, testing, piloting, and support. Along with the formal presentation, there will be time set aside to address individual questions. All NASD member firms that deal in Nasdaq equity securities are invited to attend the OATS forums. Compliance, technology, and operations staff members are especially encouraged to attend.

OATS Reporting Technical Specifications

The document containing the OATS Reporting Technical Specifications was published on March 9, 1998. It will provide member firms with the operational and technical requirements for submitting order reports to OATS. The document covers the requirements and procedures for clock synchronization; system access requirements for supplying OATS files to the NASD; order

reporting scenarios that describe, from a business perspective, responsibilities for reporting to OATS; details regarding the required layout of OATS files; and procedures for providing corrections to OATS data and receiving feedback from NASD Regulation. The document also contains a data dictionary that describes all of the data elements in OATS files; a list of report formats, including field names, data types, and lists of permissible values; and examples of order reports.

The Technical Specifications were mailed to the OATS primary and technical contacts at all NASD member firms that are registered as market makers in Nasdaq securities on March 11, 1998. In addition, the Technical Specifications will be mailed to all firms that have indicated to NASD Regulation that they have a responsibility to report order information under the Rules. Other firms can obtain a copy of the Technical Specifications by calling the OATS Support Center or sending a request by e-mail to oatssc@nasd.com. Members also will be able to download the Technical Specifications from the OATS Web page located on the NASD Regulation Web Site (www.nasdr.com).

Text Of New Rules

(Note: all language is new.)

3110. Books and Records

(c) Each member that is a Reporting Member as that term is defined in Rule 6951(n) shall record and maintain, with respect to each order for such security that is received or executed at its trading department: (1) an identification of each registered person who receives the order directly from a customer; (2) an identification of each registered person who executes the order; and (3) where an order is originated by the member

and transmitted manually to another department, an identification of the department that originated the order.

6950. Order Audit Trail System

6951. Definitions

For purposes of Rules 6950 through 6957:

(a) Terms shall have the same meaning as those defined in the By-Laws and other rules of the Association, unless otherwise specified.

(b) "Association" shall mean the National Association of Securities Dealers, Inc. and its two subsidiaries, NASD Regulation, Inc. and The Nasdaq Stock Market, Inc.

(c) "Bunched Order" shall mean two or more orders that are aggregated prior to execution.

(d) "Customer" shall mean a person other than a broker or dealer.

(e) "ACT" shall mean the Automated Confirmation Transaction Service operated by The Nasdaq Stock Market, Inc.

(f) "Electronic Communication Network" shall mean any electronic system that widely disseminates to third parties orders entered therein by an exchange market maker or over-the-counter market maker, and permits such orders to be executed in whole or in part, and as further defined in Securities Exchange Act Rule 11Ac1-1(a)(8).

(g) "Electronic Order" shall mean an order captured by a member in an electronic order-routing or execution system.

(h) "Index Arbitrage Trade" shall mean an arbitrage trading strategy involving the purchase or sale of a "basket" or group of securities in con-

junction with the purchase or sale, or intended purchase or sale, of one or more cash-settled options or futures contracts on index stock groups, or options on any such futures contracts in an attempt to profit by the price difference, as further defined in New York Stock Exchange Rule 80A.

(i) "Manual Order" shall mean an order that is captured by a member other than in an electronic order-routing or execution system.

(j) "Order" shall mean any oral, written, or electronic instruction to effect a transaction in a Nasdaq Stock Market equity security that is received by a member from another person for handling or execution, or that is originated by a department of a member for execution by the same or another member, other than any such instruction to effect a proprietary transaction originated by a trading desk in the ordinary course of a member's market making activities.

(k) "Order Audit Trail System" shall mean the automated system owned and operated by the Association that is designed to capture order information reported by members for integration with trade information reported to ACT and quotation information disseminated by members in order to provide the Association with an accurate time sequenced record of orders and transactions.

(l) "Program Trade" shall mean a trading strategy involving the related purchase or sale of a group of 15 or more securities having a total market value of \$1 million or more, as further defined in New York Stock Exchange Rule 80A.

(m) "Reporting Agent" shall mean a third party that enters into any agreement with a member pursuant to which the Reporting Agent agrees to fulfill such member's obligations under Rule 6955.

(n) "Reporting Member" shall mean a member that receives or originates an order and has an obligation to record and report information under Rules 6954 and 6955.

6952. Applicability

(a) Unless otherwise indicated, the requirements of Rules 6953 through 6957 are in addition to the requirements contained in the By-Laws and other rules of the Association.

(b) Unless otherwise indicated, the requirements of Rules 6953 through 6957 shall apply to all brokers and dealers admitted to membership in the Association and to their associated persons.

(c) Unless otherwise indicated, the requirements of Rules 6953 through 6957 shall apply to all executed or unexecuted orders for equity securities traded in The Nasdaq Stock Market.

6953. Synchronization of Member Business Clocks

Each member shall synchronize its business clocks that are used for purposes of recording the date and time of any event that must be recorded pursuant to the By-Laws or other rules of the Association, with reference to a time source as designated by the Association, and shall maintain the synchronization of such business clocks in conformity with such procedures as are prescribed by the Association.

6954. Recording of Order Information

(a) Procedures

(1) Subject to the terms and conditions contained in Rules 6952 through 6957, each Reporting Member shall:

(A) immediately following receipt or origination of an order, record each item of information described in paragraph (b) of this Rule that applies to such order, and record any additional information described in paragraph (b) of this Rule that applies to such order immediately after such information is received or becomes available; and

(B) immediately following the transmission of an order to another member, or from one department to another within the same member, record each item of information described in paragraph (c) of this Rule that applies with respect to such transmission; and

(C) immediately following the modification, cancellation, or execution of an order, record each item of information described in paragraph (d) of this Rule that applies with respect to such modification, cancellation, or execution.

(2) Each required record of the time of an event shall be expressed in terms of hours, minutes, and seconds.

(3) Each Reporting Member shall, by the end of each business day, record each item of information required to be recorded under this Rule in such electronic form as is prescribed by the Association from time to time.

(4) Each Reporting Member shall retain records of the information required to be recorded under this Rule in accordance with Rule 3110.

(b) Order Origination and Receipt

Unless otherwise indicated, the following order information must be recorded under this Rule when an order is received or originated.

(1) an order identifier meeting such parameters as may be prescribed by

the Association assigned to the order by the Reporting Member that uniquely identifies the order for the date it was received;

(2) the identification symbol assigned by the Association to the security to which the order applies;

(3) the market participant symbol assigned by the Association to the Reporting Member;

(4) the identification of any department or the identification number of any terminal where an order is received directly from a customer;

(5) where the order is originated by a Reporting Member, the identification of the department of the member that originates the order;

(6) where the Reporting Member is a party to an agreement described in Rule 6955(c), the identification of the Reporting Agent;

(7) the number of shares to which the order applies;

(8) the designation of the order as a buy or sell order;

(9) the designation of the order as a short sale order;

(10) the designation of the order as a market order, limit order, stop order or stop limit order;

(11) any limit or stop price prescribed in the order;

(12) the date on which the order expires, and, if the time in force is less than one day, the time when the order expires;

(13) the time limit during which the order is in force;

(14) any request by a customer that an order not be displayed, or that a

block size order be displayed, pursuant to Rule 11Ac1-4(c) under the Securities Exchange Act of 1934;

(15) special handling requests, specified by the Association for purposes of this Rule;

(16) the date and time the order is originated or received by a Reporting Member;

(17) an identification of the order as related to a Program Trade or an Index Arbitrage Trade; and

(18) the type of account, *i.e.*, retail, wholesale, employee, proprietary, or any other type of account designated by the Association, for which the order is submitted.

(c) Order Transmittal

Order information required to be recorded under this Rule when an order is transmitted includes the following.

(1) When a Reporting Member transmits an order to another department within the member, other than to the trading department, the Reporting Member shall record: (A) the order identifier assigned to the order by the Reporting Member, (B) the market participant symbol assigned by the Association to the Reporting Member, (C) the date the order was first originated or received by the Reporting Member, (D) an identification of the department to which the order was transmitted, and (E) the date and time the order was received by that department;

(2) When a member electronically transmits an order to another member, other than an order transmitted electronically for execution on an Electronic Communications Network:

(A) the transmitting Reporting Member shall record: (i) the order identifier assigned to the order by the

Reporting Member, (ii) the market participant member identification symbol assigned by the Association to the Reporting Member, (iii) the market participant member identification symbol assigned by the Association to the member to which the order is transmitted, (iv) the date the order was first originated or received by the Reporting Member, (v) the date and time the order is transmitted, and (vi) the number of shares to which the transmission applies; and

(B) the receiving Reporting Member shall record, in addition to all other information items in Rule 6954(b) that apply with respect to such order: (i) the order identifier assigned to the order by the member that transmits the order and (ii) the market participant symbol assigned by the Association to the member that transmits the order.

(3) When a member electronically transmits an order for execution on an Electronic Communications Network:

(A) the transmitting Reporting Member shall record: (i) the fact that the order was transmitted to an Electronic Communications Network, (ii) the order identifier assigned to the order by the Reporting Member, (iii) the market participant symbol assigned by the Association to the Reporting Member, (iv) the market participant symbol assigned by the Association to the member to which the order is transmitted, (v) the date the order was first originated or received by the Reporting Member, (vi) the date and time the order is transmitted, and (vii) the number of shares to which the transmission applies; and

(B) the receiving Reporting Member operating the Electronic Communications Network shall record: (i) the fact that the order was received by an Electronic Communications Network,

(ii) the market participant symbol assigned by the Association to the transmitting Reporting Member, and (iii) other information items in Rule 6954(b) that apply with respect to such order, which must include information items (1), (2), (3), (6), (7), (8), (10), (11), (12), (13), (15), and (16).

(4) When a member manually transmits an order to another member, other than to an Electronic Communications Network:

(A) the transmitting Reporting Member shall record: (i) the fact that the order was transmitted manually, (ii) the order identifier assigned to the order by the Reporting Member, (iii) the market participant symbol assigned by the Association to the Reporting Member, (iv) the market participant symbol assigned by the Association to the member to which the order is transmitted, (v) the date the order was first originated or received by the Reporting Member, (vi) the date and time the order is transmitted, (vii) the number of shares to which the transmission applies, and (viii) for each order to be included in a bunched order, the bunched order route indicator assigned to the bunched order by the Reporting Member; and

(B) the receiving Reporting Member shall record, in addition to all other information items in Rule 6954(b) that apply with respect to such order: (i) the fact that the order was received manually and (ii) the market participant symbol assigned by the Association to the member that transmits the order.

(5) When a member manually transmits an order to an Electronic Communications Network:

(A) the transmitting Reporting Member shall record: (i) the fact that the order was transmitted manually, (ii) the order identifier assigned to the

order by the Reporting Member, (iii) the market participant symbol assigned by the Association to the Reporting Member, (iv) the market participant symbol assigned by the Association to the member to which the order is transmitted, (v) the date the order was first originated or received by the Reporting Member, (vi) the date and time the order is transmitted, (vii) the number of shares to which the transmission applies, and (viii) for each order to be included in a bunched order, the bunched order route indicator assigned to the bunched order by the Reporting Member; and

(B) the receiving Reporting Member shall record: (i) the fact that the order was received manually, (ii) the market participant symbol assigned by the Association to the transmitting Reporting Member, and (iii) other information items in Rule 6954(b) that apply with respect to such order, which must include information items (1), (2), (3), (6), (7), (8), (10), (11), (12), (13), (15), and (16).

(d) Order Modifications, Cancellations, and Executions

Order information required to be recorded under this Rule when an order is modified, canceled, or executed includes the following.

(1) When a Reporting Member modifies or receives a modification to the terms of the order, the Reporting Member shall record, in addition to all other applicable information items (including a new order identifier) that would apply as if the modified order were originated or received at the time of the modification: (A) the order identifier assigned to the order by the Reporting Member prior to the modification, (B) the date and time the modification was originated or received, and (C) the date the order was first originated or received by the Reporting Member.

(2) When the Reporting Member cancels or receives a cancellation of an order, in whole or part, the Reporting Member shall record: (A) the order identifier assigned to the order by the Reporting Member, (B) the market participant symbol assigned by the Association to the Reporting member, (C) the date the order was first originated or received by the Reporting Member, (D) the date and time the cancellation was originated or received, (E) if the open balance of an order is canceled after a partial execution, the number of shares canceled, and (F) whether the order was canceled on the instruction of a customer or the Reporting Member.

(3) When a Reporting Member executes an order, in whole or in part, the Reporting Member shall record: (A) the order identifier assigned to the order by the Reporting Member, (B) the market participant symbol assigned by the Association to the Reporting Member, (C) the date the order was first originated or received by the Reporting Member, (D) the Reporting Member's number assigned for purposes of identifying transaction data in ACT, (E) the designation of the order as fully or partially executed, (F) the number of shares to which a partial execution applies and the number of unexecuted shares remaining, (G) the identification number of the terminal where the order was executed; and (H) the date and time of execution.

6955. Order Data Transmission Requirements

(a) General Requirement

All applicable order information required to be recorded under Rule 6954 shall be transmitted to the Order Audit Trail System by each Reporting Member or by a Reporting Agent pursuant to an agreement

described by paragraph (c) of this Rule.

(b) Method of Transmitting Data

(1) Order information shall be transmitted in electronic form, as may be prescribed by the Association from time to time, to a receiving location designated by the Association.

(2) Each Reporting Member shall transmit to the Order Audit Trail System a report containing each applicable item of order information identified in Rule 6954(b), (c), and (d) whenever an order is originated, received, transmitted to another department within the member or to another member, modified, canceled, or executed. Each report shall be transmitted on the day such event occurred, or with respect to any such information that is not available on such day, on the day that such information first becomes available. Order information reports may be aggregated into one or more transmissions, during such business hours as may be prescribed by the Association.

(c) Reporting Agent Agreements

(1) Any Reporting Member may enter into an agreement with a Reporting Agent pursuant to which the Reporting Agent agrees to fulfill the obligations of such Reporting Member under this Rule. Any such agreement shall be evidenced in writing, which shall specify the respective functions and responsibilities of each party to the agreement that are required to effect full compliance with the requirements of this Rule.

(2) All written documents evidencing an agreement described in paragraph (1) shall be maintained by each party to the agreement.

(3) Each Reporting Member remains primarily responsible for compliance with the requirements of this rule, notwithstanding the existence of an agreement described in this paragraph.

6956. Violation of Order Audit Trail System Rules

Failure of a member or person associated with a member to comply with any of the rules or requirements of Rule 6951 through Rule 6957 may be considered conduct that is inconsistent with high standards of commercial honor and just and equitable principles of trade, in violation of Rule 2110.

6957. Effective Date

The requirements of the Order Audit Trail System shall be effective in accordance with the following schedule:

(a) Clocks

The requirements of Rule 6953 shall be effective on August 7, 1998, for all computer system clocks and on July 1, 1999, for all mechanical clocks.

(b) Electronic Orders

With respect to electronic orders, the requirements of the Order Audit Trail System shall be effective on:

(1) March 1, 1999, for electronic orders received by Electronic Communications Networks and electronic orders received at the trading department of a member that is a market maker in the securities that are the subject of the orders, provided that market makers shall be required to report information item (18) specified in Rule 6954(b) only to the extent such item is available to the market maker and shall **not** be required to record and report information item (5) specified in Rule 6954(b) and

information items (2)(A), (2)(B)(i), (3)(A), (4)(A), and (5)(A) specified in Rule 6954(c) with respect to such orders; and

(2) August 1, 1999, for all electronic orders, at which time all information items specified in Rules 6954(b), (c), and (d) shall be required to be recorded and reported with respect to such orders.

(c) Manual Orders

The requirements of the Order Audit Trail System shall be effective on July 31, 2000, for all manual orders, provided that firms shall be required to report information item (18) specified in Rule 6954(b) only to the extent such item is available to them and shall **not** be required to record and report information items (4) and (5) specified in Rule 6954(b) and information item (1) specified in Rule 6954(c).

(d) Rule 3110

The requirements of Rule 3110(c)(1) and Rule 3110(c)(2) shall be effective on March 1, 1999, and the requirements of Rule 3110(c)(3) shall be effective on July 31, 2000.

Endnotes

¹ See Release No. 34-39729 (March 6, 1998). A copy of the SEC's approval order has been placed on the NASD Regulation, Inc. Web Site (*see www.nasdr.com*).

² See Release No. 34-38990 (August 28, 1997), 62 FR 47096 (September 5, 1997).

³ As originally proposed, firms would have been required to pass a unique order identifier each time an order is transmitted to another firm. This information would have included a 12-character order identifier and the date on which the order was received or originated. Several commenters addressed the difficulties presented by this requirement. In response, NASD Regulation changed the

length of the order identifier from 12 to eight characters. Also, for orders transmitted electronically other than to ECNs, NASD Regulation deleted the requirement to pass the order origination date, while for orders transmitted manually and orders transmitted to ECNs, neither the order identifier nor the order origination date must be passed.

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REQUIREMENTS OF NASD RULES 6950 THROUGH 6957		Electronic Orderst		Manual Orderst
RuleRef	Item or Data Element	Phase 1 (3/1/99)	Phase 2 (8/1/99)	Phase 3 (7/31/00)
6954b1	Order Identifier (Order ID)	✓	✓	✓
b2	Security Symbol	✓	✓	✓
b3	Reporting Member Market Participant Identifier	✓	✓	✓
b4	Order Receiving Department or Order Receiving Terminal ID	✓	✓	
b5	Originating Department		✓	
b6	Reporting Agent	✓	✓	✓
b7	Shares Quantity	✓	✓	✓
b8	Buy/Sell Code	✓	✓	✓
b9	Short Sale Indicator	✓	✓	✓
b10	Order Type (Market, Limit, Stop, Stop Limit)	✓	✓	✓
b11	Limit or Stop Price	✓	✓	✓
b12	Expiration Date and Time	✓	✓	✓
b13	Time In Force	✓	✓	✓
b14	Limit Order Display Indicator	✓	✓	✓
b15	Special Handling Codes	✓	✓	✓
b16	Order Received Date/Time	✓	✓	✓
b17	Program/Index Arbitrage Trade	✓	✓	✓
b18	Account Type	✓*	✓	✓*
c1	Department Routing Information (A) Order ID (B) Market Participant Identifier (MP ID) (C) Order Origination Date (D) Receiving Department ID (E) Department Received Date/Time		✓	
c2A	Electronic Routing To Non-ECN (i) Order ID (ii) MP ID (iii) MP ID of Firm Transmitted To (iv) Order Origination Date (v) Order Transmission Date/Time (vi) Number of Shares Routed		✓	
c2B	Electronic Receipt By Non-ECN (i) Order ID of Transmitting Member (ii) MP ID of Transmitting Member All Other Applicable Elements	✓ excluding (i)	✓	

REQUIREMENTS OF NASD RULES 6950 THROUGH 6957		Electronic Orderst†		Manual Orderst†
RuleRef	Item or Data Element	Phase 1 (3/1/99)	Phase 2 (8/1/99)	Phase 3 (7/31/00)
c3A	Electronic Routing To ECN (i) Fact That Order Transmitted To ECN (ii) Order ID (iii) MP ID (iv) MP ID of ECN Transmitted To (v) Order Origination Date (vi) Order Transmission Date/Time (vii) Order Transmission Date/Time (viii) Number of Shares Routed		✓	
c3B	Electronic Receipt By ECN (i) Fact Order Received By ECN (ii) MP ID of Transmitting Member All Other Applicable Elements	✓	✓	
c4A	Manual Route to Non-ECN (i) Fact That Order Transmitted Manually (ii) Order ID (iii) MP ID (iv) MP ID Of Firm Transmitted To (v) Order Origination Date (vi) Order Transmission Date/Time (vii) Number Of Shares Routed (viii) Bunched Order Indicator		✓	✓
c4B	Manual Receipt by Non-ECN (i) Fact That Order Received Manually (ii) MP ID Of Transmitting Firm All Other Applicable Elements			✓
c5A	Manual Route to ECN (i) Fact That Order Transmitted Manually (ii) Order ID (iii) MP ID (iv) MP ID of ECN Transmitted To (v) Order Origination Date (vi) Order Transmission Date/Time (vii) Number of Shares Routed (viii) Bunched Order Indicator		✓	✓
c5B	Manual Receipt by ECN (i) Fact That Order Received Manually (ii) MP ID of Transmitting Firm All Other Applicable Elements			✓

REQUIREMENTS OF NASD RULES 6950 THROUGH 6957		Electronic Orders†		Manual Orders†
RuleRef	Item or Data Element	Phase 1 (3/1/99)	Phase 2 (8/1/99)	Phase 3 (7/31/00)
d1	Modification Information (A) Order ID of New Order (B) Modification Date/Time (C) Order Origination Date All Other Applicable Elements	✓	✓	✓
d2	Cancellation Information (A) Order ID (B) MP ID (C) Order Origination Date (D) Cancellation Date/Time (E) Number of Shares Canceled (F) Canceled By Firm/Customer	✓	✓	✓
d3	Execution Information (A) Order ID (B) MP ID (C) Order Origination Date (D) ACT Branch/Sequence Number (E) Designation As Fully/Partially Executed (F) Number of Shares Executed And Unexecuted Shares Remaining (G) Execution Terminal ID (H) Execution Date/Time	✓	✓	✓ excluding (G)

**Account type is reportable by 3/1/1999 for electronic orders and by 7/31/2000 for manual orders only to the extent such item is available. It is fully reportable for electronic orders by 8/1/1999.*

†Elements reported by ECNs upon receipt of an order must include b1, 2, 3, 6, 7, 8, 10, 11, 12, 13, 15, and 16.