

# Notice to Members

APRIL 2006

## SUGGESTED ROUTING

Internal Audit  
Legal & Compliance  
Operations  
Registered Representatives  
Senior Management  
Systems  
Technology  
Training

## KEY TOPICS

NASD Rule 3360  
Short Interest Reporting  
Short Sales

## GUIDANCE

### Short Interest Reporting

NASD Implements Changes to the Regulation Filing Applications System; **Effective Date: July 3, 2006**

#### Executive Summary

NASD is issuing this *Notice* to inform members of changes to the Regulation Filing Applications system, a Web-based system used by members to report, among other things, their monthly short interest positions to NASD. Specifically, NASD is modifying the Regulation Filing Applications system for reporting short interest positions to: (1) reject member submissions of short interest reports for the current reporting month that are submitted prior to the designated settlement date; (2) require that members append an exchange or market code for each issue symbol and short interest position reported; and (3) implement a validation process for all short interest reports to ensure that all exchange/market codes and issue symbols are valid and reject member reports that fail such validation. NASD will make the Regulation Filing Applications test site available with these changes as of June 1, 2006. The changes to the Regulation Filing Applications system are effective **July 3, 2006**.

#### Questions/Further Information

Questions concerning this *Notice* may be directed to the Legal Section, Market Regulation, at (240) 386-5126; Office of General Counsel, Regulatory Policy and Oversight, at (202) 728-8071; or Jocelyn Mello, NASD Market Regulation, at (240) 386-5091.

---

## Background and Discussion

### Short Interest Reporting

NASD Rule 3360 requires each NASD member to maintain a record of “total” short positions in all customer<sup>1</sup> and proprietary accounts in NASDAQ securities and OTC equity securities<sup>2</sup> (and securities listed on a registered national securities exchange if not reported to another self-regulatory organization) and to regularly report that information in the manner prescribed by NASD. Rule 3360 further requires that NASD members report short positions as of the close of the settlement date designated by NASD and that the data be received by NASD no later than the second business day following the reporting settlement date designated by NASD.<sup>3</sup>

Since February 2000, NASD members have been required to report short interest positions using the Shorts section of the Web-based Regulation Filing Applications system (hereinafter “the Shorts system”). During the time the Shorts system has been in place, NASD has noted several data integrity and other issues described in more detail below relating to the validation of issue symbols. To address these issues, NASD is implementing several technological changes to the Shorts system that are effective July 3, 2006.

### Changes to the Regulation Filing Applications System

#### *Reporting Issue Symbols That Are Active as of the Designated Settlement Date*

NASD requires members to report short interest positions as of the close of a designated settlement date, which is the 15th of each month unless the 15th occurs on a weekend or other non-settlement date, in which case the designated settlement date is the preceding business day.<sup>4</sup> NASD is responsible for disseminating short interest data for issues that are active as of the designated settlement date. It is ultimately the responsibility of each member to ensure that it is reporting accurate short interest data, including confirming that issue symbols are valid as of the designated settlement date.

Currently, the Shorts system permits NASD members to submit short interest reports as early as the trade date that corresponds to the designated settlement date for that month. As a result, the Shorts system will allow members to report short interest positions using issue symbols that are valid on trade date, but may no longer be valid issue symbols as of the designated settlement date. For example, a company’s issue symbol on trade date is ABCD; on the designated settlement date, however, the issue symbol changes to EFGH. Although the Shorts system will initially accept a member’s filing made on trade date that contains a short interest position for the symbol of ABCD, the Shorts system will not ultimately process the member’s filing because the issue symbol is no longer valid on the designated settlement date. The only valid issue symbol in the Shorts system is EFGH. Consequently, each month NASD staff must manually review all issue symbols that change between the trade date and the designated settlement date and note, as applicable, in their monthly validation letters to members any discrepancies.

---

To ensure that NASD is collecting members' short interest positions for issue symbols that are valid as of the designated settlement date, the Shorts system will be modified so that it will no longer accept short interest reports for the current reporting month prior to the designated settlement date. Upon implementation of the modified Shorts system, the system will begin accepting filings for the current month as of 8 a.m. ET on the designated settlement date. The filing period for each submission will be validated to determine whether the filing is for the current or a previous month.<sup>5</sup> Should a firm attempt to submit a short interest filing through either the File Transfer Protocol (FTP) or upload process prior to the designated settlement date for the current reporting month, the submission will be rejected and members will receive the following message:

"The system is not prepared to accept any filings for the specified filing period at this point. Please resubmit this filing between the published Settlement Date (not before 8 AM Eastern Time) and the Due Date for the period."

If a member submits short interest filings by manually entering the data into the Web-based system, the member will not be able to edit the draft filings generated by the Shorts system until 8 a.m. ET on the designated settlement date, at which time the Shorts system will be available to accept such submissions.

#### ***Designating an Exchange or Market Code for Each Issue Symbol***

Currently, the Shorts system does not permit issue symbols to contain special characters, which are commonly used elements in issue symbols. In submitting short interest filings, NASD members must eliminate any special characters (e.g., ABC.D becomes ABCD). As a result, certain short interest positions may be processed and disseminated under the incorrect issue symbol and/or exchange (e.g., exchange-listed security ABC.D is submitted to the Shorts system as ABCD and is identified by the Shorts system as a NASDAQ or OTC equity security ABCD).

In light of the potential for misreporting and/or improper processing of short interest data, members will be required to designate the appropriate exchange or market for each issue symbol and short position reported to the Shorts system.<sup>6</sup> Members will be obligated to ensure that they are identifying the appropriate exchange or market code as of the designated settlement date for each issue symbol reported.

Members must append the appropriate exchange or market code to the corresponding issue symbol that represents the primary exchange or market in the United States on which the security is listed as of the designated settlement date, or for unlisted securities, the over-the-counter market.<sup>7</sup> It is important to note that the exchange or market on which the short sale transactions that comprise the short interest positions were executed is not relevant and should not be considered. The following exchange and market codes are mandatory and must be included by members as part of their reported short interest positions.<sup>8</sup>

Exchange/Market Code	Exchange/Market
A	New York Stock Exchange
B	American Stock Exchange
C	Chicago Stock Exchange
D	Philadelphia Stock Exchange
E	Pacific Stock Exchange/ArcaEx
F	Boston Stock Exchange
G	National Stock Exchange (f/k/a Cincinnati Stock Exchange)
I	International Securities Exchange
K	CBOE
R	NASDAQ
S	Over-the-Counter
Z	Other

#### Validation Process

For short interest filings submitted through the upload or FTP process, the Shorts system will perform a two-step validation process on both the exchange/market code and the issue symbol.<sup>9</sup> First, as noted above, the exchange/market code must be a valid code.<sup>10</sup> Second, the issue symbol must not only be a valid issue symbol for the exchange or market designated by the member, but it also must be a valid issue symbol as of the designated settlement date.<sup>11</sup> If any of these conditions are not met, an error message will be generated, the short position will be rejected and removed from the filing, and the filing will be placed in "draft" status.<sup>12</sup> Once the filing is in "draft" status, a member is required to review its submission and make corrections to the data by the designated due date. A member can correct the data using either one of the following methods. First, a member can make a correction to the data contained in the upload or FTP file it generated for the purposes of reporting its short interest data and resubmit the file through the upload or FTP process into the Shorts system. Second, the member can correct the data manually through the Shorts system by using the "Add Symbols" functionality.

The same validation process described above also will be applicable to filings that are manually entered into the Shorts system. NASD notes that neither the exchange/market code nor issue symbol fields can be edited while in "draft" status. Therefore, to change either the exchange/market code or issue symbol, members will need to input a value of zero (0) in the "Current Position" column and then re-enter the correct exchange/market code, issue symbol, and current position using the "Add Symbols" functionality.

Although NASD staff anticipates that these initial validations performed on short interest filings by the Shorts system will result in more accurate submissions, further information requests and analysis by NASD staff will continue to be necessary to ensure that the reported exchange/market code, issue symbol and short positions are accurate.

---

**Modification to the File Format**

The requirement that members include an exchange/market code will necessitate that members modify the format of the files uploaded or sent via FTP into the Shorts system. Specifically, the records for the short interest data will need to include a field for the exchange/market code.

To report via the upload or FTP process, the member must create and save an ASCII text file. The file should be created using four types of records. Below is a detailed description of the required file format, including the addition of the exchange/market code.

**Record Type 1 - Firm Identification Record**

Record Type 1 must always be the first row in the record submitted to NASD. Members must populate the first field in Record Type 1 with "A1." Members must also populate the SEC number and the firm number fields. These numbers must be correct or the file will be rejected.

Field	Name	Type	Length	Positions	Format	Description
1	ID1	CHAR	2	1-2	"A1"	Must have the code "A1" to identify the record type.
2	Firm Name	CHAR	30	3-32		Name of the firm reporting the short position.
3	Firm Number	NUMBER	6	33-38		Firm Number (may be the CRD#, NASD# or Broker/Dealer#).
4	SEC Number	NUMBER	5	39-43	XXXXX	SEC Number (do not include the "8-" prefix).
5	NSCC Number	NUMBER	4	44-47		NSCC number.
6	Prepared By	CHAR	25	48-72		Name of the person to contact at the firm.

---

**Record Type 2 - Firm Contact Record**

Record Type 2 must always be the second row in the record submitted to NASD. Members must populate the first field in Record Type 2 with "A2."

Field	Name	Type	Length	Positions	Format	Description
1	ID2	CHAR	2	1-2	"A2"	Must have the code "A2" to identify the record type.
2	Contact Number	NUMBER	12	3-14	nnn-nnn-nnnn	Telephone number at firm (include the dashes).
3	Contact Extension	NUMBER	4	15-18		Telephone extension number.
4	Contact Title	CHAR	25	19-43		Title of the Contact Person.
5	Settlement Date	DATE	6	44-49	mmddy	Settlement date.
6	Trade Date	DATE	6	50-55	mmddy	Trade date.
7	CBOE DEA	CHAR	1	56-57	"Y"	Enter "Y" if CBOE is the firm's designated examining authority.

---

### **Record Type 3 - Short Interest Data**

One record of this type must be created for each short position. Members must populate the first field in this record with the letter "B" followed by a blank space. Record Type 3 will begin at row three.

Field	Name	Type	Length	Positions	Format	Description
1	ID3	CHAR	2	1-2	"B "	Must have the code "B " (the letter "B" followed by a space) to identify the record type.
2	Exchange	CHAR	1	3		The code supplied should represent the U.S. primary exchange or market on which the security is listed as of the designated Settlement Date.
3	Symbol	CHAR	10	4-13		Symbol for the security, left justified.
4	Security Name	CHAR	30	14-43		Name of the security, left justified.
5	Position	NUMBER	9	44-52		Short position for the security, right justified.

### **Record Type 4 - Trailer Record**

Record Type 4 must contain data identifying the total number of records in the file. Members must populate the first field in Record Type 4 with "99." Record Type 4 is always the last row in the record.

Field	Name	Type	Length	Positions	Format	Description
1	ID4	CHAR	2	1-2	"99"	Must have the code "99" to identify the record type.
2	Total Records	NUMBER	5	3-7		Total number of records in the file, including the header records, but excluding the trailer record. This should be right justified.

---

**Example Short Position Filing:**

A1	ACME SECURITIES, INC	012345099991111	JOE SMITH
A2202-555-1114	VICE PRESIDENT	101598101298	
B RABCD	ALPHABET SOUP CO.	000015500	
B BXYZ	END OF THE LINE INC.	000009950	
9900004			

***Testing and Implementation of the Changes to the Regulation Filing Applications System***

NASD recognizes that the changes to the Shorts system will require members to make modifications to their systems and processes. Members will have an opportunity to test their program changes as of June 1, 2006 using the Regulation Filing Applications test site, which can be found on NASD's Web site at: <https://regfilingtest.nasd.com>. For members that encounter technical problems and require assistance, please contact the NASD Help Desk at (800) 321-NASD.

The changes to the Shorts system are effective July 3, 2006. As such, members must submit short interest reports containing the exchange/market code beginning with the July 2006 filing period.

---

## Endnotes

- 1 For purposes of NASD Rule 3360, the term "customer" includes a broker-dealer. Consequently, short positions in accounts held for other broker-dealers must be reported unless the position is otherwise reported to another self-regulatory organization. See *Notice to Members 03-08 (January 2003)*.
- 2 On February 3, 2006, the Securities and Exchange Commission (SEC) approved amendments to NASD Rule 3360 that expand the short interest reporting requirements to OTC equity securities. The amended short interest reporting requirements become effective July 3, 2006. See *Notice to Members 06-14 (April 2006)*.
- 3 Members are reminded that NASD must receive short interest data for exchange-listed securities no later than 1 p.m., Eastern Time (ET), on the designated due date. Short interest data for NASDAQ and OTC equity securities must be received by NASD no later than 6 p.m., ET, on the designated due date.
- 4 A schedule of NASD's designated settlement dates, as well as other relevant dates relating to short interest reporting, can be found on NASD's Web site at [www.nasd.com](http://www.nasd.com) under Regulatory Systems > Regulation Filing Applications > Short Interest Reporting > Schedule of Reporting Dates.
- 5 The Shorts system will permit members to submit and/or amend filings for previous filing periods.
- 6 This new field requirement is similar to that which currently exists for members that manually input short positions into the Shorts system. For each new issue symbol that is manually added to a filing, the Shorts system requires that members designate an exchange.
- 7 For securities that are dually listed, the exchange code should represent the primary U.S. exchange or market on which the security is listed.
- 8 All short interest positions reported in NASDAQ-listed securities (currently National Market and NASDAQ Capital Market securities) must be identified with an exchange/market code of "R." All OTC equity securities must be identified with an exchange/market code of "S."
- 9 If either an exchange/market code or issue symbol is missing, the entire filing will be rejected.
- 10 Members should note that the Shorts system will not validate the issue symbol if the exchange/market code is other than one designated for NASDAQ, Over-the-Counter, or AMEX. Short positions designated with all other exchange/market codes will be compiled and sent to SIAC for distribution to the appropriate exchange or market. Similarly, if the issue symbol is no longer active on the exchange or market designated by a member, the short position will be routed to SIAC.
- 11 If a U.S. symbol does not exist for the security (e.g., short interest positions in foreign securities not traded in the U.S.), the member would not be required to report the short interest position to NASD. It is important to note, however, that NASD may require firms to report manually short interest information for these securities upon request.
- 12 Members that upload or FTP their short interest reports can view their "error" and "warning" messages using the report posted on the "Job Status" screen of the Shorts system.

---

©2006. 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.