Order Audit Trail System (OATS)

OATS Phase III Reporting Tool
Demonstration

OATS Educational Events

Today's demonstration is the first in a series of educational events NASD plans to offer on this reporting tool. Other events include:

- Open houses in Washington, DC in May, June and July

- Web Demo Road Shows scheduled for June in select cities

- Follow-up WebEx Demos

OATS Phase III Reporting Tool

NASD has developed a new reporting tool within the OATS web functionality to allow firms to enter order data in a user-friendly and efficient manner. This new Phase III Reporting Tool enables OATS Administrators and OSO/Firm users to create and submit order events directly through NASD's OATS web site. This tool is designed for firms submitting up to 250 order events per day.

Note: Firms using the Reporting Tool must still supervise their OATS reporting.

OATS Basics

To effectively utilize the Phase III OATS Reporting Tool firms must first have an understanding of some basic OATS concepts. These concepts include:

- OATS Registration

- Order Events vs. Reports

- Reporting Deadlines

- OATS Linkages Within a Firm (3-part key)

- Orders Remaining Open Beyond a Day

- Order Lifecycle Creation

- Statistical Reviews and Rejection Repair

Registration

Firms with an obligation to report to OATS must first register to gain access to the OATS system. To register a firm must go to the www.NASD.com/oats website and click on the registration link. There they will find three forms required to be submitted to NASD.

Registration Forms

- The Subscriber Initiation and Registration Form (SIRF) identifies the firm for OATS purposes and gives NASD additional information as to how the firm will report to OATS.

- The NASD Entitlement Agreement form (NEA) entitles a firm to NASD non-public, controlled access applications. All firms that require access to OATS are required to submit an NEA.

- The NASD Account Administrator Entitlement Form (AAEF) instructs NASD to create OATS Account Administrator and/or FTP/IFT accounts for a firm. Smaller firms submitting via the Phase III Reporting Tool will need to submit the AAEF to create an Account Administrator for the OATS application if one has not already been created. The Account Administrator has primary access to the OATS website and can create and request additional users of the system for the firm.

Required Order Events

- Receipt

- Modification/Cancellation

- Transmission to Other Departments within the Firm

- Transmittal to Another Member or Market Center

- Execution

The OATS Technical Specifications prescribe that each of these events be reported to OATS using a specific OATS Report Format.

Order Events vs. Reports

Events

Receipt or Origination

Modification

Cancellation

Routing to another Desk

Routing to another firm

Execution

#Combined Order/Route(COR)
*Also Combined Order/Execution(COE)
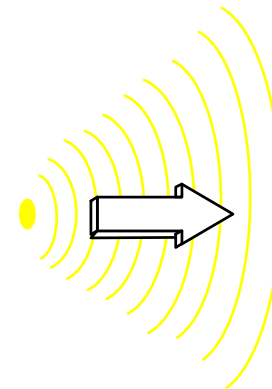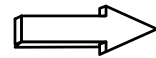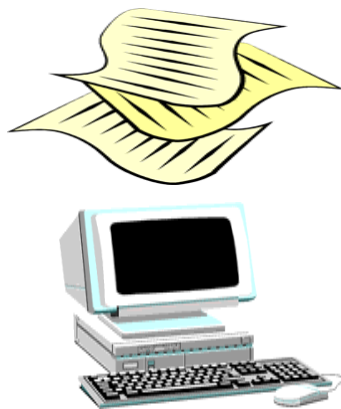
Report

New Order (NW)*#

Cancel/Replace(CR)

Cancel(CL) (can be added to NW or COR)

Desk(DS)(can be added to NW, COR, COE)

Route(RT)#

Execution(EX)*

Order Events vs. Reports

The Phase III Reporting Tool, however, does not require users to identify the required OATS Report Format. Instead, the Reporting Tool will automatically format the information entered by the user into the required OATS format.

OATS Process

OATS Process Overview

Member Firm Records Order Events in Phase III Reporting Tool	Member Firm Downloads Order Events for Retention at Firm	Member Firm Submits Data to NASD via the Phase III Reporting Tool	NASD Generates Feedback and Analyzes Data

Reporting Deadlines

- OATS is not a real-time system and therefore, firms are not required to report OATS data on a real-time basis. OATS will, however, accept entry of data on a real time basis if that better fits a member's business model.

- Events in the lifecycle of an order that occur on a given market day must be reported to OATS by 4:00 a.m. ET the next day.

- Orders that are not submitted by the 4:00a.m. ET deadline will be marked late.

- The Phase III Reporting Tool provides firms with the functionality to create and submit data throughout the day or to create and submit data at the end of the day.

OATS Linkages Within a Firm

To link all events related to a single order within a firm (e.g., Order receipt and Route), OATS uses the following fields:

- Firm MPID

- Order Received Date

- Firm Order ID

These three fields are otherwise known as the 3-part key.

Important: These three fields must be the same on the original order and all events related to that order, or OATS will be unable to create a complete audit trail for the order.

OATS Linkages Within a Firm

Example: Related order events received on the same day.
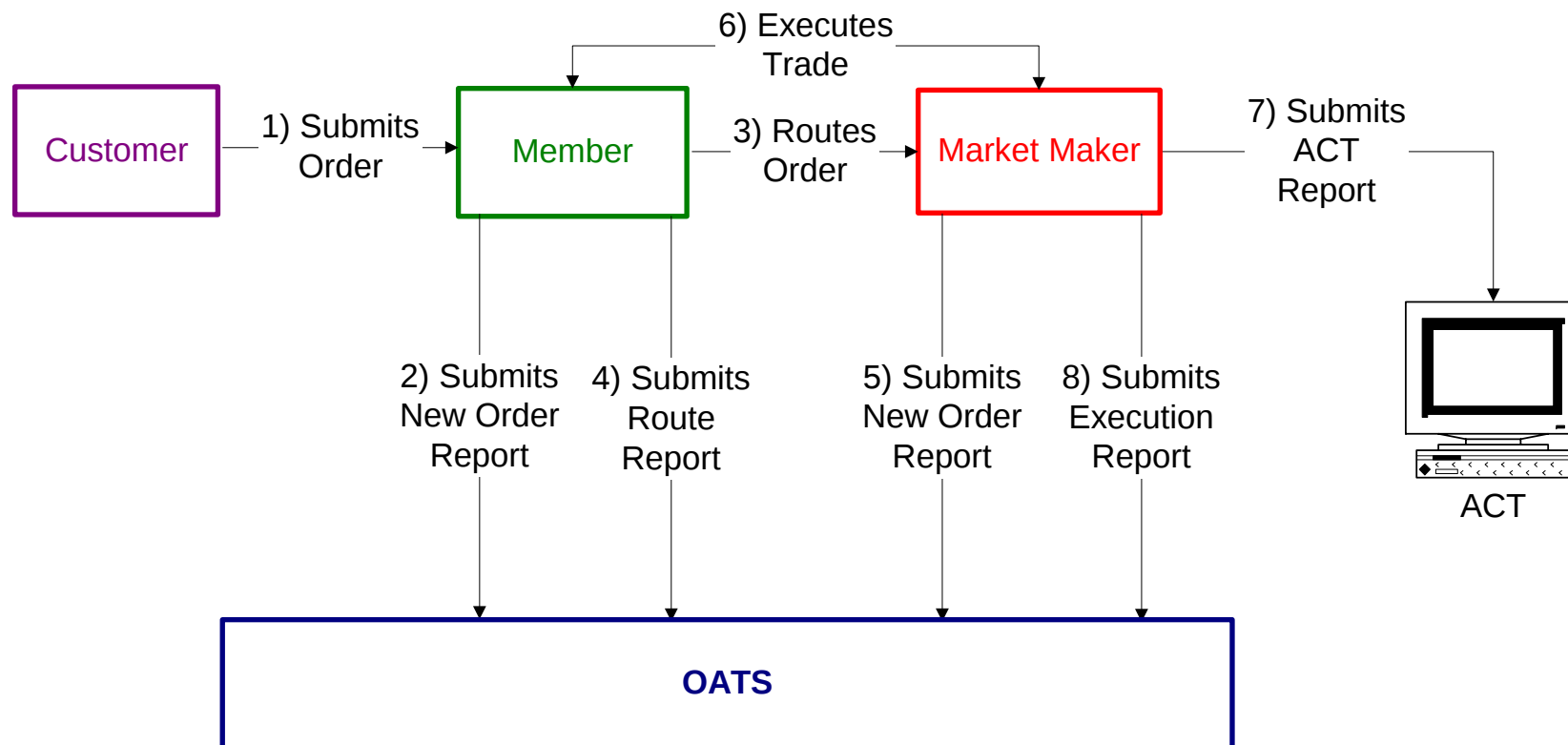
| Event	MPID	Order Received Date	Firm Order ID	Shares Quantity
Order Receipt	ABCD	06/01/06	1122	1,000
Order Route	ABCD	06/01/06	1122	500
Order Route	ABCD	06/01/06	1122	500

OATS Linkages Within a Firm

Example: Related order events occurring on days subsequent to order receipt. Firms must retain Firm Order ID of previously submitted order to properly link.

Event and Date	MPID	Order Received Date	Firm Order ID	Shares Quantity
Order Receipt 6/10/06	WXYZ	06/10/06	4455	500
Order Execution 6/13/06	WXYZ	06/10/06	4455	250
Order Execution 6/14/06	WXYZ	06/10/06	4455	250

Order Lifecycle Creation

Order Lifecycle Creation

The OATS Rules do not require firms routing orders <u>manually</u> to report a Routed Order ID. However, the following fields, among others, must be populated:

- Sent to Firm MPID- The MPID of the destination firm

- Order Sent Timestamp-The time the order was routed

- Routed Shares Quantity- The number of shares routed

- Routing Method Code- Must be (N) for non-electronically routed orders

- Destination Code- Reflects whether the order was transmitted to member (M), non-member (N), exchange (X), ECN (E) or NASDAQ Market Center (U).

Order Lifecycle Creation

Linking Electronically Routed Orders Across Member Firms

OATS links the Route Report submitted by the Routing Firm to the related New Order Report submitted by the Receiving Firm using the following fields for electronically transmitted orders:

Routing Firm	Receiving Firm
Sent to Firm MPID	Order Receiving Firm MPID
Order Receiving Firm MPID	Routing Firm MPID
Order Sent Timestamp	Order Received Timestamp
Routed Shares Quantity	Order Shares quantity
Issue Symbol ID	Issue Symbol ID
Routed Order ID/Sent To Routed Order ID	Routed Order ID
Routing Method Code= Electronic (E)	**Received Method Code= Electronic (E)**
Destination Code= Member	**Member Type Code = Member**

Order Lifecycle Creation

Order/Trade Matching

If a firm executes an order itself, it must match the OATS Execution Report to the related ACT/TRACS report.

-Firms must identify the Market Center Q (Nasdaq) or D (ADF) where the trade was reported.

-The following fields on both the OATS Execution Report and the related trade report in ACT or TRACS must be identical for OATS to Match:

- Branch/Sequence Number (firms are required under NASD trade reporting rules to populate the branch/sequence number in the ACT or TRAC report for all OATS reportable events)
- Execution Timestamp (see above)
- Issue Symbol
- Firm MPID

- If no trade report is submitted to either ACT or TRACS, a Reporting Exception Code must be used.

Order Lifecycle Creation

Order/Route Matching

OATS links Route Reports to related NASDAQ Market Center Order Report for orders routed <u>electronically</u> to the NASDAQ Market Center.

The following fields are used by OATS to match the OATS report to the related NASDAQ Market Center Order:

<u>OATS</u>	<u>NASDAQ Market Center</u>
*Routed Order ID	User Order ID
Order Sent Timestamp	Order Entry Timestamp
Issue Symbol	Issue Symbol
Shares Quantity	Shares Quantity

*Not required for orders routed manually

ROE Reject Repair

OATS Performs various Syntax and Context checks:

- Syntax Checks determine that formats and lengths are correct,values are valid and field comparisons are correct.

- Context Checks compare the reportable order event (ROE) against previously received reportable order events (ROEs) and identify duplicates and discrepancies.

-Data that is rejected must be repaired and resubmitted.

Note: The Reporting Tool will not allow entry of events that do not pass the syntax validations. However, it does not prevent entry of events that do not pass context validations.

ROE Reject Repair

- **Who?-**Any Reporting Member, or member firm having data submitted on their behalf, to the NASD.

- **What?-**Any records rejected by OATS for syntax, semantic or context errors.

- **Where?-**https://oats.nasd.com

- **When?-**On a daily basis; rejects are available within 24 hours of processing.

- **How?-**Through the Web Interface

Monitor Statistics

Monitor the OATS Web Interface on a Daily Basis

- FORE Status Notification: Available immediately

- Firm Reporting Statistics: Usually available within 24 hours of processing. Firms may view their rejections by: FORE, Summary, Rejection Type or in Group Symbol Repair.

- Order/Trade Match Statistics, Route/NMC Match Statistics and Interfirm Route Match Statistics: Usually available for firms within 72 hours.

- View Announcements if no status available.

Clock Synchronization

NASD Rule 6953 requires each member to synchronize 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 NASD Rules.

All computer system clocks and mechanical time stamping devices must be synchronized to within three seconds of the National Institute of Standards and Technology (NIST) atomic clock with to the second granularity.

Supervise

What should be included OATS in Written Supervisory Procedures:

- Who is responsible for supervising OATS reporting?

- How will they conduct review for OATS reporting?

- When or how often will they conduct the supervisory reviews?

- How will they evidence their supervisory reviews in writing?

- Members should refer to NASD Notice to Members 98-65, 99-45 and 02-29 as well as the OATS Reports on Supervision for additional guidance.

Note: Daily review of statistics is a key element in determining the adequacy of Written Supervisory Procedures.

OATS Resources

The following resources are available to help members answer questions regarding OATS:

- *www.nasd.com/oats*
  - OATS Frequently Asked Questions
  - OATS Reporting Technical Specifications
  - OATS Subscriber Manual
  - OATS Report Index
  - OATS Registration Page
  - OATS Phase III Pages

- OATS Helpdesk 1-800-321-NASD

- NASD Market Regulation 240-386-5126

OATS Phase III Reporting Tool Demonstration