

Notice to Members

JUNE 2004

SUGGESTED ROUTING

Executive Representatives
Legal & Compliance
Operations
Senior Management

KEY TOPICS

OATS
Rule 6950 Series

GUIDANCE

OATS Reporting Requirements

Mandatory Changes to OATS New Order, Combined New Order/Route, and Combined New Order/Execution Reports

Executive Summary

Given the recent significant increase in Order Audit Trail System (OATS) volume, NASD is implementing several changes to the OATS reporting requirements for orders received and subsequently routed, executed, or canceled in full on the same business day. Specifically, pursuant to the phase-in schedule described below, members will be required to populate two additional fields that are being appended to the New Order and Combined New Order/Route Reports to provide for the reporting of cancellation information within these reports when an order is canceled in full on the same day it was received. These additional fields will eliminate the need to create and submit a separate Cancel Report when an order is canceled in full on the same day it was received. Further, the current optional use of Combined New Order/Route and Combined New Order/Execution reports will become mandatory for orders that are fully routed or executed on the same business day they are received. This will eliminate the need to create and submit separate Route and Execution Reports for these orders. NASD believes these changes will result in more efficient recording, reporting, and processing of OATS information.

To allow firms adequate time to program for these changes, NASD is implementing these new requirements with a phase-in approach. Addition of the new fields relating to cancellation information on the New Order and Combined New Order/Route Reports will be required beginning with the OATS third quarter 2004 release, currently scheduled for October 4, 2004. After October 4, 2004, OATS will reject any New Order Report or Combined New Order/Route Report submitted without the additional cancellation fields. Members, however, will not be required to populate these

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fields until November 1, 2004, at which time the cancellation of any order within 60 seconds of receipt must be reported on the New Order Report or Combined New Order/Route Report using the new fields. Beginning December 1, 2004, the cancellation of any order in full on the same day as receipt must be reported using the new fields on the New Order Report or Combined New Order/Route Report. Finally, also beginning on December 1, 2004, all orders routed or executed in full on the same day the order was received must be reported using a Combined New Order/Route Report or Combined New Order/Execution Report.

In addition, as previously announced, NASD is reminding firms that, also beginning with the OATS third-quarter 2004 release, price and capacity will be required on all OATS Execution and Combined New Order/Execution Reports.¹ A separate *Notice to Members (Notice or NtM)* will be issued shortly detailing the required changes to the OATS Execution Report formats.

Questions/Further Information

Questions concerning this Notice may be directed to:

- ▶ **OATS Helpdesk** (800) 321-NASD
- ▶ **NASD Market Regulation** (240) 386-5126

Background and Discussion

New Formats for New Order and Combined New Order/Route Reports

Under the new reporting requirements, two additional fields are being added to the New Order and Combined New Order/Route Reports. These new fields will be used to report the cancellation of an order in full on the same day it was received.² The two new fields are the Cancel Timestamp and the Canceled By Flag. Use of these new fields will result in the submission of only one Reportable Order Event ("ROE") when reporting a new order and subsequent full cancellation on the same day, rather than two ROEs as currently required.³ The addition of these two fields does not represent any new information being reported to OATS; rather it reduces the overall amount of information reported to OATS since certain information currently contained in Cancel Reports already is being captured in other OATS reports.⁴ It also is changing the format in which the data is required to be reported to NASD.⁵

Under the phase-in plan, the new fields must be added to all New Order and Combined New Order/Route Reports beginning on October 4, 2004, when the OATS third quarter 2004 release goes into production, although the fields need not be populated until November 1, 2004. The new report formats will be available in the OATS testing environment beginning September 20, 2004, so that firms may test their systems prior to submitting data in the new format to the OATS production environment. During the

phase-in period of October 4, 2004 to November 1, 2004, members that choose not to populate these fields must continue to report separate Cancel Reports, as applicable. Beginning November 1, 2004, the cancellation of any order within 60 seconds of receipt must be reported using the new fields rather than through the submission of a separate Cancel Report. NASD Market Regulation will be monitoring firms' submissions to ensure firms are complying with this requirement. Finally, beginning December 1, 2004, the cancellation of any order in full on the same day as receipt must be reported using the new fields. After December 1, 2004, only partially canceled orders or orders canceled after the date of receipt will be permitted to be reported using a separate Cancel Report.

Mandatory Use of Combined New Order/Route and Combined New Order/Execution Reports

Currently, the Combined New Order/Route and Combined New Order/Execution Reports are available for members to report the same day route or same day full execution of an order. The use of these reports currently is optional. To reduce the number of ROEs firms must submit to OATS each day, beginning December 1, 2004, NASD is mandating use of these combined reports for any order routed or fully executed on the same day the order is received. NASD Market Regulation will be monitoring compliance with the requirement. A firm's failure to comply may result in disciplinary action.

Changes to Execution and Combined New Order/Execution Reports

As previously announced, on April 29, 2004, the SEC approved NASD's proposed rule change SR-NASD-2004-023 regarding OATS Execution Reports. The rule change requires firms to add to their OATS Execution Reports the execution price and the capacity in which the member executed the transaction (e.g., agency, principal, riskless principal). These additional fields will be required on all Execution and Combined New Order/Execution Reports beginning with the OATS third quarter 2004 release, currently scheduled for October 4, 2004. Any Execution or Combined New Order/Execution Report submitted to OATS without the new fields on or after October 4, 2004, will be rejected by OATS.

Technical Specifications and Requirements

The *OATS Subscriber Manual* and *OATS Reporting Technical Specifications* provide members with the technical and operational requirements for submitting order reports to OATS. The purpose of *OATS Reporting Technical Specifications* is, among other things, to describe the requirements for order data reporting to OATS, including detailed information on the required data elements. These documents will be updated as appropriate to reflect the new requirements relating to the addition of cancellation information on the New Order and Combined New Order/Route Reports. Members should refer to these documents to obtain the detailed technical specifications for the new reporting requirements.

Question and Answer

Q1. What are the phase-in dates for the new requirements?

A1. Requirement	Phase-in Date
Addition of Cancel Timestamp and Canceled By Flag Fields to New Order and Combined New Order/Route Reports	October 4, 2004
Required population of Cancel information on New Order and Combined New Order/Route Reports for any order canceled within 60 seconds of order receipt	November 1, 2004
Required use of Combined New Order/Route and Combined New Order/Execution Reports for any order fully routed or executed on the same day it was received	December 1, 2004
Required use of cancel fields on New Order and Combined New Order/Route Reports for any order fully canceled on the same day it was received	December 1, 2004

Q2. My firm received an order at 10:02:00 and routed it immediately to an electronic communications network (ECN). The order was canceled in full at 10:02:10. How should we report this order to OATS?

A2. Until November 1, 2004, the firm may continue to report these events as it does today using a separate Cancel Report as applicable. Between November 1, 2004 and December 1, 2004, the firm must either report the cancellation on the New Order Report and submit a separate Route Report or report the cancellation on the Combined New Order/Route Report. Beginning December 1, 2004, this order must be reported using the Combined New Order/Route Report with the additional cancellation fields populated.

Q3. My firm is an ECN that received an order from another firm at 11:30:05. The order was canceled in full at 11:30:35. How should we report this order to OATS?

A3. This order was canceled within 60 seconds of receipt and was not routed. Beginning November 1, 2004, the ECN must report the order and cancellation information using the new fields on the New Order Report.

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- Q4. My firm is a market maker that received an order from another firm at 11:30:05 and did not route the order. The order was canceled in full at 11:30:35. How should we report this order to OATS?**
- A4. This order was canceled within 60 seconds of receipt and was not routed. Beginning November 1, 2004, the firm must report the order and cancellation information using the new fields on the New Order Report.
- Q5. My firm received an order at 9:32:00 and routed it to a market maker. The order was canceled in full at 10:02:10. How should we report this order to OATS?**
- A5. This order was canceled in full later than 60 seconds from the time of receipt, but within the same day. Until December 1, 2004, the firm may continue to report these events as it does today. Beginning December 1, 2004, the firm must report all three events, the new order, route and cancellation on the Combined New Order/Route Report.
- Q6. My firm received an order for 100 shares at 11:32:00 and routed it to an ECN. The customer canceled 50 shares at 11:32:10. How should we report this order to OATS?**
- A6. Although part of the order was canceled within the same day of receipt of the order, because the order was not canceled in full, the firm may not use the new cancellation information fields on the New Order Report. The cancel information must be reported by using the separate Cancel Report. However, it is important to note that beginning October 4, 2004, the two new cancellation fields must be appended to all New Order Reports, irrespective of whether the order is ultimately canceled in part or in full.
- Q7. My firm received a limit order for 100 shares on Monday at 14:32:00. The customer canceled the order in full on Tuesday at 9:32:10. How should we report this order to OATS?**
- A7. Because the order was not canceled in full on the same day as the order was received, the firm may not use the new fields on the New Order Report to report the cancellation information. The cancellation information must be reported by using a separate Cancel Report. However, as noted above, as of October 4, 2004, the two new cancellation fields must be appended to the New Order Report.
- Q8. My firm is an ECN that received an order from another firm at 11:30:05. The order was canceled in full at 11:30:35. Can we use the separate Cancel Report to submit this information to OATS?**
- A8. No. Since this order was canceled in full within 60 seconds of receipt, as of November 1, 2004, the order must be reported by providing the cancel information in the New Order Report.

Q9. My firm received an order at 10:02:00 and routed it to an ECN. The order was modified at 10:02:10 and canceled in full at 10:02:45. How should we report this order to OATS?

A9. Because this order was modified prior to cancellation, as of December 1, 2004, the firm must report a Combined New Order/Route Report, to reflect original receipt of the order at 10:02:00 and routing of the order. A Cancel/Replace Report must be submitted to reflect modification of the order at 10:02:10. This must be followed by a separate Cancel Report to show the order was ultimately canceled at 10:02:45.

Q10. My firm is an ECN. On December 2, 2004, we receive an order and execute it in full. How should this be reported to OATS?

A10. Because this order was received and executed in full within the same day, as of December 1, 2004, the order must be reported using a Combined New Order/Execution Report.

Q11. My firm is a market maker. How do we report an order executed within the same day via multiple partial executions?

A11. Since this order is not executed in its entirety at one time, these executions must be reported using separate Execution Reports for each partial execution.

Endnotes

- 1 See Securities Exchange Act Release No. 49628 (April 29, 2004), 69 FR 89 (May 7, 2004) (File No. SR NASD-2004-023) and related OATS announcement www.nasdr.com/3350.asp.
- 2 Partial cancellations, previously modified orders, and cancellations occurring on days subsequent to the order receipt date still will require the submission of a separate Cancel Report.
- 3 Today, members are required to report the cancellation of an order, either in whole or part, using a Cancel Report. See the OATS Subscriber Manual and OATS Reporting Technical Specifications.
- 4 NASD Rule 6954(d)(2) states that when a "Reporting Member," as defined in Rule 6951(n), cancels or receives a cancellation of an order, in whole or part, such member shall record the following information:
 - the order identifier assigned to the order by the Reporting Member;
 - the market participant symbol (MPID) assigned by NASD to the Reporting Member;
 - the date the order was first originated or received by the Reporting Member;
 - the date and time the cancellation was originated or received;
 - if the open balance of an order is canceled after a partial execution, the number of shares canceled; and
 - whether the order was canceled on the instruction of a customer or the Reporting Member.
- 5 NASD Rule 6954(a)(3) requires that a member record each item of information required to be reported under Rule 6954 in such electronic format as prescribed by NASD from time to time.

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