

NASD Notice to Members 98-82

SEC Approves Amendments To Automated Confirmation Transaction Service And Transaction Reporting Rules

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Executive Summary

On September 14, 1998, the Securities and Exchange Commission (SEC) approved rule amendments that are designed to integrate transaction information reported to the Automated Confirmation Transaction ServiceSM (ACTSM) operated by The Nasdaq Stock Market, Inc. (Nasdaq[®]) with order information reported to the newly approved Order Audit Trail SystemSM (OATSSM).¹

Questions regarding the rule changes may be directed to the National Association of Securities Dealers, Inc. (NASD[®]) via phone at (888) 700-OATS or (301) 590-6503, or via e-mail at oatssc@nasd.com.

Discussion

In March 1998, the SEC approved new NASD Rules 6950 through 6957 (the OATS Rules²). OATS is designed to provide NASD Regulation, Inc. (NASD RegulationSM) with the ability to reconstruct markets promptly, conduct efficient surveillance, and enforce NASD and SEC rules. The SEC has directed that OATS must provide an accurate, time-sequenced record of orders and transactions from the receipt of an order through its execution.³ To accomplish this, NASD Regulation will combine information submitted to OATS with transaction data reported by members through ACT and quotation information disseminated by Nasdaq.⁴

The SEC has approved amendments to the NASD transaction reporting and ACT rules to require members to submit transaction data to ACT that will be integrated with order information reported to OATS.⁵ The amended rules affect Nasdaq National Market[®], Nasdaq

SmallCapSM, and Nasdaq Convertible Debt Securities. The ACT trade data and the OATS order information will be used to construct an integrated audit trail. Under the amended rules, all trade reports for OATS-eligible securities entered into Nasdaq's ACT system will be required to have a time of execution expressed in hours, minutes, and seconds. The trade reports also will be required to have a unique order identifier sufficient to allow a comparison of the information contained in the trade report with data submitted to OATS. In addition, the rule amendments codify the requirement that all ACT participants, including those that use third parties to submit trade report information to Nasdaq, must obtain and use a unique Market Participant Symbol for trade reporting and audit trail purposes.

The rule amendments will be implemented in tandem with the effective dates for implementation of the OATS Rules. The OATS Rules will become effective according to the following schedule:

- Phase 1: By March 1, 1999, electronic orders received by Market Makers and Electronic Communication Networks (ECNs) must be reported.
- Phase 2: By August 1, 1999, all electronic orders must be reported.
- Phase 3: By July 31, 2000, all non-electronic, or manual, orders must be reported.

The text of the rule changes as well as other information about OATS is available on the NASD Regulation Web Site (www.nasdr.com).

Endnotes

¹See Securities Exchange Act Release No. 40437 (September 14, 1998), 63 FR 50272 (September 21, 1998) (File No. SR-NASD-98-60).

²See *Notice to Members 98-33* for a complete description of the OATS Rules.

³See In the Matter of National Association of Securities Dealers, Inc., Securities Exchange Act Release No. 37538 (August 8, 1996); Administrative Proceeding File No. 3-905, at 7-8.

⁴ACT is an automated system owned and operated by Nasdaq that captures transaction information in real-time.

⁵The amended rules are Marketplace Rules 4632, 4642, 4652, 6120, and 6130.

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