

Notice to Members

OCTOBER 2004

SUGGESTED ROUTING

Executive Representatives
Legal & Compliance
Operations
Senior Management

KEY TOPICS

OATS
Rule 6950 Series

GUIDANCE

OATS Reporting Requirements

Mandatory Use of Combined New Order/Route and Combined New Order/Execution Reports Delayed until April 4, 2005; Clarification of Combined Reporting Format Requirements for Related Order Information Submitted by Multiple Order Sending Organizations

Executive Summary

In *Notice to Members* (NtM) 04-46 (June 2004), NASD announced that, beginning December 1, 2004, members would be required to use the Combined New Order/Route and Combined New Order/Execution Reports (Combined Reports) for all orders that are fully routed or executed on the same business day they are received. Based on feedback from firms, NASD is delaying the effective date of this requirement until April 4, 2005, to allow firms additional time to make necessary program and code changes. This delay applies only to the use of the Combined Reports and does not affect any of the other reporting changes and related implementation dates outlined in NtM 04-46.

In addition, NASD is clarifying that the Combined Reports format will not be mandatory in the limited circumstance where a firm uses multiple Order Sending Organizations (OSOs) to report order events relating to the same order (e.g., OSO A submits a New Order Report and OSO B submits a Route Report).

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

Mandatory Use of Combined Reports Delayed Until April 4, 2005

Based on feedback from members and reporting agents relating to the significant programming changes necessary to implement the Combined Reports format, NASD is delaying the implementation date of the mandatory use of these reports for orders that are fully routed or executed on the same business day they are received until April 4, 2005. Specifically, members noted that use of the Combined Reports requires additional programming efforts because some firms use different systems to capture and report the various events in the lifecycle of the order. Therefore, additional time was needed to ensure that the data from each of these systems could be accurately combined and reported to OATS in a single report format. Accordingly, NASD is delaying the implementation date of this requirement until April 4, 2005.

Related Order Information Reported by Multiple OSOs

Based on discussions with members and reporting agents, NASD also is clarifying that the Combined Reports format will not be mandatory in the limited circumstance where a firm uses multiple OSOs to report order events relating to the same order. Specifically, in those situations in which one OSO will report a new order event and a second OSO will report the related subsequent route or execution events, the Combined Reports will not be required. For example, a firm receives an order through one OSO's system but uses a second OSO's system to route the order. If the New Order and related Route Report are generated and reported to OATS by two separate OSOs, the Combined Reports format would not be required. Similarly, a firm receives an order through its own internal system but uses a third-party OSO's system to route the order. If the New Order Report is generated and reported by the firm, while the Route Report is generated and reported by the third-party OSO, the Combined Reports format would not be required. In these limited circumstances, it would be unduly burdensome for each OSO to build the necessary interfaces to allow one OSO to capture, combine and report all required information to OATS. Accordingly, the Combined Reports are not mandatory under these circumstances, and firms may continue to use the separate New Order and Route and Execution Reports, as applicable.

NASD will be monitoring the source of each order event submission to identify when one OSO submits all related order events for an order and does not use the Combined Reports. Orders where all related order events are submitted by the same OSO must use the Combined Reports beginning April 4, 2005. As a result, a member that uses multiple internal systems to generate and report order events for the same order must use the Combined Reports, as applicable, because only one OSO (*i.e.*, the firm itself) is creating and submitting all order events. Likewise, NASD will monitor the submission of related order reports by different OSOs to ensure that the reporting arrangements fall within the limited circumstances delineated above. In this respect, firms should be able to provide documentation upon NASD request to confirm the existence of such reporting arrangements.

Questions and Answers

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 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
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	April 4, 2005

Q2. My firm has two separate OSOs submitting data on my behalf. One submits my New Order Reports and one submits my Route Reports. Is my firm required to use the Combined New Order/Route Report as of April 4, 2005?

A2. No. Since your firm is using two separate entities to submit the New Order and Route Reports respectively, the Combined New Order/Route Report is not mandatory and your firm may continue to use the separate New Order and Route Reports in these circumstances.

Q3. My firm uses two internal systems. We receive the order through one system and execute the order through the second system. Since we are using two separate systems, is my firm required to use the Combined New Order/Execution Report as of April 4, 2005?

A3. Yes. Since these systems are internal to your firm and your firm reports both events to OATS, you are required to use the Combined New Order/Execution Report by April 4, 2005.

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- Q4. My firm receives orders through an internal system and routes them out through a service bureau's system. We generate and report New Order Reports to OATS while the service bureau reports the firm's Route Reports. Are we required to use the Combined New Order/Route Report by April 4, 2005?
- A4. No. Your firm would not be required to use the Combined New Order/Route Report for those new order and route order events generated and reported separately by the firm and the service bureau.
- Q5. My firm both receives and routes orders via a single service bureau's system that reports to OATS on my behalf. Is my firm required to use the Combined Reports by April 4, 2005?
- A5. Yes. Since the receipt and route of the order is reported by the same entity, your firm would be required to use the Combined New Order/Route Report by April 4, 2005.
- Q6. If my firm receives an order for 20,000 shares in an internal system and then routes it out 1,000 shares at a time via the same system, is my firm required to use the Combined New Order/Route Report for these orders by April 4, 2005?
- A6. No. Since the order is not routed in its entirety, you must use the New Order Report to show receipt of the order and separate Route Reports for each partial route.

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