

Regulatory Notice

11-03

Order Audit Trail System (OATS)

FINRA Expands the Order Audit Trail System to All NMS Stocks

Effective Date: July 11, 2011

Executive Summary

The OATS order recording and reporting obligations in FINRA Rules 7410 through 7470 (OATS Rules) currently apply to orders for equity securities listed on the NASDAQ Stock Market and OTC equity securities. Effective July 11, 2011, FINRA will begin expanding, in three phases, the order recording and reporting obligations in the OATS Rules to include orders in all NMS stocks, in addition to OTC equity securities.¹

FINRA is also announcing that it has published an updated edition of the *OATS Reporting Technical Specifications* that details the reporting changes that will become effective starting July 11, 2011. The January 11, 2011, version of the *OATS Reporting Technical Specifications* is available on FINRA's website at www.finra.org/oats.

Questions concerning this *Notice* should be directed to:

- ▶ Legal Section, Market Regulation, at (240) 386-5126; or
- ▶ Office of General Counsel, at (202) 728-8071.

For technical questions regarding OATS reporting, please contact the OATS Help Desk at (800) 321-6273.

January 2011

Notice Type

- ▶ Rule Amendment

Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Registered Representatives
- ▶ Senior Management
- ▶ Systems
- ▶ Trading

Key Topics

- ▶ OATS

Referenced Rules & Notices

- ▶ NASD IM-1013-1
- ▶ NASD IM-1013-2
- ▶ Rule 7400 Series
- ▶ SEC Regulation NMS



Financial Industry Regulatory Authority

Background & Discussion

The OATS Rules currently impose obligations on FINRA member firms to record in electronic form and report to FINRA on a daily basis certain information about orders originated, received, transmitted, modified, canceled or executed by firms relating to OTC equity securities and equity securities listed and traded on The Nasdaq Stock Market, Inc. (NASDAQ).² Beginning July 11, 2011, FINRA will begin phasing in the expansion of the OATS Rules to include orders for all NMS stocks, as that term is defined in Rule 600(b)(47) of Regulation NMS.³ This change effectively extends the OATS recording and reporting requirements to NMS stocks listed on markets other than NASDAQ (*e.g.*, NYSE, NYSE Amex and NYSE Arca).⁴ The expansion of the OATS Rules to all NMS stocks will be accomplished in three phases based on the symbol of the security.⁵ The phases will be implemented on July 11, 2011, July 18, 2011, and July 25, 2011. FINRA will announce at a later date the details of which security symbols will be subject to OATS reporting during each phase.

FINRA is also publishing a new edition of the *OATS Reporting Technical Specifications (OATS Technical Specifications)* that details the reporting obligations of firms subject to the OATS Rules in light of these amendments. Firms can find the January 11, 2011, version of the *OATS Technical Specifications* on FINRA's website at www.finra.org/oats.

To accommodate the increased volume of OATS data anticipated by the expansion, effective July 11, 2011, the reporting deadline to submit OATS data will be extended to 8:00 a.m. (from 5:00 a.m.) Eastern Time. Also effective July 11, FINRA will make the following changes, among others, to the OATS reporting system:

- ▶ create standard values for Receiving and Originating Department ID fields;
- ▶ add a new Order Origination Code;
- ▶ eliminate the Received By Desk ID;
- ▶ align the OATS Account Type Code with the NYSE Account Type Indicators;
- ▶ create a new Exchange Participant ID field on all Route Reports identifying routes to a national securities exchange;
- ▶ generally require each reporting MPID to use unique Routed Order IDs and Branch/Sequence Numbers each day; and
- ▶ reduce the allowable clock drift from three seconds to one second, and require timestamps to be reported to OATS in milliseconds if the firm captures the time in milliseconds.

These changes, as well as other changes to the OATS system and requirements, are described in detail in the January 11, 2011, version of the *OATS Technical Specifications*. Firms should carefully review the *OATS Technical Specifications* for more details on these changes.

Endnotes

- 1 See Securities Exchange Act Release No. 63311 (November 12, 2010), 75 FR 70757 (November 18, 2010).
- 2 FINRA Rule 7410 defines an “OTC equity security” for purposes of the OATS Rules as an equity security that is not an NMS stock, except that the term does not include restricted equity securities and direct participation programs, as those terms are defined in FINRA Rule 6420.
- 3 Rule 600(b)(47) of Regulation NMS defines “NMS stock” as “any NMS security other than an option.” 17 CFR 242.600(b)(47). An “NMS security” is defined as “any security or class of securities for which transaction reports are collected, processed and made available pursuant to an effective transaction reporting plan, or an effective national market system plan for reporting transactions in listed options.” 17 CFR 242.600(b)(46).
- 4 In connection with the expansion of the OATS requirements, FINRA created an exclusion from the definition of “Reporting Member” in FINRA Rule 7410 to exclude certain orders received by firms that generally conduct their trading activities on the floor of an exchange. Under the exemption, a member firm will not be considered a “Reporting Member” with respect to an order if: (i) the firm was approved as a FINRA member pursuant to NASD IM-1013-1 or NASD IM-1013-2; (ii) the firm operates consistent with NASD IM-1013-1 or NASD IM-1013-2, including limiting its business operations to “permitted floor activities,” as that term is defined in NASD IM-1013-1 and NASD IM-1013-2; and (iii) the order was received by the firm through systems operated and regulated by the NYSE or NYSE Amex.
- 5 Firms should report information to OATS using the symbol assigned by the listing exchange.