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For distribution to relevant parties within your firm

BULLETIN 2620
September 3, 1999

NASD Regulatory Relief from Order Audit Trail System ("OATS") Requirements for Canadian-based NASD Members

This bulletin is to inform member firms that the Association has submitted a request for relief from a portion of the Order Audit Trail System ("OATS") requirements recently implemented by the National Association of Securities Dealers, Inc. (the "NASD"). The relief, if granted, would benefit IDA members that have NASD member affiliates located in Canada. There are 21 NASD member affiliates of IDA member firms located in Canada. OATS is an audit trail of order, quote and trade information for NASDAQ securities, including Canadian-based interlisted issues, that will be used by NASDAQ in its surveillance activities. The OATS rules impose two basic obligations on NASD member firms: (1) firms must record and transmit in electronic form specified items of information with respect to orders received to effect transactions in NASDAQ securities, and (2) firms must synchronize business clocks that are used to record the date and time of any market event.

The IDA is seeking relief from the electronic filing requirement. The rationale for the request is that non-U.S. based NASD member firms will not have access to the electronic system(s) used to transmit OATS reports. While the OATS rules permit member firms to contract with a third party to transmit OATS data, the member firm remains primarily responsible for compliance with such obligations. Since non-U.S. based firms will not have access to the OATS reporting system(s), a Canadian-based firm will be unable to monitor third party reporting carried out by a third party on its behalf.

If the requested relief is granted, Canadian-based NASD members would not be required to transmit OATS data directly. NASD member firms, including Canadian-based NASD members, would, however, be required to (i) maintain OATS records for a period of three years in a format adequate to permit a compliance review and (ii) comply with the clock synchronization rules in the same manner as all other NASD members. The OATS rules require NASD members to synchronize business clocks, including computer system clocks and time-stamping devices, to within three seconds of the U. S. National Institute of Standards and Technology atomic clock. Moreover, the OATS rules require member firms to synchronize the clocks every business day. A copy of the No-Action Request is available on request. For technical questions you may contact the NASD Business and Technology Support Services via

e-mail at supportservices@nasd.com or via telephone at 800-321-NASD.

Lyn M. Gilchrist
Association Secretary