

FINRA OATS, NYSE OTS, and SIAC Electronic Blue Sheet Compliance Management Systems

WHITEPAPER

This paper explores FINRA OATS, NYSE OTS, and SIAC Electronic Blue Sheet (EBS) compliance reporting by providing an impact assessment, a list of potential penalties for non-compliance, and a summary of new reporting requirements. Westwater's phased approach to compliance reporting is also described herein.



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FINRA OATS, NYSE OTS, and SIAC Electronic Blue Sheet (EBS)

Background

Firms need to become and remain compliant

Successful operation within today's ever-changing financial industry demands that firms become and remain compliant with the regulations frequently set forth by regulatory bodies.

Analysts within the financial industry estimate that approximately 20% of IT budgets and corresponding resources at each firm are consumed by compliance-related activities. The sheer volume of regulatory changes continues to challenge the financial industry's ability to respond in a timely and adequate manner.

Impact Analysis

Every business day each order-entering firm must transmit a NASDAQ and OTC audit trail to FINRA

FINRA OATS

This regulation impacts all brokerage firms that enter NASDAQ and OTC orders to the marketplace. All order event types must be captured and include accurate timestamps, account type, destination, special handling codes, and other detail. At the conclusion of each business day each order entering firm must transmit an order audit trail to FINRA of all order event types including New Orders, Cancels, Cancel/Replaces, Routes, and Executions. Each firm is responsible to correct any OATS records that are rejected by FINRA.

Upon request, firms need to transmit specifically formatted files of all order and/or execution flow for NYSE OTS and SIAC EBS

NYSE OTS

This regulation impacts all brokerage firms that trade in NYSE Listed securities. The required Listed order activity and detail closely mirror that for NASDAQ/OTC securities laid out in FINRA OATS. When requested by the NYSE firms must query their databases and transmit their specifically formatted OTS files to the NYSE.

SIAC EBS

This regulation impacts all brokerage firms that trade in securities listed by ISG SROs (self-regulatory organizations), including foreign members. All execution, average price, and allocation events must be captured with appropriate detail. When requested by an ISG member, firms must query their databases and transmit specifically formatted EBS files to the requestor.

Firms need to maintain a database of trading activity for a period of six years, requiring significant storage capabilities.

Resulting consequences of non-compliance include potential loss of credibility and trading restrictions

Penalties for Non-Compliance

The consequences of non-compliance can include the potential loss of credibility with investors and the overall trading community. Penalties range from millions of dollars in fines to forfeiture of trader licenses or registration, and censures or restriction of business lines.

As competition expands globally, allocating the aforementioned compliance IT costs to revenue-generating initiatives can be the advantage that a firm needs to succeed in the marketplace.

Latest Requirements

The expansion of the OATS rules to OTC Equity Securities has been FINRA's major focus since OATS Phase III went live on July 10, 2006. The following requirements have been added as part of this effort:

- Prior OATS Rules only required member firms to report order information for NASDAQ-listed equity securities. As of February 4, 2008, the rules expanded to also incorporate all OTC equity securities.
- Members will also thereby be required to store and transmit OATS reports for foreign equities when the associated executions are reportable under Rule 6620(g).
- Members will use Form T (not the regular OATS mechanism) to report required OATS data at the time of the OATS reportable event for foreign equities lacking a symbol.

OATS Rules now pertain to all OTC equities including foreign equities under certain scenarios

The NYSE OATS rules have not been updated since System Input File Layout v4.3 on June 1, 2004.

EBS will allow firms to submit either OPRA codes or Post-OSI options data starting in Q1 2009

With the OSI (Options Symbology Initiative) scheduled to take effect on February 12th, 2010, SIAC is updating the Electronic Blue Sheet record format to include an optional Record Layout Six to support the Post-OSI options data. SIAC and the Exchanges plan to accept either OPRA or Post-OSI formats within the same report starting in the first quarter of 2009.

Westwater employs industry-expert consultants who can help with FINRA OATS, NYSE OTS, and SIAC EBS

How Westwater Can Help

Westwater Corporation employs industry-expert consultants in the compliance field who can help with FINRA OATS, NYSE OTS, and SIAC EBS regulations. We have performed client engagements from establishing initial OATS/OTS/EBS procedures to revamping existing processes due to existing problems, regulatory changes, or trading system updates. Our experience also includes creating GUI screens that allow users to research source system trade data, review and submit reports, receive regulatory feedback, and repair submissions. Our services have provided invaluable benefits to clients such as the reduction of backlogs, ongoing errors, compliance costs and regulatory fines, as well as the creation of centralized order trail data repositories for other reporting needs.

Westwater provides these benefits to clients through established techniques and industry proven best practices. A phased approach is utilized which includes process analysis, solution design, and design implementation.

Analyze any pre-existing OATS/OTS/EBS processes

Process Analysis

This phase is used to analyze any pre-existing OATS/OTS/EBS processes with a focus on current data selection procedures, data storage/integrity, report preparation, and subsequent transmission to the regulatory bodies. An analysis of results is also performed on reports submitted to the regulatory bodies. Findings are documented and presented to management for discussion. This phase provides clients with a clear roadmap on how to proceed.

Define requirements tailored to client needs

Solution Design

If your firm elects to move forward with an improved compliance solution, Westwater can help define requirements that are tailored to your business needs. We will create a plan outlining all the necessary activities including the integration and customization of our software solutions, modification of existing compliance systems, and appropriate testing with regulatory bodies. This phase allows our clients to make the most informed and efficient business decisions to help their organization.

Our developers and analysts can put the plan into action

Design Implementation

When your firm is ready to implement a compliance solution, our developers and analysts can put the design into action. As with all of our implementations, quality assurance is an integral part of the success to the overall initiative. Westwater incorporates comprehensive testing strategies that follow industry best practices, ensuring that our solutions achieve client regulatory obligations.

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