

Corporate & Financial Weekly Digest

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FINRA Seeks Expansion of the Audit Trail System to All NMS Stocks

On August 6, the Financial Industry Regulatory Authority proposed an expansion of its Order Audit Trail System (OATS) to include the trading of all national market system securities (NMS stocks) on all national securities exchanges. Currently, FINRA requires all of its members to record in electronic form and report to OATS on a daily basis order, trade and quote information for all over-the-counter trades and NMS stocks listed on NASDAQ. From this information OATS creates a time-sequenced record of orders and transactions, which is then used by the Securities and Exchange Commission and the national exchanges and securities associations (SROs) to conduct surveillance and investigations for potential violations of federal securities laws and exchange/association rules.

On May 26, the SEC announced a rule proposal which would require the SROs to develop a consolidated audit trail system. Under the proposal, the SROs are to work together to implement a consolidated order tracking system with respect to NMS stocks and listed equity options.

The SEC's proposed consolidated audit trail is still in the proposal stage and may be several years away from providing a means by which the SEC and the SROs can use the data to surveil the equity markets. In the interim, FINRA believes that extending the OATS recording and reporting requirements to NMS stocks listed on all national exchanges will greatly enhance its audit trail and its ability to identify illicit activity.

FINRA's proposed rule change was filed with the SEC on August 6. The SEC is expected to seek public comment on the proposal prior to its potential effectiveness.

FINRA's August 6 filing is available [here](#).

See also Katten's Client Advisory titled [SEC Proposes Major Initiative to Build a Consolidated Audit Trail for Equities and Options](#).

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