

# FINANCIAL INFORMATION FORUM

5 Hanover Square  
New York, New York 10004

212-422-8568

September 16, 2011

Paul McKenney  
Associate Director, Market Regulation  
FINRA  
Key West Building  
9513 Key West Avenue  
Rockville, MD 20850

Re: OATS for NMS Stocks - Testing and Production Concerns

Dear Mr. McKenney:

The Financial Information Forum (FIF)<sup>1</sup> would like to take this opportunity to express our concerns with the current testing and production schedule for the OATS for NMS release currently set to go-live on October 3, 2011. Since the publication of the OATS specification on May 3, 2011, firms have been diligently preparing for the new release. It is important to recognize that this release does significantly more than just expand OATS to all NMS securities. Many other changes in this release have required substantial development effort including repurposing account types, requiring unique Routed Order IDs, requiring millisecond-formatted time stamps and adding new fields like Order Origination Code. All of these changes impact securities that are currently reported today and require rigorous testing in order to ensure that robust code will be put into production.

As FINRA is aware, firms have encountered several problems during testing including:

- Difficulty connecting to the test environment
- Performance issues with the FINRA test environment including delays receiving feedback, website timeout, and server downtime issues.
- Substantial rejects requiring remediation in a limited time frame
- Difficulty coordinating exchange and inter-firm matching

In order to ensure a more successful transition to the OATS for NMS code release, FIF members respectfully request that FINRA consider the following:

1. Offer additional opportunities for testing and remediation efforts
  - a. Move the go-live date to November 7 would give firms a little over thirty days to continue testing efforts.
  - b. Offer coordinated industry testing to simulate inter-firm and exchange matching scenarios.
  - c. Extend the time between the phase-in of securities to three – four weeks; allowing time for a full development cycle of remediation between phases

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<sup>1</sup> FIF ([www.fif.com](http://www.fif.com)) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the financial technology industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes. This comment letter is based on feedback from FIF broker-dealers and vendors.

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## 2. Consideration with respect to compliance.

Even with additional testing, we expect that some issues will only be uncovered during production when firms will be submitting at full capacity from their production environment to FINRA's production environment.

Additional details on the issues we have encountered and our recommendations are provided below.

### Test Environment Issues: Connectivity

As part of the OATS for NMS initiative, FINRA migrated both test and production environments to a new data center. For any firm that had IP-address specific logic as part of their connectivity configuration, changes were required. Many firms experienced delays in establishing connectivity to the new environment.

#### *Representative comments:*

- *At our firm, we've had issues getting FINRA's IT teams to respond to some of our connection problems and actually very recently had them resolved after numerous phone calls to their business/IT helpdesk. Because of these issues, we haven't even been able to connect to the test environment on the new SFTP setups.*
- *We've had numerous issues establishing connectivity to the test environment and only starting the week of September 12 are we able to test. We had hoped for more time to test in FINRA's environment especially since we can only test exchange matching in FINRA's environment.*
- *[As of Thursday, September 15,] FTP time-out issues still exist on occasion and continue to create delays in testing*

### Test Environment Issues: Test Environment Performance

In discussing test environment performance prior to the start of testing, FINRA indicated that initial reject information would be available within 4 hours of OATS submissions. Additionally, they did not set limits on the amount of records a firm could submit to the test environment. When testing began in August 22, firms experienced delays of up to four days receiving reject information and encountered other performance issues with the Test Environment. While FINRA has made improvements to test environment performance, firms are still experiencing problems with accessing feedback.

#### *Representative Comments:*

- *We've had various issues such as not being able to log-in, no status details for test files sent via IFT and FTP, significant delays in posting of rejects, website time-outs and the inability to download any of our reject files once they are finally posted. We're experiencing frustration in that we are being diligent in submitting test data, but without the ability to review rejects, it makes it difficult to certify our data. We've already called FINRA and opened cases for our issues.*
- *We have experienced additional issues with the FINRA test environment. Specifically, the feedback loop on the OATS test website has been significantly slow. It took 3 days to get syntax level feedback which is much too long to enable proper testing prior to the October 3rd effective date.*

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- *Even when reject data is available, we are unable to download the data from the website. We can see the rejects but we can't download them - reviewing so many rejects from the website directly is not workable.*
- *Six weeks to test is aggressive but we've lost the first few weeks because of feedback delays so now we only have three weeks to test assuming performance continues to improve.*
- *The stability of the test environment still isn't anywhere close to where it needs to be to test effectively. Just today [Monday, Sept. 12], their FTP and IFT sites were down for a period of time, and as of the last time I checked the consolidated symbol list FTP server continues to be down for 12+ hours. We're also not seeing feedback being posted to the FTP site in any reasonable timeframe and the web interface is essentially unusable for dealing with any large amount of rejections/mismatches. We've also opened a number of cases with their tech support and Market Regulation departments regarding these and other matching issues and at best have been getting a late response - in some cases no response at all thus far. Until we can get a stable test environment, the test cycles are going to be too long to go into Oct 3 with any level of comfort.*
- *Until the week of September 12th, sending production-level volumes had to be scheduled in advance with FINRA and at times the request was denied. This caused delays in testing.*
- *We submitted files yesterday [Wednesday, Sept. 14] and we still have not gotten back the status let alone the rejections [as of Thur., Sept 15]. Rejections still seem to be taking two days.*

## Testing Issues: Substantial Rejects Requiring Remediation in Limited Timeframe

Initial testing based on both internal and FINRA Test Environment testing have identified issues that firms are actively working to remediate. It is worth noting that just as many firms were beginning their testing and remediation efforts, the extraordinary market volatility beginning on August 4 required OATS IT teams to focus on production and capacity issues taking them away from their work on the OATS for NMS code base.

Additionally, the extended feedback cycle from the time firms submit OATS data to the time reject information is received has resulted in unanticipated delays for firms that expected to investigate rejects and begin remediation efforts the next day. Because of the substantial number of rejects firms are encountering, firms are concerned about going into October 3 with these problems unresolved.

### *Representative Comments:*

- *If we go live and there are tens of thousands of rejects for numerous reasons, repairs of the rejects will be burdensome and may even be impossible.*
- *Working through a huge number of rejects in production and changing code in production is costly and time-consuming. If we could work through these issues in testing that would be better.*

## Testing Issue: Difficulty Coordinating Exchange and Inter-firm Matching

In order to test exchange matching, firms need to submit production data on the same day or the day after production. This has proven difficult for some firms. Additionally in the absence of an industry test, coordinated inter-firm matching is not likely. We believe there is the potential for issues with matching that will not be uncovered until OATS for NMS code goes into production.

### *Representative Comments:*

- *Matching is our biggest concern especially with the new exchange participant ID and connection ID.*

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- *Inter-firm matches are a big unknown.*
- *We tried testing with one of our executing brokers and have yet to receive feedback on our inter-firm matching statistics*
- *We submitted a small production parallel data set on 09/13 (for 09/12 production date) and found all our exchange routes mismatched with reason "4012 Matching Routed Order ID/Sent to Routed Order ID cannot be found". We double-checked on our end, and we believe we submitted data correctly. Detailed investigation with FINRA [on Friday, Sept. 16]uncovered the following:*
  - *Our ARCA routes were not matched because ARCA exchange data FINRA has didn't contain our orders. FINRA is investigating whether they don't have a complete data set from exchanges.*
  - *The reason our Nasdaq routes were not matched is unknown. We did confirm that we sent correct participant ID, Sent To Routed Order ID, timestamp and everything and FINRA has same data from Nasdaq exchange. FINRA is investigating why the match didn't happen.*

In order to address the above issues, FIF recommends the following actions:

## FIF Recommendation: Offer Additional Testing and Remediation Opportunities

### *Extend Testing Through October with a Go-Live Date of November 7*

Our members are aware of the importance of the OATS for NMS Release to FINRA's compliance and surveillance objectives. Our interest in additional testing is based on our desire to see the OATS for NMS release rollout successfully. To avoid a significant number of rejects and to give firms additional time for their remediation efforts, FIF recommends extending testing through October and going live November 7. During that time it is our hope that the FINRA Test Environment will continue to improve in performance and that more firms will resolve their connectivity issues so that they can test with FINRA. With additional time in a more robust test environment, firms will have the opportunity to resolve more issues prior to going into production.

### *Offer Coordinated Industry Testing*

We would further recommend that FINRA offer an industry-wide test to allow firms extensive testing of exchange and inter-firm matching. An industry-wide test would dramatically reduce the risks outlined in the previous section. Without an industry-wide test, it is too inefficient for a single firm to attempt to coordinate with all of its executing brokers. While we recognize that coordinating an industry test is a substantial effort for all participants involved, the OATS for NMS release includes changes to validations that could best be tested as part of an industry test. The industry has a record of success with industry testing including testing for Reg NMS and, most recently, Reg SHO.

### *Allow For a Full Development Cycle between Implementation Phases*

Currently, there is one week scheduled between implementation phases<sup>2</sup>. This does not allow sufficient time to address issues discovered in a prior phase before entering the next phase of implementation. While firms still would like the option to report all NMS securities at the start of implementation, many firms would find a longer phase in period of three – four weeks between phases to be useful in avoiding a significant number of rejects for problems that could be isolated with only a few symbols in production.

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<sup>2</sup> Phase 1 includes eight securities on October 3 followed by all securities with symbols A-J on October 10, with the remaining securities phased in on October 17.

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## FIF Recommendation: Consideration with respect to the OATS Compliance Program

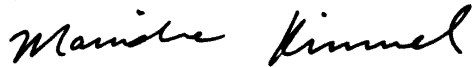
We recognize that even with additional testing, there will still be issues as firms roll-out their code in production. As stated earlier, the OATS for NMS Release includes many significant changes that impact not only NYSE Group securities but all OATS-eligible securities. True volume testing may not be possible in the test environment and the impact of significant volume on the new code base will only be understood when OATS for NMS is in production. As we work through these issues with FINRA staff, we respectfully request consideration from enforcement of the OATS Compliance Program. We believe limited relief from enforcement action associated with problems related to the new code release would be appropriate.

## Conclusion

We believe that successful testing by the majority of market participants should be a prerequisite for putting the OATS for NMS code base into production. Given that October 3 is only two weeks away, we urge you to consider our request and respond as soon as possible so firms can plan testing and roll-out schedules accordingly. We share the goal of seeing the OATS for NMS release in production successfully and hope that you will consider the importance of additional testing and the need for limited relief so that firms can focus on resolving issues that are likely to occur in production.

We would welcome the opportunity to meet with you and other senior members of FINRA Market Regulation to discuss our concerns in more detail. Please contact me at 312-953-9228 at your earliest convenience.

Regards,



Manisha Kimmel  
Executive Director  
Financial Information Forum

cc: Shelly Bohlin, Director, Market Regulation, FINRA  
Tom Gira, Executive Vice President, Market Regulation, FINRA  
Rick Ketchum, Chairman and Chief Executive Officer, FINRA