

REGULATION NMS

Order Protection Rule (Trade-Through rule):

- Only top-of-book automated quotes are protected, though best-ex practices apply so manual quotes may need to be accessed for inactive stocks with limited automated quotes.
- No Opt-out.
- To be automated, execution must have no human intervention; the market must accept "immediate or cancel" orders, flag manual quotes, and "adopt reasonable standards limiting when its quotations change from automated to manual quotations, and visa versa".
- New exception -- "upstairs stops" as defined:
 - "The transaction that constituted the trade-through was the execution by a trading center of an order for which, at the time of receipt of the order, the trading center had guaranteed an execution at no worse than a specified price (a "stopped order"), where:
 - (i) The stopped order was for the account of a customer;
 - (ii) The customer agreed to the specified price on an order-by-order basis; and
 - (iii) The price of the trade-through transaction was, for a stopped buy order, lower than the national best bid in the NMS stock at the time of execution or, for a stopped sell order, higher than the national best offer in the NMS stock at the time of execution."
- Other exceptions: self-help if a market repeatedly fails to respond within one second (adding a new immediate after-the-fact notice to the slow market); flickering quotes to eliminate false positives when a quote changes within one second; intermarket sweeps; benchmark trades like VWAPs; openings, reopenings and closings.
- Contingent trades exempted by request of SIA.

Access:

- Rates can't discriminate based on the end customer's non-member status but "fees with volume-based discounts or fees that are reasonably based on the cost of providing a particular service will be permitted, so long as they don't vary based on non-member status."
- Private linkages can supersede ITS and fees are capped at 3 mils (or .3% of price if under \$1) but only to top-of-book, including reserve. (Auto-ex, manual, displayed and reserve at best price)
- Locking and crossing only automated quotes must be avoided and markets must regulate against any "pattern or practice".
- Fair access to become a subscriber or customer is reduced to 5% share of trading in a stock from 20%, (will consider during the implementation period whether an exception should be made for Liquidnet or any facility that limits its business to institutional block trading).

Sub-penny quoting:

- Banned for stocks above \$1, but the Commission will continue to study during the implementation period if they should exempt QQQQ and other active ETFs.
- Will evaluate during the implementation period whether to allow Liquidnet and other "one-on-one negotiating systems" to negotiate in half-penny increments and will "consider a request for exemptive relief".

Market Data:

- Updates formula for allocating revenues to SROs based on value of quotes and trades.
- Revenues allocated equally between Trading Shares and Quoting Shares. Trades valuing \$5000 or more are worth more than those below \$5000. Quotes at NBBO of one second or more duration receive quote credits based on dollar value of bid or offer.
- Transaction report value \$5000 or more = one qualified transaction report.
- If \$ volume less than \$5000 = proportional fraction of \$5000.
- New:
 - Quotation must be displayed for one *full* second before entitled to earn Quote Credit. (Consistent with Order Protection flickering quote exception.) Quote is not entitled to credit even if executed against within that second.
 - Quotation cannot earn Quote Credits while it locks or crosses a previously displayed automated quotation.

Effective dates:

- **Oct. 16, 2006 (Specifications Date):** Final date for publication of final technical specifications for the Regulation NMS-compliant trading systems.
- **March 5, 2007 (Trading Phase Date):** Final date for full operation of Regulation NMS-compliant trading systems of all automated trading centers intending to qualify their quotations for trade-through protection under Rule 611 during the Pilot Stocks Phase and All Stocks Phase. March 5, 2007, to July 9, 2007 -- "Trading Phase."
- **July 9, 2007 (Pilot Stocks Phase Date):** Start of full industry compliance with Rule 610 and Rule 611 for 250 NMS stocks (100 NYSE stocks, 100 Nasdaq stocks, and 50 Amex stocks). July 9, 2007 to August 20, 2007 -- "Pilot Stocks Phase."
- **August 20, 2007 (All Stocks Phase Date):** Start of full industry compliance with Rule 610 and Rule 611 for all remaining NMS stocks. August 20, 2007 to Oct. 8, 2007, -- "All Stocks Phase."
- **Oct. 8, 2007 (Completion Date):** Completion of phased-in compliance with Rule 610 and Rule 611.
- **April 1, 2007:** Market data revenue allocation formula.