



Attention: COMPLIANCE AND LEGAL DEPARTMENTS, TECHNOLOGY AND OPERATIONS OFFICERS

To: ALL MEMBERS AND MEMBER ORGANIZATIONS

Subject: **TICK SIZE PILOT PROGRAM - OCTOBER 3, 2016**

I. Purpose

The purpose of this memorandum is to review the handling of certain order types under the new two-year Tick Size Pilot Program, which begins on October 3, 2016. Those order types are G-quotes, Buy Minus/Zero Plus (BMZP), and discretionary e-quotes (d-quotes).

II. Background

On May 6, 2015, the SEC issued an order approving a plan under the National Market System (NMS) for the National Securities Exchanges and FINRA to implement a Tick Size Pilot Program, which is a data-driven test to evaluate whether or not widening the tick size for securities of smaller capitalization companies would positively impact trading, liquidity, and market quality of those securities.

The Tick Size Pilot will include stocks of companies with \$3 billion or less in market capitalization, an average daily trading volume of one million shares or less, and a volume weighted average price of at least \$2.00 for every trading day.

The pilot will consist of a control group and three test groups, with each test group having approximately 400 securities.

- The control group will be quoted and traded at their current tick size increment.
- Test Group One will be quoted in \$0.05 increments, but will continue to trade at their current price increment.
- Test Group Two will be quoted in \$0.05 minimum increments and will trade at \$0.05 minimum increments subject to a midpoint exception, a retail investor exception, and a negotiated trade exception
- Test Group Three will be subject to the same terms as Test Group Two and also will be subject to the "Trade-At" requirement, which requires the execution of and routing to all displayed liquidity before execution of undisplayed interest, unless the trade falls under an exception. Price matching is not permitted.

The impact of the changes and differences in quoting and trading requirements on the securities in each test group included in the Pilot will be measured against data that was collected during a Pre-Pilot Data Collection period, which began on April 4, 2016.

Listing exchanges will post their Pilot symbol lists and daily change files on their respective websites on a nightly basis for next day trading. In addition, FINRA will provide a consolidated list and a file of daily changes.

III. G-Quotes and Buy Minus/Zero Plus Orders in Test Group Three Securities

BMZP orders and G-quotes will not be eligible for Test Group Three securities during the duration of the pilot program because their operation is inconsistent with the Trade-At Prohibition.

A G-quote is an electronic method for Floor brokers to represent orders that yield priority, parity and precedence based on size to displayed and non-displayed orders on the Exchange's book, in compliance with Section 11(a)(1)(G) of the Exchange Act. Under the Trade-At Prohibition, however, a resting G-quote would be required to execute ahead of undisplayed orders, in violation of the requirement to yield to displayed *and* non-displayed orders. Because the Opening and Closing Auction is exempt from Trade-At, manual G orders will be accepted in Test Group Three symbols.

Member organizations are reminded that they may effect transactions for its own account, the account of an associated person, or any other account of which it or an associated person exercises discretion at the Exchange in Test Group Three symbols by routing such orders to an unaffiliated Floor broker for entry on the Exchange or by entering electronically into Exchange systems from an off-Floor location.

BMZP orders will also be rejected in Test Group Three symbols. Under regular processing, an incoming order that trades with both displayed and non-displayed resting orders is reported as a single transaction to the Consolidated Tape. Under Rule 1004, that bundled reported transaction would be used to determine whether to elect a Buy Minus/Zero Plus Order. However, for Pilot Securities in Test Group Three, because the Exchange would trade an incoming order first with displayed orders and then route to protected quotations before trading with non-displayed orders, any executions against displayed orders and non-displayed orders at the same price would be reported as separate transactions to the Consolidated Tape. As such, under Rule 1004, that first print of the displayed orders could elect a Buy Minus/Zero Plus Order. The Exchange does not believe that this processing would be consistent with how Buy Minus/Zero Plus Orders function on the Exchange as it would result in the elected Buy Minus/Zero Plus Order, which would trade as a Market Order, interrupting the allocation process of that incoming order.

IV. d-Quotes in All Pilot Securities

D-Quotes are Floor broker agency interest files that have discretionary instructions as to size or price, or both. The discretionary price or size at which a d-Quote may trade is not displayed. If the discretionary instructions of a d-Quote cannot be met, it will trade as a regular e-Quote at its filed price.

Intra-day d-Quotes in Pilot Securities in all Pilot securities (including those in the Control Group) will not exercise discretion as provided for in Rule 70.25 if (i) exercising such discretion would

result in an execution of a d-Quote equal to or higher (lower) than the price of a protected offer (bid), or (ii) the price of a protected bid (offer) is equal to or higher (lower) than the filed price of the d-Quote. There is no change to the behavior of d-Quotes in the closing auction.

V. Staff Contacts

Any questions regarding this Information Memo should be directed to:

Stephen Larson, Senior Director, NYSE Regulation, stephen.larson@theice.com, 212.656.3830;

Sean Gilmartin, Director, NYSE Regulation, sean.gilmartin@theice.com, 212.656.3814;

Christian Sanfilippo, Manager, NYSE Regulation, christian.sanfilippo@theice.com, 212.656.3481

Bob Airo, Senior Director, NYSE Operations, bob.airo@theice.com, 212.656.5663.