

INFORMATIONAL

Decimalization

NASD Adopts Rule Requiring Member Participation In Decimalization Testing; NASD Reminds Selected Members Of Survey Deadline: **July 28, 2000**

SUGGESTED ROUTING

The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.

- Legal & Compliance
- Operations
- Options
- Registered Representatives
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- Technology
- Trading & Market Making

KEY TOPICS

- Decimalization

Executive Summary

In response to the Securities and Exchange Commission (SEC) Order requiring a decimalization "phase-in" plan, the National Association of Securities Dealers, Inc. (NASD[®]) has adopted a new rule (NASD Rule 3420) that will mandate member participation in decimalization testing. The rule became effective immediately upon filing with the SEC on June 27, 2000. Attachment A contains the text of the new rule.

The NASD also wants to remind selected members to return the Decimalization Survey by July 28, 2000.

Questions/Further Information

Questions regarding this *Notice to Members* may be directed to the NASD Decimalization Program Management Office (DPMO) toll free at: (888) 227-1330 or via e-mail at decimals@nasd.com, or to Kosha Kantharia Dalal, Assistant General Counsel, Office of General Counsel, NASD Regulation, Inc. (NASD RegulationSM), at (202) 728-6903.

Members can view the NASD Decimalization Web Site (www.nasd.com) for general information and the Securities Industry Association Web Site (www.sia.com) for testing information (view the *Decimalization Testing & Implementation Guide*).

SEC Order

On June 8, 2000, the SEC released an Order ("Order Directing the Exchanges and NASD to Submit a Phase-In Plan to Implement Decimal Pricing In Equity Securities and Options") directing the exchanges and the NASD to submit a plan by July 24, 2000, regarding the phase in of decimal pricing for exchange-listed stocks and certain options that should begin on or before September 5, 2000, and the phase in of decimal pricing for Nasdaq® securities that should begin on March 12, 2001. The Order requires that all securities be priced in decimals by no later than April 9, 2001.

To view this SEC Order, go to the following SEC Web Page:
<http://www.sec.gov/rules/other/n/34-42914.htm>.

Mandating Member Participation In Decimal Pricing Testing

In preparation for conversion to decimal pricing, the NASD has adopted a new rule that requires some members to participate in decimalization testing.

Specifically, the rule requires market makers and clearing firms to:

- conduct or participate in the testing of their computer systems to ensure decimal pricing conversion compatibility in such a manner and frequency as the NASD staff may prescribe;
- provide the NASD with reports relating to the mandatory testing;
- maintain adequate documentation of the tests and the testing

results for inspection by the NASD staff.

The purpose of the new rule is to ensure an effective implementation of the June 8, 2000 SEC Order. NASD believes that mandatory testing should be limited to market makers and clearing firms because the failure of the computer systems of these firms for decimal pricing has the potential to cause systemic disruption of the markets as a whole.

Decimalization Survey

Selected members were mailed the Decimalization Survey during the week of June 26, 2000. NASD requests that members complete and return the survey to the DPMO by July 28, 2000.

Attachment A

Text Of New Rule

Rule 3420. Mandatory Decimal Pricing Testing.

(a) Clearing firms and market makers of the Association must conduct or participate in the testing of their computer systems to ascertain decimal pricing conversion compatibility of such systems in such manner and frequency as the Association may prescribe.

(b) Every clearing firm and market maker required by the Association to conduct or participate in testing of computer systems shall provide to the Association such reports relating to the testing as the Association may prescribe.

(c) Clearing firms and market makers shall maintain adequate documentation of tests required pursuant to this Rule and the results of such testing for examination by the Association.

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