

INFORMATIONAL

Decimalization

**The Countdown To
Decimals****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
- Senior Management
- Technology
- Trading & Market Making

KEY TOPICS

- Decimalization

Executive Summary

The National Association of Securities Dealers, Inc. (NASD®) is working to help make member firms aware of guidelines to begin trading in decimals in the second half of 2000.

This *Notice to Members* provides an update on the Securities Industry Association (SIA) Committee structure and the industry testing and implementation timeline.

Questions/Further Information

For more information, contact the Decimalization Program Management Office (DPMO) toll free at: (888) 227-1330 or via e-mail at decimals@nasd.com.

Background

Decimalization refers to the conversion of all securities industry systems from fractional to decimal pricing; that is in dollars and cents the way nearly everything else is priced. As with the recent Year 2000 and Order Audit Trail System initiatives, Decimalization is a major business initiative with technical implementations.

The SIA is coordinating the industry conversion, and the NASD launched the DPMO to support conversion of its internal companies and provide a level of education and awareness for its constituents. The Securities and Exchange Commission (SEC) has proposed a

conversion date of July 3, 2000. The NASD is committed to the successful industry-wide conversion to decimal pricing, and we continue to move ahead toward the conversion date mindful of our mission to protect market integrity, the interest of the investor, and the readiness of our member firms.

The DPMO began its industry education and awareness campaign last May. For a general discussion of Decimalization, see the *NASD Special Notice to Members 99-39*. The DPMO continues to work actively with other industry participants under the umbrella of the SIA.

The SIA Committees

The SIA committee structure consists of a Senior Decimalization Committee (Senior Committee), comprised of representatives from across the industry, including the NASD. The Senior Committee provides guidance on the upcoming conversion, testing, and implementation recommendations to the SEC. The Senior Committee is supported by four industry-wide subcommittees: Implementation and Testing, Market Data Vendors, Regulatory, and Communications. The NASD is a participant on all subcommittees. The SIA presented a status of the subcommittee efforts at the SIA Decimals Conference, held in New York, New York on September 22, 1999. For more information on the Conference, see the SIA Web Site, www.sia.com.

Industry Timeline: Testing And Implementation

The following industry timeline has been proposed by the SIA Decimalization Committee:

Testing

- **Point-to-Point Testing**

March 2000 through June 2000

Point-to-point tests verify that firms can transmit data using decimal file formats to a particular exchange or utility.

- **Extended Point-to-Point Testing**

April 8, 2000
May 13, 2000

Extended point-to-point tests are integrated tests consisting of a single complete trade day cycle (*i.e.*, industry test).

Implementation

Trading in Decimals

◆ *Phase I* *July 3, 2000*

This phase would involve 30 to 40 securities trading in a nickel or penny MPV—*minimum price variation*—depending on the securities' current trading increment.

◆ *Phase II* *August 7, 2000*

This phase would involve all securities trading in a nickel or penny MPV depending on the securities' current trading increment.

◆ *Phase III* *October 2, 2000*

Full implementation would involve all securities trading in "unrestricted" MPVs. A review by an SIA-sponsored industry evaluation team will be required prior to implementation.

In order to view the latest version of the *Decimalization Testing and Implementation Guide*, please visit the SIA Web Site at www.sia.com.

How The NASD Will Help Members Prepare

As the conversion date draws closer, members should expect more information about Decimalization from the DPMO. This information will come in the form of communications in various NASD publications and Web Sites,

as well as through e-mails. For more information, members can contact the DPMO toll free at: 888-227-1330 or via e-mail at decimals@nasd.com. Inquiries will be logged and then forwarded to the appropriate contacts within the NASD organization for speedy resolution.

©2000, National Association of Securities Dealers, Inc. (NASD). All rights reserved. Notices to Members attempt to present information to readers in a format that is easily understandable. However, please be aware that, in case of any misunderstanding, the rule language prevails.