

**ACTION REQUESTED**

---

---

**Decimalization**

---

**Review Of  
Decimalization Testing****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
- Registered Representatives
- Senior Management
- Technology
- Trading and Market Making

**KEY TOPICS**

- Decimalization

**Executive Summary**

A review of the decimalization testing mandate and plans for Nasdaq® decimalization testing are included in this *NASD Notice to Members*. A select number of market makers and clearing firms have been mandated to perform decimalization testing with Nasdaq. This Notice provides test registration information, testing dates, and Nasdaq testing strategy. Also, a summary of the industry critical dates is provided.

**Questions/Further Information**

Questions regarding this *Notice* may be directed to the National Association of Securities Dealers, Inc. (NASD®) Decimalization Program Management Office (DPMO) toll free at: (888) 227-1330 or via e-mail at [decimals@nasd.com](mailto:decimals@nasd.com).

For the most recent decimalization news and developments, visit the NASD Web Site ([www.nasd.com](http://www.nasd.com)) and click on the decimalization link. Additional decimalization information is available on the Securities Industry Association's (SIA) Web Site located at [www.sia.com](http://www.sia.com).

**Decimalization Testing**

The Decimal Pricing Test Program is designed to fulfill the NASD mission of investor protection and market integrity, and to mitigate the risk of market disruptions after conversion to decimal pricing. Testing will be mandated for certain, selected member firms. Those member firms that are not mandated to conduct testing may do so on a voluntary basis. All firms are encouraged to test with

Nasdaq, and any firms wishing to test on a voluntary basis should complete the registration process outlined below.

**Testing Mandate**

On Tuesday, June 27, 2000, the Securities and Exchange Commission (SEC) approved a Mandatory Decimal Pricing Testing Rule (NASD Rule 3420). This rule "establish[es] the NASD's specific authority to require certain members to participate in Decimal Pricing tests and to require reporting on the tests."

The NASD is mandating decimal pricing testing, which is intended to ensure that all appropriate NASD member firms have completed designated levels of testing. The decimalization testing rule requires certain NASD members that are clearing firms and market makers to "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." Pursuant to this rule, impacted clearing firms and market makers identified by the Association to conduct or participate in testing of computer systems will provide to the NASD Decimalization Program Office reports relating to the testing required by the Association.

The NASD will provide each firm with a list of the tests in which their participation has been mandated; this information will be made available by December 4, 2000 via the Internet at [www.nasd.com](http://www.nasd.com). In addition, a notification letter will be mailed to NASD member firms mandated to test.

## **Nasdaq Decimalization Testing**

Nasdaq has announced its initial plans for decimalization testing.

### **Testing Registration**

Registration for Point-to-Point, Extended Point-to-Point, and Saturday Production testing is **required**. A registration form can be found by visiting the NASD Web Site ([www.nasd.com](http://www.nasd.com)), clicking on the decimalization link, and then the testing button. This form is also included in the Nasdaq Decimalization Guidelines found on the Nasdaq Trader Web Site (<http://www.nasdaqtrader.com/trader/hottopics/decimalguidelines.pdf>). Firms must register at least 48 hours in advance.

### **Point-to-Point**

Point-to-Point testing in fractions will begin December 18, 2000, via the Customer Subscriber Test (CST) facility for CTCL and API/NWII participants. Full testing with decimal-priced securities in both penny and nickel minimum price variations (MPVs), as well as fractional-priced securities, will begin January 2, 2001, and continue through April 6, 2001. Nasdaq will issue an Alert detailing the availability of the various decimal releases on CST at a later date.

### **Extended Point-to-Point**

Testing will take place the mornings of January 27 and February 10, 2001, and will be scripted. Nasdaq will provide test scripts at a later date.

### **Nasdaq Production Tests**

Testing will take place the afternoons of January 27 and February 10, 2001, and will be unscripted.

### **Proxy Testing and Exemptions**

The NASD is accepting proxy testing where feasible for firms that rely on service providers or

software purchased from vendors. Your firm's specific testing requirements, stated on the NASD Web Site or in the NASD letter your firm will receive, will show where proxy testing is acceptable.

To the extent possible, firms should test their systems in their own environment. However, it is not always feasible for firms that rely on service providers (serviced firms) or software purchased from vendors (turnkey firms) to test in their own environment. For this reason, firms may rely on proxy tests conducted by service providers. Proxy testing is a term used to refer to testing that is conducted on like systems and with like interfaces for the purpose of not having to repeat identical tests that would provide the identical results. Firms utilizing the proxy should ensure that the proxy testing was conducted with a firm of similar complexity and size as their firm, using similar operating systems and software. Since the objective of mandated firms is to conduct all testing and preparations necessary to transition its business to decimal pricing, each member should evaluate and determine when and where proxy testing is appropriate for its organization and risk profile. Listed below are a few helpful hints that firms should consider when evaluating the applicability of proxy testing:

- Proxy tests are conducted using the same version of decimal-ready software that will be used to service the firm.
- Proxy tests are conducted using the same hardware and operating systems that are used by the firm. Where there are differences, the firm should verify and document how the differences would affect processing.

- A firm also should test systems and interfaces under its direct control and those functions not covered in the proxy testing. These include items unique to the firm, as well as those for which there are an insufficient number of common users to develop acceptable proxy tests.

### **Testing Strategy**

During full Point-to-Point testing, Extended Point-to-Point testing, and Production testing, Nasdaq will establish a list of securities for decimal testing with either an MPV of \$0.05 or \$0.01. The list of the Nasdaq 100 after the 2000 year-end re-ranking will be divided into two groups. The first 50, alphabetically, will be set with an MPV = \$0.01 and the remaining 50 securities will be set to an MPV = \$0.05. Nasdaq will issue a listing of the test securities with their associated MPVs after that time. Due to the possibility of additions and deletions, there is no guarantee that this list will remain static, and that all of these securities will be available for testing. If one of these securities is no longer available, it will not be replaced. Nasdaq is confident that such changes will be minimal and that a majority of these securities will be available.

Requests for exemptions from the NASD testing mandate should be made in writing and forwarded to the NASD Decimalization Program Management Office at 9513 Key West Avenue, Rockville, MD 20850, no later than January 10, 2000. The request must be signed by an officer of the organization. The NASD Decimalization Program Management Office will review all requests and reply to each firm in writing.

---

## NASD Notice to Members 00-86

---

### NASD & Exchanges' Decimalization Implementation Plan

On June 8, 2000, the national securities exchanges and the NASD submitted a comprehensive phase-in plan for decimal pricing in equity securities and options. Details of the plan are shown in the table below:

Checkpoint/Phase	Action	Date
Checkpoint I	Pre-Implementation Evaluation	August 15, 2000
Phase I	Limited Exchange-Listed Issues and Options	August 28, 2000
Checkpoint II	Determine Readiness for Additional Exchange-Listed Issues and Options	September 19, 2000
Phase IIA	Additional Exchange-Listed Issues and Options	September 25, 2000
Checkpoint III	Determine Readiness for Full Implementation of Exchange-Listed Issues and/or All Options	November 1, 2000
Phase IIA-2 <sup>1</sup>	Additional NYSE equities and associated options	December 4, 2000
Phase IIB	Full Conversion Exchange-Listed Issues and/or All Options	November 2000 - April 2001
Checkpoint IV	Limited Nasdaq Issues	March 5, 2001
<b>Phase III</b>	<b>Limited Nasdaq Issues</b>	<b>On or Before March 12, 2001</b>
Checkpoint V	Determine Readiness for All Markets, Full Implementation	April 2, 2001
<b>Phase IV</b>	<b>All Markets, Full Implementation</b>	<b>On or Before April 9, 2001</b>

To view the complete plan submission visit the SEC Web Site located at [www.sec.gov](http://www.sec.gov) (<http://www.sec.gov/rules/other/decimalp.htm>). The SEC has not given final approval to the plan.

<sup>1</sup> Phase IIA-2 was not part of the original submission to the SEC. At Checkpoint III, held November 1, 2000, a decision was made to begin trading additional New York Stock Exchange equities and their associated options in decimals.

© 2000, National Association of Securities Dealers, Inc. (NASD). All rights reserved.