

Decimalization Testing

Nasdaq Announces Decimalization Rule Changes

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

In this *NASD Notice to Members* you will find information on Nasdaq® rule changes in response to decimalization efforts. Nasdaq has proposed modifications to rules involving “Manning,” short sales, the conversion of fractional open orders, and the minimum quotation increment. Also, included is a schedule of key dates for industry implementation of decimal quoting and trading.

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.

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

Nasdaq Decimalization Rule Changes Filed With The U.S. Securities And Exchange Commission (SEC)

Nasdaq has filed proposals with the SEC to modify the following NASD rules and interpretations for quoting and trading in decimals:

- NASD IM-2110-2 -Trading Ahead of Customer Limit Order
- NASD Rule 3350 - Short Sale Rule
- NASD Rule 4613 - Character of Quotations

The details of these proposals can be found in *Head Trader Alert #2001-17* on the Nasdaq Trader Web Site (www.nasdaqtrader.com), under Hot Topics, Decimalization.

The SEC recently approved rule proposal SR-NASD-01-10, which adopts a mandatory conversion rule for all open orders in Nasdaq securities commencing decimal pricing. Under the rule, all open fractional orders residing in an NASD member firm’s internal systems on the evening prior to the start of decimal pricing for a particular Nasdaq National Market and SmallCap Market security, must be converted no later than midnight (12:00:00 a.m., Eastern Time), to decimal orders priced to two places beyond the decimal point. More information can be found in *Head Trader Alert #2001-32*. For questions concerning these rule changes, please contact Thomas Moran, Nasdaq Office of General Counsel, at (202) 728-8294.

Nasdaq Decimalization Implementation Schedule

- March 12, 2001: Pilot of 15 securities
- March 26, 2001: Second pilot of an additional 180 to 200 securities
- April 9, 2001: Nasdaq equity securities will be fully converted to decimals

The list of securities for each of the pilots can be found on the NASD Web Site, by clicking on the Decimalization link, and looking under the appropriate phase, or the Nasdaq Trader Web Site, clicking on Hot Topics, and then Decimalization.

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Nasdaq Decimalization Testing

Point-to-Point testing will continue through April 6, 2001, via the Customer Subscriber Test (CST) facility for CTCL and API/NWII

participants. Testing of decimal-priced securities in both penny and nickel minimum price variations (MPVs), as well as fractional-priced securities will occur. Complete testing information can be

found by visiting the NASD Web Site, clicking on the Decimalization link, and then the testing button, or the Nasdaq Trader Web Site, clicking on Hot Topics, and then Decimalization.

Key Dates For Industry Implementation

Checkpoint/Phase	Action	Date
Checkpoint 1	Pre-Implementation Evaluation	August 15, 2000
Phase I	Limited Exchange-Listed Issues and Options	August 28, 2000
Checkpoint 2	Determine Readiness for Additional Exchange-Listed Issues and Options	September 19, 2000
Phase IIA	Additional Exchange-Listed Issues and Options	September 25, 2000
Checkpoint 3	Determine Readiness for Full Implementation of Exchange-Listed Issues and/or All Options	November 1, 2000
Phase IIA-21	Additional NYSE equities and Associated Options	December 4, 2000
Phase IIB	Full Conversion Exchange-Listed Issues and Associated Options	January 29, 2001
Checkpoint 4-A	Determine Readiness for Limited Nasdaq Issues and Associated Options	March 6, 2001
Phase III-A	15 Nasdaq Issues and Associated Options	March 12, 2001
Checkpoint 4-B	Determine Readiness for Additional Nasdaq Issues and Associated Options	March 19, 2001
Phase IV-A	180-200 Additional Nasdaq Issues and Associated Options	March 26, 2001
Checkpoint 5	Determine Readiness for All Markets, Full Implementation	April 2, 2001
Phase IV-B	All Markets, Full Implementation	April 9, 2001

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

Endnotes

- 1 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.

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