

## INFORMATIONAL

# Decimalization Testing

## Nasdaq Announces Additional Decimalization Pilot Phase For March 26, 2001

## 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® adding an additional pilot phase to its decimal conversion schedule. A summary of decimalization testing is included; please note mandated testing firms have until February 24, 2001 to satisfy the mandate. Also, a table 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 (SIA) Web Site located at [www.sia.com](http://www.sia.com).

## Additional Pilot Phase

On Monday, March 26, 2001, The Nasdaq Stock Market® will begin a second decimal pilot. This additional pilot period was added after discussions between Nasdaq, the Securities and Exchange Commission (SEC), and the SIA, to further ensure a smooth transition to decimal pricing.

With the addition of the March 26th pilot, Nasdaq's decimalization schedule is as follows:

- March 12, 2001:  
Pilot of 15 securities\* will begin
- March 26, 2001:  
Second pilot\* will begin

- April 9, 2001: Nasdaq equity securities will be fully converted to decimals

\* *Lists of pilot securities will be released approximately 30 days prior to the implementation dates.*

## Nasdaq Decimalization Testing

Complete testing information 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; or the Nasdaq Trader<sup>SM</sup> Web Site ([www.nasdaqtrader.com](http://www.nasdaqtrader.com)), clicking on Hot Topics, and then decimalization. The January *NASD Notice to Members 01-05* also reviews mandated decimalization testing.

**Testing Registration** - Registration for Point-to-Point, Extended Point-to-Point, and Saturday Production testing is **required**. Firms must register at least 48 hours in advance of the date they wish to test on Nasdaq's Customer Subscriber Test (CST) facility.

**Point-to-Point** - Full Point-to-Point testing began January 2, 2001, and 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.

**Extended Point-to-Point** - Testing will take place the mornings of February 10 and 24, 2001, and will be scripted. Systems will be available at approximately 9:00 a.m., Eastern Time (ET). The simulated open will be at approximately 10:00 a.m., ET, with the test running until 12:00 p.m., ET. Nasdaq will confirm the testing times in an *Alert* closer to the dates of the tests.

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**Nasdaq Production Tests** - Testing will take place the afternoon of February 10, 2001 from approximately 1:00 p.m. – 3:00 p.m., ET, and will be unscripted. Production testing will also be available Saturday, February 17, 2001, from approximately 10:00 a.m., ET – 2:00 p.m., ET. Nasdaq will confirm the testing times in an *Alert* closer to the dates of the tests.

**Proxy Testing** - 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 firms mandated to test received, will show where proxy testing is acceptable.

**Testing Strategy** - During full Point-to-Point, Extended Point-to-Point, and Production testing, Nasdaq will establish a list of securities for decimal testing with either an MPV of \$0.05 or \$0.01. Nasdaq has released a list of the test securities with their associated MPVs, which can be found on the Nasdaq

TraderWeb Site, under Hot Topics, Decimalization, as well as the NASD Decimalization Web Page under Testing. 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.

### Key Dates For Industry Implementation

| 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-21 <sup>1</sup> | Additional NYSE equities and Associated Options                                          | December 4, 2000      |
| Phase IIB                 | Full Conversion Exchange-Listed Issues and Associated Options                            | January 29, 2001      |
| Checkpoint IV-A           | Determine Readiness for Limited Nasdaq Issues and Associated Options                     | March 5, 2001         |
| <b>Phase III-A</b>        | <b>10-15 Nasdaq Issues and Associated Options</b>                                        | <b>March 12, 2001</b> |
| Checkpoint IV-B           | Determine Readiness for Additional Nasdaq Issues and Associated Options                  | March 5, 2001         |
| <b>Phase IV-A</b>         | <b>100-200 Additional Nasdaq Issues and Associated Options</b>                           | <b>March 26, 2001</b> |
| Checkpoint V              | Determine Readiness for All Markets, Full Implementation                                 | April 2, 2001         |
| <b>Phase IV-B</b>         | <b>All Markets, Full Implementation</b>                                                  | <b>April 9, 2001</b>  |

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

### Endnote

<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.