



Regulatory Circular 06-01

Date: January 6, 2006
To: Members
From: Regulatory Services Division
Re: Regulation NMS
Sub-Penny Trading

On April 6, 2005, the Securities and Exchange Commission adopted Regulation NMS. One part of Regulation NMS is Rule 612, which specifies minimum pricing increments for NMS stocks and has a compliance date of January 31, 2005.¹ In general, the Rule prohibits market participants from displaying, ranking, or accepting quotations, orders, or indications of interest in any NMS stock priced in an increment smaller than \$0.01 if the quotation, order, or indication of interest is priced equal to or greater than \$1.00 per share. If the quotation, order, or indication of interest is priced less than \$1.00 per share, the minimum pricing increment is \$0.0001.

In conjunction with the compliance date of REG NMS, National Stock Exchange ("NSX") will amend Rule 11.3 Price Variations so that NSX may accept, rank, execute and disseminate all sub-penny orders and quotes when the orders are priced at less than \$1, effective January 31, 2006.

Operational Issues

In order to comply with the sub-penny regulation, NSX will be making the following changes to its National Securities Trading System effective January 31, 2006:

- NSX will **reject** all sub-penny orders and quotes that are priced at \$1 or greater. NSX rules currently prohibit sub-penny orders and quotes in any price issue.
- NSX also plans to support sub-penny quoting and trading in any stock that may be granted an exemption by the SEC and will modify its trading systems to allow input of orders and quotations at the MPV of \$0.0001 for the SEC-defined security groups.

Intermarket Trading System "ITS"

NSX will route commitments via ITS as entered by the NSX member. Some market centers have indicated that they will quote and trade in sub-pennies while others markets will only trade in two decimal places. Market Centers are required to execute commitments at their current quote and not a rounded price. **Therefore, members should be aware that they may receive a two decimal fill on a commitment that was sent in sub-pennies or a sub-penny fill from an order that was sent in two decimal places.**

Any questions respecting this Regulatory Circular should be addressed to Paul Smith, Vice President of Regulations, at 312.786.7562 or James C. Yong, Chief Regulatory Officer, at 312.786.8893.

¹ The Commission has extended the initial compliance date for the Rule from August 29, 2005 until January 31, 2006 in Securities Exchange Act Release No. 52196 (Aug. 2, 2005), 70 FR 45529 (Aug. 8, 2005).