**Implementation of Regulation NMS: issues discussed during FIF Working Group Calls**

**Last updated: December 6, 2024**

The outline below is based on FIF Working Group call discussions on October 1, October 24 and December 2, 2024.

1. **Stock splits**

Page 79 of the adopting release discusses stock splits:

Two commenters requested clarification as to how stock splits would be handled. Once assigned under Rule 612(b)(1), minimum pricing increments will remain operative until the next operative date (i.e., May or November). Therefore, a stock split will not impact an NMS stock’s minimum pricing increment until the next cycle. In order to avoid the complexity and confusion that could occur if the minimum pricing increment of NMS stocks were reassigned at unpredictable times, minimum pricing increments will not be changed during the time between operative dates.

FIF members interpret this discussion to mean that the exchanges will calculate the time weighted average quoted spread (“TWAQS”) for a stock for each day during an evaluation period without making any adjustment for a stock split that occurs at any time during that evaluation period (or between the end of the evaluation period and prior to the operative date). For example, a stock could split 10 for 1 during an evaluation period, resulting in a lower stock price and a reduced TWAQS after the stock split, but for the days in the evaluation period prior to the stock split the daily TWAQS calculation is based on the pre-split spread. The exchanges will request clarification from the SEC on this point.

1. **Stock with displayed orders below $1 for part of an evaluation period**

Rule 612(a)(2) of Regulation NMS defines “time weighted average quoted spread” as “the average dollar value difference between the NBB and NBO during regular trading hours where each instance of a unique NBB and NBO is weighted by the length of time that the quote prevailed as the NBB or NBO.”

Based on this definition, the Working Group understands that if a stock has displayed orders below $1 for part of an evaluation period, the spread for the displayed orders during this time period will be included in the TWAQS for the applicable evaluation period, without adjustment. The exchanges will request clarification from the SEC on this point.

1. **Newly-listed stocks**

FIF members understand that if a stock is first listed during an evaluation period, the stock would have an MPI of 1 cent until and after the first following operative date, and the first date that the stock could have an MPI of .5 cents would be the second following operative date. For example, if a stock is first listed during Q1, the first date that the stock could have an MPI of .5 cents would be November 1. This stock would only have an MPI of .5 cents starting in November 1 if its TWAQS is less than or equal to $.015 during Q3. The exchanges will request confirmation from the SEC on this point.

1. **Crossed and locked markets**

Based on the definition of TWAQS, FIF members understand that spreads during a crossed or locked market are included in the calculation of TWAQS. This means that for the time period that a market is locked, the spread is 0; and for the time period a market is crossed, the spread is a negative amount. The exchanges will request confirmation from the SEC on this point.

1. **Corporate events**

There are a number of different types of corporate events that could impact a security, including a name change of the issuer or security, a change in listing exchange, a change in symbol, a merger of the issuer into another issuer, a consolidation of the issuer with another issuer, and an exchange offer involving the security. An issuer could be the surviving issuer in a merger or the issuer could be non-surviving.

FIF members believe that the most feasible approach for these scenarios is to consider whether the security is maintaining the same CUSIP after the corporate event. If the security is maintaining the same CUSIP, the MPI should continue in effect and all calculations prior to the merger date should continue to factor into any calculations. If the security does not maintain the same CUSIP, the security should be treated like a new security and would have an MPI of one cent upon the effectiveness of the corporate event and from and after the next operative date (until a re-evaluation occurs on the second following operative date).

1. **Trading halts**

Based on the definition of TWAQS, FIF members understand that the exchanges will not consider any period during which a security has a trading halt since there is no NBB or NBO during this time period. The exchanges will request confirmation from the SEC on this point.

The exchanges will also request confirmation from the SEC that, if a security is halted for a full Evaluation Period and unhalted after the Evaluation Period and prior to or after the next operative date, the MPI will be one cent when the security becomes unhalted.

1. **GTC orders where the MPI changes**

Firms will need to establish policies for how to handle GTC orders if the MPI for the stock changes. For example, firms will need to establish policies for how to handle a GTC order priced at a half-cent increment if the MPI for the stock changes from a half-cent to a cent while the GTC order is still in effect.

1. **Phased implementation**

An FIF member would like the SEC to provide a phased implementation with the first phase including a limited number of stocks.

Page 61 of the adopting release rejects the request for a phased implementation:

The commenter recommended the Commission take a measured and phased approach for reducing the minimum pricing increment for quoting to apply the minimum quoting increment initially to a limited number of stocks and additional groups of stocks in subsequent phases, with review of market resiliency during each phase. The amendments modifying Rule 612 will result in less message traffic, fewer systems changes and lower costs related to updating ticks for NMS stocks compared to the original proposal and therefore there should pose less of a concern related to market resiliency. The modified amendment adopts a single sub-penny increment that impacts a smaller universe of NMS stocks compared to the proposal, which included three sub-penny increments that would have impacted more NMS stocks. The need for a phased approach is significantly reduced because fewer NMS stocks will be impacted by the one additional minimum quoting increment, and there will be fewer ticks between the spread.

1. **Test symbols for each price increment**

Market participants will require test symbols for each price increment.

1. **Are displayed odd lots protected quotes?**

The Working Group consensus is that displayed odd lots are not protected quotes.

1. **Prohibition on locking or crossing a displayed odd lot order?**

FIF members are not aware of a prohibition on this. The SEC discusses this issue on pages 438-439 of the adopting release:

Because the BOLO will provide prices inside the NBBO, the BOLO will likely be crossed or locked more frequently than the NBBO. However, it is unclear what practical effect a locked or crossed BOLO would have on financial markets or those that use the BOLO. Market participants are already well versed in using the NBBO, which can be locked and crossed from time to time, so it is likely that they would use similar techniques for dealing with locked and crossed markets when, for example, benchmarking relative to the BOLO. Further, market participants who subscribe to proprietary data feeds already have access to information on when the best odd-lot orders may lock or cross each other; the rule amendment merely extends this information to market participants who do not subscribe to proprietary data feeds. As more market participants see the information contained in the BOLO, there may be fewer instances of locked and crossed odd-lot quotes—e.g., more market participants will have the information needed to arbitrage crossed odd-lot markets. Finally, a locked or crossed BOLO will be less disruptive than a locked or crossed NBBO because Rule 610 of Regulation NMS requires SROs to adopt rules requiring their members reasonably to avoid displaying quotations that lock or cross protected quotations. However, the BOLO does not establish a protected quote, and so a locked or crossed BOLO would not trigger the same reaction by SROs and their members as a locked or crossed NBBO.

1. **What will change in the Rule 605 reports?**

Only the columns of the Rule 605 report that are specific to odd lots will changes.

1. **Which odd lot orders will be displayed?**

Under SEC Rule 603(b)(3), the SIPs must disseminate “odd-lot information”.

SEC Rule 600(b)(69) defines “odd lot information” to include:

(ii) Odd-lots at a price greater than or equal to the national best bid and less than or equal to the national best offer, aggregated at each price level at each national securities exchange and national securities association.

The SEC has amended Rule 600(b)(69) to add “best odd-lot order to buy and best odd-lot order to sell” to odd-lot information that the SIPs must disseminate. Rule 600(b)(69)(iii) defines this as follows:

The best odd-lot order to buy means the highest priced odd-lot order to buy that is priced higher than the national best bid, and the best odd-lot order to sell means the lowest priced odd-lot order to sell that is priced lower than the national best offer, for an NMS stock that are calculated and disseminated on a current and continuing basis by a competing consolidator or plan processor or calculated by a self-aggregator; provided, that in the event two or more market centers transmit to a competing consolidator, plan processor, or a self-aggregator identical odd-lot buy orders or odd-lot sell orders for an NMS stock, the highest priced odd-lot buy order or lowest priced odd-lot sell order (as the case may be) shall be determined by ranking all such identical odd-lot buy orders or odd-lot sell orders (as the case may be) first by size (giving the highest ranking to the odd-lot buy order or odd-lot sell order associated with the largest size), and then by time (giving the highest ranking to the odd-lot buy order or odd-lot sell order received first in time).

1. **Dissemination of MPI and round lot size for each stock**

Working Group members would like to understand the process and timing for the exchanges and SIPs to disseminate the MPI and round lot size for each stock. An exchange representative stated that the SIPs and exchanges are discussing this and that the exchanges and SIPs are planning to disseminate this data well in advance of each operative date. Because of corporate events, industry members will need to monitor for daily updates to this data.

1. **Option contract sizes**

A Working Group member asked whether the options exchanges will change the option contract size for stocks that have a round lot that is less than 100 shares. The Working Group consensus is that each options exchange will need to decide how to address this issue.

1. **Round lot sizes when average closing price for a stock is between the threshold amounts**

An FIF member noted that a stock could have an average closing price for an evaluation period that is between the threshold amounts established by the SEC. For example, if a stock has an average closing price for an evaluation period that is above $250.00 and less than $250.01, it is not clear whether the round lot size for the stock would be 100 shares or 40 shares. The exchanges will request clarification from the SEC on this point.