

# FREQUENTLY ASKED QUESTIONS

## NASDAQ's Regulation NMS

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Updated 1/28/08

The implementation of Regulation National Market System (Reg NMS) was delayed by the Securities and Exchange Commission (SEC). The Trading Phase effective on March 5, 2007 extended through July 9, 2007. The revised Reg NMS implementation schedule was:

- **March 5, 2007:** Full operation of trading centers that intend to utilize trade-through protection under Rule 611 during the Pilot Stocks Phase (July 9-August 20, 2007) and the All Stocks Phase (August 20-October 8, 2007).
- **July 9, 2007:** Start of full industry compliance with Rules 610 and 611 beginning with 250 National Market System (NMS) stocks (100 New York Stock Exchange stocks, 100 NASDAQ stocks and 50 American Stock Exchange stocks).
- **August 20, 2007:** Start of full industry compliance with Rules 610 and 611 for remaining NMS stocks.
- **October 8, 2007:** Completion of phased-in compliance for Rules 610 and 611.

Please note that the date for Self Regulatory Organization (SRO) participants in the joint-industry market data plans to comply with the Allocation Amendment was not subject to this delay and remained April 1, 2007.

### Section #1: Connectivity to Protected Quotes

**Q. 1.1. Will NASDAQ be connected to all market centers with protected quotes?**

Yes. NASDAQ® currently offers various routing strategies that access all protected quotes.

**Q. 1.2. Will NASDAQ obtain membership to all market centers with protected quotes?**

Yes, via NASDAQ's broker-dealer, NASDAQ Execution Services, LLC, NASDAQ has all necessary member trading privileges, allowing for instantaneous routing and executions.

**Q. 1.3. Who are the market centers with protected quotes?**

Any exchange or ADF Participant that quotes securities covered by Rule 611 could be a protected market center. As of now, the potential list of protected market centers is as follows:

#### Exchanges

1. The NASDAQ Stock Market
2. American Stock Exchange (AMEX)
3. Boston Stock Exchange
4. Chicago Board of Options Exchange (CBOE)
5. Chicago Stock Exchange
6. The ISE Stock Exchange
7. National Stock Exchange
8. New York Stock Exchange (NYSE)
9. NYSE Arca
10. Philadelphia Stock Exchange

#### ADF Potential Participants

1. Direct Edge
2. LavaFlow
3. Track

[View](#) a list of current ADF participants.

**Q. 1.4. Will NASDAQ route directly to ECNs that display their quotations through exchange trading facilities?**

No. NASDAQ has direct linkages to all market centers with protected quotations as detailed above. Pursuant to SEC Q&A #4.05, Intermarket Sweep Orders (ISOs) required by Rule 611 to be routed to a protected quotation represented by an ECN (i.e., TRAC, BATS) in an SRO trading facility (i.e., NSX) can be satisfied only by routing an order to the SRO trading facility. As a result, NASDAQ plans to access ECNs participating in exchange trading facilities through the exchange in order to comply with Reg NMS. Please see the [SEC's FAQs](#) for more information.

**Q. 1.5. If more than one market maker is at the inside bid or offer on NASDAQ, which quote(s) are protected?**

All displayed size at the inside is protected.

**Q. 1.6. If more than one ADF Participant is at the inside ADF bid or offer, which quote(s) are protected?**

Only one ADF Participant is considered a protected quote. Please refer to Question 2.07 in the [SEC FAQs](#). The UTP Quote Data Feed (UQDF) indicates which ADF Participant has a protected quote. See sections 4.0 and 4.1.6 of the [UQDF specification](#).

## Section #2: Routing Strategies and Order Types

**Q. 2.1. Which of NASDAQ's routing strategies are Reg NMS compliant?**

All of NASDAQ's [current routing strategies](#) are Reg NMS compliant.

**Q. 2.2. Can I use NASDAQ to access the minimum amount of shares under Reg NMS?**

NASDAQ will offer a routing strategy (MOPP) to access protected quotes for only their displayed size. To learn more about the functionality, view our [Reg NMS Order Types Fact Sheet](#) on the NASDAQ Trader<sup>®</sup> website.

**Q. 2.3. Can I use NASDAQ to directly access protected quotes on other market centers without interacting with the NASDAQ book?**

Yes. NASDAQ offers an order type<sup>1</sup> that will not access liquidity on the NASDAQ book but will go directly to the designated market center as an ISO per the entering firm's instructions. NASDAQ will offer a routing strategy (MOPP) to access protected quotes for only their displayed size. To learn more about the functionality see our [Reg NMS Order Types Fact Sheet](#) on the NASDAQ Trader website.

**Q. 2.4. How will NASDAQ process an order designated as an ISO?**

If an order is flagged with the ISO designation, it indicates that the entering firm has already routed to all protected quotes and NASDAQ should execute the order in its own book regardless of other quotations in the marketplace.

Note that when NASDAQ routes to other market centers' best price, NASDAQ will route using the ISO designation. Firms wishing NASDAQ to route orders to other markets should not include the ISO designation with the exception of a Directed ISO order or a DOTD order.

**Q. 2.5. How will NASDAQ process the ISO instruction when combined with other attributes that would otherwise cause the order to route?**

Generally, the ISO overrides any other order instructions. That is, the order is treated as a system order that does not route, and if the order is not marketable, it either cancels back to the entering party or post, depending on the time in force (TIF).

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<sup>1</sup> There are several exceptions: DOTD and Directed ISO orders route to the specified destination, and Pegged and Discretionary orders ignore the ISO flag and are eligible for routing.

**Q. 2.6. If I send NASDAQ an ISO order during the trading phase, does it have to be a “compliant” ISO?**

Yes. According to NASDAQ rules, effective March 5, 2007, firms entering ISOs are responsible for compliance with Reg NMS Order Protection Rule (Rule 611) and Locked and Crossed Market Rule with respect to their ISO orders.

**Q. 2.7. Will an ISO post to NASDAQ if the TIF modifier is one other than an IOC?**

Yes, an ISO order with a TIF of DAY posts to the NASDAQ book after exhausting existing liquidity on the book. Note that firms wishing to display DAY ISOs must route to protected quotes up to and including the price at which they wish to display in order to comply with the Locked and Crossed Markets Rule. Refer to [SEC FAQ - Question 5.02](#) for more information.

**Q. 2.8. What happens if a non-marketable ISO order is routed to NASDAQ?**

A non-marketable ISO order routed to NASDAQ:

- With a TIF of IOC would be canceled back to the entering party.
- With a TIF other than IOC would post to the NASDAQ book.

**Q. 2.9. What are the instructions for entering an ISO order?**

For each protocol, tags/field is listed below for the ISO order type:

Protocol	CTCI	Brut FIX	INET FIX	NASDAQ FIX	OUCH	QIX	RASHPort
Field	Order Priority = S	ExecInst (tag 18) = f	ExecInst (tag 18) = f	ExecInst (tag 18) = f	Inter-Market Sweep eligibility = Y	Order Priority = S	Inter-Market Sweep eligibility = Y

Note: ISO orders are only supported in OUCH 3.0. All other versions of OUCH (1.05, 2.0, 2.0a) will not support it.

**Q. 2.10. What instructions may be used for the TIF under Reg NMS?**

The same TIF instructions that are currently available will be used under Reg NMS.

**Q. 2.11. What TIF instruction does NASDAQ use as the default if the TIF field is left empty?**

The default TIF is DAY. An ISO order with a TIF of DAY will post to the NASDAQ book if not immediately executed.

**Q. 2.12. Can an ISO order that is posted to the NASDAQ book lock or cross other protected quotations?**

Yes. If an ISO order with a TIF other than IOC is sent to NASDAQ, it will post to the NASDAQ book at the entered price regardless of whether or not it will lock other market centers. By sending an ISO order, the firm is indicating that it has attempted to access other protected quotes.

**Q. 2.13. What happens if my order would lock/cross a protected quote at another market center but I do not want the order to route?**

If the order is designated as ISO, it will execute against the NASDAQ book regardless of other protected quotations. If after exhausting the NASDAQ book there are still unfilled shares remaining, the order will be posted to the NASDAQ book. Firms entering orders designated as ISO are required to route to all protected quotes.

If the order is not designated as ISO and not routable, then it will post to NASDAQ's book at a price that would not be in violation of Rule 610.

If the order is routable, it will be routed to other market centers.

**Q. 2.14. If I enter a non-ISO, NASDAQ-only order that will lock or cross a protected quote, what will NASDAQ do with that order?**

If a firm sends an order to NASDAQ as a non-ISO, NASDAQ-only order (i.e., gives NASDAQ instructions not to route) NASDAQ will post the order at a compliant price. If the price of the order would lock/cross a protected quote on another market center, NASDAQ will re-price the order and convert it into a non-displayed order. Buy orders will be priced at the inside offer, sell orders will be priced at the inside bid.

**Q. 2.15. Will NASDAQ continue to re-price my order to my limit price if the market moves, i.e., “price-slide”?**

Yes, if the market moves in such a way that your order can be re-priced to a more aggressive price, based on the order’s original limit price, NASDAQ will do so. In addition, if the market moves so that the display of the price would not result in a locked market, the order will be displayed at its original entered price.

However, please note that orders entered via OUCH will not price-slide to follow the market.

Instead, if an order entered via OUCH has been re-priced, made non-display and the market moves such that 1) it would cause a trade-through if executed or 2) the order can be priced more aggressively, based on the order’s original limit price, NASDAQ will cancel the order back to the entering party.

**Q. 2.16. Will NASDAQ ensure compliance with the Order Protection Rule (Rule 611) or the Locked and Crossed Markets Rule (Rule 610) if a broker-dealer sends a non-ISO order?**

Yes. NASDAQ will ensure that orders that are not marked as ISO will comply with the Order Protection Rule and the Locked and Crossed Markets Rule. Firms should conduct a regular and rigorous review of their order routing practices to ensure that their orders are routing in compliance with Reg NMS and their best execution obligations.

Note that upon the implementation of the full industry compliance with Rules 610 and 611, all broker-dealers that internalize orders must ensure that their internalized executions are in compliance with Rule 611. As detailed in this FAQ, NASDAQ offers an order type that facilitates compliance with Rule 611 for internalized transactions.

**Q. 2.17. Does NASDAQ offer any Reg NMS compliance tools?**

NASDAQ offers a real-time surveillance alert and report module to assist firms with their Reg NMS compliance called [Reg Recon](#). This service is available as an add-on to the NASDAQ Workstation<sup>®</sup> and WeblinkACT 2.0.

[Reg Recon](#) provides real-time alerts that notify firms when there are potential FINRA/NASDAQ Trade Reporting Facility (TRF) trade-throughs, when NASDAQ has declared Self Help against another market\*, as well as several other alerts.

\* Notice of NASDAQs declaration of Self Help is provided for informational purposes only and is not intended to relieve firms of their obligations to conduct independent self-help analysis and to adopt policies and procedures designed to achieve compliance with those obligations.

Reg Recon is intended as only one source of assistance for NASDAQ member firms with their compliance obligations and does not purport in any way to ensure or guarantee compliance.

**Q. 2.18. Will an order sent via the OUCH protocol ever be routed?**

No. Orders sent via the OUCH protocol never route.

**Q. 2.19. Does the OUCH protocol accept Reg NMS compliant order types?**

Yes. OUCH will accept the ISO, Price to Comply order types. Please note, as explained above, Price to Comply orders entered via the OUCH protocol will be re-priced upon entry if necessary, but will not continue to re-price or “price-slide” as the market moves. Instead, if an order entered via

OUCH has been re-priced and made non-display, and the market moves such that 1) it would cause a trade through if executed, or 2) the order can be priced more aggressively, based on the order's original limit price, NASDAQ will cancel the order back to the entering party.

**Q. 2.20. What will NASDAQ charge to access protected quotes on other market centers without interacting with the NASDAQ Book?**

NASDAQ will charge \$0.0035 per share.

**Q. 2. 21. How do I enter a Directed ISO order?**

In order to enter a [Directed ISO](#), please follow the instructions in the table below for the respective order entry protocol, entering in the Market Center Destination Code as listed in the corresponding table.

Protocol	CTCI	INET FIX	NASDAQ FIX	QIX	RASHPort
Field	Preference MMID	tag 76	tag 100	Preferred MPID	ExecBroker
Value	=Market Center Dest Code	=Market Center Dest Code	=Market Center Dest Code	=Market Center Dest Code	=Market Center Dest Code
Field	Order Priority	tag 18	tag 18	Order Priority	Inter-Market Sweep eligibility
Value	= S	= f	= f	= S	= Y

Market Center	Destination Code
AMEX	ISAM
NYSE ARCA	ISPA
BOSX	ISBX
CBSX	ISCB
CHSX	ISCX
NSX	ISCN
DATA	ISDA
EDGA	ISGA
EDGX	ISGX
ISE	ISIS
LavaFlow	ISLF
NYSE	ISNY
PHLX	ISPX
TRAC	ISTR

**Section #3: Failures, Delays and Self-Help**

**Q. 3.1. How will NASDAQ address failure, material delay or malfunction on its market?**

NASDAQ will attempt to pull its quotes from the SIP in the case of system problems.

**Q. 3.2. What procedures will NASDAQ follow when other market centers experience failure, material delay or malfunction?**

Currently NASDAQ notifies the market center having problems and stops routing to that destination. This information is also disseminated to the public via a NASDAQ system status alert on the NASDAQ Trader website. This process has essentially stayed the same since Reg NMS Rules 610 and 611 were implemented on March 5, 2007.

**Q. 3.3. How will broker-dealers be informed when NASDAQ experiences failure, material delay or malfunction?**

If NASDAQ is having a system problem, it will be disseminated to the trading community via a NASDAQ system status alert on the NASDAQ Trader website. Customers can [subscribe](#) to get NASDAQ system status alerts via email.

**Q. 3.4. How should broker-dealers notify NASDAQ when they invoke the self-help exception against NASDAQ?**

Broker-dealers that invoke the self-help exception against NASDAQ need to notify NASDAQ at [selfhelp@nasdaq.com](mailto:selfhelp@nasdaq.com) and 212.231.5100.

**Q. 3.5. If a market maker is experiencing technical difficulties, can it mark its quote as slow?**

No. An individual market maker may not mark its quote as slow. In the event that a market maker is experiencing difficulty, it should contact NASDAQ Trade Support at 212.231.5100 to have its quotes removed.

## Section #4: Trade Reporting and FINRA/NASDAQ TRF

**Q. 4.1. Will firms be able to use ACT to report trades flagged as ISO to the FINRA/NASDAQ Trade Reporting Facility (TRF)?**

Yes. For more information, please refer to [Technical Update #2006-034](#).

**Q. 4.2. Will NASDAQ offer new functionality to assist firms with remaining in compliance when reporting trades to the FINRA/NASDAQ TRF?**

Yes. NASDAQ provides several options:

- A routing strategy (MOPP) that routes to all protected quotes and cancels unfilled shares. It allows firms to sweep all protected quotes prior to trade reporting.
- A Directed ISO order that routes directly to another market center without checking the NASDAQ book. It can be directed to any protected quote so that firms have access to all protected quotes prior to trade reporting.
- For more information see [NASDAQ Reg NMS Order Types](#).

**Q. 4.3. How will Reg NMS impact revenue shared by NASDAQ for trades and shares reported to the FINRA/NASDAQ TRF?**

Reg NMS changed the way the UTP and CTA SIP plans will share Market Data revenue to SROs and TRFs. Prior to Reg NMS, Market Data revenue was shared on a Print (trade) basis or a Print/Share basis. Under Reg NMS, these only accounts for approximately 50% of the disbursement to the SIP members, with the other 50% disbursed based on each SRO's quotes. The SEC scheduled implementation for May 7, 2007. (See the [updated implementation schedule](#) for details.)

Thus, the sharing pool available for internalized trades reported over-the-counter to *any* trade reporting facility was reduced by approximately 50% immediately, due to the new plan under NMS.

**Q. 4.4. How will Reg NMS impact trade reporting to the FINRA/NASDAQ TRF for brokers?**

Under Reg NMS, brokers will need to comply with Rule 611, the trade-through rule, and report trades in accordance with FINRA rules and guidance. NASDAQ has enhanced its ACT<sup>SM</sup> System to offer brokers the flexibility they need to accurately reflect any eligible Reg NMS trade-through exemptions in compliance with FINRA trade reporting rules and guidance on broker obligations under Reg NMS.

For the latest information on Reg NMS-related updates and FINRA/NASDAQ TRF Specifications for trade reporting, see [Technical Update #2006-034](#).

#### Q. 4.5. How will the Data Revenue Sharing Program change under Reg NMS?

Prior to Reg NMS, the FINRA/NASDAQ TRF shared 50%, the maximum permitted, of the Market Data revenue earned from internalized trades of Tapes A, B & C reported to the FINRA/NASDAQ TRF.

The implementation of Regulation NMS impacts how the pool of Market Data revenue is split. Under Reg NMS, quotes account for approximately 50% of the SIP member allocation and prints account for the other approximately 50%. Because trade reporting facilities do not quote, they do not earn a quoting share of the overall Market Data revenue from internalized trades.

For more information, refer to [Head Trader Alert #2007-235](#).

### Section #5: More Information

- To learn more about NASDAQ or Reg NMS, please contact NASDAQ Market Sales at 800.846.0477 or [sales@nasdaq.com](mailto:sales@nasdaq.com).
- For questions on trade reporting or revenue sharing, please contact Donald Bollerman at 212.401.8780 or [donald.bollerman@nasdaq.com](mailto:donald.bollerman@nasdaq.com).
- Refer to the Reg NMS Page on the NASDAQ Trader website at [www.NASDAQTrader.com/regnms](http://www.NASDAQTrader.com/regnms).
- Visit the [Reg NMS FAQs](#) on the SEC website regarding Rules 610 and 611.

**Note:** Some aspects of NASDAQ's integrated book assume that firms are complying with their own obligations under Reg NMS. If you have questions regarding those obligations, please contact the SEC directly.