

# Tick Size Pilot Implementation Considerations

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# Agenda

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- Background
- Components of the Tick Size Pilot Plan
- Data Collection and Reporting
- Trading and Quoting
- Implementation Challenges
- Contact Information
- FIF Disclaimer
  - This information should not be relied upon as regulatory guidance or legal advice.
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  - Any opinions expressed herein are strictly my own based on discussions with FIF members and Plan Participants; however, these comments may not reflect the opinions of all FIF members or regulators.



# Background

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- ▶ **JOB S Act – 2012**
  - ▶ Capital Raising for small and emerging companies
  - ▶ Congress gave SEC responsibility
- ▶ **SEC determined would be accomplished under Reg NMS**
  - ▶ National securities exchanges and FINRA to create and administer the Plan (“Plan Participants”)
  - ▶ SEC approved proposed Plan - May 2015
  - ▶ Pilot Implementation: October 2016 – October 2018
- ▶ **Plan Participants formed Operating Committee**
  - ▶ No formal “Advisory Committee”
  - ▶ FIF contributed informally to provide broker dealer perspective



# Components of the Tick Size Pilot

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- ▶ **Goals of Pilot**
  - ▶ Data-driven program to measure impact of market structure changes on liquidity, execution quality, transparency, competition between venues, market maker activity and profitability
- ▶ **Data Collection, Analysis and Reporting**
  - ▶ Six months prior, full duration, and six months following
- ▶ **Quoting and Trading**
  - ▶ Different restrictions apply to Control Group and 3 Test Groups
- ▶ **Pilot Securities**
  - ▶ \$3 billion or less in market capitalization
  - ▶ Average daily trading volume of 1 million shares or less
  - ▶ Volume weighted average price of at least \$2.00 each trading day



# Data Collection and Reporting

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## ▶ Pre-Pilot Data Collection Requirements

- ▶ 3100 securities included in Pre-Pilot (\$5 B or less market cap)
- ▶ Trading Centers and Market Makers report trades daily
- ▶ FINRA facilitated reporting (OATS expansion, transaction file)
- ▶ FINRA performing detailed market quality analysis

## ▶ Pilot Securities

- ▶ List of securities and group assignments expected September 6
- ▶ Changes will be published daily by NYSE and Nasdaq by 10 PM
- ▶ FINRA will published combined list daily by 2 AM

## ▶ Statistics will be Publically Reported beginning August 30

- ▶ FINRA to provide attributed data to SEC (B-Ds' first look July 25)
- ▶ FINRA to publish unattributed data on FINRA website

# Pilot Securities Assignments

## Control Group and Three Test Groups

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- ▶ Random assignment of securities to groups
  - ▶ 400 securities in each of three Test Groups
  - ▶ Approximately 1000 in Control Group
- ▶ No new securities will be added to the Pilot
- ▶ Securities will be dropped from Pilot if delisted, or if acquired by a company not already included in the Pilot
- ▶ Securities may move from one Test Group to another only if merged/acquired by a company in a different Test Group
- ▶ Securities will move from a Test Group to the Control Group only if market price closes below \$1.00
  - ▶ Intraday dips below \$1.00 do not require the security to move



# Quoting and Trading Requirements

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- ▶ **Control Group – Business as usual**
- ▶ **Test Group I – Quote only in Nickels, Trade same as today**
  - ▶ Member firms may not accept an Order, Bid, Offer, or IOI in any increment except a nickel, with two exceptions:
    - ▶ Exception 1 - Order priced at the mid-point of the Protected Bid and Protected Offer
    - ▶ Exception 2 - Orders entered into a retail liquidity program (RLP)
- ▶ **Test Group II – Quote and Trade only in Nickel increments**
- ▶ **Same exceptions as above, with additional applied to trading**
  - ▶ Retail Investor Order may be provided Price Improvement of at least \$0.005 better than PBBO (definition goes beyond RLP)
  - ▶ Negotiated Trade (defined as benchmark, e.g. VWAP/ TWAP under certain circumstances) or “Pilot Qualified Contingent Trade”
  - ▶ FINRA Rule 5320 (“Manning” fills)



## Quoting and Trading in Nickel Increments

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- ▶ All quoting and trading requirements in nickels apply during and outside of regular trading hours
- ▶ Explicitly-priced orders that are not in the proper nickel increment must be **REJECTED**; the trading center may not adjust the order
  - ▶ Mid-point orders may be priced in \$0.025 increment, but mid-point limit must be in \$0.05
  - ▶ Stopped trigger and stopped limit orders must be in nickel increments
  - ▶ “Net price” must be in nickel increments
  - ▶ No “sliding” permitted except in limited circumstances, e.g. the result of a corporate action where there is a resting GTC order





## Test Group III - “Trade-At” Restrictions

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- ▶ **Test Group III - Same quoting and trading restrictions apply as Test Group II, with addition of the “Trade-at Prohibition”**
  - ▶ Designed to prevent price matching by a market participant that is not displaying at the price of a Trading Center’s “Best Protected Bid” or “Best Protected Offer,” unless an enumerated exception applies.
- ▶ **Exceptions to “Trade-At” provision:**

Display Size	Identified as a “Trade-At ISO”
Block Size	Customer Leg/Riskless
Retail Price Improvement	Negotiated Trade
Not “Regular Way”	Fractional Share
Crossed Market	Bona-fide Error
Stopped Order	Flickering Quote
Part of a single-priced opening, re-opening or closing transaction	Trading Center displaying Protected Quote was not available at time of trade



# Key Exceptions to Trade-At Provision

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## ▶ Display Size

- ▶ May internalize up to the amount of your displayed quote (must be same agg unit, must be displayed prior to order receipt)
- ▶ Not required to execute against or decrement your displayed size
- ▶ Must execute in the same capacity of your displayed quote; e.g. Principal quote may execute principally, riskless principal, or agency; Agency quote may only execute as agent

## ▶ Block Trade

- ▶ 5000 shares or \$100,000 constitutes a block
- ▶ Multiple fills permitted so long as at least one component constitutes a block
- ▶ Principal fills or agency cross
- ▶ Must comply with Order Protection Rule 611 (ISOs)



# ISO vs. TAISO

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- ▶ **ISO (Intermarket Sweep Order)**
  - ▶ 611 Order Protection Rules continue to apply - Combination of ISOs and TAISOs may be necessary in certain scenarios
  - ▶ Receipt of an ISO will indicate that the Sender has satisfied all Protected Quotations at a price better than the limit price of the order.
  - ▶ Recipient may execute at the limit price against DISPLAYED orders
- ▶ **TAISO (“Trade-At” ISO) FIX Tag = 18, Value = “y”**
  - ▶ Informs the Recipient that the Sender has satisfied all Protected Quotations at a price better than or equal to the limit price of the TAISO.
  - ▶ Recipient may execute against Displayed and Undisplayed Liquidity at the limit price
- ▶ Each exchange will determine how they wish to handle receipt of a TAISO for a security that is not included in Test Group 3



# Implementation Challenges & Resources

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- ▶ Complex scenarios
- ▶ Late FAQs
- ▶ No exchange specs
- ▶ Buy-side readiness
  
- ▶ Implementation Support Resources
  - ▶ <http://www.finra.org/industry/tick-size-pilot-program>
  - ▶ <http://www.finra.org/sites/default/files/TSP-Trading-and-Quoting-FAQs.pdf>
  - ▶ <http://www.finra.org/industry/oats/market-maker-reporting-faq>
  - ▶ <http://www.finra.org/industry/faq-data-collection-requirements-broker-dealers>
  - ▶ <http://www.finra.org/industry/tick-size-pilot-oats-data-collection-faq>



## Contact Information

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