

NASDAQ Announces Step Outs and Sales Fee Transfer for NASDAQ Exchange Members



Please Route To: Head Traders; Technical Contacts; Compliance Officers, Clearing Contacts,

What you need to know:

- NASDAQ plans to offer two functions for NASDAQ Exchange Members via the ACT Technology platform effective August 1, 2007
 - 1) Sales Fee Transfer
 - A NASDAQ member may enter non-tape, non-clearing submissions into the ACT system for the purpose of transferring all or a portion of the Rule 7002 Sales Fee or similar fee of another self-regulatory organization (SRO) that is associated with a previously executed trade to one or more other NASDAQ members.
 - When ACT is used to transfer Sales Fees or similar fees, the clearing firms for the trades in question must be party to an agreement authorizing such transfers between themselves and/or the firms on whose behalf they clear trades
 - 2) Step-Out
 - A NASDAQ member may enter clearing-only submissions into the ACT system for the purpose of:
 - Transferring all or a portion of the member's position in a previously executed trade to one or more other NASDAQ members on whose behalf the trade was executed;
 - Transferring all or a portion of the member's position in an account of the member at one clearing broker to an account of the member at another clearing broker.

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How does the Sales Fee Transfer Work?

The Sales Fee Transfer is for the movement of Rule 7002 Sales Fees or similar fees of other SROs between Brokers' Clearing Firms where the Broker who incurred the fee did so on behalf of another Broker such as in a Riskless Principal or Agency transaction. NASDAQ uses Sales Fees to fund its obligations to pay Section 31 Fees on Covered Sales.

- A NASDAQ member may enter non-tape, non-clearing submissions into the ACT system for the purpose of transferring all or a portion of the [Rule 7002](#) Sales Fee or similar fee of another SRO that is associated with a previously executed trade to one or more other NASDAQ members
- When ACT is used to transfer Sales Fees or similar fees, the clearing firms for the trades in question must be party to an agreement authorizing such transfers between themselves and/or the firms on whose behalf they clear trades
- All Parties to the Sales Fee Transfer must be NASDAQ exchange members

Example:

- **Broker A** sells a position on the street incurring a Sales Fee or similar fee at one or more market centers at the behest of **Broker B**. Both Brokers A and B are NASDAQ exchange members, as are their Clearing Firms.
- **Broker A** submits to ACT a Fee Transfer function identifying itself on the BUY side against **Broker B** on the SELL side
 - This function is similar to Step-Outs processing on ACT, both historically under NASD rules and under the new Step-Out function on the NASDAQ exchange described below.
 - For Fee Transfer, the submitting party must always be on the BUY side and be in the MM (reporting party) field, indicating they were the SELLER on the original execution(s)
- NASDAQ will adjust the monthly Sales Fee it assesses with discrete entries crediting **Broker A's** clearing firm and debiting **Broker B's** clearing firm for the amounts calculated by NASDAQ based on the information submitted in the Sales Fee Transfer Function
- Discrete detail will be provided for amounts transferred as a result of this function in the NASDAQ Sales Fee Invoice and the related Support Detail files.
- The inclusive amounts will be directly debited from Clearing Firms' NSCC Settlement Account as per the current NASDAQ Sales Fee Invoicing procedure.
- NOTE: **Broker A** or its clearing firm is not absolved of its obligation to pay the original market center of execution assessing a fee similar to a Sales Fee; this function simply facilitates the offsetting recovery resulting in a net zero transaction for **Broker A** and its clearing firm, a net zero transaction for the NASDAQ exchange Sales Fee process, and a net debit for **Broker B** and its clearing firm.

- Note: When ACT is used to transfer Sales Fees or similar fees the Clearing firms must be party to an [explicit agreement](#) authorizing the transferring party to enter into "locked in" trades on its behalf
- NOTE: A Sales Fee Transfer Function may not make a clearing submission to transfer a position; it is exclusively for the purposes of transferring amounts related to Sales Fees or similar fees. The Step-Out function under the NASDAQ exchange, as described below, may be used to transfer a position.

What is the Pricing Schedule for the Sales Fee Transfer?

The Sales Fee Transfer will be paid by the transferring party as per the schedule below.

Sales Fee Transfer Charge

10% of the dollar value of the transferred fee	variable
Minimum charge per submission	\$0.025
Maximum charge per submission	\$0.25

What is a Step-Out?

A Step-Out is a clearing or accounting entry made for the purposes of moving a position:

- A Step-Out may be used for the transfer of a position as part of a customer directed allocation, as is commonly accepted as part of the service a broker executing a trade(s) for a buy-side firm might be expected to provide; allocating portions of a position to various brokers at the direction of the customer.
- A Step-Out may be used for the transfer of all or a portion of a firm's position at one clearing broker to another clearing broker.

A Step-Out may never be used to clear an original trade; i.e. it is never the clearing portion of a tape reportable transaction or of a riskless principal transaction, or in anyway a facilitation of clearing for a change in beneficial ownership. A Step-Out may not be used expressly and exclusively for facilitating the transfer of a Sales Fee or similar fee, (i.e. without clearing), although firms submitting Step-Outs under the NASDAQ exchange can also indicate they would like a Sales Fee Transfer facilitated in combination with the Step-Out as described below.

How will Step-Outs on the NASDAQ Exchange work?

Effective August 1, a Step-Out on the NASDAQ exchange will always be considered to be submitted from the perspective of the Party "stepping out":

- One firm may "Step-Out" on a position to another firm by submitting a transaction to ACT.
- The submitting firm is the firm stepping out to the other party
- The submitting firm enters the transaction with themselves on the side of the transaction that is the opposite of the side they were for the original trade;
 - Step Out BUY when the submitting firm was originally a SELLER on the Street Trade
 - Eligible to indicate Sales Fee Transfer
 - Step Out SELL when the submitting firm was originally a BUYER on the Street Trade
 - Never eligible to indicate Sales Fee Transfer
- Since Step-Outs are never tape eligible; on Step-Out BUY transactions the trade report flag may be used by the submitting firm to indicate NASDAQ should also facilitate a Sales Fee Transfer for this submission if applicable (i.e. that the submitting firm expects to be assessed a Sales Fee or similar fee for being the selling Party on the original Covered Sale Trade.

When ACT is used to transfer positions via Step-Outs under the NASDAQ exchange, all parties to the transfer must be NASDAQ members and must be party to an agreement authorizing the transferring party to enter into "locked in" trades on its behalf such as a NASDAQ Attachment 2 or Uniform Trade Reporting Facility Agreement recorded with NASDAQ.

What is the Pricing Schedule for Step-Outs on the NASDAQ Exchange?

The charge for a Step-Out under the NASDAQ exchange will be \$0.029 per side.

What do I have to do to access this function via NASDAQ's ACT Technology Platform?

- Firms must be members
- To access ACT, customers must have connectivity via [CTCI](#), [NASDAQ FIX](#), [Weblink ACT 2.0](#) or the [NASDAQ Workstation](#)
- Obtain the [specifications](#) and prepare your system.

Where can I get additional information?

- Contact [Donald Bollerman](#) at 212.401.8780.

NASDAQ is the largest U.S. electronic equities exchange. With approximately 3,200 companies, it lists more companies and, on average, trades more shares per day than any other U.S. electronic market. It is home to companies that are leaders across all areas of business including technology, retail, communications, financial services, transportation, media and biotechnology. NASDAQ is the primary market for trading NASDAQ-listed stocks as well as a leading liquidity pool for trading NYSE-listed stocks. For more information about NASDAQ, visit the NASDAQ Trader website at www.NASDAQTrader.com.