

NASDAQ Provides Update and Instruction on Use of the Step-Out Function via ACT



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

What you need to know:

- NASDAQ is updating its Step-Out function effective **Monday, November 5, 2007**. NASDAQ originally announced this function in conjunction with the Sales Fee Transfer in [Head Trader Alert#2007-150](#). Additional information was provided in [Technical Update #2007-028](#).

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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 do Step-Outs work on NASDAQ ACT?

Both FINRA/NASDAQ Trade Reporting Facility™/OTC and NASDAQ Exchange Step-Outs are always processed from the perspective of the firm in the Market Maker (MM) field on the submitted record as the Broker "stepping out".

- One firm may "Step-Out" on a position to another firm by submitting a transaction to ACTSM.
- Step-Out MM-BUY means the firm stepping out originally executed a SELL on the Street
- Step-Out MM-SELL means the firm stepping out originally executed a BUY on the Street
- Because 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)

Note that when comparing, both the MM entry and the OE entry must agree on the Market (NASDAQ vs. FINRA) of intent for the Step-Out transaction, or the submissions will fail to compare.

When using the NASDAQ Exchange Step-Out function, both firms must be NASDAQ Exchange Members or the submission will be rejected.

What is changing?

Specifically the following changes are being effected:

- Match/Compare – NASDAQ is relieving Members of the need to have an agreement in place to facilitate Step-Outs strictly on a locked-in basis. Firms will be able to Allege/Compare/Accept/Decline when using the ACT Step-Out function on the Nasdaq Exchange.
- Sales Fee Transfer – NASDAQ is relieving members of the need to have their Clearing Firms(s) party to an [explicit agreement](#) for the transfer of Sales Fees or related fees as a consequence of a Step-Out submission. The “Trade Report” indication will be the mechanism by which firms can indicate if they wish to have such fees considered as a consequence of a Step-Out submission.

NOTE: The requirement for Clearing Firms to have an [explicit agreement](#) in place for Sales Fee Transfer related to the Sales Fee Transfer function (which is not a Step-Out, and never moves shares) does not change.

NOTE: The requirements pertaining to the use of the Step-Out function via ACT on the NASDAQ Exchange does not change other than as noted above.

Reminder: Certain changes are taking effect in the FINRA rules as communicated in [FINRA Notice 07-38](#) impacting certain non-media reports including Step-Outs.

NASDAQ provides clarification about the submission and expectations related to both the NASDAQ Exchange and the FINRA/NASDAQ TRF/OTC Step-Out Function on the ACT System below.

Is there instruction for how to use the “Trade Report” Flag?

Please refer to the table below for help with instruction on understanding Step-Outs on the NASDAQ Exchange and the FINRA/NASDAQ TRF/OTC, specifically perspective and how to use the “Trade Report” Flag to indicate desire for movement of the Sales fee or related fees.

Market Center where Step-Out submission is conducted	MM Perspective on Step-Out submission	Original Street Trade	Trade Report Flag that the MM should indicate on Step-Out submission	Will the Sales Fee or Related Fee be moved?
NASDAQ Exchange	BUY	Sell	Y	Y
NASDAQ Exchange	BUY	Sell	N	N
NASDAQ Exchange	SELL	Buy	Y/N	N

FINRA	BUY	Sell	Y	Y
FINRA	BUY	Sell	N	N
FINRA	SELL	Buy	N	N

*Please note that when submitting a FINRA Step-Out MM-SELL (original = BUY) Firms should indicate "N" to Trade Report Flag.

What do the Step-Outs look like on National Securities Clearing Corporation (NSCC) Contract Sheets?

- NASDAQ Step-Outs are submitted as NASDAQ Exchange events to the "OTC" Contract sheet and will appear the same as normal NASDAQ Exchange Contracts with the exception of the value "O" in position 216 of the NSCC 183 Contract sheet.
- FINRA Step-Outs are submitted as ACT events to the "OTC" Contract sheet and appear today the same as normal ACT Contracts with the exception of the value "S" in position 216 of the NSCC 183 Contract sheet.

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.

How do I make submissions of Step-Outs to ACT in FIX or CTCI Protocols for Trade Reporting?

NASDAQ vs. FINRA Step-Out

- CTCI "Special Trade Indicator"
 - "Q" = NASDAQ Step-Out
 - "S" = FINRA Step-Out
- CTCI "Trade Report Flag"
 - "space" = Yes
 - "N" = No
- FIX TAG 81 "ProcessCode"
 - "Q" = NASDAQ Step-Out
 - "3" = FINRA Step-Out
- FIX TAG 852 "Publish Indicator"
 - "Y" = Yes
 - "N" = No
- NASDAQ Workstation/Weblink ACT 2.0 Trade Entry "Special Instruction" Section
 - "NDQ Step-Out" = NASDAQ Step-Out
 - "Step-Out" = FINRA Step-Out
- NASDAQ Workstation/Weblink ACT 2.0 Trade Entry "Clearing and Reporting" Section
 - Report "checked" = Yes
 - Report "unchecked" = No

ACT Trade Entry

Quick Report:

Status: Ready...

Role: <input checked="" type="radio"/> Market Maker <input type="radio"/> Order Entry	Side: Buy	Share Quantity: 50000	Security: ZVZZT	Price: <input checked="" type="radio"/> 104.65	Contra: BRUT	Trade Time: 1620
Short Sale: None <input type="checkbox"/> As-Of <input type="checkbox"/> Reversal <input type="checkbox"/> Trade Thru Exempt	NQTM Info: Capacity: Principal Give up:	Contra Info: Capacity: None Give up:	Clearing & Reporting: <input checked="" type="radio"/> Neither <input checked="" type="checkbox"/> Clear <input type="checkbox"/> AGU <input type="checkbox"/> Report <input type="radio"/> QSR	<input type="radio"/> Contract <input type="checkbox"/> Price Override <input type="checkbox"/> Fee	Special Instruction: <input type="checkbox"/> Special <input type="checkbox"/> Step Out <input type="checkbox"/> NDQ Step Out <input type="checkbox"/> NDQ Sales Fee	Settlement: (Level 1) <input type="radio"/> Standard 3-Day <input type="radio"/> Same Day - Cash <input type="radio"/> Next Day <input type="radio"/> Other Memo:
Trade Date: 11012007	Branch Seq#:	Branch Seq#:	Clearing #:	Clearing #:	Clearing Price \$104.65	
Trade Modifiers	Level 2	Level 3	Level 4			

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

The charge for a Step-Out under the NASDAQ exchange will be \$0.0144 per 100 shares, with a minimum of 400 shares, up to a maximum of 7,500 shares for Match/Compared submissions.

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

Where can I get additional information?

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

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