Regulation SHO
Frequently Asked Questions

NASDAQ OMX®

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What are the changes to Regulation SHO?

The Securities and Exchange Commission (SEC) has adopted amendments to Regulation SHO with a compliance date of February 28, 2011. Among the rule changes, the SEC is introducing Rule 201 (Alternative Uptick Rule), a short sale-related circuit breaker that when triggered, will impose a restriction on prices at which securities may be sold short. The SEC has also issued guidance for broker-dealers wishing to mark certain qualifying orders "short exempt." For more details, refer to Amendments to Regulation SHO (Release 34-61595) and SEC Release No. 34-63247.

What changes will The NASDAQ Stock Market® (NASDAQ®), NASDAQ OMX BX^{SM} (BX^{SM}) and NASDAQ OMX PSX^{SM} (PSX^{SM}) make to comply with Rule 201?

In accordance with SEC Rule 201 (Alternative Uptick Rule), NASDAQ, BX and PSX will make changes to systematically prevent the execution or display of a short sale order with respect to a covered security at a price that is less than or equal to the current national best bid if the price of that security decreases by 10% or more, as determined by the listing market for the security, from the security's closing price on the listing market as of the end of regular trading hours on the prior day ("Trigger Price").

To facilitate the processing, NASDAQ, BX and PSX will reintroduce support of the Short Sale Exempt codes through all order entry protocols, including OUCH, RASHport, FIX, QIX, CTCI and FLITE.

How will NASDAQ determine the Trigger Price?

For covered NASDAQ-listed securities, the NASDAQ system shall determine whether a transaction in a covered security has occurred at or below a Trigger Price and shall immediately notify the network processor.

(1) The system will not calculate the Trigger Price of a covered security until it opens trading for that security.

(2) If a covered security did not trade on the Exchange on the prior trading day (due to a trading halt, trading suspension or otherwise), the Exchange's determination of the Trigger Price shall be based on the last sale on the Exchange for that security on the most recent day on which the security traded.

When will these changes go into effect?

The SEC's amendments to Regulation SHO changes will go into effect on **February 28, 2011**

What is the duration of Short Sale Price Test?

If the Short Sale Price Test is triggered by the listing market with respect to a covered security, the Short Sale Price Test shall remain in effect until the close of trading on the next trading day, as provided for in Regulation SHO Rule 201(b)(ii) (the "Short Sale Period").

(1) If NASDAQ determines pursuant to NASDAQ Rule 4762 that the Short Sale Price Test for a covered security was triggered because of a clearly erroneous execution, the Exchange may lift the Short Sale Price Test before the Short Sale Period ends or, for securities listed on another market, notify the other market of the Exchange's determination that the triggering transaction was a clearly erroneous execution.

(2) If NASDAQ determines that the prior day's closing price for a listed security is incorrect in the system and resulted in an incorrect determination of the Trigger Price, the Exchange may correct the prior day's closing price and lift the Short Sale Price Test before the Short Sale Period ends.

(3) If a reported trade triggers a Reg SHO circuit breaker and is later voluntarily cancelled by the entering participant, the Exchange will **not** lift the Short Sale Price Test and the circuit breaker will remain in effect for the duration of the Short Sale Period.

How do these changes impact order entry on NASDAQ, BX and PSX?
Once the Securities Information Processor (SIP) indicates that a short sale circuit breaker is in effect for a certain security, short sale orders that are limited to the national best bid or lower and short sale market orders will be re-priced by NASDAQ and BX to one minimum allowable price increment above the national best bid ("Permitted Price"). To reflect changes in the national best bid, NASDAQ and/or BX and/or PSX will continue to re-price a short sale order at the lowest Permitted Price down to the order's original limit price, or if a market order, until the order is filled.

How will NASDAQ be handling non-exempt short sale orders in its opening and closing cross for securities that have triggered the short sale circuit breaker?

NASDAQ will use the National Best Bid at the time of the cross to determine eligibility of short sale orders in the cross, while continuing to use the NASDAQ BBO to determine the actual auction price. For example:
* If the NBBO is $10.20 X $10.21, all marketable short orders will be priced on the book at $10.21
* If the cross price (determined by the NASDAQ BBO) is $10.20 or below, no short sale orders will participate.
* If the cross price (determined by the NASDAQ BBO) is $10.21 or higher, marketable short sale orders will participate.

How will short sales be handled during the resumption of trading after a halt or pause for stocks in a Reg SHO restriction?
The last national best bid prior to the trading halt or pause will be used, and any short sales entered into the halt cross will be re-priced to one minimum allowable price increment above this price. If the auction price is at or below the last national best bid prior to the halt, short sale orders will not participate in the cross.

What is the impact on short sale Immediate-or-Cancel (IOC) orders sent to NASDAQ, BX and PSX?
During the Short Sale restriction period, IOC orders requiring that all or part of the order be executed immediately will be executed to the extent possible and then cancelled, and will not be re-priced. Intermarket Sweep Orders (ISOs) not marked "short exempt" will be handled in the same manner as IOC orders.

How will NASDAQ handle routing of non-exempt short orders during a short sale circuit breaker?
NASDAQ will passively post to the NASDAQ book any short sale orders that are entered using a strategy that normally routes (STGY, SCAN, etc.) to other destinations in order to not violate Reg SHO. Orders that are sent on directed routers (ISPX, ISNY, etc.) will be delivered to the other destination as per the instruction from the customer.

If a short sale order in a covered security marked short exempt in reliance on SEC Rule 201(c) or Rule 201(d) is submitted for display or execution, may NASDAQ route the short exempt order to another trading center without independently

evaluating the appropriateness of the short exempt marking?

In the event that NASDAQ cannot display or execute the order itself, NASDAQ will route the order to another trading center without independently determining whether the order was correctly marked short exempt by a broker-dealer in reliance on SEC Rule 201(c) or Rule 201(d). For more information, refer to the SEC's [Responses to Frequently Asked Questions Concerning Rule 201 of Regulation SHO, 5.3](#).

Will NASDAQ route directed orders marked short sale exempt?

Yes.

Will NASDAQ, BX and PSX accept orders marked short sale exempt at all times?

Yes, NASDAQ, BX and PSX will accept short exempt orders even when a circuit breaker is not in effect. The orders will be placed on the book as exempt orders in the event a circuit breaker is later triggered in a particular security. During the Short Sale Period, NASDAQ, BX and PSX will execute and display orders marked "short exempt" without regard to whether the order is at a Permitted Price.

How will NASDAQ, BX and PSX support marking of qualified "short exempt" orders?

Due to the amendments to Regulation SHO, short sale exempt values supported prior to the [elimination of Rule 10a-1](#) in October 2007 will be reintroduced and supported by NASDAQ BX, and PSX. Short exempt orders are eligible to be routed via standard routing practices. The table below depicts the short exempt values that may be used:

	Sell Short reasons will be accepted on all protocol:					
	OUCH (all versions)	RASHport	FIX (all versions)	QIX	CTCI	FLITE
Short Sale Exempt	"E" – Short sale exempt	"E" – Short sale exempt	Tag 54 "6" - Short sale exempt	"SX" – Short sale exempt "SSX" – Short sale exempt	"SSHRT EXEMPT" = short sale exempt	Tag 54 "6" - Short sale exempt

How will NASDAQ OMX indicate when the short sale circuit breaker has been triggered in a NASDAQ-listed security?

NASDAQ OMX will introduce a new **Reg SHO Short Sale Price Test Restricted Indicator** administrative message format on the UTP data feeds and select NASDAQ proprietary data feeds to indicate that an issue has breached the SEC Rule 201 short sale price test threshold. On the UTP data feeds, the new message will be identified as Message Category "A," Message Type "V." On the NASDAQ, BX and PSX proprietary data feeds, the new message will be identified as Message Type "Y."

In addition to the real-time messages, NASDAQ OMX will add a spin of Reg SHO Price Test Indicator messages to its pre-opening processes on the UTP, NASDAQ and BX data feeds.

Which data feeds will support the Reg SHO Price Test Indicator message format for NASDAQ-listed securities?

The UTP SIP plans to support the Reg SHO Short Sale Price Test Restricted Indicator (Category A – Type V) message format on all UTP data feeds.

NASDAQ OMX will also support the Reg SHO Short Sale Price Test Restricted Indicator (Type Y) message format on the equity symbology-compliant versions of its NASDAQ, BX and PSX proprietary data feed products listed below.

To access the revised data format specifications for this release, please click on UTP and NASDAQ data feed links below.

UTP Data Feeds	NASDAQ Data Feeds	BX Data Feeds
• UTP Quotation Data Feed^{SM} (UQDF^{SM}) • UTP Trade Data Feed^{SM} (UTDF^{SM}) • OTC Montage Data Feed^{SM} (OMDF^{SM})	• NASDAQ TotalView-ITCH 4.1 • NASDAQ TotalView-ITCH 3.2 • NASDAQ GLIMPSE 4.1 • NASDAQ GLIMPSE 3.2 • NASDAQ TotalView-Aggregated 1.1 • NASDAQ NOIView 2.1 • NASDAQ Level 2 – Version 1.1 • NASDAQ Best Bid and Offer (QBBO) – Version 1.1 • NASDAQ Last Sale (NLS) – Version 1.1 • NASDAQ Pathfinders 1.1	• BX TotalView-ITCH 4.1 • BX TotalView-ITCH 3.2 • BX GLIMPSE 4.1 • BX GLIMPSE 3.2 • BX Best Bid and Offer (BX BBO) – Version 1.1 • BX Last Sale (BLS) – Version 1.1

How will the new Reg SHO Price Test Indicator message format work?

The Reg SHO Short Sale Price Test Restricted Indicator message will include Issue Symbol and Reg SHO Action. The defined values for the Reg SHO Action field will be as follows:

Reg SHO Action Value	Definition
0	No Reg SHO Short Sale Price Test Restriction
1	Reg SHO Short Sale Price Test Restriction is in effect due to an intra-day price drop in security
2	Reg SHO Short Sale Price Test Restriction remains in effect

As outlined in Data Technical News #2010-23, NASDAQ will disseminate the Reg SHO Price Test Indicator under the following circumstances.

- NASDAQ will support a full pre-opening spin of Reg SHO Price Test Indicator messages to denote the Reg SHO short sale price test restriction status for each NASDAQ-listed security at the start of each trading day.
- NASDAQ will disseminate intra-day Reg SHO Price Test Indicator updates only for those securities subject to an intra-day price drop of 10% or more from the adjusted previous closing value.

Please refer to the NASDAQ and UTP data feed specification documents for additional processing information.

What are the Reg SHO Short Sale Price Test Restricted Indicator Processing Scenarios?

Scenario #1: Pre-opening spin processing.

NASDAQ will disseminate a Reg SHO Price Test Indicator for each and every NASDAQ-listed security in the pre-opening spin process. In the spin, NASDAQ will indicate if the security is subject to Rule 201 processing at the start of the business day.

On Day 1, NASDAQ will populate the Action of "0" for all issues.

On subsequent days, NASDAQ will populate the Action field as market conditions require.

For those issues not subject to Rule 201 processing as of prior market close, NASDAQ will populate the Action of "0".

For those issues with an Action state of "1" at the close of the prior trading session, NASDAQ will populate the Action of "2" in the pre-opening spin to indicate that the security remains subject to the price test restriction for a second business day.

For those issues with an Action state of "2" at the close of the prior trading session, NASDAQ will populate the Action of "0" to denote that the price test restriction has expired.

Scenario #2: Consolidated last sale price declines by 10% from the adjusted prior day's closing value.

NASDAQ will disseminate an intraday Reg SHO Restriction message with Action of "1" to indicate that the Rule 201 price test restriction has been triggered.

Scenario #3: After further review, NASDAQ determines that the 10% decline was based on a clearly erroneous transaction or improperly adjusted prior day's closing value. Prior to the clearly erroneous transaction, the security was not subject to the Rule 201 price test restriction.

NASDAQ will disseminate an intraday Reg SHO Restriction message to reset the Action value to "0".

Scenario #4:   After an initial price drop of 10%, the issue price continues to decline. Security price falls by 20% from the adjusted prior day's close.

No action is required.   Reg SHO Short Sale Test Restriction remains in effect for the remainder of the current business day as well as the next business day.

Scenario #5: At the close of the prior business day, the issue was subject to the Rule 201 price test as the result of a carry-over processing. During the current trading session, the price drops for a second day by 10% over the adjusted prior day's closing value.

NASDAQ will disseminate an intraday Reg SHO Restriction message with the Action of "1" to indicate that the security price test has been re-triggered.

Scenario #6:   At the close of the prior business day, the issue was subject to the Rule 201 price test as the result of a carry-over processing. During the current trading session, the price drops for a second day by 10% over the adjusted prior day's closing value. Subject to re-trigger, however, NASDAQ determines that current day's price decline was based on clearly erroneous transaction or improperly adjusted prior day's closing value.

NASDAQ will disseminate an intraday Reg SHO Restriction message with the Action of "2" to indicate that the original short sale price test remains in effect for the remainder of the current business day.   Because the re-trigger was based on erroneous information, however, the price test won't carry-over to the next business day.

How will SEC Rule 201 apply on the first day of trading of a covered security on any listing market, pursuant to a new security offering (e.g., IPOs, spin-offs, etc.)?

The SEC has communicated that on the first day of trading of a covered security on any listing market, pursuant to a new security offering, there will not be a closing price for the covered security for the prior day. Thus, SEC Rule 201 will not apply to such covered securities until the second day of trading. On the second day of trading, the listing market for the covered security will have determined the closing price of the covered security as of the end of regular trading hours on the first day of trading. Listing markets are responsible for ensuring that they correctly determine situations in which no prior day's closing price

exists for a covered security due to the fact that the security has not previously traded on any listing market and is part of a new security offering, in accordance with the listing markets' responsibilities under SEC Rule 201(b)(3). (See Securities Exchange Commission, Division of Trading and Markets: Responses to Frequently Asked Questions Concerning Rule 201 of Regulation SHO, 3.2)

Will NASDAQ OMX offer testing opportunities?
Yes, NASDAQ OMX will offer testing for the Reg SHO Short Sale Price Test Restricted Indicator data feed messages and the Short Sale Exempt order entry codes for the NASDAQ, BX and PSX markets on **Saturday, February 12, 2011 and Saturday, February 26, 2011**. Firms should email NASDAQ OMX Trading Services to register for the test.

Please note that the UTP SIP will also support evening testing opportunities for the Reg SHO Short Sale Price Test Restricted Indicator.

More Information
For more information, refer to the Regulation SHO page on the NASDAQ OMX Trader® website.