

NASDAQ Provides Further Clarification on the Use of the FINRA/NASDAQ TRF Step-Out Function via ACT



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

What you need to know:

- As announced in [Head Trader Alert #2007-222](#), NASDAQ updated its NASDAQ Exchange Step-Out function effective Monday, November 5, 2007.
- The Step-Out function offered through the NASDAQ Exchange is separate and distinct from the FINRA/NASDAQ TRF Step-Out function offered through the FINRA/NASDAQ TRF, even though both of these facilities utilize the ACT technology platform.
- The information in this alert supersedes the guidance in [Head Trader Alert #2007-222](#) as it pertains to the FINRA/NASDAQ TRF Step-Out function.

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What is the difference between a NASDAQ Exchange Step-Out and a FINRA/NASDAQ TRF Step-Out?

NASDAQ ACTSM has been licensed for use by the FINRA/NASDAQ Trade Reporting FacilityTM (TRF) as a technology platform for collecting OTC trade reports for public dissemination and regulatory purposes. ACT accepts Step-Out entries submitted to the FINRA/NASDAQ TRF. Although they both use the ACT technology platform, the NASDAQ Exchange and the FINRA/NASDAQ TRF are separate facilities and therefore different rules apply to NASDAQ Exchange Step-Outs and FINRA/NASDAQ TRF Step-Outs.

A **NASDAQ Exchange Step-Out** is a Step-Out submitted to the NASDAQ Exchange via ACT pursuant to NASDAQ Exchange rules including but not limited to [NASDAQ Rule 7038](#). A NASDAQ Exchange Step-Out may not be used expressly and exclusively for facilitating the transfer of a Sales Fee or similar fee (i.e., without clearing). However, firms submitting NASDAQ Exchange Step-Outs can also indicate they would like a Sales Fee Transfer facilitated in conjunction with the Step-Out.

For a more complete definition of a NASDAQ Exchange Step Out, refer to [Head Trader Alert #2007-150](#).

A **FINRA/NASDAQ TRF Step-Out** is a Step-Out submitted to the FINRA/NASDAQ TRF via ACT pursuant to FINRA rules including but not limited to [FINRA Rule 6130](#). A FINRA/NASDAQ TRF Step-Out may not be used expressly and exclusively for facilitating the transfer of a Section 3 fee or similar fee (i.e., without clearing). However, firms submitting FINRA/NASDAQ TRF Step-Outs can also indicate they would like a Section 3 fee transfer facilitated in conjunction with the Step-Out.

For a more complete definition of a FINRA/NASDAQ TRF Step-Out, refer to [FINRA Regulatory Notice 07-38](#) and [Notices to Members 05-11](#) and [98-40](#).

How do FINRA/NASDAQ TRF Step-Outs work via ACT?

Pursuant to FINRA rules, FINRA members are permitted to use the FINRA/NASDAQ TRF only to Step-Out of a trade that was previously reported to the FINRA/NASDAQ TRF.

FINRA/NASDAQ TRF 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" of a position to another firm by submitting a transaction to the FINRA/NASDAQ TRF via ACT.
- Step-Out MM-BUY means the firm stepping out originally executed a SELL OTC that was reported to the FINRA/NASDAQ TRF, as applicable.
- Step-Out MM-SELL means the firm stepping out originally executed a BUY OTC that was reported to the FINRA/NASDAQ TRF, as applicable.
- 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 that FINRA should also facilitate a Section 3 fee Transfer for this submission if applicable (i.e., that the submitting firm expects to be assessed a Section 3 Fee for being the selling party on the original Covered Sale Trade).

Note that when comparing, the Market of Intent must be the FINRA/NASDAQ TRF for both the MM entry and the OE entry or the FINRA/NASDAQ TRF Step-Out transaction submissions will fail to compare.

How should firms use the "Trade Report" Flag for FINRA/NASDAQ TRF Step-Outs?

The table below shows how to use the "Trade Report" Flag in ACT for FINRA/NASDAQ TRF Step-Outs and the impact on the Section 3 fee.

Market Center where Step-Out is submitted	MM Perspective on Step-Out submission	Original OTC Trade	Trade Report Flag	Will the Section 3 Fee be moved?
FINRA/NASDAQ TRF	BUY	Sell	Y	Y
FINRA/NASDAQ TRF	BUY	Sell	N	N
FINRA/NASDAQ TRF	SELL	Buy	N	N

What do FINRA/NASDAQ TRF Step-Outs look like on National Securities Clearing Corporation (NSCC) Contract Sheets?

FINRA/NASDAQ TRF 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 the FINRA/NASDAQ TRF Step-Out function on the FINRA/NASDAQ TRF via ACT?

- Firms must be FINRA members.
- Customers must have connectivity via NASDAQ [CTCI](#), [NASDAQ FIX](#), [WeblinkACT 2.0](#) or the [NASDAQ Workstation](#)®.
- Obtain the [specifications](#) and prepare your system.

How do I submit FINRA/NASDAQ TRF Step-Outs to the FINRA/NASDAQ TRF via ACT using FIX or CTCI Protocols for Trade Reporting?

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

The screenshot displays the ACT Workstation Trade Entry window. The 'Clearing & Reporting' section has the 'Report' checkbox checked and circled in red. The 'Special Instruction' section has the 'Step Out' checkbox checked and circled in red. Other visible fields include Role (Market Maker), Side (Sell), Share Quantity, Security, Price, Contract, Trade Time, Short Sale, TOOL Info, Contra Info, Give up, Branch Seq#, Trade Date, Clearing #, and Trade Modifiers.

Where can I get additional information?

- Questions relating ACT technology should be directed to [Donald Bollerman](#) at 212.401.8780.
- Questions relating to FINRA/NASDAQ TRF Step-Outs should be directed to FINRA's Market Regulation Department 240.386.5126 or FINRA's Office of General Counsel at 202.728.8071.

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