



## Cboe Tick Size Pilot Program FAQ

Last Updated –October 17, 2017

### **What is the Tick Pilot?**

On May 6, 2015 the Securities and Exchange Commission (“SEC”) approved, on a pilot basis, a two-year program that would widen the minimum quoting and trading increments – or tick sizes – for small cap securities. The intent of the pilot is to determine if increasing the minimum tick size for small cap securities will increase market making and improve price discovery for these often lightly traded securities. The pilot will be conducted using three Test Groups and a Control Group, with variations in trading rules between each group. Of note, Test Group 3 will contain a Trade-At provision which will require all participants to execute against all protected quotations before executing non-displayed orders at the same price.

### **When will the Tick Pilot begin?**

The tick pilot is scheduled to begin on October 3, 2016 and run for a period of two years.

### **How do the Test Groups differ?**

- The Control Group will be quoted and traded at their current tick sizes.
- Test Group 1 securities will be quoted in \$0.05 increments but will continue to trade at their current price increments.
- Test Group 2 securities will be quoted and traded in \$0.05 increments with certain exceptions for midpoint executions and retail liquidity providing orders.
- Test Group 3 securities will follow the same quoting and trading rules as Test Group 2 securities but there will also be a Trade-At requirement.

Please see the [Tick Size Pilot Program Approval Order](#) for a complete description of the trading and quoting rules and the full list of exceptions allowed for each Test Group.

### **What is Trade-At?**

Trade-At is a provision of Test Group 3 that states a market center displaying a protected quotation may only execute up to the amount of its displayed size unless an exception applies. Orders executed as

part of a single-priced opening, re-opening, or closing transaction are exempt. Other Trade-At exemptions include crossed markets, orders marked as Trade-At ISO (“TAISO”), and a block size exemption.

## **What are the tick sizes?**

The minimum tick sizes for all Test Groups will be expanded to \$0.05 increments. For all Test Groups, new orders will only be accepted if priced in \$0.05 increments, unless an exception applies. Trades may occur inside the spread for various reasons; Cboe Retail Price Improvement orders and midpoint executions are two examples.

## **When will the Tick Pilot rules apply?**

Cboe will apply the Tick Pilot rules during all [operational hours](#), including the Trade-At provision of Test Group 3.

## **What securities are eligible for the Tick Pilot?**

Only securities with a market cap of \$3 billion or less that meet specific price and volume requirements are eligible for inclusion in the tick pilot. ETPs are not included in the pilot.

The securities will be broken into three Test Groups with 400 symbols assigned to each Test Group. Securities meeting the eligibility requirements but not assigned to a Test Group will be in the Control Group.

## **What symbols are in each Test Group?**

The list of symbols will be maintained and published on [FINRA's website](#). Test Group assignment will occur approximately 30 days prior to implementation.

## **What happens to the tick size for securities trading under \$1?**

Securities that fall below \$1 intraday will continue to quote in the standard \$0.05 increments of their assigned Test Group. If a symbol closes below \$1 it will be removed from the Test Group prior to the start of the next trading day and re-assigned to the Control Group. A new symbol will not be added to take the place of the removed symbol, nor will the “demoted” symbol be eligible to re-enter a Test Group if it subsequently closes above \$1.

## **Will there be any new order types?**

Cboe will introduce a Trade-At ISO (“TAISO”) instruction which will signify that the sender has cleared all Protected Quotes priced equal to or better than the order’s limit price allowing Cboe to execute the TAISO against contra side hidden orders up to the limit price of the order. TAISO only has meaning for Test Group 3, and orders marked as such will be treated as regular ISO orders for non-Test Group 3 symbols. Members will be able to mark an order with a TAISO instruction by sending *ExecInst* (FIX Tag 18) = “y”.

## **Do I have to use the new TAISO instruction to be compliant with the Tick Pilot or can I continue to send ISO?**

You only need to send TAISO if you are attempting to access hidden liquidity at Cboe that may be resting at the protected bid or offer. For all other purposes the standard ISO instruction is sufficient to comply with Tick Pilot rules.

## **Are there Opening process/Auction changes?**

Cboe is not the primary listing venue for any symbols in the Tick Pilot program. Cboe operates an opening midpoint cross for all non BZX-listed securities, including those in the tick pilot. Since midpoint executions are permitted in all test groups there will be no changes to the Cboe Opening Process.

## **How will Odd Lot and Mixed Lot orders be handled by Cboe in Test Group 3?**

Odd lot orders and mixed lot portions of round lot orders displayed on the Cboe Market Data feed will be executable at the Trade-At Protected Price in Test Group 3 without having to clear other markets displaying orders at that price level. Odd lot orders and mixed lot orders that are not displayed on the Cboe Market Data feed will not be executable at the Trade-At Protected Price unless Cboe is alone at the NBB/NBO or a contra side order marked TAISO is received.

## **How does the Tick Pilot impact routing?**

There are no changes needed for using Cboe as your order router. Directed TAISOs will not be supported.

## **Will Cboe Market Data change?**

There are no messaging changes for Cboe market data protocols.

## **When are the test dates?**

The Exchanges and SIPs have selected the below dates for the Tick Size Pilot Program industry weekend tests. Cboe will support the final Test Group assignments for all symbols during the weekend tests.

- September 10, 2016
- September 17, 2016
- October 1, 2016

Cboe will support intraday testing in the production using test symbols according to the below schedule. Tick Pilot Test Symbols: NTEST, NTEST A, NTEST B, NTEST C, ZAZZT, ZBZZT, ZCZZT, and ZVZZT.

- September 16, 2016 – BZX
- September 19, 2016 – BYX, EDGA, EDGX

Cboe BZX, BYX, and EDGX Exchanges will support intraday testing in the certification environment using the final test group assignments on September 7, 2016. Cboe EDGA Exchange will only allocate the test symbols to the tick groups.

## How will the symbols be rolled out?

After consultation with industry participants, the Operating Committee will commence the Tick Size Pilot Program on October 3, 2016 using a phased approach similar to other industrywide implementations and individual exchange technology rollouts. Below is a chart outlining the timeline and process. Securities assigned to Test Groups will be phased in alphabetically.

Date	Action	Additional Details
October 3, 2016	<ul style="list-style-type: none"> <li>➤ 5 Symbols – Test Group 1</li> <li>➤ 5 Symbols – Test Group 2</li> </ul>	<ul style="list-style-type: none"> <li>➤ All other symbols assigned to Test Group 1, Test Group 2, or Test Group 3 would be placed into the Control Group until they are activated in their respective group.</li> <li>➤ NYSE, Nasdaq, and FINRA symbol lists will be updated accordingly.</li> </ul>
October 10, 2016	<ul style="list-style-type: none"> <li>➤ 100 Symbols - Test Group 1</li> <li>➤ 100 Symbols - Test Group 2</li> </ul>	
October 17, 2016	<ul style="list-style-type: none"> <li>➤ 400 Symbols – Test Group 1</li> <li>➤ 400 Symbols – Test Group 2</li> <li>➤ 5 Symbols – Test Group 3</li> </ul>	<ul style="list-style-type: none"> <li>➤ All Test Group 1 and 2 symbols are live.</li> </ul>
October 24, 2016	<ul style="list-style-type: none"> <li>➤ 100 Symbols – Test Group 3</li> </ul>	

October 31, 2016	➤ 400 Symbols – Test Group 3	➤ All Test Group 3 symbols are live.
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### Eligible Securities List

- The New York Stock Exchange and NYSE MKT (NYSE Group) and the Nasdaq Stock Market (Nasdaq) will publish an automated list of securities eligible for the Tick Size Pilot on the evening of Sept. 2, 2016. At this time, all securities will be designated for the Control Group.
- FINRA will pick up the lists and publish the consolidated downloadable list on FINRA.org each night by 2 a.m. EST beginning on September 3, 2016.
- A daily change list will be published for this automated list every day.
- All securities will continue to be reflected as Control Group securities for the entire month of September.
- Starting on October 3, 2016, as securities are moved into their designated Test Group, as determined by the phase in schedule below, the security will move from the Control Group to the applicable Test Group in the daily list.

### Test Group Assignment List

- NYSE Group and Nasdaq will publish a manual list on September 6, 2016 identifying the final Test Group assignment for each eligible security.
- FINRA will obtain the lists from NYSE Group and Nasdaq to create a consolidated document which will be published on FINRA.org September 6, 2016 after NYSE Group and Nasdaq have posted the lists on their websites.
- NYSE Group and Nasdaq will publish any changes to the lists on their respective websites and FINRA will pick up any changes and publish those on FINRA.org.
- This list will no longer be published once implementation has completed.

## How will order handling change?

See approved exchange rule filings and amendments available on the Regulation tab of the public website for additional detail.

Order Type	Control Group	Test Group 1	Test Group 2	Test Group 3
Limit Orders (excludes RPI orders)	No Changes.	Will be rejected if not entered in \$0.05 increments. <u>This includes all order types that are sent with a limit price.</u>		
Market Orders	No changes.			
Display Price Sliding	Will hide and rank at the Locking Price and will display at most aggressive permissible increment (\$0.01 or \$0.05). If overlaid by a Post Only order, the hidden price will move to the midpoint where it has priority over non-displayed midpoint orders.		Will hide and rank at the midpoint and will display at most aggressive permissible \$0.05 increment. Will have higher priority than non-displayed midpoint orders.	
Multiple Display Price Sliding	No Changes.	Same as Display Price Sliding.		Same as Display Price Sliding except will remove against resting hidden orders when repricing after the locking price clears.
Price Adjust	Will rank and display at the most aggressive permissible increment (\$0.01 or \$0.05). Will rank and display at the locking price when it clears.			
Multiple Price Adjust	Same as Price Adjust, but will continue to adjust the rank and display prices towards the limit price as market conditions allow.			
Cancel Back	No Changes.	Hidden Cancel Back orders will be cancelled if overlaid by an incoming visible Post Only Order.		
Hidden Orders	No Changes.	If overlaid by a displayed Post Only order, will be re-priced to the nearest permissible increment.		
Reserve Orders	No Changes.		Reserve quantity cannot execute at NBB/NBO if an away market is at same price level unless the inbound order is marked TAISO. Reserve quantity can never be executed in a locked market.	
Odd Lot Orders	No Changes.	Will be rejected if not entered in \$0.05 increments.		
Stop and Stop Limit Orders	No Changes.	Stop and Stop Limit orders entered with Stop Prices in non-\$0.05 increments will be rejected. Stop Limit orders with limit prices not entered in \$0.05 increments will be rejected.		

Order Type	Control Group	Test Group 1	Test Group 2	Test Group 3
Midpoint Peg	No Changes.	Can execute at the midpoint in any increment. Limit Prices (if specified) must be entered in \$0.05 increments.		Same behavior as Test Groups 1 and 2, however, cannot be executed at the bid or offer if an away market is displayed at the same price level except against an inbound TAISO. Cannot execute in a locked market under any circumstances, including against an inbound TAISO or when Cboe is alone at NBB or NBO.
Midpoint Peg (No Lock)	No Changes.	Can execute at the midpoint in any increment. Limit Prices (if specified) must be entered in \$0.05 increments.		Same behavior as Test Groups 1 and 2, but cannot be executed at the bid or offer if an away market is displayed at the same price level except against an inbound TAISO.
Midpoint Alternative Peg	Not supported.			
Primary Pegs	No Changes.	Peg offsets must be in \$0.05 increments.		Non-displayed Primary Pegs cannot be executed at the NBB/NBO if an away market is at that price level unless the inbound order is marked TAISO. Peg offsets will be restricted to \$0.05 increments. Non-displayed Primary Pegs cannot execute in a locked market under any circumstances, including against an inbound TAISO or when Cboe is alone at NBB or NBO.
Market Pegs	Not supported.			
Market Maker Pegs	No Changes.	Will be rounded to the more aggressive \$0.05 increment.		

Order Type	Control Group	Test Group 1	Test Group 2	Test Group 3
Supplemental Pegs	Not supported.			
Midpoint Discretionary Pegs	No Changes.		Will peg and display at the same side and price of the NBB or NBO. Will execute at the midpoint in any increment. Will execute in between the midpoint and display price in \$0.05 increments.	
Discretionary Orders	Not supported.			
Retail Price Improvement (RPI) Orders (BYX Only)	Can be entered and executed in \$0.001 increments.		Can be entered in \$0.001 increments but must provide at least \$0.005 of price improvement ahead of NBB or NBO to be executable.	
ISO Day	No changes.			
ISO IOC	No changes.			Can only execute against displayed liquidity at NBB/NBO.
Trade At ISO (TAISO) IOC	Will reject if routable including DIRC.	Will be accepted and treated same as Regular ISO IOC. Will reject if routable including DIRC		Can execute against both displayed liquidity and hidden liquidity at NBB/NBO. Will reject if routable including DIRC
TAISO Day	Will function same as ISO Day.			