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VIA EMAIL AND FEDEX

Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: Plan to Implement a Tick Size Pilot Program (the "Plan")

Dear Secretary:

NYSE Group, Inc., on behalf of New York Stock Exchange LLC, NYSE MKT LLC, NYSE Arca, Inc., BATS Exchange, Inc., BATS Y-Exchange, Inc., Chicago Stock Exchange, Inc., EDGA Exchange, Inc., EDGX Exchange, Inc., Financial Industry Regulatory Authority, Inc., NASDAQ OMX BX, Inc., NASDAQ OMX PHLX LLC, and The Nasdaq Stock Market LLC (collectively, the "Participants"), respectfully files the Plan with the Securities and Exchange Commission (the "Commission") for approval pursuant to Rule 608 of Regulation NMS ("Rule 608") under the Securities Exchange Act of 1934 ("Exchange Act").[1]

Requirements Pursuant to Rule 608(a)

A. Statement of Purpose

The Participants are filing the proposed Plan in order to implement a pilot program for a one-year pilot period ("Pilot Period") that, among other things, would widen the quoting and trading increments for certain small capitalization stocks ("Tick Size Pilot Program"). The purpose of the Plan, and the Tick Size Pilot Program it contains, is to assist the Commission, market participants, and the public in studying and assessing the impact of increment conventions on the liquidity and trading of stocks of small capitalization companies. The Plan sets forth proposed procedures for selecting a representative group of stocks of small capitalization companies ("Pilot Securities") and subjecting groups of those Pilot Securities ("Test Groups") to various requirements with regards to quoting and trading increments.

[1] The Plan is filed pursuant to the Commission Order directing the Participants to submit a Tick Size Pilot Plan. *See* Securities Exchange Act Release No. 72460 (June 24, 2014), 79 FR 36840 (June 30, 2014) ("Tick Size Pilot Plan Order").

As set forth in more detail in the Plan, Participants will be required to adopt rules to ensure that Pilot Securities in the Test Groups are quoted and traded in permitted increments.[2]

Selection of Pilot Securities for Inclusion in the Tick Size Pilot Program

Pilot Securities will consist of those NMS common stocks[3] that satisfy the following criteria:

(1) A market capitalization of $5 billion or less on the last day of the Measurement Period,[4] where market capitalization is calculated by multiplying the total number of shares outstanding on such day by the Closing Price[5] of the security on such day;
(2) A Closing Price of at least $2.00 on the last day of the Measurement Period;
(3) A Closing Price on every trading day during the Measurement Period that is not less than $1.50;
(4) A Consolidated Average Daily Volume ("CADV") during the Measurement Period of one million shares or less, where the CADV is calculated by adding the single-counted share volume of all reported transactions in the NMS common stock during the Measurement Period and dividing by the total number of U.S. trading days during the Measurement Period; and
(5) A Measurement Period Volume-Weighted Average Price ("Measurement Period VWAP") of at least $2.00, where the Measurement Period VWAP is determined by calculating the VWAP of the NMS common stock for each U.S. trading day during the Measurement Period, summing the daily VWAP across the Measurement Period, and dividing by the total number of U.S. trading days during the Measurement Period.[6]

The Participants believe that the above criteria will result in the selection of those stocks that are most likely to benefit from a larger tick size because such stocks will tend to have higher average

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[2] Participants operating trading centers will be required, pursuant to the Plan, to ensure that Pilot Securities in the Test Groups are quoted and traded in permitted increments. As applicable, members of Participants will be required, pursuant to rules of self-regulatory organizations, to ensure that Pilot Securities in the Test Groups are quoted and traded in permitted increments.
[3] NMS common stock is defined in the Plan as NMS stock that is common stock of an operating company.
[4] Measurement Period is defined in the Plan as the U.S. trading days during the three-calendar-month period ending at least 30 days prior to the effective date of the Pilot Period.
[5] Closing Price is defined in the Plan as the closing auction price on the primary listing exchange, or if not available, then the last regular-way trade reported by the processor prior to 4:00 p.m. ET.
[6] For purposes of the CADV and Measurement Period VWAP calculations, U.S. trading days during the Measurement Period with early closes will be excluded.

effective spreads. Additionally, the criteria should help to ensure that those stocks most likely to fall below $1.00 during the Pilot Period are not included in the Tick Size Pilot Program.[7]

The Participants have decided not to include any NMS common stock that has its initial public offering within six months of the start of the Pilot Period. Such stocks will not have the full set of data required to be collected under the Plan for the six-month period before the start of the Tick Size Pilot Program. The Participants believe that the value of subjecting such stocks to the quoting and trading requirements of the Plan is diminished because market participants will not be able to analyze the effects of the quoting and trading requirements against a sufficient baseline.

Once the complete list of Pilot Securities is determined, the Participants will select, by means of a stratified random sampling process, the Pilot Securities to be placed into the three Test Groups. Those Pilot Securities not placed into the three Test Groups will constitute the Control Group. To effect the stratified random sampling, the Pilot Securities will be categorized based on price, market capitalization, and trading volume, and each of those three categories will be further subdivided into low, medium, or high subcategories.[8] As a result, the Pilot Securities will be grouped into a total of 27 categories.

The Tick Size Pilot Plan Order called for the selection of Pilot Securities by means of a stratified random sampling process with the Pilot Securities categorized based on only price and market capitalization.[9] The Plan also requires categorization by trading volume. The Participants believe that the addition of the trading volume category will create more detailed groups of Pilot Securities that will, in turn, lead to a diverse set of stocks selected for inclusion into each Test Group. The Participants believe that the more detailed groups will aid in the assessment process described below by permitting the Commission, market participants, and the public to review the effects of the quoting and trading increment requirements on stocks with a variety of characteristics.

A random sample of Pilot Securities from each of the 27 categories will be placed into the three Test Groups in a number proportional to the category's size relative to the population of Pilot Securities. So, for example, if the category consisting of high priced, high market capitalization, and medium trading volume Pilot Securities contained 5% of the Pilot Securities, that category would make up 5% of each Test Group. Further, a primary listing market's stocks will be selected from each category and included in the three Test Groups in the same proportion as that primary listing market's stocks comprise each category of Pilot Securities.

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[7] While the criteria are designed to avoid selecting an NMS common stock likely to fall below $1.00, a Pilot Security that falls below $1.00 during the Pilot Period will remain in the Tick Size Pilot Program.

[8] Low, medium, and high subcategories will be established by dividing the categories into three parts, each containing a third of the population.

[9] *See* Tick Size Pilot Plan Order at 36844.

Each Test Group will consist of 400 Pilot Securities and the Control Group will consist of the remaining Pilot Securities. The Participants believe that including 400 Pilot Securities in each Test Group will allow each Test Group to be statistically large enough to generate data to reliably test for the effects of a larger tick size. Additionally, if any Pilot Securities need to be removed from the data analysis due to unforeseen events, the Participants believe that including 400 Pilot Securities in each Test Group will ensure that the data on the remaining Pilot Securities will be sufficient to complete the required assessments.

Each primary listing exchange will make publicly available for free on its website a list of those Pilot Securities listed on that exchange and included in the Control Group and each Test Group. The list will be adjusted for ticker symbol changes and relevant corporate actions and will contain the data specified in Appendix A to the Plan.

Control and Test Groups' Increment Conventions and Trade-at Restrictions

During the Pilot Period, the Control Group and Test Groups will be subjected to quoting and trading increment requirements designed to allow the Commission, market participants, and the public to assess the effect of pricing increment decimalization on small capitalization companies.

Pilot Securities in the Control Group may be quoted and traded at any price increment that is currently permitted.[10] Maintaining the Control Group with the current quoting and trading increments will provide a baseline to analyze the economic effects of the wider quoting and trading increments required by the Test Groups.

Pilot Securities in Test Group One will be quoted in $0.05 minimum increments but may continue to trade at any price increment that is currently permitted. Participants will adopt rules prohibiting Participants or any member of a Participant from displaying, ranking, or accepting from any person any displayable and non-displayable bids or offers, orders, or indications of interest in any Pilot Security in Test Group One in price increments other than $0.05. However, orders priced to execute at the midpoint and orders entered into a Participant-operated retail liquidity program may be ranked and accepted in increments of less than $0.05.

Pilot Securities in Test Group Two will be subject to the same quoting requirements as Test Group One, along with the applicable quoting exceptions. In addition, Pilot Securities in Test Group Two may only be traded in $0.05 minimum increments. Participants will adopt rules prohibiting trading centers[11] operated by Participants and members of Participants from executing orders in any Pilot Security in Test Group Two in price increments other than $0.05.

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[10] Consistent with Rule 612(b) of Regulation NMS, bids or offers, orders, or indications of interest priced less than $1.00 per share for Pilot Securities in the Control Group may be displayed, ranked, or accepted in $0.0001 increments.

[11] Trading center is defined in the Plan as having the same meaning as that provided in Rule 600(b)(78) of Regulation NMS under the Exchange Act.

The $0.05 minimum trading increment will apply to brokered cross trades.[12] Pilot Securities in Test Group Two may trade in increments less than $0.05 under the following circumstances:

(1) Trading may occur at the midpoint between the National Best Bid and the National Best Offer ("NBBO") or the midpoint between the best protected bid and the best protected offer;
(2) Retail Investor Orders[13] may be provided with price improvement that is at least $0.005 better than the best protected bid or the best protected offer; and
(3) Negotiated Trades[14] may trade in increments less than $0.05.

Pilot Securities in Test Group Three will be subject to the same quoting and trading requirements as Test Group Two, along with the applicable quoting and trading exceptions. In addition, Pilot

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[12] A brokered cross trade is defined in the Plan as a trade that a broker-dealer that is a member of a Participant executes directly by matching simultaneous buy and sell orders for a Pilot Security.
[13] A Retail Investor Order is defined in the Plan as an agency order or a riskless principal order originating from a natural person, provided that, prior to submission, no change is made to the terms of the order with respect to price or side of market and the order does not originate from a trading algorithm or any other computerized methodology. Such orders include those retail orders entered into Participant-operated retail liquidity programs. The Participant that is the Designated Examining Authority of a member of a Participant operating a trading center executing a Retail Investor Order will require such trading center to sign an attestation that substantially all orders to be executed as Retail Investor Orders will qualify as such under the Plan.
[14] A Negotiated Trade is defined in the Plan as: (i) a Benchmark trade, including, but not limited to, a Volume-Weighted Average Price trade or a Time-Weighted Average Price trade, provided that, if such a trade is comprised of two or more component trades, each component trade complies with the quoting and trading increment requirements of the Plan, or with an exception to such requirements, or (ii) a Pilot Qualified Contingent Trade. A Benchmark Trade is defined in the Plan as the execution of an order at a price that was not based, directly or indirectly, on the quoted price of a Pilot Security at the time of execution and for which the material terms were not reasonably determinable at the time the commitment to execute the order was made. A Pilot Qualified Contingent Trade is defined in the Plan as a transaction consisting of two or more component orders, executed as agent or principal, where: (1) at least one component order is in an NMS common stock; (2) all components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent; (3) the execution of one component is contingent upon the execution of all other components at or near the same time; (4) the specific relationship between the component orders (*e.g.*, the spread between the prices of the component orders) is determined at the time the contingent order is placed; (5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled; and (6) the transaction is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade.

Securities in Test Group Three will be subject to a trade-at prohibition. The purpose of the trade-at prohibition is to assess and gather data with respect to the impact of market-wide restrictions on price-matching activity by market participants that are not quoting aggressively or otherwise offering liquidity in Pilot Securities at competitive prices. Toward that end, the trade-at prohibition of the Plan, operating in conjunction with applicable exceptions, generally will condition the ability of a trading center to execute at a protected quotation on that trading center's contemporaneous display of liquidity, either via a processor[15] or an SRO quotation feed,[16] at that, or a superior, price level, thereby discouraging passive price-matching and incentivizing aggressive quoting. Under the trade-at prohibition, the Plan will (1) prevent a trading center that was not quoting from price-matching protected quotations and (2) permit a trading center that was quoting at a protected quotation to execute orders at that level, but only up to the amount of its displayed size.

The Commission's Tick Size Pilot Plan Order stated that the trade-at prohibition "is intended to prevent price matching by a trading center not displaying the NBBO."[17] Accordingly, the Plan seeks to protect displayed liquidity and to prevent passive-price matching. Based on their experience observing price competition on the market centers that they regulate and market-wide, the Participants believe that the most appropriate and workable reference point for formulating a restriction on price-matching is the standard of a "protected quotation" rather than "the NBBO." The "protected quotation" standard would appear to have the following policy, structural, and operational advantages.

First, the "protected quotation" standard would give broader protection to aggressively displayed quotes, in that the "NBBO" is limited to the *single* best order in the market, while the "protected quotation" standard encompasses the *aggregate* of the most aggressively priced displayed liquidity on all trading centers.[18] Additionally, the Participants believe that not only should the best protected quotations be protected, but also that all protected quotations should be protected, as such protected quotations could likewise be the basis for passive price-matching.

Second, the only other difference between the NBBO and the best protected quotations is that the NBBO would include manual quotations. The Commission has previously recognized that manual quotations are not within the scope of liquidity that should be protected for Rule 611 of

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[15] Processor is defined in the Plan as the single plan processor responsible for the consolidation of information for an NMS stock pursuant to Rule 603(b) of Regulation NMS under the Exchange Act.

[16] SRO quotation feed is defined in the Plan as any market data feed disseminated by a self-regulatory organization.

[17] *See* Tick Size Pilot Plan Order at 36845.

[18] *See* 17 C.F.R. § 242.600(b)(42). When two or more market centers transmit to the plan processor identical bids or offers for an NMS security, the best bid or best offer is determined by ranking the identical bids or offers by size and then time. As a result, while two market centers may display identical prices, only one market center will display the national best bid or national best offer.

Regulation NMS ("Rule 611") (i.e., trade-through) purposes. Based on their experience implementing Rule 611 and other provisions related to intermarket display and price priority, the Participants believe that the scope of the trade-at prohibition in the Plan should be appropriately aligned with that of Regulation NMS.

Third, Participants believe that the trend, in terms of the design and development of systems that perform matching and routing functions, is to reference "protected quotations" rather than "the NBBO" and that the approach of the Plan would therefore provide a more workable approach for the assessment contemplated by the Plan. Most market centers today track the market center's view of protected quotations in its automated execution systems in order to comply with Rule 611. Changing such view for trade-at purposes to the market center's view of the NBBO or to the NBBO as displayed by the processor would incur additional development time, operational complexity and risk, and potentially create unintended conflicts between the logic designed to comply with Rule 611 and trade-at compliance logic.

Fourth, from a textual and implementation perspective, the Participants believe that achieving as great a degree of definitional simplicity is imperative. Specifically, the Participants believe that the reference to "the NBBO," with continued qualifications excluding manual quotations, would produce an approach that is unnecessarily more complex than grounding the trade-at prohibition in the more workable "protected quotation" standard.

In any event, the Plan, as demonstrated below, will prevent those trading centers not displaying at the best protected quotations from passively price matching those competitive quotations. If a trading center is not displayed at a best protected quotation, the trading center will not be able to execute any orders at that price level without first executing against that displayed liquidity. Accordingly, the Participants believe that the approach of the Plan is well-grounded in the discretion of Rule 611 and directly aligned with both the language and logic of the Commission's Tick Size Pilot Plan Order.

In accordance with the above reasoning, the Plan provides that Participants will adopt rules prohibiting trading centers operated by Participants and members of Participants from executing a sell order for a Pilot Security at the price of a protected bid or from executing a buy order for a Pilot Security at the price of a protected offer unless such execution falls within an exception set forth below.

Trading centers will be permitted to execute an order for a Pilot Security at a price equal to a protected bid or protected offer under the following circumstances:

(1) The order is executed by a trading center that is displaying a quotation, via either a processor or an SRO quotation feed,[19] at a price equal to the traded-at protected

[19] The Participants believe that a trading center displaying a quotation either via a processor, as a protected quotation, or via an SRO quotation feed, as a quotation below the trading center's top-of-book, should be able to avail themselves of this exception. As detailed in Example 3 below, a

quotation but only up to the trading center's full displayed size. Where the quotation is displayed through a national securities exchange, the execution at the size of the order must occur against the displayed size on that national securities exchange. Where the quotation is displayed through the Alternative Display Facility or another facility approved by the Commission that does not provide execution functionality, the execution at the size of the order must occur against the displayed size in accordance with the rules of the Alternative Display Facility or such approved facility;

(2) The order is of Block Size;[20]

(3) The order is a Retail Investor Order executed with at least $0.005 price improvement;

(4) The order is executed when the trading center displaying the protected quotation that was traded at was experiencing a failure, material delay, or malfunction of its systems or equipment;

(5) The order is executed as part of a transaction that was not a "regular way" contract;[21]

(6) The order is executed as part of a single-priced opening, reopening, or closing transaction by the trading center;

(7) The order is executed when a protected bid was priced higher than a protected offer in the Pilot Security;

(8) The order is identified as an Intermarket Sweep Order;

(9) The order is executed by a trading center that simultaneously routed Trade-at Intermarket Sweep Orders ("Trade-at ISOs")[22] to execute against the full displayed size of any protected quotation in the Pilot Security that was traded at;

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trading center would be able to trade at the price of a protected quotation against its depth-of-book displayed quotations in order to promote the display of protected quotations at a more aggressively-priced quotation.

[20] Block Size is defined in the Plan as having the same meaning as that provided in Rule 600(b)(9) of Regulation NMS under the Exchange Act.

[21] For purposes of the trade-at prohibition, "regular way" contract has the same meaning as the term is used in Rule 611(b). In the Regulation NMS Adopting Release, the Commission stated that "regular way" refers to "bids, offers, and transactions that embody the standard terms and conditions of a market." *See* Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37537 n. 326 (June 29, 2005).

[22] A Trade-at ISO is defined in the Plan as a limit order for a Pilot Security that meets the following requirements:

(1) When routed to a trading center, the limit order is identified as an Intermarket Sweep Order; and

(2) Simultaneously with the routing of the limit order identified as an Intermarket Sweep Order, one or more additional limit orders, as necessary, are routed to execute against the full displayed size of any protected bid, in the case of a limit order to sell, or the full displayed size of any protected offer, in the case of a limit order to buy, for the Pilot Security with a price that is equal to the limit price of

(10) The order is executed as part of a Negotiated Trade;
(11) The order is executed when the trading center displaying the protected quotation that was traded at had displayed, within one second prior to execution of the transaction that constituted the trade-at, a best bid or best offer, as applicable, for the Pilot Security with a price that was inferior to the price of the trade-at transaction;
(12) The order is executed by a trading center which, at the time of order receipt, the trading center had guaranteed an execution at no worse than a specified price (a "stopped order"), where:
a. The stopped order was for the account of a customer;
b. The customer agreed to the specified price on an order-by-order basis; and
c. The price of the trade-at transaction was, for a stopped buy order, equal to the national best bid in the Pilot Security at the time of execution or, for a stopped sell order, equal to the national best offer in the Pilot Security at the time of execution; or
(13) The order is for a fractional share of a Pilot Security, provided that such fractional share order was not the result of breaking an order for one or more whole shares of a Pilot Security into orders for fractional shares or was not otherwise effected to evade the requirements of the trade-at prohibition or any other provisions of the Plan.[23]

The first exception to the trade-at prohibition is designed to address the intended scope of the trade-at prohibition, as discussed above and illustrated in the examples below. The Participants

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the limit order identified as an Intermarket Sweep Order. These additional routed orders also must be marked as Intermarket Sweep Orders.

The Tick Size Pilot Plan Order provides for an ISO exception to the trade-at prohibition that, as described above, involves routing ISOs to execute against the full displayed size of protected quotations. *See* Tick Size Pilot Plan Order, 79 FR at 36846. From the perspective of the sending market, and as described in the Tick Size Pilot Plan Order, this usage of an ISO differs from the definition of ISO in Rule 600(b)(30) of Regulation NMS in that the ISOs, for purposes of the trade-at prohibition, need to be routed to execute against protected quotations with a price that is *equal* to the limit price of the order routed to a protected quotation. *See id.* at n. 65. For purposes of the trade-through prohibition in Rule 611 of Regulation NMS, Rule 600(b)(30) provides that ISOs need to be routed to execute against those protected quotations with a price that is *superior* to the limit price of the order routed to a protected quotation. To account for the differences in ISO usage, the Participants have defined ISOs routed to take advantage of the exception to the trade-at prohibition as Trade-at ISOs. From the perspective of the receiving market, the receipt of an ISO routed to comply with the exception to the trade-at prohibition is no different from the receipt of an ISO routed to comply with the exception to the trade-through prohibition; in both cases, the ISO designation permits the receiving market to execute the ISO at its limit price without regard to prices on away markets.

[23] A trading center complying with one of these exceptions under the trade-at prohibition must still ensure that any execution complies with Rule 611.

believe that a trading center displaying, either via a processor or an SRO quotation feed, at a protected quotation should only be able to execute against the full displayed size at that price, and should not be able to trade any hidden size at that price without complying with one of the exceptions detailed above. Without such a limitation, trading centers and market participants may not be incentivized to display quotations for a significant number of shares of Pilot Securities, thus circumventing the purposes of the trade-at prohibition. Therefore, to incentivize the public display of liquidity, only those orders—and those portions of such orders—that are fully displayed, either via a processor or an SRO quotation feed, on a trading center will be executable against a contra-side order at the price of a protected quotation before requiring a trading center to comply with another exception to the trade-at prohibition.

The Tick Size Pilot Plan Order included the third and fourth exceptions to the trade-at prohibition.[24] The Participants, however, determined not to include in the Plan the significant price improvement exception set out in the Tick Size Pilot Plan Order. Because of the applicable trading and quoting increments, an execution of an order at a price superior to a protected quotation will necessarily result in significant price improvement. Therefore, the Participants believe the significant price improvement exception is superfluous.

The fifth through thirteenth exceptions apply the trade-through exceptions found in Rule 611(b) to the trade-at prohibition. The Participants believe that the rationales underlying the trade-through exceptions apply to the trade-at prohibition as well. Consistent with this belief, the Participants have included the trade-through exceptions as exceptions to the trade-at prohibition, subject to a few minor changes to account for the difference between the trade-at prohibition and the trade-through prohibition.

Finally, the fourteenth exception implements an exception for fractional shares, but only with respect to situations where the fractional shares were not the result of breaking an order for one or more whole shares into orders for fractional shares. Due to the difficulties of routing fractional shares to comply with the trade-at prohibition, and because the execution of fractional shares will represent a negligible portion of overall trading, the Participants believe that fractional share orders should be excepted from the trade-at prohibition.

To illustrate the operation of the trade-at prohibition, the Participants have included the following examples:

Example 1

The NBBO for Pilot Security ABC is \$20.00 x \$20.10. Trading Center 1 is displaying a 100-share protected bid at \$20.00. Trading Center 2 is displaying a 100-share protected bid at \$19.95. There are no other protected bids. Trading Center 3 is not displaying any shares in Pilot Security ABC but has 100 shares hidden at \$20.00 and has 100 shares hidden at \$19.95. Trading Center 3 receives an incoming order to sell for 400 shares. To execute the 100 shares hidden at

[24] *See* Tick Size Pilot Plan Order at 36845-46, n. 63, 64.

\$20.00, Trading Center 3 must respect the protected bid on Trading Center 1 at \$20.00. Trading Center 3 must route a Trade-at Intermarket Sweep Order to Trading Center 1 to execute against the full displayed size of the protected bid, at which point Trading Center 3 is permitted to execute against the 100 shares hidden at \$20.00. To execute the 100 shares hidden at \$19.95, Trading Center 3 must respect the protected bid on Trading Center 2 at \$19.95. Trading Center 3 must route a Trade-at Intermarket Sweep Order to Trading Center 2 to execute against the full displayed size of the protected bid, at which point Trading Center 3 is permitted to execute against the 100 shares hidden at \$19.95.

Example 2

The NBBO for Pilot Security ABC is \$20.00 x \$20.10. Trading Center 1 is displaying a 100-share protected bid at \$20.00. Trading Center 2 is displaying a 100-share protected bid at \$20.00. Trading Center 2 also has 300 shares hidden at \$20.00 and has 300 shares hidden at \$19.95. Trading Center 3 is displaying a 100-share protected bid at \$19.95. There are no other protected bids. Trading Center 2 receives an incoming order to sell for 900 shares. Trading Center 2 may execute 100 shares against its full displayed size at the protected bid at \$20.00. To execute the 300 shares hidden at \$20.00, Trading Center 2 must respect the protected bid on Trading Center 1 at \$20.00. Trading Center 2 must route a Trade-at Intermarket Sweep Order to Trading Center 1 to execute against the full displayed size of Trading Center 1's protected bid, at which point Trading Center 2 is permitted to execute against the 300 shares hidden at \$20.00. To execute the 300 shares hidden at \$19.95, Trading Center 2 must respect the protected bid on Trading Center 3 at \$19.95. Trading Center 2 must route a Trade-at Intermarket Sweep Order to Trading Center 3 to execute against the full displayed size of Trading Center 3's protected bid, at which point Trading Center 2 is permitted to execute against the 300 shares hidden at \$19.95.

Example 3

The NBBO for Pilot Security ABC is \$20.00 x \$20.10. Trading Center 1 is displaying a 100-share protected bid at \$20.00. Trading Center 1 is also displaying 300 shares at \$19.90 on an SRO quotation feed. Trading Center 2 is displaying a 100-share protected bid at \$19.95. Trading Center 2 is also displaying 200 shares on an SRO quotation feed at \$19.90 and has 200 shares hidden at \$19.90. Trading Center 3 is displaying a 100-share protected bid at \$19.90. There are no other protected bids. Trading Center 2 receives an incoming order to sell for 700 shares. To execute against its protected bid at \$19.95, Trading Center 2 must comply with the trade-through restrictions in Rule 611 and route an intermarket sweep order to Trading Center 1 to execute against the full displayed size of Trading Center 1's protected bid at \$20.00. Trading Center 2 is then permitted to execute against its 100-share protected bid at \$19.95. Trading Center 2 may then execute 200 shares against its full displayed size at the price of Trading Center 3's protected bid. To execute the 200 shares hidden at \$19.90, Trading Center 2 must respect the protected bid on Trading Center 3 at \$19.90. Trading Center 2 must route a Trade-at Intermarket Sweep Order to Trading Center 3 to execute against the full displayed size of Trading Center 3's protected bid, at which point Trading Center 2 is permitted to execute against the 200 shares hidden at \$19.90. Trading Center 2 does not have to respect Trading Center 1's displayed size at \$19.90 for trade-at purposes because it is not a protected quotation.

Collection of Pilot Data

Throughout the Pilot Period, the Participants will collect the data described in Appendix B to the Plan with respect to Pilot Securities. Such data will include:

(1) Daily market quality statistics of orders by security, order type, original order size (as observed by the trading center), hidden status (as applicable), and coverage under Rule 605 of Regulation NMS;
(2) Specified data regarding market orders and marketable limit orders;
(3) Daily number of registered Market Makers;[25] and
(4) Daily Market Maker participation statistics.

Each Participant that is the Designated Examining Authority of a member of a Participant operating a trading center will require such member to collect and provide to the Designated Examining Authority the data described in subparagraphs (1) and (2) above, subject to the terms and conditions in Appendix B to the Plan. The Participants and each member of a Participant operating a trading center will also be required to collect such data for dates starting six months prior to the Pilot Period through six months after the end of the Pilot Period.

The data will be made publicly available for free on a disaggregated basis by trading center on the websites of the Participants and the Designated Examining Authorities and will be reported by the Participants and the Designated Examining Authorities to the Commission on a monthly basis. The data will be provided on a disaggregated basis by trading center. The data made publicly available will not identify the trading center that generated the data.

Participants will also require each Market Maker to provide to its Designated Examining Authority the data described in Appendix C to the Plan with respect to Pilot Securities, specifically data related to daily Market Maker trading profits. The Designated Examining Authority will aggregate such data, report it to the Commission, and make it publicly available for free on its website on a monthly basis. Such data will also be provided for dates starting six months prior to the Pilot Period through six months after the end of the Pilot Period. The Designated Examining Authority will develop policies and procedures reasonably designed to ensure the confidentiality of the non-aggregated data it receives from Market Makers. The data made publicly available will not identify the Market Makers that generated the data.

Each Participant will make available to the other Participants a list of members designated as Market Makers on that Participant's trading center. Because the data requested will be gathered

[25] Market Maker is defined in the Plan as a dealer registered with any self-regulatory organization, in accordance with the rules thereof, as (i) a market maker or (ii) a liquidity provider with an obligation to maintain continuous, two-sided trading interest.

by a Participant whether or not the member is registered as a Market Maker with that Participant's trading center, each Participant will need the list to determine those members about whom the Participant needs to report data.

Assessment of Pilot Data

Within six months after the end of the Pilot Period, the Participants will provide to the Commission and make publicly available a joint assessment of the impact of the Pilot. Such assessment will include:

(1) An assessment of the statistical and economic impact of an increase in the quoting increment on market quality;
(2) An assessment of the statistical and economic impact of an increase in the quoting increment on the number of Market Makers;
(3) An assessment of the statistical and economic impact of an increase in the quoting increment on Market Maker participation;
(4) An assessment of the statistical and economic impact of an increase in the quoting increment on market transparency;
(5) An evaluation whether any market capitalization, daily trading volume, or other thresholds can differentiate the results of the above assessments across stocks (*e.g.*, does the quoting increment impact differently those stocks with daily trading volume below a certain threshold);
(6) An assessment of the statistical and economic impact of the above assessments for the incremental impact of a trading increment and for the joint effect of an increase in a quoting increment with the addition of a trading increment;
(7) An assessment of the statistical and economic impact of the above assessments for the incremental impact of a trade-at prohibition and for the joint effect of an increase in a quoting increment with the addition of a trading increment and a trade-at prohibition; and
(8) An assessment of any other economic issues that the Participants believe the Commission should consider in any rulemaking that may follow the Pilot.

Further, Participants may individually submit to the Commission and make publicly available additional supplemental assessments of the impact of the Tick Size Pilot Program.

The Tick Size Pilot Plan Order originally called for the Participants to assess the effect of the quoting and trading increment requirements on Market Maker profitability.[26] The Exchanges believe that Market Makers will be in a better position than the Participants to analyze the effects of the Tick Size Pilot Program on Market Maker profitability. Therefore, the Participants have removed this assessment from the Tick Size Pilot Plan.

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[26] *See* Tick Size Pilot Plan Order at 36846.

B. Governing or Constituent Documents

Not applicable.

C. Implementation of Plan

The initial date of the Tick Size Pilot Program will be no sooner than 180 calendar days following the publication of the Commission's Approval Order of the Plan in the Federal Register.

D. Development and Implementation Phases

The Plan will be implemented as a one-year pilot program.

E. Analysis of Impact on Competition

The proposed Plan does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Exchange Act. The Participants do not believe that the proposed Plan introduces terms that are unreasonably discriminatory for the purposes of Section 11A(c)(1)(D) of the Exchange Act.

F. Written Understanding or Agreements relating to Interpretation of, or Participation in, Plan

The Participants have no written understandings or agreements relating to the interpretation of the Plan. Section II(C) of the Plan sets forth how any entity registered as a national securities exchange or national securities association may become a Participant.

G. Approval of Amendment of the Plan

Not applicable.

H. Terms and Conditions of Access

Section II(C) of the Plan provides that any entity registered as a national securities exchange or national securities association under the Exchange Act may become a Participant by: (1) executing a copy of the Plan, as then in effect; (2) providing each then-current Participant with a copy of such executed Plan; and (3) effecting an amendment to the Plan as specified in Section III(B) of the Plan.

I. Method of Determination and Imposition, and Amount of Fees and Charges

Not applicable.

J. Method and Frequency of Processor Evaluation

Not applicable

K. Dispute Resolution

The Plan does not include specific provisions regarding resolution of disputes between or among Participants. Section III(C) of the Plan provides for each Participant to designate an individual to represent the Participant as a member of an Operating Committee. No later than the initial date of the Plan, the Operating Committee shall designate one member of the Operating Committee to act as the Chair of the Operating Committee. The Operating Committee shall monitor the procedures established pursuant to the Plan and advise the Participants with respect to any deficiencies, problems, or recommendations as the Operating Committee may deem appropriate. Any recommendation for an amendment to the Plan from the Operating Committee that receives an affirmative vote of at least two-thirds of the Participants, but is less than unanimous, shall be submitted to the Commission as a request for an amendment to the Plan initiated by the Commission under Rule 608.

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Respectfully submitted,

Enclosure

cc: The Hon. Mary Jo White, Chair
The Hon. Luis A. Aguilar, Commissioner
The Hon. Daniel M. Gallagher, Commissioner
The Hon. Kara M. Stein, Commissioner
The Hon. Michael S. Piwowar, Commissioner
Mr. Stephen Luparello, Director of Trading and Markets
Mr. James Burns, Deputy Director of Trading and Markets
Mr. David S. Shillman, Associate Director of Trading and Markets

Mr. Joseph C. Lombard, Murphy & McGonigle, P.C.