

# Tick Sizes, Access Fees, and Transparency of Better Priced Orders



The Securities and Exchange Commission proposed rule amendments that would:

- Amend the minimum pricing increments, also known as tick sizes, under Rule 612 of Regulation NMS to establish a variable minimum pricing increment model that would apply to both the quoting and trading of NMS stocks, which are stocks listed on a national securities exchange, regardless of trading venue;
- Reduce the access fee caps under Rule 610 of Regulation NMS in conjunction with the reduction of the minimum pricing increments and require national securities exchanges to make the amounts of all fees and rebates determinable at the time of execution;
- Accelerate the implementation of the round lot and odd-lot information definitions adopted in 2020 under the Market Data Infrastructure Rules ("MDI Rules"); and
- Amend the odd-lot information definition adopted under the MDI Rules to require the identification of the best odd-lot order. An odd-lot order is an order for the purchase or sale of an NMS stock in an amount less than a round lot (typically 100 shares).

## Why This Matters

When market participants submit orders to buy or sell shares of an NMS stock, the difference between the best buy order and best sell order is the "bid-ask spread." Rule 612 sets forth a minimum pricing increment of \$0.01 for quotes and orders in NMS stocks priced at or greater than \$1.00, which prevents bid-ask spreads for these stocks from being less than \$0.01.

Today, many NMS stocks are constrained by the minimum pricing increment that is required under Rule 612 and thus are not able to be priced by market forces. That is, based on liquidity and price competition, these stocks could be priced more aggressively within the bid-ask spread than is possible with the current minimum pricing increment of \$0.01. These stocks are considered to be "tick-constrained," and they make up the majority of current trading volume. Trading in these stocks would be improved if competitive market forces could establish prices in sub-penny increments and enable buyers to obtain lower prices from willing sellers and sellers to obtain higher prices from willing buyers.

Further, the MDI Rules enhanced transparency about better priced orders available in the market. Accelerating implementation of certain of the MDI Rules would provide investors with useful information about the best priced orders available in the market.

## How the Rules Would Apply

**Minimum Pricing Increments.** The proposed amendments to Rule 612 would set forth variable minimum pricing increments that apply to quoting and all trading—on exchanges, alternative trading systems, and over-the-counter—with certain exceptions. The following minimum pricing increments would be established for quotations, orders, indications of interest, and trades in NMS stocks priced equal to or greater than \$1.00 per share:

Minimum Pricing Increment	If the Time Weighted Average Quoted Spread for the NMS stock during the Evaluation Period was:
\$0.001	Equal to or less than \$0.008
\$0.002	Greater than \$0.008 but less than or equal to \$0.016
\$0.005	Greater than \$0.016 but less than or equal to \$0.04
\$0.01	Greater than \$0.04

**Access Fees.** The proposed amendments to Rule 610 would reduce the level of the access fee caps, which limit the fees that can be charged for trading against the best priced quotations displayed in any market. For quotations in NMS stocks priced at \$1.00 or more, the access fee cap would be \$0.0005 per share for NMS stocks that have a minimum pricing increment of \$0.001; and the access fee cap would be \$0.001 per share for NMS stocks that have a minimum pricing increment greater than \$0.001. For quotations in NMS stocks priced less than \$1.00, the access fee cap would be 0.05 percent of the quotation price.

The proposed amendments to Rule 610 would also prohibit a national securities exchange from imposing, or permitting to be imposed, any fee, or providing, or permitting to be provided, any rebate or other remuneration for the execution of an order in an NMS stock unless such fee, rebate, or other remuneration can be determined at the time of execution. Any national securities exchange that imposes a fee or provides a rebate that is based on a certain volume threshold, or establishes tier requirements or tiered rates based on minimum volume thresholds, would be required to set such volume thresholds or tiers using volume achieved during a stated period prior to the assessment of the fee or rebate. This would enable market participants to determine what fee or rebate level would be applicable to any submitted order at the time of execution.

**Transparency of Better Priced Orders.** The proposed amendments would accelerate the date by which market participants must comply with the odd-lot information and round lot definitions adopted under the MDI Rules to 90 days from Federal Register publication of any Commission adoption of an earlier implementation for these definitions.

The proposed amendments to Rule 603(b) would require the existing exclusive securities information processors (“exclusive SIPs”) to collect, consolidate, and disseminate odd-lot information and require national securities exchanges and associations to provide the data necessary to generate odd-lot information to the exclusive SIPs.

Finally, the proposed amendments to the definition of odd-lot information under Rule 600(b) would include a new data element that would identify the best odd-lot orders to buy and sell across all national securities exchanges and national securities associations.

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### **Additional Information:**

The public comment period will remain open until March 31, 2023, or until 60 days after the date of publication of the proposing release in the Federal Register, whichever is later.