

Amendments to SEC Rule 201 of Regulation SHO

Frequently Asked Questions

Effective Date of the SEC's amendments to Rule 201 of Regulation SHO will be Monday, February 28, 2011.

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, the Alternative Uptick Rule.

- The rule states that a short sale circuit breaker, when triggered, will impose a restriction whereby short sale orders will not be eligible to be executed at the NBB (National best bid).
- The circuit breaker will be triggered when the price of a security has declined by 10% from the previous day's close.
- The circuit breaker will remain in effect through the close of the regular market on the next trading day. A short sale circuit breaker may be "re-triggered" on the second day.
- The primary listing exchanges are responsible for determining that a short sale circuit breaker has been triggered and disseminating that information to the market.
- Under Reg SHO, broker dealers are permitted to mark a short sale (SS) order as "exempt" (SSE) if the broker-dealer has determined that it meets all of the conditions of an exemption under the Rule. However, determining whether an exemption is available and documenting the support for the exemption solely is the responsibility of the broker dealer sending the order to GSEC for execution.
- In addition, if a broker-dealer sends a SS order to a trading center that is intended to be fully un-displayed, that order may not be marked as "exempt" in reliance on Rule 201(c). This includes the routing of orders to a fully non-displayed venue or the usage of un-displayed order types such as immediate-or-cancel (IOC) orders. Accordingly, a broker-dealer should consider the appropriateness of relying upon the broker-dealer exemption outlined in Rule 201(c) when using a smart router or algorithm that may either send orders to non-displayed venues or use un-displayed order types.

For more details, please refer to the official SEC Reg SHO filing

<http://www.sec.gov/rules/final/2010/34-61595.pdf>. The SEC also recently issued a Frequently Asked Questions document that may address any additional questions you may have. Please refer to <http://www.sec.gov/divisions/marketreg/rule201faq.htm>.

1. How will GSET handle sell short exempt (SSE) orders from broker-dealer and non-broker dealer clients?

Under Rule 201, SSE can only be used by a broker dealer if all of the conditions of at least one of the available exemptions are met. Please refer to the SEC Reg SHO FAQ for clarification. GSET will reject all SSE orders from non-broker-dealer clients.

2. How will GSET handle sell short (SS) orders from broker-dealer and non-broker dealer clients?

If a circuit breaker has been triggered, all SS orders routed to SIGMA X™ priced at the NBB will adhere to the industry standard of "Price-Sliding". The SS order will be eligible to execute at the NBB + 1 minimum price increment as designated by the SEC.

3. What methods of order entry will GSET accept sell short (SS) and sell short exempt (SSE) orders?

GSET will support the entry of SS and SSE orders via the smart action bar from REDIPlus® and Portfolio Trader as well as via FIX (tag 54 = "6" for SSE).

4. Will GSET accept sell short and sell sort exempt orders at all times during the day or just when a circuit breaker has been triggered?

For broker-dealer clients, GSET will accept SS and SSE orders at all times, whether a circuit breaker has been triggered or not. Please be aware that SS orders may not be marked SSE in reliance upon the broker-dealer exemption outlined in Rule 201(c) unless a circuit breaker is in effect.

5. How will GSET algorithmic orders and smart routed orders be handled during a short sale circuit breaker?

Clients will be able to enter SS and SSE algorithmic and smart routed orders at any time during the trading day. Depending on the default behavior of the executing venue, orders may be "Price-Slid" or rejected back. The industry standard behavior is defaulting to "price-sliding".

6. Can a sell short order be amended to a sell short exempt order if a short sale circuit breaker has been triggered?

Amendments to the order marking will not be allowed. You must cancel the existing SS order and send a new order as SSE.

7. How will Rule 201 affect Market-On-Open (MOO) and Market-On-Close (MOC) orders?

Currently, the SEC has granted exemptive relief to permit the NYSE and NYSE Amex to use certain reference prices other than the current NBB (i.e. 9:30 a.m. NBB for MOO) to determine whether a SS order can be executed in a single-priced opening, reopening, or closing transaction. As stated in Rule 201, unless otherwise exempt, SS orders will need to be executed at a price above the NBB during MOO and MOC periods. This will not effect GSET clients' ability to submit orders or from participating in MOO and MOC periods.

8. While the short sale circuit breaker is in effect, under what circumstances will GSET reject the sell short order?

SS orders will NOT be rejected back but will be subject to the industry standard of "Price-sliding". This includes resting SS orders.

9. How will sell short IOC (“Immediate or Cancel”) orders be handled by the smart order router?

The GSET smart order router will accept IOC SS orders whether or not a short sale circuit breaker is in effect and it is up to the executing venue to establish how it will handle the execution of IOC orders.

10. How will SIGMA X handle sell short and sell short exempt orders during a short sale circuit breaker?

SIGMA X will adhere to the industry standard of "Price-Sliding" on any SS orders priced at the NBB. The SS order will be eligible to execute at the NBB + 1 minimum price increment once a short sale circuit breaker has been triggered, as designated by the SEC. This will apply to new as well as existing SS orders.

11. How will sell short IOC (“Immediate or Cancel”) orders be handled in SIGMA X?

SIGMA X will adhere to the industry standard of “Price-Sliding” on any SS orders priced at the NBB including IOC orders. If an IOC order does not receive an execution, the order will be cancelled back.

12. Will an indicator or alert be available within REDIPlus indicating whether a short sale circuit breaker has been triggered in a particular symbol?

Yes, REDIPlus users will be able to see the current short sale circuit breaker status of any symbol by adding the necessary fields in the quote monitor. In addition, users on the most recent version of REDIPlus (version 10.2) will be able to receive pop-up alerts.

If you have any questions regarding the amendments to SEC Rule 201 of Regulation SHO, or specific GSET order handling practices, please contact your GSET sales trader.

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