

Regulatory Alert

Regulatory Insights for Financial Services

September 2024

Market Rules: NMS SEC Amendments

KPMG Insights:

- **Stock Prices:** Changes pricing of many stocks to quote increments of \$0.005 (“tick sizes”).
- **Fee Caps:** In concert with a regulatory focus on fees, reduces access fee caps for stock quotes and makes the amounts of all fees/rebates determinable at the time of execution.
- **Accelerate Implementation:** Implements the round lot and odd-lot definitions in order to help enhance market transparency and investor protections.

The Securities and Exchange Commission (SEC) adopts [amendments](#) to Regulation NMS, or the rules governing the national market system (NMS) under the Securities Exchange Act of 1934, related to:

1. Minimum pricing increments (i.e., “tick sizes”)
2. Access fees
3. Transparency of better priced orders

These amendments, adopted with some modifications from the December 2022 proposal (see KPMG’s Regulatory Alert, [here](#)), are intended to “reduce transaction costs, improve market quality for all investors, and help ensure that orders placed in the NMS reflect the best prices available for all investors.”

Key highlights of the amendments are outlined below.

Minimum Pricing Increments (Tick Sizes). The amendments establish a second minimum pricing increment under Rule 612 for quotations and orders in NMS stocks priced at or greater than \$1.00 per share by a national securities exchange, national securities association, alternative trading systems, vendor, or broker or dealer, as outlined in the table below.

Minimum Pricing Increment	If the Time Weighted Average Quoted Spread of the NMS stock during the Evaluation Period was:
\$0.005	Equal to or less than \$0.015
\$0.01	Greater than \$0.015

Minimum pricing increments for quotations and orders will be assigned based on a semiannual Evaluation Period using 3-months of trading data to calculate each NMS stock’s time-weighted average quoted spread (TWAQS) and thereafter assigned for a six-month period.

The final amendments contain modifications from the proposal including 1) the adoption of only one additional minimum pricing increment (as opposed to the three proposed), 2) modification of the Evaluation Period, and 3) the decision not to include a minimum pricing increment for trades.

- Access Fees.** The amendments will revise Rule 610 to:
- Reduce the level of access fee caps for quotations in NMS stocks. For protected quotations and other best bids and offers of a national securities exchange or a national securities association in NMS stocks priced at \$1.00 or more, Rule 610(c) caps the access fee at \$0.001 (“10 mil”) per share. For protected quotations and other best bids and offers in NMS stocks priced

less than \$1.00, the access fee cap will be 0.1 percent of the quotation price per share.

- Prohibit a national securities exchange from imposing any fee or providing any rebate or other remuneration (e.g., discounted fees, credits, or forms of linked pricing) for the execution of an order in NMS stock unless such fee, rebate, or other remuneration can be determined by the market participant at the time of execution. In addition, the national securities exchange will be required to set any volume thresholds or tiers based on volume achieved for a stated period prior to the assessment of the fee or rebate.

Transparency of Better Priced Orders: The amendments accelerate the implementation schedule for “odd-lot” and “round lot” information definitions adopted under the Market Data Infrastructure (MDI) Rules.

- Amendments to Rule 603(b) require:
 - Existing exclusive securities information processors (“exclusive SIPs”) to collect, consolidate, and disseminate odd-lot information.
 - National securities exchanges and national securities associations to provide the data necessary to generate odd-lot information to the exclusive SIPs.

- Amendments to Rule 600(b):
 - Update the definition of odd-lot information to add a new data element that identifies the best odd-lot orders to buy and sell across all national securities exchanges and national securities associations.
 - Modify the round lot definition to require round lot adjustments semiannually (rather than monthly as proposed) and modify the calculation of the average closing price on the primary listing exchange so that it will be based on a one-month “Evaluation Period”.

Effective Date and Compliance Period. The amendments will become effective sixty (60) days after publication in the Federal Register.

- For Rules 610 and 612, and the round lot definition, the compliance date will be the first business day in November 2025.
- For odd-lot information, the compliance date will be the first business day in May 2026.

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