



FIF/FPL Regulatory Reporting WG SEC Short Sale Exemption Reason Code Proposal

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Document History

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0.2	August 20, 2010	Greg Malatestinic, Jordan & Jordan	Corrections to the enumeration values.
0.3	August 29, 2010	Greg Malatestinic, Jordan & Jordan	Separated Domestic and International Arbitrage. Changed proposed location of new leg tag from InstrumentLeg to LegOrdGrp.
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1 Introduction

The SEC is amending Regulation SHO to place further restrictions on short selling. As stated in Rule 201(b)(1): A trading center shall establish, maintain, and enforce written policies and procedures reasonably designed to:

- (i) Prevent the execution or display of a short sale order of a covered security at a price that is less than or equal to the current national best bid if the price of that covered security decreases by 10% or more from the covered security's closing price as determined by the listing market for the covered security as of the end of regular trading hours on the prior day; and
- (ii) Impose the requirements of paragraph (b)(1)(i) of this section for the remainder of the day and the following day when a national best bid for the covered security is calculated and disseminated on a current and continuing basis by a plan processor pursuant to an effective national market system plan.

This creates a "Circuit Breaker" which changes the trading behavior for a security.

A previous gap analysis considered the role of FIX in pre-trade dissemination of securities reference data and market data. It concluded that FIX needs a method to disseminate whether this Circuit Breaker is triggered for a given security, as well as a method for a user to query whether the Circuit Breaker is in effect. See [FIX Protocol Gap Analysis – SEC Short Sale Restriction Proposal 0.4.doc](#).

Given that the SEC amendment also provides exemptions to the rule (broker/dealers may submit "short exempt" orders under certain conditions), it is also necessary for us to analyze the role of FIX messages during the trade lifecycle. In particular, a FIX order message must be able to indicate whether the order is exempt from the rule. Furthermore, it has been suggested that execution and trade reporting messages also convey the reason for the exemption.

General exemptions to Rule 201(b)(1) are:

- The broker-dealer has a reasonable basis to believe the seller owns the covered security pursuant to Rule 200, but is subject to restrictions on delivery, provided that the seller intends to deliver the security as soon as all restrictions on delivery have been removed.
- The broker-dealer has a reasonable basis to believe the sale is by a market maker to offset customer odd-lot orders or to liquidate an odd-lot position that changes such broker's or dealer's position by no more than a unit of trading.
- The sale is connected to a bona-fide domestic arbitrage transaction.
- The sale is connected to an international arbitrage transaction.
- The short sale is (i) by an underwriter or member of a syndicate or group participating in the distribution of a security in connection with an over-allotment of securities; or (ii) is for purposes of a lay-off sale by an underwriter or member of a syndicate or group in connection with a distribution of securities through a rights or standby underwriting commitment.
- The short sale is by a broker or dealer effecting the execution of a customer purchase or the execution of a customer "long" sale on a riskless principal basis.
- The short sale order is for the sale of a covered security at the volume weighted average price (VWAP) meeting certain criteria.

2 Business Workflow

FIX already provides support to indicate a short sell exemption through Side (54) = 6 (Sell short exempt). By adding a new field, ShortSaleExemptionReason (1688), to the NewOrderSingle message and the ListOrdGrp component block of the NewOrderList messages (and their corresponding cancel-replace messages) we can convey information regarding the reason for the exemption.

For multi-leg transactions, the new field, LegShortSaleExemptionReason (1689), added to the LegOrdGrp component block of the NewOrderMultileg message will convey similar information.

For post-trade support, the new field, SideShortSaleExemptionReason (1690), added to the TrdCapRptSideGrp component block within the TradeCaptureReort message will convey similar information.

3 Issues and Discussion Points

Discussions between the FIF, SEC, FINRA, and the markets are ongoing. More business requirements may emerge.

The proposed data type of ShortSaleExemptionReason is Int. This allows only a single value to be specified. As of now, no business case has been made that multiple exemption reasons, should they exist, be indicated. So the use of Int is sufficient.

The use of ShortSaleExemptionReason is not defined for Cross orders to avoid conflict with the ISE Order Handling Gap Analysis.

An existing field, ShortSaleReason (853), is applicable only for trade reporting to reporting facilities, such as NASDAQ ACT and FINRA TRACE, and was determined to be inappropriate to support the Reg SHO amendment.

As this is a regulatory requirement, it is expected that firms will need to implement this feature in older versions of the FIX Protocol. Use of FIX fields from later versions in earlier versions lacking a needed function, especially in case of new regulatory requirements, is considered an acceptable deviation. It is expected that firms will use the field number assigned by FPL in earlier FIX versions. However, some FIX engines cannot support fields from later versions incorporated in earlier versions. To support these, FPL will also assign a tag number in the 8000-8999 reserved range of User Defined Fields.

4 Proposed Message Flow

All Broker/Dealers with the responsibility of enforcing the rule must indicate an exemption exists by setting Side (54) = 6 and may indicate the exemption reason, by use of the new fields.

The following table shows the applicability of the proposed fields and the location of the fields within each of the messages.

	ShortSale-ExemptionReason (1688)	LegShortSale-ExemptionReason (1689)	SideShortSale-ExemptionReason (1690)
NewOrderSingle	root-level		
NewOrderList	ListOrgGrp		
NewOrderMultileg		LegOrdGrp	
OrderCancelReplaceRequest	root-level		
MultilegOrderCancelReplace		LegOrdGrp	
ExecutionReport	root-level	InstrmtLegExecGroup	
TradeCaptureReport		TrdInstrmtLegGrp	TrdCapRptSideGrp

5 FIX Messages

5.1 NewOrderSingle

Tag	FieldName	Req'd	Comments	Action
StandardHeader		Y	MsgType = D	
11	ClOrdID	Y	Unique identifier of the order as assigned by institution or by the intermediary (CIV term, not a hub/service bureau) with closest association with the investor.	
526	SecondaryClOrdID	N		
583	ClOrdLinkID	N		
<....truncated....>				
140	PrevClosePx	N	Useful for verifying security identification	
54	Side	Y		
1688	ShortSaleExemptionReason	N	Optional when Side (54) = 6 (Sell short exempt)	Add
114	LocateReqd	N	Required for short sell orders	
60	TransactTime	Y	Time this order request was initiated/released by the trader, trading system, or intermediary.	
<....truncated...>				
StandardTrailer		Y		

5.2 OrderCancelReplaceRequest

Order Cancel/Replace Request (a.k.a. Order Modification Request)

Tag	FieldName	Req'd	Comments	Action
StandardHeader		Y	MsgType = G	
37	OrderID	N	Unique identifier of most recent order as assigned by sell-side (broker, exchange, ECN).	
component block <Parties>		N	Insert here the set of "Parties" (firm identification) fields defined in "Common Components of Application Messages"	
229	TradeOriginationDate	N		
75	TradeDate	N		
<....truncated....>				
54	Side	Y	Should match original order's side, however, if bilaterally agreed to the following groups could potentially be interchanged: Buy and Buy Minus Sell, Sell Plus, Sell Short, and Sell Short Exempt Cross, Cross Short, and Cross Short Exempt	
1688	ShortSaleExemptionReason	N	Optional when Side (54) = 6 (Sell short exempt)	Add
60	TransactTime	Y	Time this order request was initiated/released by the trader or trading system.	
854	QtyType	N		
<....truncated....>				
StandardTrailer		Y		

5.3 ExecutionReport

Execution Report

Tag	FieldName	Req'd	Comments	Action
StandardHeader		Y	MsgType = 8	
component block <ApplicationSequenceControl>		N	For use in drop copy applications. NOT FOR USE in transactional applications.	
37	OrderID	Y	OrderID is required to be unique for each chain of orders.	
198	SecondaryOrderID	N	Can be used to provide order id used by exchange or executing system.	
526	SecondaryClOrdID	N	In the case of quotes can be mapped to: - QuoteID(117) of a single Quote - QuoteEntryID(299) of a Mass Quote.	
527	SecondaryExecID	N		
<....truncated....>				
component block <UndInstrmtGrp>		N	Number of underlyings	
54	Side	Y		
1688	ShortSaleExemptionReason	N	Optional when Side (54) = 6 (Sell short exempt)	Add
component block <Stipulations>		N	Insert here the set of "Stipulations" (repeating group of Fixed Income stipulations) fields defined in "Common Components of Application Messages"	
854	QtyType	N		
<....truncated....>				
StandardTrailer		Y		

6 FIX component blocks

6.1 InstrumentLegExecGrp component block

InstrumentLegExecGrp is used in the ExecutionReport message

Tag	FieldName	Req'd	Comments	Action
555	NoLegs	N	Number of legs	
à	component block <InstrumentLeg>			
à	687	LegQty (Deprecated in FIX.5.0)	N	
à	685	LegOrderQty	N	When reporting an Execution, LegOrderQty may be used on Execution Report to echo back original LegOrderQty submission. This field should be used to specify OrderQty at the leg level rather than LegQty (deprecated).

à	690	LegSwapType	N		
à	component block <LegStipulations>		N		
à	564	LegPositionEffect	N	Provide if the PositionEffect for the leg is different from that specified for the overall multileg security	
à	565	LegCoveredOrUncovered	N	Provide if the CoveredOrUncovered for the leg is different from that specified for the overall multileg security.	
à	component block <NestedParties>		N		
à	654	LegRefID	N	Used to identify a specific leg.	
à	566	LegPrice	N	Provide only if a Price is required for a specific leg. Used for anchoring the overall multileg security price to a specific leg Price.	
à	587	LegSettlType	N		
à	588	LegSettlDate	N	Takes precedence over LegSettlType value and conditionally required/omitted for specific LegSettlType values.	
à	637	LegLastPx	N		
à	675	LegSettlCurrency	N		
à	1073	LegLastForwardPoints	N		
à	1074	LegCalculatedCcyLastQty	N		
à	1075	LegGrossTradeAmt	N	For FX Futures can be used to express the notional value of a trade when LegLastQty and other quantity fields are expressed in terms of number of contracts - LegContractMultiplier (231) is required in this case.	
à	1689	LegShortSaleExemptionReason	N	Optional when LegSide (624) = 6 (Sell short exempt) within InstrumentLeg component block.	Add

6.2 TrdInstmtLegGrp

TrdInstmtLegGrp is used in the TradeCaptureReport message

Tag	FieldName	Req'd	Comments	Action
555	NoLegs	N	Number of legs	
à	component block <InstrumentLeg>		N	
à	687	LegQty	N	
à	690	LegSwapType	N	Instead of LegQty – requests that the sellside calculate LegQty based on opposite Leg
	990	LegReportID	N	Additional attribute to store the Trade ID of the Leg.
à	component block <LegStipulations>		N	
à	564	LegPositionEffect	N	Provide if the PositionEffect for the leg is different from that specified for the overall multileg security
à	565	LegCoveredOrUncovered	N	Provide if the CoveredOrUncovered for the leg is different from that specified for the overall multileg security.
à	component block <NestedParties>		N	

à	654	LegRefID	N	Used to identify a specific leg.	
à	566	LegPrice	N	Provide only if a Price is required for a specific leg. Used for anchoring the overall multileg security price to a specific leg Price.	
à	587	LegSettlType	N		
à	588	LegSettlDate	N	Takes precedence over LegSettlType value and conditionally required/omitted for specific LegSettlType values.	
à	637	LegLastPx	N		
à	675	LegSettlCurrency	N		
à	1073	LegLastForwardPoints	N		
à	1074	LegCalculatedCcyLastQty	N		
à	1075	LegGrossTradeAmt	N	For FX Futures can be used to express the notional value of a trade when LegLastQty and other quantity fields are expressed in terms of number of contracts - LegContractMultiplier (231) is required in this case.	
à	1689	LegShortSaleExemptionReason	N	Optional when LegSide (624) = 6 (Sell short exempt) within InstrumentLeg component block.	Add

6.3 TrdCapRptSideGrp

TrdCapRptSideGrp is used in the TradeCaptureReport message

Tag	FieldName	Req'd	Comments	Action
552	NoSides	N	Number of side	
à	54	Side		
à	37	OrderID	OrderID should be conditionally required when Trade Capture Report is used for back office processing.	
à	198	SecondaryOrderID	Can be used to provide order id used by exchange or executing system.	
à	11	ClOrdID		
<....truncated....>				
	1072	SideGrossTradeAmt		
	1057	AggressorIndicator		
	1139	ExchangeSpecialInstructions		
à	1690	SideShortSaleExemptionReason	Optional when Side (54) = 6 (Sell short exempt).	Add

6.4 ListOrdGrp component block

ListOrdGrp is used in the NewOrderList message

Tag	FieldName	Req'd	Comments	Action
73	NoOrders	Y	Number of orders in this message (number of repeating	

				groups to follow)	
à	11	ClOrdID	Y	Must be the first field in the repeating group.	
à	526	SecondaryClOrdID	N		
à	67	ListSeqNo	Y	Order number within the list	
<....truncated....>					
à	140	PrevClosePx	N	Useful for verifying security identification	
à	54	Side	Y	Note: to indicate the side of SideValue1 or SideValue2, specify Side=Undisclosed and SideValueInd=either the SideValue1 or SideValue2 indicator.	
à	1688	ShortSaleExemptionReason	N	Optional when Side (54) = 6 (Sell short exempt)	Add
à	401	SideValueInd	N	Refers to the SideValue1 or SideValue2. These are used as opposed to Buy or Sell so that the basket can be quoted either way as Buy or Sell.	
à	114	LocateReqd	N	Required for short sell orders	
à	60	TransactTime	N		
<....truncated....>					

6.5 LegOrdGrp component block

LegOrdGrp is used in the NewOrderMultileg and MultilegOrderCancelReplace messages

Tag	FieldName	Req'd	Comments
555	NoLegs	Y	Number of legs Can be zero (e.g. standardized multileg instrument such as an Option strategy) – must be provided even if zero
à	component block <InstrumentLeg>	N	Must be provided if Number of legs > 0
à	1017 LegOptionRatio	N	LegOptionRatio is provided on Covering leg to create a delta neutral spread. In Listed Derivatives, LegDelta LegOptionRatio is multiplied by LegOptionRatio and OrderQty to determine the covering quantity
à	687 LegQty	N	
à	690 LegSwapType	N	
à	component block <LegStipulations>	N	
à	670 NoLegAllocs	N	
à	à 671 LegAllocAccount	N	
à	à 672 LegIndividualAllocID	N	
à	à component block <NestedParties2>	N	Insert here the set of "Nested Parties #2" (firm identification "second instance of nesting" within additional repeating group) fields defined in "Common Components of Application Messages"
à	à 673 LegAllocQty	N	
à	à 674 LegAllocAcctIDSource	N	
à	à 675 LegSettlCurrency	N	

à	564	LegPositionEffect	N	Provide if the PositionEffect for the leg is different from that specified for the overall multileg security
à	565	LegCoveredOrUncovered	N	Provide if the CoveredOrUncovered for the leg is different from that specified for the overall multileg security.
à	component block <NestedParties>		N	Insert here the set of "Nested Parties" (firm identification "nested" within additional repeating group) fields defined in "Common Components of Application Messages" Used for NestedPartyRole=Leg Clearing Firm/Account, Leg Account/Account Type
à	654	LegRefID	N	Used to identify a specific leg.
à	566	LegPrice	N	Provide only if a price is required for a specific leg. Used for anchoring the overall multileg security price to a specific leg price.
à	587	LegSettlType	N	Refer to values for SettlType (63)
à	588	LegSettlDate	N	Refer to values for SettlDate (64)
à	685	LegOrderQty	N	
à	1689	LegShortSaleExemptionReason	N	Optional when LegSide (624) = 6 (Sell short exempt) within InstrumentLeg component block.

7 Appendix A - Data Dictionary

Tag	Field Name	Action	Data type	Description	FIXML Abbreviation	Add to / Deprecate from Message type or Component block
1688	ShortSaleExemptionReason	Add	int	<p>Indicates the reason a short sale order is exempted from applicable regulation (e.g. Reg SHO addendum (b)(1) in the U.S.).</p> <p>Valid values: 0 = Exemption reason unknown 1 = Incoming sell short exempt 2 = Above national best bid (Broker Dealer provision) 3 = Delayed delivery 4 = Odd lot 5 = Domestic arbitrage 6 = International arbitrage 7 = Underwriter or syndicate distribution 8 = Riskless principal 9 = VWAP</p>	@ShrtSaleExmp tnRsn	NewOrderSingle ListOrdGrp OrderCancelReplaceRequest ExecutionReport
1689	LegShortSaleExemptionReason	Add	int	<p>Indicates the reason a short sale is exempted from applicable regulation (e.g. Reg SHO addendum (b)(1) in the U.S.)</p> <p>Uses same values as ShortSaleExemptionReason.</p>	@ShrtSaleExmp tnRsn	LegOrdGrp InstrmtLegExecGrp TrdInstrmtLegGrp
1690	SideShortSaleExemptionReason	Add	int	<p>Indicates the reason a short sale is exempted from applicable regulation (e.g. Reg SHO addendum (b)(1) in the U.S.)</p> <p>Uses same values as ShortSaleExemptionReason.</p>	@ShrtSaleExmp tnRsn	TrdCapRptSideGrp

New FIXML abbreviation:

- Exemption :: Exmptn

Long descriptions for enums values in ShortSaleExemptionReason, LegShortSaleExemptionReason and SideShortSaleExemptionReason fields.

Enum value	Description
0 = Exemption reason unknown	An exemption reason not provided or received.
1 = Incoming SSE	Agency broker has the customer's exemption reason, which is not explicitly provided to executing broker.
2 = Above national best bid (broker dealer provision)	Broker / dealer responsible for enforcing exemption rule has determined that the order is priced one or more ticks above the nation best bid of the security to be traded.
3 = Delayed delivery	The broker-dealer has a reasonable basis to believe the seller owns the covered security (pursuant to Rule 200 in the U.S.), but is subject to restrictions on delivery, provided that the seller intends to deliver the security as soon as all restrictions on delivery have been removed.
4 = Odd lot	The broker-dealer has a reasonable basis to believe the sale is by a market maker to offset customer odd-lot orders or to liquidate an odd-lot position that changes such broker's or dealer's position by no more than a unit of trading.
5 = Domestic arbitrage	The sale is connected to a bona-fide domestic arbitrage transaction.
6 = International arbitrage	The sale is connected to an international arbitrage transaction.
7 = Underwriter or syndicate distribution	The short sale is (i) by an underwriter or member of a syndicate or group participating in the distribution of a security in connection with an over-allotment of securities; or (ii) is for purposes of a lay-off sale by an underwriter or member of a syndicate or group in connection with a distribution of securities through a rights or standby underwriting commitment.
8 = Riskless principal	The short sale is by a broker or dealer effecting the execution of a customer purchase or the execution of a customer "long" sale on a riskless principal basis.
9 = VWAP	The short sale order is for the sale of a covered security at the volume weighted average price (VWAP) meeting certain criteria.

8 Appendix B - Glossary Entries

Term	Definition	Field where used

9 Appendix C - Usage Examples

The proposed exemption reason field values are taken directly from the general exemptions outlined in Rule(b)(1). Several other values have been included to simplify implementation and to facilitate specific workflows.

9.1 Field Value: Exemption Reason Unknown

The field value, "Exemption Reason Unknown", has been included to allow: support for systems forwarding 54=SSE where they didn't receive an exemption code, but must supply something on the next hop; and a database column where no reason code existed.

9.2 Field Value: Incoming SSE

Although not mentioned as an exemption to the rule, "Incoming SSE" is intended to facilitate a specific workflow between two broker/dealers: "Incoming SSE" would be used when BrokerA sends an SSE order to BrokerB to be executed where BrokerB doesn't need to know the actual reason provided by BrokerA's customer.

9.3 Field Value: Above National Best Bid (Broker Dealer Provision)

The broker/dealer with the responsibility of enforcing Rule 201(b)(1), has determined that the order is priced one or more ticks above the nation best bid of the security to be traded.