

offerings. Under the proposal, on the first day of trading of the securities of a SuperSOES-eligible IPO or secondary offering, after SuperSOES has executed an order against a market maker's displayed quote and reserve size (if applicable), the market maker will be required to execute another order at its posted bid or offer in that security as soon as SuperSOES delivers another order to the market maker's quote. Consequently, a market maker will be available for subsequently execution at its posted quote as quickly as the system can transmit instructions between the execution and quote-update engines, an operation that, according to Nasdaq, generally requires from one to one and one half seconds.

After the first day of trading in the IPO or secondary offering, the NNMS interval delay between executions against the same market maker at the same price level will be determined by whether or not the security is part of the Nasdaq 100 Index. Thus, on subsequent trading days, the NNMS interval delay between executions against the same market maker at the same price level for a Nasdaq 100 Index security would be two seconds and the NNMS interval delay between executions against the same market maker at the same price level for a security that is not a part of the Nasdaq 100 Index would be five seconds.⁷

Nasdaq proposes to implement the proposal on a six-month pilot basis beginning when SuperSOES become operational. During operation of the pilot program, Nasdaq represents that it will monitor the performance of the system under the proposed parameters to determine whether the proposed measures adequately address the concerns expressed by market participants.

Nasdaq believes that reducing the interval delay between executions on the first day of trading of NNMS-eligible IPOs and secondary offerings will ensure that customer orders for those securities are processed in the most expeditious manner possible. Nasdaq also believes that such processing will improve market function and aid in the price discovery process.

⁷ Nasdaq will continue its current practice of using the same interval delay between multiple round-lot executions against the same market participant for odd-lot executions of that same security. For example, if the interval delay in a security is five seconds, the interval delay after an odd-lot execution would also be five seconds. In addition, Nasdaq represents that it will closely monitor odd-lot order entry activity in NNMS to ensure that such activity does not adversely impact market quality.

III. Discussion

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities association.⁸ In particular, the Commission finds that the proposal is consistent with section 15A(b)(6) of the Act⁹ because it is designed to promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in processing information with respect to and facilitating transactions in securities, as well as to remove impediments to and perfect the mechanism of a free and open market, and, in general, to protect investors and the public interest.

As discussed more fully above, the interval delay in SuperSOES will be two seconds for Nasdaq 100 Index securities and five seconds for all other Nasdaq NMS securities. In its proposal to establish a two-second interval delay for Nasdaq 100 Index securities, Nasdaq noted that market participants had expressed concern that a five-second interval delay could hinder the efficient and orderly operation of SuperSOES by causing a queuing of orders in securities with rapid order flow.¹⁰

According to Nasdaq, market participants have raised similar queuing concerns in connection with the rapid flow of orders accompanying IPOs and secondary offerings. The Commission believes that the current proposal responds to concerns raised by market participants and should help to minimize the queuing of orders for IPOs and secondary offerings on their first day of trading. The Commission believes that the prompt execution of orders for IPOs and secondary offerings may facilitate the price discovery process, to the benefit of all market participants.

Nasdaq proposes to implement the proposal on a six-month pilot basis, commencing with the launch of SuperSOES. The Commission believes that implementing the proposal on a six-month pilot basis should provide Nasdaq with time to evaluate the operation of the proposed changes and their impact on the market.

Amendment No. 1 requires the lead underwriter of a secondary offering to communicate to the Nasdaq Market Operations Department, no later than the business day prior to the start of the

⁸ In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁹ 15 U.S.C. 78o-3(b)(6).

¹⁰ See 2000 Notice, *supra* note 6.

trading in the secondary offering, that it wishes to obtain immediate processing of executions in the secondary offering.¹¹ If the request is not made in a timely manner, the secondary offering will be processed pursuant to the interval delays applicable to the security. The Commission finds that this requirement will help ensure that Nasdaq is specifically made aware of the need to remove the interval delay on the first day of such an offering.

IV. Conclusion

For the foregoing reasons, the Commission finds that the proposal, as amended, is consistent with the requirements of the Act and rules and regulations thereunder.

It Is Therefore Ordered, pursuant to section 19(b)(2) of the Act,¹² that the proposed rule change (SR-NASD-01-03) and Amendment No. 1 thereto are approved on a six-month pilot basis, commencing with the launch of SuperSOES.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-44144; File No. SR-NASD-00-81]

RIN

Self Regulatory Organizations; Order Granting Approval of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to Computer to Computer Interface Fees for Non-NASD Members

April 2, 2001.

I. Introduction

On December 26, 2000, the National Association of Securities Dealers, Inc. ("NASD") through its subsidiary, The Nasdaq Stock Market, Inc. ("Nasdaq") filed with the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² a proposed rule change relating to computer to computer interface fees for

¹¹ See Amendment No. 1, *supra* note 4.

¹² 15 U.S.C. 78s(b)(2).

¹³ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

non-NASD members,³ Notice of the proposed rule change appeared in the **Federal Register** on January 16, 2001.⁴ The Commission received no comments on the proposed rule change. This order approved the proposed rule change.

II. Description of the Proposal

Nasdaq proposes to amend NASD Rule 7010 to change the manner in which fees are assessed on non-NASD members who use a Computer-to-Computer Interface ("CTCI") to access

Nasdaq services. This new fee structure has been created to reflect Nasdaq's adoption of a new Transmission Control Protocol/Internet Protocol ("TCP/IP") standard for CTCI linkages that will allow transmission of CTCI data using Nasdaq's Enterprise Wide Network II ("EWNII"). Nasdaq intends to impose these fees on a rolling basis on non-members as they are converted to the new protocol and T1 or 56kb lines.⁵

Proposed new language is in italics; proposed deletions are in brackets.

* * * * *

7000 CHARGES FOR SERVICES AND EQUIPMENT

7010. System Services

(a) through (e) No change.

(f) Nasdaq Workstation™ Service

(1) through (2) No Change.

(3) The following charges shall apply for each CTCI subscriber:

[Service Charge \$200/month per CTCI circuit]

Options	Price J
Option 1: <i>Dual 56kb lines (one for redundancy) and single hub and router</i>	\$1,275/month.
Option 2: <i>Dual 56kb lines (one for redundancy), dual hubs (one for redundancy), and dual routers (one for redundancy).</i>	\$1,600/month.
Option 3: <i>Dual T1 lines (one for redundancy), dual hubs (one for redundancy), and dual routers (one for redundancy). Includes base bandwidth of 128kb.</i>	\$8,000/month.
Disaster Recovery Option: <i>Single 56kb line with single hub and router. (For remote disaster recovery sites only.) ...</i>	\$975/month.
<i>Bandwidth Enhancement Fee (for T1 subscribers only)</i>	\$4,000/month per 64kd increase above 128kb T1 base.
<i>Installation Fee</i>	\$2,000 per site for dual hubs and router. \$1,000 per site for single hub and router.
<i>Relocation Fee (for the movement of TCP/IP-capable lines within a single location)</i>	\$1,700 per relocation.

* * * * *

The CTCI network is a point-to-point dedicated circuit connection from the premises of brokerages and service providers to Nasdaq's processing facilities in Trumbull, Connecticut. Through CTCI, firms are able to enter trade reports to Nasdaq's Automated Confirmation Transaction Service ("ACT") and orders to Nasdaq's ACES and Small Order Execution ("SOES") systems. CTCI also processes SelectNet transaction confirmation reports.

In response to numerous requests from market participants that Nasdaq upgrade the speed and reliability of its current CTCI data transmission environment, Nasdaq has determined to sunset its existing CTCI X.25.bisynch network. This X.25 system will be replaced by linking current CTCI subscribers to Nasdaq's faster and more reliable EWNII. EWNII operates new more powerful 56kb and T1 data lines and transmits electronic information using the industry-standard TCP/IP transmission protocol. Once the

transition to EWNII is completed, Nasdaq will terminate its current X.25/bisynch network. This upgrade will require all current X.25/19.2kb users to install either 56kb or T1 lines. Nasdaq believes that, in return, these lines will provide a minimum data transmission capability of almost three times that of the current 19kb-based interface.

III. Discussion

The Commission finds the proposed rule change is consistent with the Act and the rules and regulations promulgated thereunder.⁶ Specifically, the Commission finds that approval of the proposed rule change is consistent with section 15A(b)(5) of the Act,⁷ which requires that the rules of the NASD provide for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which the NASD operates or controls. The Commission notes that Nasdaq's upgrade of the speed and reliability of its current CTCI

data transmission network should enable Nasdaq to provide CTCI subscribers with linkages that are more robust, customizable, and efficient in the use of available network bandwidth.

IV. Conclusion

For the above reasons, the Commission finds that the proposed rule change is consistent with the provisions of the Act, in general, and with section 15A(b)(5),⁸ in particular.

It is Therefore Ordered, pursuant to section 19(b)(2) of the Act,⁹ that the proposed rule change, SR-NASD-00-81, as amended, be and hereby is approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,

Deputy Secretary.

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³ On December 26, 2000, Nasdaq filed Amendment No. 1 with the Commission. Amendment No. 1 noted that Nasdaq's Board of Directors approved the proposed rule change at its meeting on October 4, 2000, and the NASD Board of Governors reviewed the proposal at its meeting on October 5, 2000.

⁴ See Securities Exchange Act Release No. 43815 (January 8, 2001), 66 FR 3625 (January 16, 2001).

⁵ Nasdaq filed a separate proposal to impose these same fees on NASD members who interact with Nasdaq through a CTCI. See Securities Exchange Act Release No. 43821 (January 8, 2001), 66 FR 3627 (January 16, 2001).

⁶ In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f)

⁷ 15 U.S.C. 78o-3(b)(5).

⁸ *Id.*

⁹ 15 U.S.C. 78s(b)(2).

¹⁰ 17 CFR 200.30-3(a)(12).