

MEMO# 14142

November 14, 2001

NASDAQ PROPOSED RULE CHANGE RELATING TO DISPLAY REQUIREMENTS WHEN USING RESERVE SIZE

[14142] November 14, 2001 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 44-01 RE: NASDAQ PROPOSED RULE CHANGE RELATING TO DISPLAY REQUIREMENTS WHEN USING RESERVE SIZE The NASD, through its subsidiary, the Nasdaq Stock Market, has filed with the SEC a proposed rule change¹ (a copy of which is attached) to reduce from 1000 shares to 100 shares the display size requirement when using the reserve size functionality in the Nasdaq National Market System. Currently, Nasdaq rules prohibit the use of its reserve size functionality unless a market maker is displaying at least 1000 shares in its public quote. The proposed rule change states that this requirement was initially imposed to encourage the display of larger sized share amounts in the Nasdaq market. With the advent of decimalization, however, the NASD believes that this requirement has resulted in a diffusion of trading interest and liquidity across multiple price points that militates against the continuous display of large share amounts at a single price level. In addition, the proposed rule change states that the NASD believes that the current requirement places NNMS at a competitive disadvantage to other execution systems that allow the use of reserve size without a 1000-share display requirement. Nasdaq, therefore, proposes to eliminate this requirement and would allow market makers to use NNMS' reserve size anytime they display a quote of at least one round lot, i.e., 100 shares. Comments on the proposed rule change are due to the SEC no later than December 4, 2001. If you have any questions or comments regarding the proposed rule change, please contact the undersigned by phone at 202-371-5408, by fax at 202-326-5839, or by e-mail at aburstein@ici.org. Ari Burstein Associate Counsel Attachment 1 Securities Exchange Act Release No. 45016 (November 5, 2001), 66 FR 56875 (November 13, 2001). 2 Attachment (in .pdf format)

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