

MEMO# 10983

May 14, 1999

NASD FILES PROPOSED RULE CHANGE RELATING TO FIRM QUOTATION REQUIREMENTS

* Securities Exchange Act Release No. 41390 (May 12, 1999). [10983] May 14, 1999 TO:
EQUITY MARKETS ADVISORY COMMITTEE No. 14-99 RE: NASD FILES PROPOSED RULE
CHANGE RELATING TO FIRM QUOTATION REQUIREMENTS

The National Association of Securities Dealers, Inc. ("NASD"), through its wholly-owned subsidiary, The Nasdaq Stock Market, Inc. ("Nasdaq"), has filed with the Securities and Exchange Commission ("SEC") a proposed rule change (attached) to require a market maker, when presented with an order that is at least one normal unit of trading greater than the market maker's published quotation size, to immediately move its published quotation to an inferior price if the market maker fails to execute the full size of the order presented.* The proposed rule change is intended to address a situation where a market maker enters a minimum quotation size, receives an order larger than its quoted size, fills the order only up to its quoted size, and remains at the inside quote prepared to accept another order at the minimum quotation size. Nasdaq believes this situation causes market inefficiencies as multiple small orders must be executed in place of a single larger order. According to Nasdaq, this results in increased transaction costs to market participants and, eventually, the public customer. In addition, Nasdaq believes this situation impedes the price discovery process which would occur through transactions with other market makers at varying prices and precludes other market makers from positioning and executing large orders. Nasdaq also believes that this situation leads to increased instances of locked and crossed markets and hinders price continuity. Comments on the proposed rule change must be filed within 21 days of its publication in the Federal Register. If you have any comments on the proposed rule change, please provide them to Ari Burstein by phone at (202) 371-5408, by fax at (202) 326-5841, or by e-mail at aburstein@ici.org no later than May 27. Ari Burstein
Assistant Counsel Attachment