

**MEMO# 14304**

January 7, 2002

## **NASD PROPOSED RULE CHANGE RELATING TO SEPARATION FROM NASDAQ AND THE NASD ALTERNATIVE DISPLAY FACILITY**

[14304] January 7, 2002 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 2-02 RE: NASD PROPOSED RULE CHANGE RELATING TO SEPARATION FROM NASDAQ AND THE NASD ALTERNATIVE DISPLAY FACILITY The Securities and Exchange Commission has published for comment a proposed rule change filed by the NASD<sup>1</sup> relating to Nasdaq's proposed separation from the NASD and the establishment of the NASD Alternative Display Facility ("ADF"). As you know, the NASD is in the process of spinning off the Nasdaq Stock Market as an independent, for-profit company. However, before Nasdaq can fully separate from the NASD, it must become registered as a national securities exchange with the SEC. Upon Nasdaq's registration as a national securities exchange, the NASD will no longer control the voting rights in the common stock of Nasdaq and the two entities will become unaffiliated, with each needing separate rules applicable to their respective members. To effectuate that change, the NASD must modify its existing rules, effective upon Nasdaq's registration as an exchange, to reflect the separation of Nasdaq from the NASD. The proposed rule change would make the necessary changes. In addition, the proposed rule change would establish rules governing the implementation and operation of the ADF. The ADF is a quotation collection, trade comparison, and trade reporting facility being developed by the NASD as required by the SEC in the approval of Nasdaq's SuperMontage. In particular, the facility would provide market participants the ability to collect and view quotations and to report transactions to the appropriate Securities Information Processor for consolidation and dissemination of data to vendors and ADF market participants. The facility also would provide for trade comparison and trade reporting services that would be similar to Nasdaq's ACT system. The facility further would provide for real-time data delivery to NASD Regulation for regulatory purposes, including enforcement of firm quote and related rules. The Release notes that the ADF rules differ from existing Nasdaq rules most significantly with respect to participants' ability to reach quotes displayed in the ADF. Specifically, the NASD would not provide ADF market participants with an order routing capability. The proposed rule change, however, contains a new rule that would require market participants to provide direct electronic access to other market participants and direct or 1 Securities Exchange Act Release No. 45156 (December 14, 2001), 67 FR 388 (January 3, 2002) ("Release"). 2 indirect electronic access to all other NASD members seeking access. The SEC specifically requests comment in the Release on whether this rule will provide potential users with adequate access to quotations displayed through the ADF and will allow the NASD to effectively enforce its access requirements. Comments on the proposed rule

change are due to the SEC no later than January 21, 2002. If you have any questions 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](mailto:aburstein@ici.org). Ari Burstein  
Associate Counsel Attachment Attachment (in .pdf format)

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