

MEMO# 16721

October 31, 2003

NASDAQ PROPOSED RULE CHANGE RELATING TO INTERNALIZATION IN SUPERMONTAGE

[16721] October 31, 2003 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 27-03 RE: NASDAQ PROPOSED RULE CHANGE RELATING TO INTERNALIZATION IN SUPERMONTAGE The Securities and Exchange Commission has issued a notice of the filing of a proposed rule change by the Nasdaq Stock Market (a copy of which is attached) to allow SuperMontage Order Entry Firms to automatically internalize in SuperMontage.¹ Comments on the proposed rule change must be received by the SEC no later than November 6, 2003. If you would have any comments on the proposed rule change, please provide them to the undersigned by phone at (202) 371-5408 or by e-mail at aburstein@ici.org no later than November 4. Currently, SuperMontage rules provide a general exception to the system's execution algorithms that allow non-directed orders entered by SuperMontage Market Makers and ECNs to first match off against any quotes/orders previously entered by that same party on the opposite side of the market if those previously entered quotes/orders are at the best bid/offer in Nasdaq. SuperMontage Order Entry Firms are currently prohibited from using this automatic matching functionality and are instead required to enter all non-directed orders with an anti-internalization qualifier that prevents an automatic match. Nasdaq states that, in response to requests from these Order Entry Firms, it seeks to give them the same internalization capability as all other SuperMontage users. Nasdaq believes that providing Order Entry Firms with the opportunity to internalize in SuperMontage will provide an additional incentive for such firms to post increased liquidity in the SuperMontage system, thereby benefiting all users. Ari Burstein Associate Counsel Attachment (in .pdf format) 1 Securities Exchange Act Release No. 48606 (October 8, 2003), 68 FR 59659 (October 16, 2003).