

**MEMO# 11446**

December 3, 1999

## **NASD DELAYS IMPLEMENTATION OF AFTER-HOURS INSIDE QUOTE CALCULATION**

1 See Memorandum to Equity Markets Advisory Committee No. 35-99 and SEC Rules Committee No. 84-99, dated October 21, 1999. 2 Securities Exchange Act Release No 42004 (October 13, 1999). 3 In conjunction with the calculation and distribution of the inside quote starting on February 7, 2000, NASD members will be required to comply with all applicable limit order protection and display rules. Until then, the SEC has indicated that it will provide temporary relief from those rules due to the lack of an inside quote calculation. [11446] December 3, 1999 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 37-99 SEC RULES COMMITTEE No. 102-99 RE: NASD DELAYS IMPLEMENTATION OF AFTER-HOURS INSIDE QUOTE CALCULATION

As we previously informed you,<sup>1</sup> the Securities and Exchange Commission ("SEC") granted accelerated approval to a pilot program that extends the availability of some of the Nasdaq Stock Market's ("Nasdaq") trade reporting and quote dissemination systems until 6:30 p.m. Eastern Standard Time ("EST") to accommodate after-hours trading.<sup>2</sup> As part of the pilot program, Nasdaq will begin to calculate a post 4:00 p.m. EST inside quote (i.e., the best bid and ask) for those Nasdaq securities that exhibit after-hours quotation activity. In a comment letter on the Nasdaq proposal (a copy of which is attached), the Institute emphasized that the changes would have an adverse impact on the ability of many funds to value certain securities and calculate NAVs in a timely manner and, because Y2K system lock-downs are in place throughout the fund industry, any such changes would require subsequent re-testing and re-certification of all affected systems for Y2K compliance. In response, on December 1, Nasdaq announced in the attached press release that it will delay the implementation of inside quotation calculations in the after-hours trading market until February 7, 2000. At that time, Nasdaq will calculate a continuous inside quote throughout the after-hours session in those securities in which market participants have entered quotations. Nasdaq stated that the delay in implementation resulted from the fund industry's concern regarding its ability to provide accurate NAVs based on the official 4:00 p.m. EST closing inside quote.<sup>3</sup> Ari Burstein Assistant Counsel Attachments