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SEC APPROVES EXTENSION OF NASDAQ TRADE REPORTING SERVICES AND AFTER-HOURS TRADING BY THE CHICAGO STOCK EXCHANGE

1 Securities Exchange Act Release Nos. 42003 (October 13, 1999) and 42004 (October 13, 1999). 1 [11331] October 21, 1999 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 35-99 SEC RULES COMMITTEE No. 84-99 RE: SEC APPROVES EXTENSION OF NASDAQ TRADE REPORTING SERVICES AND AFTER-HOURS TRADING BY THE CHICAGO STOCK EXCHANGE ____ The Securities and Exchange Commission ("SEC") has granted accelerated approval to two pilot programs that would allow after-hours trading by the Chicago Stock Exchange ("CHX") and extend the Nasdaq Stock Market's ("Nasdaq") trade reporting and quote dissemination systems.1 Both pilot programs will expire on March 1, 2000. Extension of Nasdaq Trade Reporting and Quote Dissemination Systems Nasdaq's proposed rule change establishes a pilot program, effective October 25, 1999, that will extend the availability of some of its trade reporting and quotation dissemination facilities until 6:30 p.m. Eastern Time. These facilities were previously available until 5:15 p.m. Eastern Time. Nasdaq believes that extending the availability of some of its facilities will help ensure that investors receive full, verifiable information on which to base trading decisions in the after-hours trading markets. Currently, there is no facility available to aggregate the activity of the various participants in the after-hours trading markets, making it difficult for market participants to determine the best prices available for a particular security. In addition, information regarding transactions executed on the various markets participating in after-hours trading is currently not available to all investors. Under the pilot program, however, Nasdaq will extend the operating hours of its SelectNet Service ("SelectNet"), Automated Confirmation Transaction Service ("ACT"), Nasdaq Quotation Dissemination Service ("NQDS"), and Nasdaq Trade Dissemination Service ("NTDS"). The posting of quotations and trading of securities by NASD members during after-hours trading however will be voluntary. Nasdaq also is proposing to modify its rules to require that Nasdaq market makers who voluntarily open their markets after the close conduct their business during the extended SelectNet/ACT/NQDS/NTDS sessions in conformity with all NASD rules whose applicability is not limited to specific times outside the 4:00 p.m. to 6:30 p.m. Eastern Time period. In addition, Nasdaq will extend the applicability of the "Manning Rule" until 6:30 p.m. Eastern Time. The Manning Rule prohibits NASD member firms acting as market makers from "trading ahead" 2of customer limit orders, i.e., trading at prices equal or superior to that of the limit orders without executing the limit orders. The proposed rule change also addresses issues concerning the dissemination of regular session closing price reports

under the pilot program. Specifically, the proposal confirms that extending the availability of Nasdaq systems until 6:30 p.m. Eastern Time will not interfere with the ability of investors to obtain 4:00 p.m. closing prices in Nasdaq securities. The proposed rule change also describes how Nasdaq will address issues involving the use of closing prices for NAV calculations by mutual funds. In particular, the proposed rule change states that under the Nasdaq proposal, certain specialized closing price reports for non-OTC Bulletin Board and foreign ordinary issues, as well as some American Depository Receipts ("ADRs"), will not be issued by Nasdaq in time to permit funds to report their NAVs to Nasdaq's Mutual Fund Quotation Service ("MFQS") by the 5:50 p.m. Eastern Time deadline. In order to correct this problem, Nasdaq has indicated that it will post an electronic file with this closing price information on the OTC Bulletin Board web site between 5:20 p.m. and 5:40 p.m. Eastern Time. The proposal also notes that some funds and vendors have raised concerns about what they believe to be a lack of time to modify and test their systems before the planned introduction of inside quotations up to 6:30 p.m. Eastern Time. The proposed rule change states that, in response to these concerns, Nasdaq has pushed back the planned start-up date for distributing after-hours inside quotations from November 1 to December 6, 1999. Nasdaq believes that the delay until December 6 should provide sufficient time for essential systems modifications and testing. Nasdaq also states that it will continue to work with vendors and the mutual fund industry on these issues. Chicago Stock Exchange After-Hours Trading The CHX is proposing to add and amend several of its rules to implement an extended-hours trading session. Beginning October 29, 1999, the CHX will operate, on a pilot basis, a new extended trading session ("E-Session") from 4:30 p.m. to 6:30 p.m. Eastern Time, Monday through Friday. During the E-Session, only unconditional limit orders will be eligible for execution and each limit order must be specifically designated for trading in the E-Session. Any orders remaining unexecuted at the end of the E-Session will be automatically canceled and will not carry over to any other trading session. In general, execution, reporting, and clearance and settlement of transactions that occur during the E-Session will follow the procedures currently in place for those activities in CHX’s primary trading session. The National Securities Clearing Corporation ("NSCC") will clear the transactions that take place during this session and the Securities Industry Automation Corporation ("SIAC") and Nasdaq will disseminate CHX quotations and trade data. In addition, in order to ensure that participants in the after-hours market understand the potential risks of that participation, the proposal requires CHX members to provide specific disclosures to non-members before accepting orders for execution in the E-Session. Specifically, a CHX member cannot accept an order from a non-member before first disclosing that (1) orders are eligible only for a single E-Session and will be automatically cancelled if it is not executed during that E-Session; (2) unconditional limit orders are the only orders that are eligible for execution in the E-Session; (3) there is likely to be less liquidity and greater fluctuations in securities prices during the E-Session; and (4) that several different systems and facilities trade securities after normal trading hours and, as a consequence, quotations and transaction prices for a security may vary among those systems. Ari Burstein Assistant Counsel 3Attachment

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