

MEMO# 11678

February 28, 2000

SEC APPROVES NASD PROPOSED RULE CHANGE RELATING TO LOCKED AND CROSSED MARKETS

1 Securities Exchange Act Release No. 42400 (February 7, 2000), 65 FR 7407 (February 14, 2000). [11678] February 28, 2000 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 10-00 RE: SEC APPROVES NASD PROPOSED RULE CHANGE RELATING TO LOCKED AND CROSSED MARKETS _____ The SEC has approved a proposed rule change filed by the National Association of Securities Dealers, Inc. ("NASD"), through its wholly-owned subsidiary, The Nasdaq Stock Market, Inc. ("Nasdaq"), altering the obligations of market participants regarding locked and crossed markets that occur prior to the market's open.¹ Locks or Crosses Occurring At or After 9:20 a.m. and Before 9:30 a.m. A market participant that enters a quotation that locks or crosses the market between 9:20 a.m. and 9:29:59 a.m. will be required to send, prior to or immediately after entering a locking or crossing quotation, a SelectNet message ("Trade-or-Move Message") in an aggregate amount of at least 5,000 shares to each market participant that he locks or crosses. Within 30 second of receiving a Trade-or-Move Message, the recipient must either: (1) trade in full with the incoming Trade-or-Move Message; (2) decline to trade with the incoming Trade-or-Move Message and move its quotation to a price level that unlocks or uncrosses the market; or (3) trade with a portion of the incoming Trade-or-Move Message and move its quotation to a level that unlocks or uncrosses the market. Locks or Crosses Prior to 9:20 a.m. Beginning at 9:20 a.m., any market participant that is a party to a lock or cross that occurred prior to 9:20 a.m. will have the right, but not an obligation, to send a Trade-or-Move Message to any party to the lock or cross. A market participant that receives a Trade-or-Move Message must respond within 30 seconds by choosing one of the three options discussed above for a lock or cross occurring at or after 9:20 a.m. Unlike a market participant that actively locks or crosses the market after 9:20 a.m., however, a market participant that locks or crosses the market prior to 9:20 a.m. is not obligated to send a specific number of shares to all parties to the lock or cross. Ari Burstein Assistant Counsel Attachment