

**MEMO# 11545**

January 11, 2000

## **INSTITUTE COMMENT LETTER ON NASDAQ ORDER DISPLAY FACILITY**

[11545] January 11, 2000 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 2-00 SEC RULES COMMITTEE No. 7-00 RE: INSTITUTE COMMENT LETTER ON NASDAQ ORDER DISPLAY FACILITY \_\_\_\_\_ The

The Institute has filed a comment letter (attached) with the Securities and Exchange Commission in connection with the proposed rule change filed by the NASD to create a new facility for the display of trading interest (the "Nasdaq Order Display Facility") and to substantially modify the proposed Nasdaq National Market System ("NNMS"). In general, the comment letter states that the Institute supports the objectives of the proposal to establish the Order Display Facility and to modify Nasdaq's trading platforms. Nevertheless, the Institute believes there are certain aspects of the proposal that require further examination before the SEC approves the proposal. In particular, the Institute had specific comments on three parts of the proposal. Nasdaq Order Display Facility The Institute's letter noted that the Order Display Facility would display the three best price levels in Nasdaq, as well as the aggregate size at each price level of the "displayed" trading interest of market makers, electronic communication networks ("ECNs"), and Unlisted Trading Privilege ("UTP") Exchanges. The letter stated that given the recent volatility in the securities markets, combined with the planned conversion from fractional pricing to decimal pricing, the Order Display Facility should instead display the five best price levels in Nasdaq on both the bid and offer side of the market. Displaying five price levels would provide investors with a greater indication of the interest in a particular security and would allow investors to better gauge the market in general. Five-Second Rule Under the proposed order execution algorithm, after displayed and reserve size in Nasdaq is exhausted at a certain price level and the Nasdaq system moves to the next price level, there would be a five-second delay before the system would attempt to execute any orders at that time. The comment letter states that it is unclear at this time what the ramifications of the proposed five-second delay would be to the Nasdaq market and that before this feature becomes part of the Nasdaq market, we recommend that Nasdaq further examine its impact, especially for the most actively traded securities where investors need to respond quickly to a changing market environment. Internalization Under the proposed system, when a Nasdaq Quoting Market Participant is at the best bid/best offer, Nasdaq would provide for internal matching of that participant's orders against the participant's quotes/order before the order is sent into the Nasdaq system to execute against all non-directed orders. The Institute's letter states that the internalization of orders can impede access to liquidity for market participants and we therefore question the added benefit of this feature to the proposed Nasdaq system and urge Nasdaq to re-examine this aspect of the proposal. Ari Burstein  
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