

MEMO# 15012

August 8, 2002

SEC APPROVES NASD PROPOSED RULE CHANGE RELATING TO THE OPERATION OF THE ALTERNATIVE DISPLAY FACILITY

[15012] August 8, 2002 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 18-02 RE: SEC APPROVES NASD PROPOSED RULE CHANGE RELATING TO THE OPERATION OF THE ALTERNATIVE DISPLAY FACILITY The Securities and Exchange Commission has published for comment, and at the same time granted accelerated approval on a pilot basis to, an NASD proposed rule change relating to the operation of the Alternative Display Facility ("ADF") for quoting and trading in Nasdaq securities.¹ The ADF is a quotation collection, trade comparison, and trade reporting facility developed by the NASD in accordance with the SEC's approval order for Nasdaq's SuperMontage and in conjunction with Nasdaq's anticipated registration as a national securities exchange. The SEC is approving the ADF for Nasdaq stocks only² for a nine-month pilot period, expiring at the close of daily operation of the ADF pilot on April 24, 2003. The ADF pilot will provide ADF pilot market participants the ability to post quotations in Nasdaq securities and will provide all NASD members that participate in the ADF pilot the ability to view quotations and report transactions in Nasdaq securities to the appropriate Securities Information Processor ("SIP") for consolidation and dissemination of data to vendors and ADF pilot market participants. The ADF also will provide for trade comparison through the Trade Comparison and Reporting Service ("TRACS") and for real-time data delivery to NASD for regulatory purposes, including enforcement of firm quote and related rules. According to the Release, many of the changes to the proposed rules are in response to comments received on the original ADF proposal. In particular, the Release states that commenters expressed concern with, among other things, (1) the lack of centralized linkage among market participants and an order routing and execution facility; (2) the lack of information regarding technological requirements; (3) whether ITS participation for trading in listed stocks should be mandatory or voluntary; (4) the timing of the launch of the ADF, 1 Securities Exchange Act Release No. 46249 (July 24, 2002), 67 FR 49822 (July 31, 2002) ("Release"). Comments on the proposed rule change are due to the SEC no later than August 21, 2002. The Release can be found on the SEC's website at <http://www.sec.gov/rules/sro/34-46249.htm> 2 As proposed in the original ADF proposal, the ADF would provide market participants the ability to quote and trade Nasdaq and exchange-listed securities. However, the Release states that several regulatory issues relating to the trading of exchange-listed securities on the ADF have not been resolved and, because these open issues do not relate to trading Nasdaq securities, the NASD is proposing to operate the ADF pilot with respect to Nasdaq National Market and Nasdaq SmallCap Market securities only. 2 especially with respect to Nasdaq's pending registration as an exchange and the launch of SuperMontage; and (5) the proposed fees, including the lack of market data revenue rebates. If you have any questions regarding the

proposed rule change, please contact the undersigned by phone at (202) 371-5408, by fax at (202) 326-5839, or by e-mail at aburstein@ici.org. Ari Burstein Associate Counsel

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