

MEMO# 10684

January 29, 1999

SEC APPROVES NASD PROPOSAL RELATING TO THE PRE-TRADING QUOTATION PERIOD FOR INITIAL PUBLIC OFFERINGS

1 Securities Exchange Act Release No. 40968, 64 FR 4729 (January 29, 1999), a copy of which is attached. [10684] January 29, 1999 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 4-99 RE: SEC APPROVES NASD PROPOSAL RELATING TO THE PRE-TRADING QUOTATION PERIOD FOR INITIAL PUBLIC OFFERINGS

On January 22, the Securities and Exchange Commission ("SEC") published a notice and order to solicit comments and to grant accelerated approval of a proposed rule change filed by the National Association of Securities Dealers ("NASD").¹ The proposed rule change revises NASD practices concerning market maker quotations in Nasdaq securities that are being quoted for the first time after an initial public offering ("IPO"). The proposal is in response to the increased volatility associated with the opening of IPOs for secondary market trading on Nasdaq. Under the proposal, the pre-opening period for the initial display of market maker quotes will be extended from five minutes to fifteen minutes prior to the beginning of trading, with provision for a single additional fifteen minute extension of the pre-opening period if the issue is locked or crossed at the conclusion of the first fifteen minute period. The proposal will allow market participants to better digest and respond to market price indications before an IPO is released for trading and provides a method to review and react to dramatic market movements that may result in pricing irregularities. In granting accelerated approval of the proposed rule change, the SEC stated that it recognizes that increased investor demand for securities of high-technology companies, especially those offered through IPOs, may be contributing to greater volatility of Nasdaq securities and that it is important that before trading in an IPO security begins, market makers be provided sufficient time to determine an appropriate opening price that accurately reflects market interest in the security. In addition, the SEC stated that it recognizes that it may be difficult at times to accurately gauge interest in an IPO, and that as a result, the opening of secondary market trading for Nasdaq IPO securities also may be subject to increased volatility. The SEC believes that the additional time provided by the proposal should assist market participants in determining the likely interest in an IPO and adjusting their quotes accordingly. The SEC also noted that the proposal to extend the pre-trading quotation period represents one element of Nasdaq's response to excessive volatility, and encouraged Nasdaq to continue to develop additional proposals as part of its ongoing review of trading activity and Nasdaq market practices. Comments on this proposal are due to the SEC no later than February 19, 1999. If you have any questions regarding the

proposed rule change, please contact the undersigned by phone at (202) 371- 5408, by fax at (202) 326-5841, or by e-mail at aburstein@ici.org. - 2 - Ari Burstein Assistant Counsel
Attachment

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