

Room. Copies of such filing also will be available for inspection and copying at the ISE. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ISE-2006-06 and should be submitted on or before March 3, 2006.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>13</sup>

Nancy M. Morris,  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-53233; File No. SR-NASD-2006-019]

### Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Establish Uniform Order Warning and Rejection Parameters for the Nasdaq Market Center

February 6, 2006

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 3, 2006, the National Association of Securities Dealers, Inc. ("NASD"), through its subsidiary, The Nasdaq Stock Market, Inc. ("Nasdaq"), filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been substantially prepared by Nasdaq. Nasdaq filed the proposed rule change as a "non-controversial" rule change under Rule 19b-4(f)(6) under the Act,<sup>3</sup> which rendered the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

Nasdaq proposes to establish uniform order warning and rejection parameters for the Nasdaq Market Center. Nasdaq

would like to implement the proposed rule change on February 6, 2006. The text of the proposed rule change is available on the NASD's Web site, <http://www.nasdaq.com>, at the NASD's Office of the Secretary, and at the Commission's Public Reference Room.

#### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, Nasdaq included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. Nasdaq has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

##### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

Nasdaq is proposing the establishment of uniform warning and rejection parameters for orders that, at the time of entry, cross the best bid/offer in the Nasdaq Market Center. Under the proposal, the Nasdaq Market Center would provide a warning message<sup>4</sup> to market participants that enter an order that is 10% or more away from the Nasdaq inside, while orders that at the time of entry are 20% or more away from the inside would be rejected by the system. For orders priced less than \$1.00, Nasdaq is proposing to implement specific penny-based warning and rejection parameters of \$0.10 and \$0.20 respectively. Market orders would not be subject to any price validation, and these warning and rejection parameters would apply regardless of the method used by the participant to enter the quote/order into the Nasdaq Market Center (e.g., FIX, QIX, CTCI or the New Nasdaq Workstation). These warning/rejection parameters are summarized below:

| Price         | Warning (percentage/amount) | Reject (percentage/amount) |
|---------------|-----------------------------|----------------------------|
| Less than \$1 | \$ .10 .....                | \$ .20                     |
| \$1-\$999,999 | 10% .....                   | 20%                        |

The warning and rejection parameters proposed here will be in effect from 8

<sup>4</sup> This warning message may be overridden by the entering party, in which case the order will be allowed entry into the system and processed in the normal course.

a.m. through 4 p.m. eastern time and key off the best bid/offer prices within the Nasdaq Market Center at the time of order-entry. Orders entered for participation in Nasdaq's opening and closing cross processes will not be subject to the proposed warning and rejection parameters.

Nasdaq is establishing these parameters in an attempt to mitigate the negative market-wide impacts resulting from the entry of mis-priced orders, especially in cases of large system malfunctions resulting in the submission of numerous mis-priced orders into the public market in a very short time span. Nasdaq believes that its proposal continues to allow vigorous price discovery near the inside market while protecting the integrity of the market from distortions created by the submission of abnormally priced orders.

###### 2. Statutory Basis

Nasdaq believes that the proposed rule change is consistent with Section 15A of the Act,<sup>5</sup> in general, and Section 15A(b)(6)<sup>6</sup> of the Act, in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

##### B. Self-Regulatory Organization's Statement on Burden on Competition

Nasdaq does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

##### C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

Nasdaq has neither solicited nor received written comments on the proposed rule change.

#### III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the proposed rule change: (i) Does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of filing, or such shorter time as the Commission may designate, if consistent with the protection of

<sup>5</sup> 15 U.S.C. 78o-3.

<sup>6</sup> 15 U.S.C. 78o-3(b)(6).

<sup>13</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 17 CFR 240.19b-4(f)(6).

investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>7</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>8</sup>

Nasdaq has requested that the Commission waive the 30-day operative delay period for “non-controversial” proposals and make the proposed rule change effective and operative upon filing. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest, because the proposed rule change is intended to protect the integrity of the Nasdaq market by reducing the incidence of the submission of grossly mis-priced orders into the market. For this reason, the Commission designates the proposal to be effective and operative upon filing with the Commission.<sup>9</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in the furtherance of the purposes of the Act.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic Comments

- Use the Commission’s Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR–NASD–2006–019 on the subject line.

##### Paper Comments

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549–1090.

All submissions should refer to File Number SR–NASD–2006–019. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission’s Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal office of the NASD. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR–NASD–2006–019 and should be submitted on or before March 3, 2006.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>10</sup>

Nancy M. Morris,  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–53224; File No. SR–NASD–2005–112]

### Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Order Approving Proposed Rule Change Relating to Amendments to Rule 3360 To Expand Short Interest Reporting to OTC Equity Securities

February 3, 2006.

#### I. Introduction

On September 20, 2005, the National Association of Securities Dealers, Inc. (“NASD”) filed with the Securities and Exchange Commission (“Commission” or “SEC”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”) <sup>1</sup> and Rule 19b–4 thereunder, <sup>2</sup> a proposed rule change to amend NASD Rule 3360 to expand short interest

reporting requirements to over-the-counter (“OTC”) equity securities.<sup>3</sup> The proposed rule change was published for comment in the **Federal Register** on November 3, 2005.<sup>4</sup> The Commission received seven comment letters on the proposal.<sup>5</sup> The NASD filed a response to the comment letters on January 20, 2006.<sup>6</sup> This order approves the proposed rule change.

#### II. Description of the Proposal

The proposal would amend Rule 3360, Short-Interest Reporting, to require that members maintain and report on a monthly basis total short positions in OTC equity securities in all customer and proprietary firm accounts.<sup>7</sup> Currently, Rule 3360(a) requires members to maintain a record of total short positions<sup>8</sup> in all customer and proprietary firm accounts in Nasdaq securities (and listed securities if not reported to another self-regulatory organization (“SRO”)) and requires members to report such information to the NASD on a monthly basis. The NASD believes that expanding the monthly short interest reporting requirements to OTC equity securities will increase the information available to public investors and other interested parties related to trading in OTC equity securities. Accordingly, the NASD

<sup>3</sup> The term “OTC equity securities” means any equity securities that are neither included in the Nasdaq Stock Market nor traded on a national securities exchange.

<sup>4</sup> See Securities Exchange Act Release No. 52679 (Oct. 26, 2005), 70 FR 66875 (Nov. 3, 2005) (the “Proposing Release”).

<sup>5</sup> See e-mail from Greg Hogberg to [enforcement@sec.gov](mailto:enforcement@sec.gov), dated December 30, 2005 (attaching letter from Dr. Jim DeCosta to Jonathan G. Katz, Secretary, SEC, dated November 24, 2005); e-mail from Donald L. Smith to [rule-comments@sec.gov](mailto:rule-comments@sec.gov), dated December 16, 2005; letter from Dr. Jim DeCosta to Jonathan G. Katz, Secretary, SEC, dated November 24, 2005 (“DeCosta”); e-mail from Paul Vuksich to [rule-comments@sec.gov](mailto:rule-comments@sec.gov), dated November 22, 2005 (“Vuksich”); e-mail from David Patch to [rule-comments@sec.gov](mailto:rule-comments@sec.gov), dated November 17, 2005 (“Patch”); e-mail from Daniel Opdyke to [rule-comments@sec.gov](mailto:rule-comments@sec.gov), dated November 10, 2005; e-mail from Chris Meredith to [rule-comments@sec.gov](mailto:rule-comments@sec.gov), dated November 1, 2005 (“Meredith”).

<sup>6</sup> See letter from Andrea D. Orr, Assistant General Counsel, NASD, to Nancy M. Morris, Secretary, SEC, dated January 20, 2006.

<sup>7</sup> Non-self-clearing broker-dealers generally are considered to have satisfied their reporting requirement by making appropriate arrangements with their respective clearing organizations. See NASD Notice to Members 03–08 (Jan. 2003).

<sup>8</sup> Rule 3360(b) provides that short positions required to be reported under the rule are those resulting from short sales as the term is defined in Rule 200 of Regulation SHO under the Act (“Regulation SHO”), with limited exceptions. Rule 200 of Regulation SHO provides, in part, the following: “The term ‘short sale’ shall mean any sale of a security which the seller does not own or any sale which is consummated by the delivery of a security borrowed by, or for the account of, the seller.” 17 CFR 242.200(a).

<sup>7</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>8</sup> 17 CFR 240.19b–4(f)(6).

<sup>9</sup> For the purposes only of accelerating the operative date of this proposal, the Commission has considered the proposed rule’s impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

<sup>10</sup> 17 CFR 200.30–3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b–4.