

Marketing Alliance. Further, the Exchange believes the proposed rule filing provides market participants with an opportunity to obtain enhanced sentiment market data in furtherance of their investment decisions.

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

The Exchange believes that the proposed rule change would not 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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

III. Date of Effectiveness of the Proposed Rule

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) By order approve such proposed rule change; or
- (B) Institute proceedings to determine whether the proposed rule change should be disapproved.

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. Please include File No. SR-ISE-2005-56 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-ISE-2005-56. 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 Commissions 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 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-2005-56 and should be submitted by April 18, 2006.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Nancy M. Morris,
Secretary.

[FR Doc. E6-4432 Filed 3-27-06; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-53527; File No. SR-NASD-2006-035]

Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Notice of Filing of Proposed Rule Change Relating to Proposed Amendments to IM-2110-2 to Codify NASD's Existing Position that the Manning Rule Applies to All Members, Whether Acting as a Market Maker or Not

March 21, 2006.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 6, 2006, the National Association of

Securities Dealers, Inc. ("NASD") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASD. NASD has asked the Commission to grant accelerated approval to the proposed rule change. The Commission is not granting accelerated approval to the proposed rule change at this time, but is considering doing so at the close of a 15-day comment period. 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

NASD proposes to amend NASD Interpretive Material ("IM") 2110-2, Trading Ahead of Customer Limit Order (commonly referred to as the "Manning Rule"), to codify NASD's existing position that the Manning Rule applies to all members, whether acting as a market maker or not. The text of the proposed rule change is below. Proposed new language is in italics; proposed deletions are in brackets.

IM-2110-2. Trading Ahead of Customer Limit Order

(a) General Application

To continue to ensure investor protection and enhance market quality, NASD's Board of Governors is issuing an interpretation to NASD Rules dealing with member firms' treatment of their customer limit orders in Nasdaq and exchange-listed securities. This interpretation, which is applicable from 9:30 a.m. to 6:30 p.m. Eastern Time, will require members [acting as market makers] to handle their customer limit orders with all due care so that *members*[market makers] do not "trade ahead" of those limit orders. Thus, members [acting as market makers] that handle customer limit orders, whether received from their own customers or from another member, are prohibited from trading at prices equal or superior to that of the limit order without executing the limit order. In the interests of investor protection, NASD is eliminating the so-called disclosure "safe harbor" previously established for members that fully disclosed to their customers the practice of trading ahead of a customer limit order by a market-making firm.¹

Rule 2110 states that:

A member, in the conduct of his business, shall observe high standards

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

¹ 15 U.S.C. 78s(b)(1).

of commercial honor and just and equitable principles of trade.

Rule 2320, the Best Execution Rule, states that:

In any transaction for or with a customer, a member and persons associated with a member shall use reasonable diligence to ascertain the best inter-dealer market for the subject security and buy or sell in such a market so that the resultant price to the customer is as favorable as possible to the customer under prevailing market conditions.

Interpretation

The following interpretation of Rule 2110 has been approved by the Board:

A member firm that accepts and holds an unexecuted limit order from its customer (whether its own customer or a customer of another member) in a Nasdaq or exchange-listed security and that continues to trade the subject security for its own [market-making] account at prices that would satisfy the customer's limit order, without executing that limit order, shall be deemed to have acted in a manner inconsistent with just and equitable principles of trade, in violation of Rule 2110, provided that a member firm may negotiate specific terms and conditions applicable to the acceptance of limit orders only with respect to limit orders that are: (a) for customer accounts that meet the definition of an "institutional account" as that term is defined in Rule 3110(c)(4); or (b) 10,000 shares or more, unless such orders are less than \$100,000 in value. In the event that a member [acting as market maker] trades ahead of an unexecuted customer limit order at a price that is better than the unexecuted limit order, such member is required to execute the limit order at the price received by the member or better. Nothing in this interpretation, however, requires members to accept limit orders from any customer.

By rescinding the safe harbor position and adopting this interpretation, NASD wishes to emphasize that members may not trade ahead of their customer limit orders [in their market-making capacity] even if the member had in the past fully disclosed the practice to its customers prior to accepting limit orders. NASD believes that, pursuant to Rule 2110, members accepting and holding unexecuted customer limit orders owe certain duties to their customers and the customers of other member firms that may not be overcome or cured with disclosure of trading practices that include trading ahead of the customer's order. The terms and conditions under which institutional account or

orders are accepted must be made clear to customers at the time the order is accepted by the firm so that trading ahead in the firm's market-making capacity does not occur.

As outlined in NASD Notice to Members 97-57, the minimum amount of price improvement necessary in order for a *member*[market maker] to execute an incoming order on a proprietary basis when holding an unexecuted limit order for a Nasdaq security trading in fractions, and not be required to execute the held limit order, is as follows:

- If actual spread is greater than $\frac{1}{16}$ of a point, a firm must price improve an incoming order by at least a $\frac{1}{16}$. For stocks priced under \$10 (which are quoted in $\frac{1}{32}$ increments), the firm must price improve by at least $\frac{1}{64}$.

- If actual spread is the minimum quotation increment, a firm must price improve an incoming order by one-half the minimum quotation increment.

For Nasdaq securities authorized for trading in decimals pursuant to the Decimals Implementation Plan For the Equities and Options Markets, the minimum amount of price improvement necessary in order for a *member*[market maker] to execute an incoming order on a proprietary basis in a security trading in decimals when holding an unexecuted limit order in that same security, and not be required to execute the held limit order, is as follows:

- (1) For customer limit orders priced at or inside the best inside market displayed in Nasdaq, the minimum amount of price improvement required is \$0.01; and

- (2) For customer limit orders priced outside the best inside market displayed in Nasdaq, the *member*[market maker] must price improve the incoming order by executing the incoming order at a price at least equal to the next superior minimum quotation increment in Nasdaq (currently \$0.01).

NASD also wishes to emphasize that all members accepting customer limit orders owe those customers duties of "best execution" regardless of whether the orders are executed through the member's market-making capacity or sent to another member for execution. As set out above, the Best Execution Rule requires members to use reasonable diligence to ascertain the best inter-dealer market for the security and buy or sell in such a market so that the price to the customer is as favorable as possible under prevailing market conditions. NASD emphasizes that order entry firms should continue to [routinely] monitor *routinely* the handling of their customers' limit orders regarding the quality of the execution received.

(b) Exclusion for Limit Orders that are Marketable at Time of Receipt

NASD[The Association] has previously recognized the functional equivalency of marketable limit orders and market orders. Accordingly, it has adopted the following interpretation. IM-2110-2 shall not apply to a customer limit order if the limit order is marketable at the time it is received by a *member*[market maker]. These orders shall be treated as market orders for purposes of determining execution priority; however, these orders must continue to be executed at their limit price or better.

The exclusion for marketable customer limit orders from the general application of IM-2110-2 is limited solely to customer limit orders that are marketable when received by a *member*[market maker]. If a customer limit order is not marketable when received by a *member*[market maker], the limit order must be accorded the full protections of IM-2110-2. In addition, if the limit order was marketable when received and then becomes non-marketable, once the limit order becomes non-marketable it must be accorded the full protections of IM-2110-2.

The following scenario illustrates the application of the exclusion. The market in XYZ stock is 25 bid—25 $\frac{1}{16}$ ask, the volume of trading in XYZ stock is extremely active, and Market Maker A ("MMA") has a queue of market orders to buy and sell. Assume the following order receipt scenario. Each sell market order in the queue is for 1,000 shares and there are no special conditions attached to the orders. MMA then receives a customer limit order to sell 1,000 shares at 25. The customer limit order is marketable at the time it is received by MMA. MMA hits another market maker's bid at 25 for 1,000 shares. Normally, IM-2110-2 would require that the customer limit order be executed before the market orders in the queue. However, because the marketable limit order and the market orders should be treated as functionally equivalent in determining execution priority, the marketable customer limit order shall not be given execution priority over the market orders that were already in the queue. When the limit order is executed, however, it must be executed at the limit price or better.

In addition, if in the scenario just described the limit order does not get executed and the inside market in XYZ becomes 24 $\frac{7}{16}$ bid, the *member*[market maker] would have to protect the limit order as required by IM 2110-2 if the

member[market maker] trades at the limit order price or better.

(c) Exemption for the Facilitation on a Riskless Principal Basis of Other Customer Orders

A member shall be exempt from the obligation to execute a customer limit order in a manner consistent with this interpretation if such member engages in trading activity to facilitate the execution, on a riskless principal basis, of another order from its customer (whether its own customer or the customer of another member) (the "facilitated order"), provided that all of the following requirements are satisfied:

(1) through (3) No change.

(4) Members must have written policies and procedures to assure that riskless principal transactions relied upon for this exemption comply with NASD Rules 4632(d)(3)(B), 4642(d)(3)(B) and 4652(d)(3)(B). At a minimum these policies and procedures must require that the customer order was received prior to the offsetting transactions, and that the offsetting transactions are allocated to a riskless principal or customer account in a consistent manner and within 60 seconds of execution. Members must have supervisory systems in place that produce records that enable the member and NASD [Regulation] to accurately and readily reconstruct, in a time-sequenced manner, all orders on which a member relies in claiming this exemption.

¹ No change to text of footnote 1.

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

In its filing with the Commission, NASD included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. NASD 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

The Manning Rule generally prohibits a member from trading for its own account in a Nasdaq or exchange-listed security at a price that is equal or better than an unexecuted customer limit order in that security, unless the

member immediately thereafter executes the customer limit order at the price at which it traded for its own account or better.³ The legal underpinnings for the Manning Rule are a member's basic fiduciary obligations and the requirement that it must, in the conduct of its business, "observe high standards of commercial honor and just and equitable principles of trade."⁴

The Manning Rule is designed to ensure that customer limit orders are executed in a fair manner by prohibiting a member firm from trading ahead of customers' limit orders in its principal capacity without executing the customer limit order. Currently, IM-2110-2 generally provides that members acting as a market makers are prohibited from trading for their own accounts at prices equal or superior to an unexecuted customer's limit order in that security without executing the customer limit order. Further, if the member acting as a market maker trades ahead of a customer limit order and receives a better price than the unexecuted customer limit order, the member acting as a market maker must fill the customer limit order at the price at which it traded for its own account or better. While the text of the Manning Rule is written specifically to cover trading by market makers in their market-making capacity, NASD's longstanding position has been that the Manning Rule applies to all members (whether they are trading in a market making capacity or not) based on a member's best execution obligations.

For example, in *Notices to Members* 94-58 (July 15, 1994) and 95-43 (June 5, 1995), NASD provided guidance to member firms on the application of the Manning Rule to members not acting in a market making capacity. In the context of questions about whether a non-market maker holding a customer order can trade ahead of that limit order, NASD staff stated that it would be inconsistent with a member's best execution obligation for members to trade ahead of a customer's limit order even when not acting as a market maker.

In addition, the Manning Rule specifically states that all members accepting customer limit orders owe those customers duties of "best execution" regardless of whether the

³ For example, if a member bought 100 shares at \$10 when holding customer limit orders in the same security to buy at \$10 equaling, in aggregate, 1000 shares, the member is required to fill 100 shares of the customer limit orders.

⁴ See NASD Rule 2110. See also NASD Rule 2320(a) (the "Best Execution Rule"). Note: NASD has proposed changes to the Best Execution Rule in SR-NASD-2004-026, which is currently pending at the SEC.

orders are executed through the member's market making capacity or sent to another member for execution and emphasizes that order entry firms should continue to monitor routinely the handling of their customers' limit orders regarding the quality of the execution received.

Accordingly, NASD is proposing to amend the Manning Rule to codify NASD's existing position and to state explicitly that all members are prohibited from trading for their own accounts at prices that would satisfy a customer's limit order, whether acting as a market maker or not. NASD believes that the proposed amendments will provide better clarity to members as to the application of the Manning Rule to trading by non-market makers.⁵

Finally, NASD no longer refers to itself or its subsidiary, NASD Regulation, Inc., using its full corporate name, "the Association," "the NASD" or "NASD Regulation, Inc." Instead, NASD uses "NASD" unless otherwise appropriate for corporate or regulatory reasons. Accordingly, the proposed rule change replaces references to "Association" and "NASD Regulation" in the text of the proposed rule change with "NASD."

2. Statutory Basis

NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act, which requires, among other things, that NASD rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. NASD believes that the proposed rule change will improve treatment of customer limit orders and clarify the application of the Manning Rule to non-market makers.

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

NASD does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

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

Written comments were neither solicited nor received.

⁵ It is important to note that the proposed clarification does not change the application of the Manning Rule to multiple trading desks within a member firm as described in *Notice to Members* 95-43 (June 5, 1995) and *Notice to Members* 03-74 (November 26, 2003).

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

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which NASD consents, the Commission will:

(A) By order approve such proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

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. Please include File No. SR-NASD-2006-035 on the subject line.

Paper Comments

• Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE., Washington, DC 20549-1090. All submissions should refer to File Number SR-NASD-2006-035. 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 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-2006-035 and should be submitted on or before April 12, 2006.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Nancy M. Morris,

Secretary.

[FR Doc. E6-4434 Filed 3-27-06; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-53531; File No. SR-NASD-2006-008]

Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Order Approving a Proposed Rule Change to Re-establish a Fee Pilot for National Quotation Data Service

March 21, 2006.

On January 24, 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"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² a proposed rule change to reinstate its pilot program, which reduced the monthly fee that non-professional users pay to receive National Quotation Data Service ("NQDS"), retroactively to September 1, 2005.³ The proposed rule change was published for comment in the **Federal Register** on February 15, 2006.⁴ The

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Since August 22, 2000, Nasdaq has operated a pilot to reduce from \$50 to \$10 the monthly fee that non-professional users pay to receive NQDS data. Nasdaq inadvertently let the pilot lapse on September 1, 2005, until January 24, 2006. This filing reinstates the pilot retroactively to September 1, 2005, thereby reflecting the fact that the pilot was in place at that time. See Securities Exchange Act Release Nos. 43190 (August 22, 2000), 65 FR 52460 (August 29, 2000) (notice of filing and order granting accelerated approval of NASD-00-47); 44788 (September 13, 2001), 66 FR 48303 (September 19, 2001); 46446 (August 30, 2002), 67 FR 57260 (September 9, 2002); 48386 (August 21, 2003), 68 FR 51618 (August 27, 2003); and 50318 (September 3, 2004), 69 FR 54821 (September 10, 2004).

⁴ See Securities Exchange Act Release No. 53254 (February 8, 2006), 70 FR 8027 (SR-NASD-2006-008).

Commission received no comments on the proposal. This order approves the proposed rule change.

The Commission finds that the proposed rule change is consistent with Section 15A of the Act⁵ and the rules and regulations thereunder.⁶ Specifically, the Commission finds the proposal to be consistent with Section 15A(b)(5) of the Act,⁷ in that it provides for the equitable allocation of reasonable dues, fees and other charges among members. The pilot lowers the monthly fee for non-professionals to receive NQDS from \$50 to \$10 a month. The Commission notes that the NQDS feature provides a mechanism to allow access to market data that is relevant to investors when they make financial decisions and that it does not unfairly discriminate between customers, issuers, brokers or dealers.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁸ that the proposed rule change (SR-NASD-2006-008), be, and it hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁹

Nancy M. Morris,

Secretary.

[FR Doc. E6-4436 Filed 3-27-06; 8:45 am]

BILLING CODE 8010-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-53528; File No. SR-NSCC-2005-15]

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving Proposed Rule Change Relating To Buy-Ins in Its Continuous Net Settlement System

March 21, 2006.

I. Introduction

On December 1, 2005, the National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-NSCC-2005-15 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the **Federal Register** on

⁵ 15 U.S.C. 78o3.

⁶ In approving this proposed rule change the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁷ 15 U.S.C. 78o(b)(5).

⁸ 15 U.S.C. 78s(b)(2).

⁹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).