

Proposed Rule Change by National Association of Securities Dealers
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input type="checkbox"/>	Section 19(b)(3)(A) <input checked="" type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
			Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description
Provide a brief description of the proposed rule change (limit 250 characters).

A proposed rule change to establish an automatic process for displaying initial quotes in non-Nasdaq securities through the ITS/CAES System

Contact Information
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name	<input type="text" value="John"/>	Last Name	<input type="text" value="Yetter"/>
Title	<input type="text" value="Senior Associate General Counsel"/>		
E-mail	<input type="text" value="john.yetter@nasdaq.com"/>		
Telephone	<input type="text" value="(301) 978-8497"/>	Fax	<input type="text" value="(301) 978-8472"/>

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date	<input type="text" value="09/28/2006"/>
By	<input type="text" value="Edward S. Knight"/>
	(Name)
	<input type="text" value="Executive Vice President and General Counsel"/>
	(Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² the National Association of Securities Dealers, Inc. (“NASD”), through its subsidiary, The Nasdaq Stock Market, Inc. (“Nasdaq”), is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to establish an automatic process for displaying initial quotes in non-Nasdaq securities through the ITS/CAES System. Pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ Nasdaq has designated this proposal as non-controversial and requests that the Commission waive the 30-day pre-operative waiting period contained in Exchange Act Rule 19b-4(f)(6)(iii).⁵ If such waiver is granted by the Commission, Nasdaq will implement this rule proposal on October 9, 2006.

The text of the proposed rule change is below. Proposed new language is underlined; proposed deletions are in brackets.⁶

4707. Entry and Display of Quotes/Orders

(a) – (c) No change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

⁵ 17 CFR 240.19b-4(f)(6)(iii).

⁶ Changes are marked to the rule text that appears in the electronic NASD Manual found at www.nasd.com.

(d) Between 7:30 a.m. and 9:25 a.m., the system shall display Quotes of ITS/CAES Market Makers in accordance with the entry parameters set by each ITS/CAES Market Maker. At 9:25 a.m., the system shall display all remaining Quotes in accordance with each firm's instructions. ITS/CAES Market Makers may instruct Nasdaq to display their Quotes as follows:

(1) At the last price and size entered by the ITS/CAES Market Maker during the previous trading day, either including or excluding reserve size;

(2) At a price and size entered by the ITS/CAES Market Maker between 7:30 a.m. and 9:24:59 a.m.; or

(3) At the quotation limits for the ITS/CAES System, currently \$.01 (bid) and \$200,001 (ask).

* * * * *

2. Procedures of the Self-Regulatory Organization

The Board of Directors of Nasdaq approved the proposed rule change on October 26, 2005, and the Board of Governors of the NASD approved the proposed rule change on November 11, 2005, which authorized the filing of the rule change with the Commission. The staff of Nasdaq has provided an opportunity for the staff of NASD Regulation, Inc. to consult with respect to the proposed rule change, pursuant to the Plan of Allocation and Delegation of Functions by NASD to Subsidiaries. No other action by the NASD is necessary for the filing of the rule change. Nasdaq proposes to implement the proposed rule change on October 9, 2006.

Questions regarding this rule filing may be directed to John M. Yetter, Senior Associate General Counsel, Nasdaq, at (301) 978-8497 (telephone) or (301) 978-8472 (fax).

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

a. Purpose

Nasdaq is proposing to establish a procedure for automated initial display of quotations by ITS/CAES Market Makers. The procedure will be substantially the same as the existing procedure of The NASDAQ Stock Market LLC (the “Nasdaq Exchange”) for automated opening quotes by market makers in Nasdaq-listed stocks under Nasdaq Exchange Rule 4704(b). Specifically, the ITS/CAES System will display initial quotes of ITS/CAES Market Makers in one of three ways, at the option of the market maker: (i) at the last price and size (either including or excluding reserve size) entered by the market maker on the preceding trading day; (ii) at a price and size entered by the market maker prior to 9:25 a.m., or (iii) at a system-generated price of \$0.01 (bid) and \$200,001 (ask) and a size of 100 shares.⁷ Firms choosing the first two options will have their quotes displayed at such time as they specify, or if no time is specified, then at 9:25 a.m. Firms choosing the third option will have their quotes displayed at 9:25 a.m. Any quotes generated through this process will be replaced as soon as a market maker submits a quote update. The automated process will ensure that market makers do not inadvertently fail to maintain a two-sided quote at market open. The quotes displayed through this process will not be available for execution until 9:30 a.m.

b. Statutory Basis

Nasdaq believes that the proposed rule change is consistent with the provisions of Section 15A of the Act,⁸ in general, and with Sections 15A(b)(6) of the Act,⁹ in

⁷ The default settings are different for ITS/CAES than for the Nasdaq Exchange to reflect the extremely high share prices of a small number of stocks listed on the New York Stock Exchange.

⁸ 15 U.S.C. 78o-3.

⁹ 15 U.S.C. 78o-3(b)(6).

particular, in that it is designed to facilitate transactions in securities, to promote just and equitable principles of trade, to enhance competition, and to protect investors and the public interest. The proposed rule change assists ITS/CAES market makers in maintaining a two-sided quote at market open and replicates functionality currently in use by the Nasdaq Exchange with respect to Nasdaq-listed stocks.

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

Nasdaq 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.

5. 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.

6. Extension of Time Period for Commission Action

Nasdaq does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.¹⁰

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Pursuant to Section 19(b)(3)(A) of the Act¹¹ and Rule 19b-4(f)(6) thereunder,¹² Nasdaq has designated this proposal as one that effects a change that (A) does not significantly affect the protection of investors or the public interest; (B) does not impose any significant burden on competition; and (C) by its terms, does not become operative

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 17 C.F.R. 240.19b-4(f)(6).

for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. Nasdaq has provided the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change. Nasdaq requests that the Commission waive the 30-day pre-operative waiting period contained in Exchange Act Rule 19b-4(f)(6)(iii).¹³ If such waiver is granted by the Commission, Nasdaq will implement this rule proposal, which is effective upon filing with the Commission, on October 9, 2006. Nasdaq believes that the filing may appropriately be designated as “non-controversial” because the filing proposes functionality that has already been approved by the Commission for the Nasdaq Exchange with respect to the trading of Nasdaq-listed stocks. Accordingly, Nasdaq believes that its proposal should become immediately effective and the Commission should grant Nasdaq's request to waive the 30-day pre-operative waiting period contained in Exchange Act Rule 19b-4(f)(6)(iii).¹⁴

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change adopts functionality similar to functionality reflected in Rule 4704(b) of the Nasdaq Exchange.

9. Exhibits

1. Completed notice of proposed rule change for publication in the Federal

Register.

¹³ 17 CFR 240.19b-4(f)(6)(iii).

¹⁴ Id.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASD-2006-114)

September __, 2006

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by National Association of Securities Dealers, Inc. to Adopt an Automated Process for Opening Quotations of ITS/CAES Market Makers

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on September __, 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, II, and III below, which Items have been prepared by Nasdaq. Nasdaq has designated the proposed rule change as constituting a non-controversial rule change under Rule 19b-4(f)(6) under the Act,³ which renders 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 the Substance of the Proposed Rule Change

Nasdaq proposes to establish an automatic process for opening quotes in non-Nasdaq securities through the ITS/CAES System. Nasdaq proposes to implement the proposed rule change on October 9, 2006.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 C.F.R. 240.19b-4(f)(6).

The text of the proposed rule change is below. Proposed new language is in italics; proposed deletions are in brackets.

4707. Entry and Display of Quotes/Orders

(a) – (c) No change.

(d) Between 7:30 a.m. and 9:25 a.m., the system shall display Quotes of ITS/CAES Market Makers in accordance with the entry parameters set by each ITS/CAES Market Maker. At 9:25 a.m., the system shall display all remaining Quotes in accordance with each firm's instructions. ITS/CAES Market Makers may instruct Nasdaq to display their Quotes as follows:

(1) At the last price and size entered by the ITS/CAES Market Maker during the previous trading day, either including or excluding reserve size;

(2) At a price and size entered by the ITS/CAES Market Maker between 7:30 a.m. and 9:24:59 a.m.; or

(3) At the quotation limits for the ITS/CAES System, currently \$.01 (bid) and \$200,001 (ask).

* * * * *

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 to establish a procedure for automated initial display of quotations by ITS/CAES Market Makers. The procedure will be substantially the same

as the existing procedure of The NASDAQ Stock Market LLC (the “Nasdaq Exchange”) for automated opening quotes by market makers in Nasdaq-listed stocks under Nasdaq Exchange Rule 4704(b). Specifically, the ITS/CAES System will display initial quotes of ITS/CAES Market Makers in one of three ways, at the option of the market maker: (i) at the last price and size (either including or excluding reserve size) entered by the market maker on the preceding trading day; (ii) at a price and size entered by the market maker prior to 9:25 a.m., or (iii) at a system-generated price of \$0.01 (bid) and \$200,001 (ask) and a size of 100 shares.⁴ Firms choosing the first two options will have their quotes displayed at such time as they specify, or if no time is specified, then at 9:25 a.m. Firms choosing the third option will have their quotes displayed at 9:25 a.m. Any quotes generated through this process will be replaced as soon as a market maker submits a quote update. The automated process will ensure that market makers do not inadvertently fail to maintain a two-sided quote at market open. The quotes displayed through this process will not be available for execution until 9:30 a.m.

2. Statutory Basis

Nasdaq believes that the proposed rule change is consistent with the provisions of Section 15A of the Act,⁵ in general, and with Sections 15A(b)(6) of the Act,⁶ in particular, in that it is designed to facilitate transactions in securities, to promote just and equitable principles of trade, to enhance competition, and to protect investors and the

⁴ The default settings are different for ITS/CAES than for the Nasdaq Exchange to reflect the extremely high share prices of a small number of stocks listed on the New York Stock Exchange.

⁵ 15 U.S.C. 78o-3.

⁶ 15 U.S.C. 78o-3(b)(6).

public interest. The proposed rule change assists ITS/CAES market makers in maintaining a two-sided quote at market open and replicates functionality currently in use by the Nasdaq Exchange with respect to Nasdaq-listed stocks.

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

Nasdaq 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.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act⁷ and Rule 19b-4(f)(6) thereunder.⁸ Nasdaq has requested that the Commission waive the 30-day pre-operative period requirement for “non-controversial” proposals, based upon a representation that the proposal assists ITS/CAES market makers in maintaining a two-sided quote at market open and replicates functionality currently in use by the Nasdaq Exchange with respect to Nasdaq-listed stocks. In light of the foregoing, the Commission believes that waiver of the 30-day

⁷ 15 U.S.C. 78s(b)(3)(A).

⁸ 17 C.F.R. 240.19b-4(f)(6).

operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission has determined to waive the operative delay, and the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act,⁹ and Rule 19b-4(f)(6) thereunder,¹⁰ with no operative delay. 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 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, as amended, 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 Number SR-NASD-2006-114 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.

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4(f)(6).

All submissions should refer to File Number SR-NASD-2006-114. 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 Section, 100 F Street, NE, Washington, DC 20549-1090. 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-2006-114 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Nancy M. Morris
Secretary

¹¹ 17 CFR 200.30-3(a)(12).