

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53269; File No. SR-NASD-2006-018)

February 10, 2006

Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto to Modify the Routing Sequence for Directed Cross Orders

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 February 2, 2006, the National Association of Securities Dealers, Inc. (“NASD”), through its subsidiary, The Nasdaq Stock Market, Inc. (“Nasdaq”), submitted to the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by Nasdaq. Nasdaq filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ which renders it effective upon filing with the Commission. On February 9, 2006, Nasdaq filed Amendment No. 1 to the proposed rule change.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The proposed rule change is intended to explicitly add INET to the routing sequence for Directed Cross Orders in exchange-listed securities directed to the NYSE and to allow subscribers to determine whether they wish to route to market centers in addition to Brut, Nasdaq, and INET prior to the NYSE when the NYSE is the final destination of the order.⁵ The

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ Amendment No. 1 made clarifying changes to the rule text and Section I of this notice.

⁵ See Amendment No. 1.

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

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4903. Order Entry Parameters

(a) To Brut Orders — No Change

(b) Brut Cross Orders —

(1) No Change

(A) - (C) No Change

(D) A Brut Cross Order may also be designated as a Directed Cross Order. A Directed Cross Order is an order that is entered into the System during market hours and is executable against marketable contra-side orders in the System. The order also is eligible for routing to other market centers. After being processed in the Brut System and exhausting available liquidity in the Brut System, the order is automatically routed by Brut to the specific market center selected by the entering party for potential execution. Any portion of the Directed Cross Order that remains unfilled after being routed to the selected market center will be returned to the entering party. For Directed Cross Orders in exchange-listed securities directed to the New York Stock Exchange if, after being processed in the Brut System and exhausting available liquidity in the Brut System, such orders will be automatically routed to the Nasdaq Market Center and INET for potential execution and thereafter, if instructed by the entering party, to other market centers that provide automated electronic executions before being sent to the New York Stock Exchange.

⁶ Changes are marked to the rule text that appears in the electronic NASD Manual found at www.nasdaq.com. Prior to the date when The NASDAQ Stock Market LLC (“NASDAQ LLC”) commences operations, NASDAQ LLC will file a conforming change to the rules of NASDAQ LLC approved in Securities Exchange Act Release No. 53128 (January 13, 2006).

Directed Cross Orders in exchange-listed securities directed to the New York Stock Exchange shall remain at the New York Stock E[e]xchange⁷ until executed or cancelled by the entering party.

(1)(E) - (F) No Change

(c) - (f) No Change

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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, 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

Use of the Brut Directed Cross Order is purely voluntary. Brut processes the orders sent to it based on the order type selected by the entering party. In turn, the selection of a particular order type directs the Brut system as to how the user wants the order handled. This ability to choose among multiple order execution methods is consistent with today's open and competitive electronic market structure. In this structure, market participants, not markets, select the combination of order types and execution venues that best suit their trading goals.

⁷ See Amendment No. 1.

Currently, the Directed Cross Order directed to the NYSE as the final destination checks for liquidity in INET, although INET is not specifically mentioned in the rule. The proposed rule change simply modifies the routing sequence to explicitly state that the order automatically routes to INET, as well as to Nasdaq, for potential execution.

Brut, Nasdaq, and INET are market centers that provide fast response times to orders, even by electronic standards. Nasdaq believes that the order type is widely used and benefits investors because the order is exposed to additional pools of liquidity for execution at the best price in the National Market System prior to reaching its final destination.

In addition, the proposed rule change would allow an entering party to determine whether it wants a Directed Order to check destinations in addition to Brut, Nasdaq, and INET. If the entering party opts not to allow additional routing, the order would route to NYSE after checking Brut, Nasdaq, and INET. Alternatively, the order would, upon instruction from an entering party, route to additional market centers prior to the NYSE when the NYSE is the final destination of the order. An entering party, in making the determination whether to check additional market centers, may take into consideration fees for removing liquidity and speed of execution. The new order will service best execution responsibilities of brokers who believe that other market centers may offer enough liquidity to justify the time and cost to attempt to access that liquidity.

2. Statutory Basis

Nasdaq believes that the proposed rule change, as amended, is consistent with Section 15A of the Act,⁸ in general, and furthers the objectives of Section 15A(b)(6) of the Act,⁹ in particular, in that it is designed to foster coordination and cooperation with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities.

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.

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

Written comments on the proposed rule change were neither solicited nor received.

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

Nasdaq has filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act¹⁰ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹¹ Because the foregoing proposed rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative for 30 days from the date of filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder. As

⁸ 15 U.S.C. 78o-3.

⁹ 15 U.S.C. 78o-3(6).

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f)(6).

required under Rule 19b-4(f)(6)(iii), Nasdaq provided the Commission with written notice of its intent to file the proposed rule change at least five business days prior to filing the proposal with the Commission or such shorter period as designated by the Commission. Nasdaq has requested that the Commission waive 30-day delayed operational date provisions contained in the above rule, based upon a representation that the proposed rule filing would benefit investors and permit them to select the combination of order types and execution venues that best suit their trading goals, and should, therefore, be provided to investors as soon as possible. For this reason, the Commission designates the proposal to be effective and operative upon filing with the Commission.

At any time within 60 days of the filing of such 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.¹²

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:

¹² The effective date of the original proposed rule change is February 2, 2006 and the effective date of Amendment No. 1 is February 9, 2006. For purposes of calculating the 60-day period within which the Commission may summarily abrogate the proposed rule change, as amended, under section 19(b)(3)(C) of the Act, the Commission considers the period to commence on February 9, 2006, the date on which Nasdaq submitted Amendment No. 1. See 15 U.S.C. 78s(b)(3)(C).

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-2006-018 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-2006-018. 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 Nasdaq. 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-2006-018 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.¹³

Nancy M. Morris
Secretary

¹³ 17 CFR 200.30-3(a)(12).