



June 20, 2006

Via email to rule-comments@sec.gov

The Honorable Christopher Cox
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: SR-NASDAQ-2006-001

Dear Chairman Cox;

The purpose of this letter is to correct the record regarding certain representations made by the Nasdaq Stock Market ("Nasdaq") about the technical capability of the National Stock Exchange ("NSX") in a letter from Nasdaq to the Securities and Exchange Commission (the "Commission") dated June 9, 2006. In addition, NSX would like to bring the Commission up-to-date on its recent efforts to improve the efficiency of the national market system.

Because of systems integration issues related to Nasdaq's purchase of INET ATS ("INET"), Nasdaq has not had the technical capability to process its own quotes. In December, Nasdaq asked NSX to service Nasdaq's quotes, to which NSX contractually agreed. Nasdaq then moved all of its INET trades associated with these quotes from NSX to Nasdaq.

After Nasdaq contracted with NSX, Nasdaq proceeded to double both the number of issues its quoted on NSX (adding 3000 NYSE-listed issues) and its quote message peaks (to 900 messages per second), thereby significantly increasing its level of quote activity above that anticipated when the quote service agreement began. In addition, Nasdaq has been experiencing delays disseminating its quotes to NSX. Thus, even when NSX is disseminating quotes to the national market system in a timely manner, the quotes that NSX is disseminating for Nasdaq may be untimely because of Nasdaq's internal systems delays. The result of these Nasdaq delays is that the national best bid and offer, upon which all exchanges' automatic execution systems are based, become stale, causing executions to be priced inaccurately and creating locked markets which cannot be corrected by executing against the offending quote.

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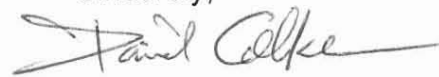
On the specific day – June 8 - cited by Nasdaq in its June 9 letter, NSX called Nasdaq because NSX's trading system was beginning to approach its capacity. During that conversation, Nasdaq informed NSX that INET's quotes were queuing internally and therefore the quotes being sent to NSX were delayed and inaccurate. Because other exchanges had begun to complain to NSX about locked markets and inaccurate automated execution prices, and because of NSX's obligation to maintain a fair and orderly market, the Exchange made the determination to have NSX's quotes purged from the national market system until INET could resolve its queuing problem. The problem and its resolution lasted for approximately thirty minutes.

As of the date of Nasdaq's letter to the Commission, Nasdaq had not reduced either the number of quotations that it sends to NSX or its quote message peaks. Today, for the first time, and after repeated requests from NSX, Nasdaq has begun to reduce the number of issues that it quotes on NSX, which hopefully will relieve any Nasdaq-generated capacity concerns going forward. NSX has and will continue to work cooperatively with Nasdaq to ensure a fair and orderly market.

Most importantly, in order to competitively prepare itself for the market structure changes and growth in volume anticipated with the implementation of Regulation NMS, NSX will soon launch a new state-of-the-art trading system. The system, called NSX Blade, will increase the Exchange's systems capacity ten-fold, and it is expected to establish a new standard for speed in the securities industry. Blade will have the ability to quickly scale its capacity as volume dictates. The system is taking advantage of the best available software development, storage area network, and distributed hardware technology. Broker-dealers will be able to connect directly to Blade through industry-standard FIX protocol or connect through any of the major extranets. In addition, the system will support the co-location of broker-dealer hardware in order to further enhance response time. Finally, Blade will be fully redundant and fault-tolerant in real-time.

Thank your for the opportunity to respond to Nasdaq's June 9 letter and to inform the Commission of the contribution which NSX is making to the national market system. Please feel free to call me at any time if I can be helpful on this or any other matter of concern to the Commission.

Sincerely,

A handwritten signature in black ink, appearing to read "David Colker", written over a horizontal line.

David Colker

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Cc: The Hon. Paul S. Atkins, Commissioner
The Hon. Roel C. Campos, Commissioner
The Hon. Cynthia A. Glassman, Commissioner
The Hon. Annette L. Nazareth, Commissioner
Robert L.D. Colby, Esquire, Acting Director, Division of Market Regulation