

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54901; File No. SR-NASD-2006-126)

December 8, 2006

Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Integrate Brut and INET Facilities

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 November 13, 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. On November 22, 2006, Nasdaq submitted Amendment No. 1 to the proposed rule change. Nasdaq has filed the proposal pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ which renders the proposal effective upon filing with the Commission. 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

Nasdaq proposes to fully integrate its Brut and INET execution systems. Nasdaq states that this would result in the termination of operations of the Brut system and the elimination of applicable system rules from NASD’s rule manual. Nasdaq has designated this proposal as non-controversial and has requested that the Commission waive the 30-day operative delay period

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).

contained in Rule 19b-4(f)(6)(iii) under the Act.⁵ If such waiver is granted, Nasdaq would implement the migration in two phases: (1) a group of up to 20 test stocks beginning on or after November 13, 2006,⁶ and (2) the remaining stocks on November 20, 2006. The text of the proposed rule change, as amended, is available on NASD's Web site (<http://www.nasd.com>), at NASD's principal office, 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, as amended, and discussed any comments it received on the proposed rule change, as amended. 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

On January 13, 2006, the Commission issued an order conditionally approving Nasdaq's registration as a national securities exchange.⁷ In July of 2006, Nasdaq satisfied the conditions set forth in the Exchange Approval Order with respect to the trading of stocks listed on Nasdaq. On August 1, 2006, The NASDAQ Stock Market LLC ("Nasdaq LLC") began operating as an exchange for the trading of Nasdaq-listed stocks. Nasdaq has not yet satisfied the conditions set forth in the Exchange Approval Order with respect to the trading of stocks listed on the New

⁵ 17 CFR 240.19b-4(f)(6)(iii).

⁶ Telephone conversation between Jeffrey Davis, Vice President – Deputy General Counsel, Nasdaq, and Theodore Venuti, Attorney, Division of Market Regulation, Commission, on December 7, 2006.

⁷ See Securities Exchange Act Release No. 53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) ("Exchange Approval Order").

York Stock Exchange LLC (“NYSE”) and the American Stock Exchange LLC (“Amex”). Therefore, Nasdaq continues to operate as a facility of the NASD with respect to the trading of NYSE and Amex stocks. Nasdaq states that this rule filing is submitted with respect to the trading of NYSE and Amex stocks.

Nasdaq proposes to fully integrate its Brut and INET execution systems resulting in the termination of operations of the Brut system and the elimination of applicable system rules from NASD’s rule manual.

The Commission has already approved the integration of Nasdaq LLC’s three execution systems - the Nasdaq Market Center, the Brut ECN, and the INET ECN – into a single execution system commonly known as the Nasdaq Single Book.⁸ On October 16, 2006, Nasdaq LLC successfully launched the first phase of the Single Book by offering trading of twenty Nasdaq-listed securities. Nasdaq LLC completed the roll-out of trading in Nasdaq stocks in two phases, 200 additional Nasdaq stocks on October 23 and the remaining Nasdaq stocks on October 30. With respect to Nasdaq securities, the operation of the Brut system has been completely terminated as a result of the completed roll-out of the Single Book.

The Commission approval of Nasdaq LLC’s systems integration applies equally to the trading of NYSE- and Amex-listed stocks, but Nasdaq LLC has not begun to implement the Single Book with respect to those stocks. Nasdaq LLC has experienced an unanticipated delay in its implementation of Single Book for NYSE/Amex trading. This delay provides Nasdaq with an opportunity to add an additional step in the orderly implementation process, namely to merge the Brut and INET systems together in advance of the Single Book launch.

⁸ See Securities Exchange Act Release No. 54155 (July 14, 2006), 71 FR 41291 (July 20, 2006).

Integrating Brut and INET would benefit Nasdaq participants by simplifying Nasdaq’s market structure and operations, while imposing no technical or financial impact on participating firms. Nasdaq is proposing a “virtual” integration of Brut and INET. Specifically, current Brut users would continue to use the same front-end technology they use today, but all orders would be re-directed to the INET processors. As firms have the ability to enter orders into INET via various connectivity options today, existing Brut connectivity, via the FIX protocol, would become yet another connectivity option to the INET processors where such orders would be posted, executed or routed, per the entry firm’s instructions.

More specifically, the three basic Brut orders – To Brut, Cross, and Thru Brut – and their sub-types would be “mapped” to a currently approved and operational order type, as set forth below:

Brut Order Types defined in NASD Rule 4903	Mapping to INET order Types defined in NASD Rules 4953 and 4956
To Brut	INET order
To Brut (with post only attribute)	order would be rejected
To Brut (with discretion attribute)	STGY
Cross	SCAN
Aggressive Cross	STGY
Super Aggressive Cross	STGY

Directed Cross

(destination is not the New York Stock

Exchange or the American Stock Exchange)

STGY

Thru

(destination is the New York Stock Exchange

or the American Stock Exchange)

TDOT

The migration of Brut order flow would be seamless to Brut users. First, the Commission's approval of Nasdaq LLC's system integration included the elimination of the Brut operating system; integrating Brut operations into INET is no different than integrating Brut into Single Book. Second, the integration Nasdaq proposes is virtual and, as described above, would not affect how Brut subscribers participate in the Nasdaq market. Third, in addition to the absence of system impact, the vast majority of Brut subscribers are also INET subscribers that are already familiar with the INET system. Nasdaq would work with the remaining Brut subscribers to address any questions or concerns they have regarding the proposed integration.

With respect to the applicable rules, in the order approving Single Book the Commission approved the removal of the Brut rules from Nasdaq LLC's exchange rule manual, which currently applies to the trading of Nasdaq stocks. Nasdaq now proposes to remove the Brut rules from the NASD manual, which currently governs the NASD/Nasdaq trading of NYSE/Amex stocks and would continue to govern that trading until Nasdaq LLC operates as an exchange for

these stocks. Nasdaq expects that it would begin operating as an exchange with respect to NYSE/Amex stocks on the day (1) Nasdaq LLC launches Single Book and (2) the NASD launches its new quotation system for NYSE/Amex stocks.

2. Statutory Basis

Nasdaq believes that the proposed rule change, as amended, is consistent with the provisions of Section 15A of the Act,⁹ in general, and with Section 15A(b)(6) of the Act,¹⁰ in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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, as amended, 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 were neither solicited nor received.

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

The foregoing proposed rule change, as amended, is subject to Section 19(b)(3)(A)(iii) of the Act¹¹ and Rule 19b-4(f)(6) thereunder¹² because the proposal: (i) does not significantly

⁹ 15 U.S.C. 78o-3.

¹⁰ 15 U.S.C. 78o-3(b)(6).

¹¹ 15 U.S.C. 78s(b)(3)(A)(iii).

¹² 17 CFR 240.19b-4(f)(6).

affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) does not become operative prior to 30 days after the date of filing or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest; provided that Nasdaq has given the Commission 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, or such shorter time as designated by the Commission.

Nasdaq has fulfilled the five-day pre-filing requirement. Nasdaq has requested that the Commission waive the 30-day operative delay. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because such waiver would immediately allow Nasdaq to integrate its Brut and INET execution systems. For these reasons, the Commission designates the proposed rule change, as amended, to be effective and operative upon filing with the Commission.¹³

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.¹⁴

¹³ For the purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁴ 15 U.S.C. 78s(b)(3)(C). For purposes of calculating the 60-day period within which the Commission may summarily abrogate the proposal, the Commission considers the period to commence on November 22, 2006, the date on which the Exchange submitted Amendment No. 1.

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-2006-126 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-2006-126. 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 the 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-2006-126 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.¹⁵

Florence E. Harmon
Deputy Secretary

¹⁵ 17 CFR 200.30-3(a)(12).