

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-52939; File No. SR-NASD-2005-137)

December 9, 2005

Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Modify Pricing for NASD Members Using the Nasdaq Market Center and Nasdaq's Brut Facility

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 22, 2005, 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 this proposal as one establishing or changing a due, fee, or other charge imposed by the self-regulatory organization under Section 19(b)(3)(A)(ii)³ of the Act and Rule 19b-4(f)(2) 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 from interested persons.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(ii).

⁴ 17 CFR 240.19b-4(f)(2).

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

Nasdaq proposes to modify the pricing for NASD members using the Nasdaq Market Center and Nasdaq's Brut Facility ("Brut"). Nasdaq states that it will implement the proposed rule change for a pilot period running from December 1, 2005 through December 31, 2005.

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

* * * * *

7010. System Services

(a) - (h) No change.

(i) Nasdaq Market Center and Brut Facility Order Execution

(1) – (4) No Change.

(5) There shall be no charges or credits for order entry, execution, routing, or cancellation by members accessing the Nasdaq Market Center or Nasdaq's Brut Facility to buy or sell exchange-listed securities subject to the Consolidated Quotations Service and Consolidated Tape Association plans, other than:

(A) the charges in Rule 7010(i)(1) for Exchange-Traded Funds,

(B) charges described in Rule 7010(d),

(C) a fee of \$0.0004 per share executed for orders delivered by Nasdaq's Brut Facility to an exchange using the exchange's proprietary order delivery system if such orders do not attempt to execute in Nasdaq's Brut Facility or the Nasdaq Market Center prior to routing to the exchange,[and]

(D) a fee of \$0.009 per share executed for any limit order delivered by Nasdaq's Brut Facility to the New York Stock Exchange ("NYSE") using the NYSE's proprietary order delivery system if such an order is not an on-close order, is not executed in the opening, and remains at the NYSE for more than 5 minutes[.], and

(E) for a pilot period beginning December 1, 2005 and ending December 31, 2005, a credit of \$0.0005 per share executed to a member providing liquidity for a transaction in the following stocks: Advanced Micro Devices Inc. (AMD); Apache Corp. (APA); AT&T Corp. (T); Avaya, Inc. (AV); Baker Hughes, Inc. (BHI); BJ Services Co. (BJS); Bristol-Myers Squibb Co. (BMY); Burlington Resources, Inc. (BR); Calpine Corp. (CPN); Charles Schwab Corp. (SCH); Citigroup Inc. (C); ConocoPhillips (COP); Corning Inc. (GLW); Devon Energy Corp. (DVN); EMC Corp. (EMC); Exxon Mobil Corp. (XOM); Ford Motor Co. (F); Gateway, Inc. (GTW); General Electric Co. (GE); Halliburton Co. (HAL); Hewlett-Packard Co. (HPQ); Johnson & Johnson (JNJ); JPMorgan Chase & Co. (JPM); Kohl's Corp. (KSS); LSI Logic Corp. (LSI); Micron Technology, Inc. (MU); Motorola, Inc. (MOT); Noble Corp. (NE); Occidental Petroleum Corp. (OXY); Office Depot Inc. (ODP); Pfizer Inc. (PFE); Phelps Dodge Corp. (PD); Pulte Homes, Inc. (PHM); Qwest Communications International Inc. (Q); Schlumberger Ltd. (SLB); Solectron Corp. (SLR); Sovereign Bancorp, Inc. (SOV); Time Warner,

Inc. (TWX); Valero Energy Corp. (VLO); and Verizon Communications, Inc. (VZ).

(6) No change.

(j) - (v) No change.

* * * * *

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 modify its fee schedule for transaction executions in certain stocks listed on markets other than Nasdaq by creating a pilot program under which liquidity providers (i.e., market participants that put quotes or orders that are accessed by incoming orders) would receive a credit of \$0.0005 per share executed.⁵ Nasdaq currently offers a liquidity provider credit with respect to securities whose primary listing is on Nasdaq, and its credit for transactions in exchange-traded funds (“ETFs”) listed on the American Stock Exchange (“Amex”) was recently extended to

⁵ Telephone conversation between John Yetter, Associate General Counsel, Exchange, and David Liu and Michou Nguyen, Attorneys, Division of Market Regulation, Commission, on December 6, 2005.

ETFs listed on other exchanges.⁶ Nasdaq notes that, with the exception of ETFs, however, such a credit is not currently offered with respect to stocks whose primary listing is not on Nasdaq.

Nasdaq states that with the enhanced opportunities for electronic trading of non-Nasdaq listed stocks occasioned by market participant demand and upcoming regulatory changes, however, it expects that new competitive opportunities will develop for Nasdaq and other electronic venues. Nasdaq believes that the quality of executions that it can offer in such an environment will depend on the degree to which market participants in a position to provide liquidity opt to do so through Nasdaq. Because the market for executions of these stocks has not yet been subject to vigorous competition, and because the balance between the cost of providing credits and the revenue growth associated with increased liquidity provision has therefore not been tested in a fully competitive environment, Nasdaq believes that a pilot program, consisting of a modest \$0.0005 per share credit paid with respect to a limited number of stocks, would allow an assessment of the costs and benefits of the credit to Nasdaq and its market participants. The Nasdaq represents that the forty stocks selected for inclusion in the pilot program⁷ are all stocks

⁶ See Securities Exchange Act Release Nos. 52757 (November 9, 2005), 70 FR 69791 (November 17, 2005) (SR-NASD-2005-125); and 52758 (November 9, 2005), 70 FR 69793 (November 17, 2005) (SR-NASD-2005-126).

⁷ Advanced Micro Devices Inc. (AMD); Apache Corp. (APA); AT&T Corp. (T); Avaya, Inc. (AV); Baker Hughes, Inc. (BHI); BJ Services Co. (BJS); Bristol-Myers Squibb Co. (BMY); Burlington Resources, Inc. (BR); Calpine Corp. (CPN); Charles Schwab Corp. (SCH); Citigroup Inc. (C); ConocoPhillips (COP); Corning Inc. (GLW); Devon Energy Corp. (DVN); EMC Corp. (EMC); Exxon Mobil Corp. (XOM); Ford Motor Co. (F); Gateway, Inc. (GTW); General Electric Co. (GE); Halliburton Co. (HAL); Hewlett-Packard Co. (HPQ); Johnson & Johnson (JNJ); JPMorgan Chase & Co. (JPM); Kohl's Corp. (KSS); LSI Logic Corp. (LSI); Micron Technology, Inc. (MU); Motorola, Inc. (MOT); Noble Corp. (NE); Occidental Petroleum Corp. (OXY); Office Depot Inc. (ODP); Pfizer Inc.

whose propensity to trade on electronic venues, high daily trading volumes, and large market capitalizations may correlate with a relatively high degree of price elasticity with regard to liquidity provision.⁸

Nasdaq plans to run the pilot for a period of at least three months; however, because the authority for this proposal provided by the Nasdaq Board of Directors runs only through December 31, 2005, the pilot period covered by this filing is one month. Upon obtaining Board approval for a longer pilot, which Nasdaq expects to receive in December 2005, Nasdaq plans to file to extend the pilot through February 28, 2006.⁹ Nasdaq states that, based on information received regarding the trading characteristics of the forty stocks included in the pilot, it would then determine whether to submit a proposed rule change to extend the pilot further, modify the level of the liquidity provider credit, and/or offer a credit with respect to additional stocks.

2. Statutory Basis

Nasdaq believes that the proposed rule change is consistent with the provisions of Section 15A of the Act,¹⁰ in general, and with Section 15A(b)(5) of the Act,¹¹ in particular, in that the proposed rule change provides for the equitable allocation of

(PFE); Phelps Dodge Corp. (PD); Pulte Homes, Inc. (PHM); Qwest Communications International Inc. (Q); Schlumberger Ltd. (SLB); Solectron Corp. (SLR); Sovereign Bancorp, Inc. (SOV); Time Warner, Inc. (TWX); Valero Energy Corp. (VLO); and Verizon Communications, Inc. (VZ).

⁸ The change proposed by this filing applies to NASD members that use the Nasdaq Market Center and Brut; in SR-NASD-2005-138, Nasdaq is proposing to make the same change applicable to non-members that use Brut.

⁹ Telephone conversation between John Yetter, Associate General Counsel, Exchange, and Michou Nguyen, Attorney, Division of Market Regulation, Commission, on December 7, 2005.

¹⁰ 15 U.S.C. 78o-3.

¹¹ 15 U.S.C. 78o-3(b)(5).

reasonable dues, fees, and other charges among members and issuers and other persons using any facility or system which the NASD operates or controls. Nasdaq believes that the proposed rule change will institute a liquidity provider credit available to all market participants that opt to provide liquidity through Nasdaq or Brut to support executions in any of forty stocks included in the pilot program.

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

Nasdaq states that written comments were neither solicited nor received.

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

The foregoing rule change is subject to Section 19(b)(3)(A)(ii) of the Act¹² and subparagraph (f)(2) of Rule 19b-4¹³ thereunder because it establishes or changes a due, fee, or other charge imposed by the self-regulatory organization. Accordingly, the proposal is effective upon Commission receipt of the filing. 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

¹² 15 U.S.C. 78s(b)(3)(A)(ii).

¹³ 17 CFR 240.19b-4(f)(2).

¹⁴ 15 U.S.C. 78s(b)(3)(C).

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 Number SR-NASD-2005-137 on the subject line.

Paper comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-9303.

All submissions should refer to File Number SR-NASD-2005-137. 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 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-2005-137 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

Jonathan G. Katz
Secretary

¹⁵ 17 CFR 200.30-3(a)(12).