

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54651; File No. SR-NASD-2006-119)

October 25, 2006

Self-Regulatory Organizations: National Association of Securities Dealers, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Enhance the Flexibility of Nasdaq's INET Facility Order Routing Process for Reactive Only DOT Orders That Currently Are Ultimately Directed to the New York Stock Exchange or the American Stock Exchange

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 October 18, 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 prepared by Nasdaq. Nasdaq filed the proposed rule change pursuant to paragraph (f)(6) of Rule 19b-4 under the Act,³ which renders the proposal effective upon filing with the Commission.⁴ 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 Substance of the Proposed Rule Change

Nasdaq proposes to enhance the flexibility of Nasdaq's INET Facility ("INET") order routing process for reactive only DOT orders ("Reacting Only Dot Orders") that

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

⁴ Nasdaq gave the Commission written notice of its intention to file the proposed rule change on October 6, 2006.

currently are ultimately directed to the New York Stock Exchange (“NYSE”) or the American Stock Exchange, as appropriate.

The text of the proposed rule change is available at the Commission’s Public Reference Room, at NASD, and at www.nasdaq.com.

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 proposes to increase the flexibility of the INET order routing process for orders that currently are ultimately directed to other market centers. Currently, parties entering a marketable INET Reactive Only Dot Order are first directed to have those orders processed in the INET System and, after exhausting available liquidity in the INET System, thereafter automatically routed to other market centers. If the INET Reactive Only Dot Order is not marketable, it is added to the INET book. Nasdaq is proposing to modify the behavior of the INET order routing process for Reactive Only DOT Orders so that orders or residual orders can be sent to other market centers for potential execution whereby unexecuted shares will be returned to the INET System

rather than the current practice of the unfilled orders remaining on the books of the other market centers until executed or cancelled.

Nasdaq believes that the proposed rule change will enhance the ability of market participants to take advantage of beneficial liquidity residing across all market centers as other market centers become more automated. Customers use the “Reactive Only DOT” order type when they want their order to be posted on the INET book for potential execution, but do not want to miss potential executions at other market centers, including the NYSE. Before the introduction of the NYSE Hybrid system, there was no way to receive an automatic execution in response to an Immediate or Cancel (“IOC”) order sent to the NYSE. As such, the order type as it works today will post the order on INET and “react” to quotes at other market centers. The system will send an IOC order to electronic market centers if they have a locking (marketable) quote. If the locking quote is at the NYSE, today Nasdaq will send the order to the NYSE and it will reside there until executed or cancelled.

With the introduction of the NYSE Hybrid system comes a new feature that Nasdaq would like to utilize using this order type. The new feature is the ability to receive immediate automatic executions in response to IOC orders. Nasdaq would like to be able to use this routing strategy to better respond to the requests of customers (i.e., post the order to INET unless marketable on another market center and send an IOC to the NYSE when the NYSE has a locking quote, the same as Nasdaq does for other market centers). As before, no INET System Reactive Only Dot Order will execute in a Nasdaq-operated execution venue at an inferior price to one that is available at an accessible alternative venue.

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 Section 15A(b)(6) of the Act,⁶ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, remove impediments to 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 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 Act and Rule 19b-4(f)(6) thereunder.⁷

⁵ 15 U.S.C. 78o-3.

⁶ 15 U.S.C. 78o-3(b)(6).

⁷ 17 CFR 240.19b-4(f)(6).

Nasdaq has asked the Commission to waive the 30-day operative delay. The Commission believes waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Such waiver will allow the intended benefits of the proposed modification to be made available as soon as practicable. For these reasons, the Commission designates the proposal to be effective and operative upon filing with the Commission.⁸

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 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-2006-119 on the subject line.

Paper Comments:

⁸ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

- 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-2006-119. 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 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-2006-119 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.⁹

Nancy M. Morris
Secretary

⁹ 17 CFR 200.30-3(a)(12).