



July 7, 2004

VIA ELECTRONIC MAIL

Mr. Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

Re: File No. SR-NASD-2004-071 – Nasdaq Opening Cross

Dear Mr. Katz:

This letter sets forth the comments of White Cap Trading LLC (“White Cap”) ¹ in response to a proposed rule change (“Proposal”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) by The Nasdaq Stock Market, Inc. (“Nasdaq”). The Proposal would create the Nasdaq Opening Cross – a single-price auction conducted daily at 9:30 AM ET – as part of a wholesale revision of the process by which Nasdaq opens trading in its marketplace. ²

White Cap strongly supports the Proposal. In particular, we believe that the Nasdaq Opening Cross remedies a long-standing problem with Nasdaq’s market structure: lack of a formalized and transparent opening process. Without an opening process, on-open orders, often placed by retail investors and professional traders of index-linked derivatives, do not directly participate in price formation. Indeed, in the past, the Commission has called on Nasdaq to create an opening process for this reason. ³

¹ Founded in February 2003, White Cap is an institutional brokerage that reduces transaction costs through agency-only execution and expertise with electronic markets. White Cap is keenly interested in market structure initiatives that enhance or impair the ability of our clients to trade efficiently and effectively.

² SEC Release No. 34-49842 (June 9, 2004), 69 FR at 33971 (“Proposing Release”).

³ See, e.g., “The National Market System: A Vision That Endures,” Remarks of SEC Chairman Arthur Levitt, at Stanford University, Stanford, California, January 8, 2001 (available at <http://www.sec.gov/news/speech/spch453.htm>).

Based on our experience with the Nasdaq Closing Cross over the past three months, we believe that the Nasdaq Opening Cross meets this call.⁴ The Nasdaq Opening Cross will afford market participants with the opportunity to enter on-open orders for execution at a single price, to view indicated prices and volumes as well as any imbalances, and to interact with such indications on a competitive basis. It is axiomatic: improving transparency and fostering competition produces better prices.

It merits mention that initiatives such as the Nasdaq Opening Cross are feasible because Nasdaq, to a large extent, has evolved into an auto-execution marketplace over the past few years. Consequently, the Proposal states that quotes published by liquidity centers that operate outside Nasdaq's auto-execution purview—such as order-delivery electronic communication networks (“ECNs”) that operate within Nasdaq and ECNs and electronic exchanges that operate outside Nasdaq—will not participate in the Nasdaq Opening Cross.⁵

The exclusion of these marketplaces is a consequence of technological concerns and competitive realities. It is difficult to integrate quotes that cannot be immediately executed into an automated auction, and Nasdaq has little incentive to integrate quotes that reside outside its core marketplace.⁶ In any event, because the Nasdaq Opening Cross is directly accessible to all interested and qualified parties, its associated benefits should redound to the marketplace regardless of the fact that certain quotes do not participate.

⁴ Launched on April 12, 2004, the Nasdaq Closing Cross operates in a similar fashion to the proposed Nasdaq Opening Cross, but at 4 PM ET. See SEC Release No. 34-49406 (March 11, 2004), 69 FR at 12879.

⁵ Proposing Release, supra note 2, at 33976.

⁶ To our knowledge, no exchange or exchange facility currently operates an auction that integrates quotations of away marketplaces. For example, the Archipelago Exchange, a facility of the PCX Equities, Inc. (“PCXE”), operates three auctions which are based exclusively on resident liquidity. See PCXE Rule 7.35.

Mr. Jonathan G. Katz
File No. SR-NASD-2004-071
July 7, 2004
Page 3

In sum, the Proposal is consistent with the principles set forth in the Securities Exchange Act of 1934 and will enhance the quality of the Nasdaq marketplace. We therefore strongly encourage the Commission to approve the Proposal. Should you have questions regarding this letter or require additional comment, please contact the undersigned at 212.812.9304 or jamie@wctrade.com.

Respectfully submitted,

WHITE CAP TRADING LLC



James P. Selway III
Managing Director

cc: Mr. Robert Colby
Deputy Director of Market Regulation, Securities and Exchange Commission

Ms. Adena Friedman
Executive Vice President, The Nasdaq Stock Market, Inc.