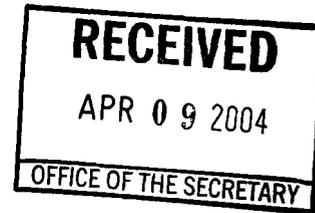**EDWARD KNIGHT**

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NASDAQ®

April 8, 2004

Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 5th Street, NW
Washington, DC 20549

Re: Comments of The Nasdaq Stock Market, Inc. Regarding SR-PCX-2003-70
       Regarding the Dissemination of a Closing Price on the Pacific Stock Exchange

Dear Mr. Katz:

The Nasdaq Stock Market ("Nasdaq") respectfully submits its comments to SR-PCX-2003-70, which establishes a closing price for the Pacific Stock Exchange ("PCX") for securities listed on Nasdaq and other primary markets. Nasdaq believes that each exchange has broad authority to calculate and disseminate its own closing price and that each market participant and investor can decide which of the available closing prices best represents the closing value of a given security. One caveat to that principle is that each market's methodology for determining closing prices must be clear and the prices themselves should not mislead investors or the public. Nasdaq is concerned that the proposed PCX closing price is misleading because PCX would incorporate into its own closing price trade prices and volumes that occur on other exchanges. Plainly put, we believe that the PCX proposal is inconsistent with the fundamental principle of "truth in labeling."

The PCX closing price methodology is complex. Specifically, if a closing auction occurs on PCX, that closing auction will set the price and volume of the PCX close. If no closing auction occurs on PCX, the PCX will disseminate as *its* closing price a volume weighted average price ("VWAP") of all *consolidated* trading for the final two minutes of the trading day. Along with that closing price, PCX will report the total volume of *consolidated* trading as *its* closing price. If no consolidated trading occurs within the final two minutes of trading, PCX will disseminate as *its* closing price, the price of the latest trade reported by *any* exchange and the

volume associated with that trade. If no trading occurs for the entire day, PCX will disseminate the closing price from the preceding trading day in which there was trading activity on any exchange.

Regardless of how the closing price and volume are determined, PCX will disseminate the PCX closing price and volume using the same method. For Nasdaq-listed securities, PCX will disseminate a trade report with a closing price and volume using the ".M" modifier currently available to all markets that trade Nasdaq securities. That trade report will be disseminated to all investors via the consolidated tape. In each case, investors will see the same information: a price, a volume and the PCX market identifier.

The problem is that investors will not know how the PCX closing price and volume were determined and whether they were based on trades that occurred on PCX or trades that occurred on other markets. Investors will be uninformed about the trading giving rise to the PCX closing price and potentially misled about the extent of trading that actually occurs on PCX. Investors will have no way of knowing whether one, one hundred, or one thousand of the PCX closing prices was derived from actual PCX trading. Investors may understandably conclude that a far greater volume of trading is occurring on PCX than is actually the case.

This is a serious problem because, to date, PCX has held closing auctions in only a small minority of Nasdaq-listed securities. Since the launch of the PCX closing auction, PCX typically holds less than ten auctions in Nasdaq-listed securities, auctions in NYSE-listed securities are even less frequent. As a result, under the proposal, trades that occur on other markets would set the vast majority of PCX closing prices. In fact, on most days, there are hundreds of securities for which no trades occur on PCX. Yet, under the proposal, the PCX closing trade report will indicate that hundreds or thousands of shares of trading have occurred on PCX. Investors would have no meaningful way of interpreting the majority of PCX closing prices.

PCX acknowledges this deficiency in its filing, and describes its plans to solve that problem at some indeterminate future date. In footnote 8 of the filing, PCX states "The Exchange will work with the OTC/UTP Committee to develop an additional modifier that will be used to indicate the Closing Price when it is based on consolidated data rather than the ArcaEx Closing Auction. This modifier will be disseminated in addition to ''.M'' upon receiving approval from the OTC/UTP Committee." PCX states that it is seeking the creation of similar modifiers for the national market system plans governing the trading of NYSE and Amex-listed securities. Nasdaq submits that the proposal is misleading to investors and, therefore, inconsistent with the Securities Exchange Act of 1934 at least until such time as appropriate modifiers exist to identify the basis for the PCX closing price.

There are other problems inherent in a single market using consolidated data as the basis for its own closing price. For example, the PCX proposal does not account for changes to

consolidated trading that occur on other markets, such as cancellations or corrections that occur between 4:00 and 5:30 each trading day. Nor does the proposal address the potential incentive for market participants to create the appearance of increased trading in order to affect the consolidated VWAP that PCX will utilize.

In conclusion, while Nasdaq supports individual markets' autonomy to set closing prices, we think that autonomy does not include misleading the public. The appropriation of consolidated data by a single exchange as its own is inherently misleading. The Commission should not approve the PCX proposal until PCX can ensure that the source of each closing price is transparent to the public. PCX must either use its own trading as the basis for its closing price, or establish trade report modifiers that are disseminated over the Plan-sponsored consolidated trade feeds in the same record as the closing price to distinguish PCX closing prices based on PCX trading from those based on consolidated trading.

Sincerely,

Edward S, Knight

cc: Annette Nazareth, Director, Division of Market Regulation
        Robert L.D. Colby, Deputy Director, Division of Market Regulation
        David Shillman, Associate Director, Division of Market Regulation