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February 28, 2003

Paul L. Fitzgerald  
Goldman, Sachs & Co  
One New York Plaza  
New York, New York 10004

**Re: IM 4613 – Computer Generated Quoting**

Dear Mr. Fitzgerald:

On September 4, 2002, The Nasdaq Stock Market, Inc. ("Nasdaq") issued an interpretation to Goldman, Sachs & Co. ("Goldman") that its Computer Generated Quoting system was consistent with IM 4613.<sup>1</sup> The interpretive relief expired on the date before Nasdaq began operating the Nasdaq Order Display Facility (commonly known as SuperMontage). Nasdaq implemented SuperMontage beginning on October 14, 2002. On October 24, 2002, Nasdaq extended its interpretive relief through the phase-in of SuperMontage, which ended on December 2, 2002. On November 25, 2002, Nasdaq granted a further extension of the interpretive relief through February 28, 2003. This letter extends the interpretation until April 30, 2003, and temporarily suspends certain quote update limitations through March 21, 2003, as explained in detail below.

Nasdaq originally granted an extension of the interpretation through the phase-in period of SuperMontage so that it could gain experience with Computer Generated Quoting in a SuperMontage environment. Nasdaq continues to study this issue, and believes it can gain further valuable experience by allowing Computer Generated Quoting for an extended period of time. Accordingly, Goldman can continue to utilize its Computer Generated Quoting system in the manner described in its letter dated August 13, 2002, and subject to all the conditions contained in Nasdaq's September 4, 2002 letter, which conditions Nasdaq specifically incorporates herein by this reference.

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<sup>1</sup> The term "Computer Generate Quoting" is defined in IM 4613(c).

However, Nasdaq is implementing a pilot program during which market makers with approved Computer Generated Quoting systems can utilize their systems without any quote update limitations. The pilot program is scheduled to expire at the close of business on March 21, 2003, unless extended by Nasdaq in writing. At the end of the pilot program, Goldman must comply with the existing quote update caps, unless Nasdaq otherwise amends the caps in writing.

Specifically, during the pilot program, the following quote update limitations are suspended:

- (1) From 9:30 a.m. to 9:35 a.m. Eastern Time and from 3:55 p.m. to 4:00 p.m. Eastern Time, the Firm's quote updates will not exceed the following parameters:
  - 30 quotes per second in aggregate for all securities, measured over each 15 second interval; and
  - a maximum of three quote updates per second for each security; and
- (2) From 9:35:01 a.m. to 3:54:59 p.m. Eastern Time, the Firm's quote updates will not exceed the following parameters:
  - 50 quotes per second in aggregate for all securities, measured over each 15 second interval; and
  - a maximum of three quote updates per second for each security.

All other conditions contained in Nasdaq's September 4<sup>th</sup> letter remain in effect.

The pilot program will provide Nasdaq with useful information to help determine whether the quote update restrictions on Computer Generated Quoting systems can be modified or eliminated. Any decision in this regard must be consistent with Nasdaq's obligation to ensure the integrity of its systems and to protect investors and the public interest.

The September 4<sup>th</sup> interpretive relief, and the decision to extend the relief and implement the pilot program, is based solely on your representations and the facts presented by you to the staff, as well as Nasdaq's belief that providing Goldman with this interpretation will enhance market liquidity and serve the public interest. This interpretation is strictly limited to the application of NASD IM-4613 to Goldman's system described in its letter dated August 13, 2002. In the event that any material change occurs with respect to any of those facts or representations as they relate to NASD IM-4613, you should immediately inform Nasdaq staff.

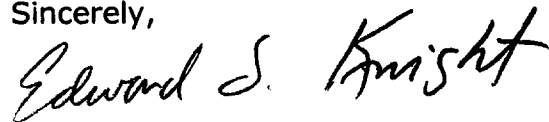
Paul L. Fitzgerald  
February 28, 2003  
Page 3

This interpretive relief and your inclusion in the pilot program are subject to modification or revocation if at any time Nasdaq determines that such action is necessary or appropriate in furtherance of applicable laws or NASD rules, including Nasdaq's obligation to protect of investors and the public interest. Moreover, the interpretation and the pilot program may be revoked or modified, if Nasdaq determines that Goldman's computer generated quotation practices are having a material adverse impact on Nasdaq's systems capacity, such action is necessary for maintenance of fair and honest markets and the protection of investors, or that Goldman has not complied with any of the conditions described above. In addition, Nasdaq also may limit or terminate through its systems Goldman's ability to enter computer generated quotes. As you know, Nasdaq and NASD monitor for compliance with the conditions contained in this interpretive relief.

The opinions expressed herein are staff opinions only and have not been reviewed or endorsed by the board of Directors of Nasdaq or NASD Regulation, or the Board of Governors of the NASD. This letter responds only to the issues that you have raised, based on the facts as described, and does not address any other rule or interpretation of the NASD, or other regulatory or legal issues.

If you have any questions, please feel free to call me at 202-912-3030, or Peter R. Geraghty, Associate General Counsel, Nasdaq, at 202-912-3036.

Sincerely,



Edward S. Knight