

Proposed Rule Change by National Association of Securities Dealers  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input type="checkbox"/>	Amendment <input checked="" type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input checked="" type="checkbox"/>	Section 19(b)(3)(A) <input type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action <input type="checkbox"/>		Date Expires <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**  
Provide a brief description of the proposed rule change (limit 250 characters).

**Contact Information**  
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name	<input type="text" value="Andrea"/>	Last Name	<input type="text" value="Orr"/>
Title	<input type="text" value="Assistant General Counsel"/>		
E-mail	<input type="text" value="andrea.orr@nasd.com"/>		
Telephone	<input type="text" value="(202) 728-8156"/>	Fax	<input type="text" value="(202) 728-8264"/>

**Signature**  
Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date

By  (Name)  
 (Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

**Form 19b-4 Information**

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change**

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

On December 9, 2005, the National Association of Securities Dealers, Inc. (“NASD”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-NASD-2005-146, proposing to expand the scope of IM-2110-2 to apply to all over-the-counter (“OTC”) equity securities. On September 26, 2006, NASD filed Amendment No. 1 to (1) make certain changes to the proposed rule text relating to the scope of IM-2110-2 and to reflect intervening changes to the rule that have been approved and implemented, (2) amend the price improvement standards in IM-2110-2, (3) clarify the proposed application of the rule, and (4) delete certain unnecessary text. On October 19, 2006, NASD filed Amendment No. 2, which replaced and superseded the prior filings in their entirety, to make certain clarifying and technical changes to the filing. On November 9, 2006, the Commission published for comment the proposed rule change in the Federal Register.<sup>1</sup> The Commission received no comments in response to the Federal Register publication.<sup>2</sup>

NASD is filing with the Commission this Partial Amendment No. 3 to make a technical change to the filing. Specifically, NASD is requesting that the Commission grant permanent approval to the pilot price-improvement standards for decimalized securities contained in IM-2110-2, as amended by this proposed rule change SR-NASD-2005-146. There are no changes to the proposed rule text in this Partial Amendment No. 3.

The current IM-2110-2 price-improvement standards, which were established to support the implementation of decimal pricing, were approved by the Commission, on a pilot basis, on April 6, 2001.<sup>3</sup> As part of the original filing, NASD agreed to monitor the protection of limit orders during the period after the full implementation of decimal pricing and to analyze and evaluate trading activity to determine if future changes to the price-improvements standards are warranted. Since its original approval, the pilot has been extended numerous times and the price-improvement standards have operated continuously.<sup>4</sup>

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<sup>1</sup> See Securities Exchange Act Release No. 54705 (November 3, 2006), 71 FR 65863 (November 9, 2006) (notice of filing of SR-NASD-2005-146 and Amendment Nos. 1 and 2 thereto).

<sup>2</sup> The Commission received one comment letter on a separate rule change filed with the Commission relating to IM-2110-2. The commenter to that filing expressed support for the price-improvement standards in IM-2110-2 that are proposed as part of this filing. See infra note 4

<sup>3</sup> See Securities Exchange Act Release No. 44165 (April 6, 2001), 66 FR 19268 (April 13, 2001) (order approving SR-NASD-2001-27).

<sup>4</sup> NASD recently filed a rule change to extend through June 30, 2007, the price-improvement standards for decimalized securities contained in IM-2110-2. See Securities Exchange Act Release No. 54953 (December 18, 2006), 71 FR 77429 (December 26, 2006) (notice of filing of SR-NASD-2006-134).

Given the passage of time since the full implementation of decimal pricing and the specific proposed amendments to the IM-2110-2 price-improvement provisions in this proposed rule change that have been subject to notice and comment, NASD requests that the Commission make the pilot permanent. Further, NASD staff is not aware of any adverse effects of the price-improvement standards and, as such, believes it is appropriate to adopt the IM-2110-2 pilot permanently.

Finally, in this Partial Amendment No. 3, NASD requests the Commission to find good cause pursuant to Section 19(b)(2) of the Securities Exchange Act of 1934<sup>5</sup> for approving the proposed rule change prior to the 30th day after its publication in the Federal Register.

Because NASD believes that the proposed changes in this Partial Amendment No. 3 are technical in nature, NASD requests the Commission to accelerate the effectiveness of the proposed rule change prior to the 30th day after its publication in the Federal Register.

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<sup>5</sup> 15 U.S.C. 78s(b)(2).