

INFORMATIONAL

Publication Of Quotations; Indications Of Interest

SEC Approves Rule Change Prohibiting Publication Of Quotations Or Indications Of Interest In A Security During A Trading Halt

SUGGESTED ROUTING

The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.

- Executive Representatives
- Legal and Compliance
- Operations
- Registered Representatives
- Senior Management

KEY TOPICS

- Quotations
- Trading Halt

Executive Summary

On June 5, 2001, the Securities and Exchange Commission (SEC) approved an amendment to National Association of Securities Dealers, Inc. (NASD®) Rule 3340 to prohibit publication of quotations or indications of interest in a security during a trading halt. Previously, NASD Rule 3340 expressly prohibited members from directly or indirectly effecting a transaction in a security during a trading halt but did not expressly prohibit members from publishing quotations or indications of interest during a halt.¹

Questions/Further Information

The rule change becomes effective on August 13, 2001. Questions regarding this *Notice* may be directed to Kathy O'Mara, Assistant General Counsel, Office of General Counsel, NASD Regulation, Inc., at (202) 728-8056.

Attachment A includes the text of Rule 3340, as amended.

Background And Summary

The amendment to Rule 3340 prohibits members or associated persons from, directly or indirectly, effecting any transaction or publishing a quotation, a priced bid and/or offer, an unpriced indication of interest, or a bid or offer accompanied by a modifier to reflect unsolicited customer interest, in any security for which a trading halt is currently in effect.

NASD Regulation believes that prohibiting the publication of quotations or indications of interest during a trading halt will prevent members from seeking to trade at a time when they cannot execute a trade. Furthermore, the amended rule is designed to protect investors and to ensure the

integrity of quotations by preventing fictitious or misleading quotations.

Staff of The Nasdaq Stock Market, Inc. (Nasdaq®) has received numerous inquiries regarding what effect the rule change may have on Nasdaq's process for resuming trading following a trading halt. As noted in the SEC's approval order, the rule change will not affect the resumption process for Nasdaq National Market Securities (NNM) and Nasdaq SmallCap (SCM) securities. Nasdaq MarketWatch will continue to provide notice of a trading halt to members through the Nasdaq Workstation.

Contemporaneously, all quotes for the security at issue will be eliminated from the Nasdaq Workstation interactive area. Nasdaq's MarketWatch Department will continually update the status of the trading halt and will notify members of the exact time the trading halt will end. In addition, Nasdaq MarketWatch will notify members that they can begin entering quotations in anticipation of the end of the trading halt (the "grace period"). Quotations entered during this grace period are designated as closed by displaying a "g" symbol next to each quotation. The quotations remain closed until the trading halt has ended, at which time the "g" symbol is removed and quotations become firm. This resumption process is used by the Nasdaq MarketWatch for NNM and SCM securities exclusively.² Nasdaq MarketWatch does not use this process for OTC Bulletin Board securities or securities traded over-the-counter through the InterMarket.

The release approving the rule changes (SEC Release No. 34-44390; File No. SR-NASD-00-33) may be viewed on the SEC Web Site at www.sec.gov/rules/sroindx.htm.

Endnotes

- 1 However, NASD Rules 3310 and 3320, respectively, state that members are required to enter only bona fide quotations and honor such quotations if presented with an order.
- 2 NASD Regulation would not consider the entry of closed quotations into Nasdaq for NNM and SCM securities, in conformity with Nasdaq's resumption process, to be a violation of Rule 3340.

© 2001, National Association of Securities Dealers, Inc. (NASD). All rights reserved. Notices to Members attempt to present information to readers in a format that is easily understandable. However, please be aware that, in case of any misunderstanding, the rule language prevails.

ATTACHMENT A

Text Of Amendment To Rule 3340

New text is underlined.

3340. Prohibition on Transactions, Publication of Quotations, or Publication of Indications of Interest During Trading Halts

No member or person associated with a member shall, directly or indirectly, effect any transaction or publish a quotation, a priced bid and/or offer, an unpriced indication of interest (including “bid wanted” and “offer wanted” and name only indications), or a bid or offer accompanied by a modifier to reflect unsolicited customer interest, in any security as to which a trading halt is currently in effect.