

**ACTION REQUESTED BY
OCTOBER 31, 2000**

Limit Orders— Manning Interpretation

Nasdaq Requests
Comment On Extending
Manning Limit Order
Protection Interpretation
To Premarket Hours;
**Comment Period Expires
October 31, 2000**

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.

- Legal & Compliance
- Operations
- Senior Management
- Technology
- Trading & Market Making

KEY TOPICS

- IM-2110-2
- Limit Orders
- Manning Interpretation

Executive Summary

The Nasdaq Stock Market, Inc. (The Nasdaq Stock Market®) is seeking member comment on a proposal to extend the National Association of Securities Dealers, Inc. (NASD®) *Manning* Limit Order Protection Interpretation (IM-2110-2 or *Manning*) at the customer's discretion to premarket hours (8:40 a.m.¹ to 9:30 a.m. Eastern Time). *Manning* prohibits an NASD member firm from trading ahead of a customer limit order. *Manning* currently applies only during regular Nasdaq® trading hours.

The proposal is designed to respond to increasing member activity in premarket hours and to provide customers with the opportunity to have their priced orders protected and potentially executed in this premarket period. Limit orders from customers who do not elect to have their orders protected in the 8:40 a.m. to 9:30 a.m. time period will continue to be protected and executed in the normal fashion at the market open when *Manning* already applies.

Request For Comment

Nasdaq encourages all members and interested parties to comment on the proposal. For your convenience, we have provided a checklist (see Attachment A) so that in a minimum amount of time you can provide Nasdaq with your general comments. Comments must be received by **October 31, 2000**.

Members and interested parties can submit their comments using the following methods:

- 1) mailing in the checklist (Attachment A)
- 2) mailing in written comments

- 3) e-mailing written comments to:
pubcom@nasd.com
- 4) submitting comments online at the NASD Regulation, Inc. (NASD RegulationSM) Web Site (www.nasdr.com)

If you decide to send comments using both the checklist and one of the other methods listed above, please let us know. The checklist and/or written comments should be mailed to:

Joan C. Conley
Office of the Corporate Secretary
NASD Regulation, Inc.
1735 K Street, NW
Washington, DC 20006-1500

The only comments that will be considered are those submitted in writing, either via e-mail, regular mail, or the NASDR Web Site.

Before becoming effective, the Nasdaq Board of Directors must adopt, and the Securities and Exchange Commission (SEC) must approve, any rule change. The NASD Board of Governors also may review the rule change.

Questions/Further Information

As noted, written comments should be submitted to Joan C. Conley. Questions concerning this *Notice to Members—Request for Comment* may be directed to Thomas P. Moran, Assistant General Counsel, Office of General Counsel, The Nasdaq Stock Market, at (202) 728-8294.

Background

Increasingly, public customers are entering orders with their brokers prior to the market open. In an attempt to service those orders, member firms are increasing their trading in the premarket to manage order imbalances. However,

customer limit orders do not, other than the general duty of best execution, currently have the protection mandated by *Manning* when member firms trade during this period.

To respond to this change in market activity, the NASD Board of Governors recently approved a proposal to extend, at the customer's discretion, *Manning* to 8:40 a.m. to 9:30 a.m. ET. *Manning* prohibits an NASD member firm that is holding a customer limit order from trading for its own account at a price that would satisfy the customer's limit order without executing that customer limit order. *Manning* currently applies only during regular Nasdaq trading hours (9:30 a.m. to 4:00 p.m. ET) and Nasdaq's extended hours session (4:00 p.m. to 6:30 p.m. ET) (see *Notice to Members 95-67* and SEC Release No. 34-42003).

Under the Board's proposal, customers who do not choose to have their orders protected in the premarket will have their orders executed in the normal manner at market open. Given the risk that market makers and customers

assume when trading in the premarket, only those customers who affirmatively agree to have their limit orders protected will be eligible for *Manning* protection. Such agreements between customers and their firms will highlight the potential that premarket executions may occur at prices that could be inferior to the price a customer might have obtained by waiting to trade until the market has formally opened.

Questions For Comment

Given the potential for significant member system reprogramming associated with the expansion of *Manning* to the premarket, Nasdaq is seeking member comment on this proposal prior to submitting this rule change to the SEC for approval. Specifically, Nasdaq seeks comment on the following:

- What are the specific technology challenges and issues facing your firm in connection with the expansion of *Manning* to the 8:40 a.m. to 9:30 a.m. time period?

- What changes to your firm's current process for organizing and executing customer limit orders would have to be made to comply with a rule mandating *Manning* limit order protection to the premarket time period?
- What is the best estimate of time it would take for your firm to become prepared to comply both technologically and operationally with an expansion of *Manning* to the premarket time period?

Endnote

¹The 8:40 a.m. *Manning* start time was selected in order to avoid conflicting with the traditional 8:30 a.m. public release of economic and material company information and to allow all market participants sufficient time to adjust and enter orders in response to that information.

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ATTACHMENT A

Request For Comment Checklist—Questions For Members And Other Interested Parties

The following list of questions provides a quick and easy means to comment on some of the provisions contained in the proposal. This list of questions does not cover all of the changes contained in the proposal; therefore, we encourage members and other interested parties to review the entire proposal and to comment separately on all aspects of the proposal.

Instructions

Comments must be received by **October 31, 2000**. Members and interested parties can submit their comments using the following methods:

- mailing in this checklist
- e-mailing written comments to *pubcom@nasd.com*
- mailing in written comments
- submitting comments online at the NASDR Web Site (*www.nasdr.com*)

The checklist and/or written comments and should be mailed to:

Joan C. Conley
Office of the Corporate Secretary
NASD Regulation, Inc.
1735 K Street, NW
Washington, DC 20006-1500

Proposed Extension Of Manning Limit Order Protection Interpretation

1. What are the specific technology challenges and issues facing your firm in connection with the expansion of *Manning* to the 8:40 a.m. to 9:30 a.m. time period? _____

2. What changes to your firm's current process for organizing and executing customer limit orders would have to be made to comply with a rule mandating *Manning* limit order protection to the premarket time period?

3. What is the best estimate of time it would take for your firm to become prepared to comply both technologically and operationally with an expansion of *Manning* to the premarket time period? _____

Contact Information

Name: _____ Firm: _____
Address: _____ City/State/Zip: _____
Phone: _____ E-Mail: _____

Are you:

- ☐ An NASD Member ☐ An Investor ☐ A Registered Representative
☐ Other: _____