

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

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input type="checkbox"/>	Section 19(b)(3)(A) <input checked="" type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
			Rule		
			<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 checked="" 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="Lisa"/>	Last Name	<input type="text" value="Horrigan"/>
Title	<input type="text" value="Assistant General Counsel"/>		
E-mail	<input type="text" value="lisa.horrigan@nasd.com"/>		
Telephone	<input type="text" value="(202) 728-8190"/>	Fax	<input type="text" value="(202) 728-8034"/>

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	<input type="text" value="10/24/2005"/>
By	<input type="text" value="Stephanie Dumont"/>
	(Name)
	<input type="text" value="Vice President and Associate General Counsel"/>
	(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.

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), the National Association of Securities Dealers, Inc. ("NASD") is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change to repeal NASD Rule 6440(f) in light of proposed rule changes that have recently been approved by the Commission expanding market order protection and limit order protection to exchange-listed securities. Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

6440. Trading Practices

(a) through (e) No change.

[(f) (1) No member shall:]

[(A) personally buy or initiate the purchase of an eligible security for its own account or for any account in which it or any person associated with it is directly or indirectly interested, while such member holds or has knowledge that any person associated with it holds an unexecuted market order to buy such security in the unit of trading for a customer; or]

[(B) sell or initiate the sale of any such security for any such account, while it personally holds or has knowledge that any person associated with it holds an unexecuted market order to sell such security in the unit of trading for a customer.]

[(2) No member shall:]

[(A) buy or initiate the purchase of any such security for any such account, at or below the price at which it personally holds or has knowledge that any person associated with it holds an unexecuted limited price order to buy such security in the unit of trading for a customer; or]

[(B) sell or initiate the sale of any such security for any such account at or above the price at which it personally holds or has knowledge that any person associated with it holds an unexecuted limited price order to sell such security in the unit of trading for a customer.]

[(3) The provisions of this paragraph shall not apply:]

[(A) to any purchase or sale of any such security in an amount less than the unit of trading made by a member to offset odd-lot orders for customers,]

[(B) to any purchase or sale of any such security upon terms for delivery other than those specified in such unexecuted market or limited price order,]

[(C) to any unexecuted order that is subject to a condition that has not been satisfied.]

[(D) to any purchase or sale for which a member has negotiated specific terms and conditions applicable to the acceptance of limit orders that are:]

[(i) for customer accounts that meet the definition of an "institutional account" as that term is defined in Rule 3110(c)(4); or]

[(ii) for 10,000 shares or more, unless such orders are less than \$100,000 in value.]

(g) through (j) redesignated as (f) through (i)

* * * * *

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Governors of NASD ("Board") and authorized for filing with the SEC pursuant to a delegation of authority granted by the Board at its meeting on January 23, 2003, to the General Counsel of NASD Regulatory Policy and Oversight (or his officer or designee) ("Delegation of Authority") to file, without further specific Board authorization, administrative, technical, conforming, and non-substantive changes to NASD rules. The staff will advise the Board of any action taken pursuant to the Delegation of Authority. No other action by NASD is necessary for the filing of the proposed rule change. Section 1(a)(ii) of Article VII of the NASD By-Laws permits the Board to adopt amendments to NASD rules without recourse to the membership for approval.

NASD has filed the proposed rule change for immediate effectiveness. The implementation date will be January 9, 2006.

3. **Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) Purpose

Rule 6440(f)(1) prohibits a member from personally buying (selling) an exchange-listed security¹ for its own account while such member holds an unexecuted market order to buy (sell) such security for a customer. Similarly, Rule 6440(f)(2) prohibits a member from buying (selling) an exchange-listed security for its own account while such member holds an unexecuted limit order to buy (sell) such security for a customer. NASD seeks to repeal Rule 6440(f) in light of two proposed rule changes that have recently been approved by the Commission that also restrict a member's trading when holding customer market and limit orders in exchange-listed securities.

Specifically, on August 4, 2005, the Commission approved proposed rule change SR-NASD-2004-089, which, among other things, expands the application of NASD Interpretative Material (IM) 2110-2, Trading Ahead of Customer Limit Order (commonly referred to as the "Manning Rule") to exchange-listed securities. The Manning Rule generally prohibits a member from trading for its own account at prices that would satisfy a customer's limit order, unless the member immediately thereafter executes the customer's limit order. In addition, on August 9, 2005, the Commission approved proposed rule change SR-NASD-2004-045 adopting NASD Rule 2111, which prohibits a

¹ Rule 6440(f) applies to over-the-counter transactions in "eligible securities," which are defined in Rule 6410(d) as "all common stocks, preferred stocks, long-term warrants, and rights entitling the holder to acquire an eligible security, listed or admitted to unlisted trading privileges on the American Stock Exchange or the New York Stock Exchange, and securities listed on regional stock exchanges,

member that accepts and holds a customer market order from trading for its own account at prices that would satisfy the customer market order in a Nasdaq or exchange-listed security, unless the member immediately thereafter executes the customer market order.

NASD believes that Rule 6440(f) overlaps and is generally duplicative of the above-referenced rule changes.² Accordingly, NASD is proposing to repeal Rule 6440(f) to ensure consistency in the application of limit order and market order protection and to eliminate potential confusion as to members' obligations with respect to these orders in exchange-listed securities.

As noted in Item 2 of this filing, NASD has filed the proposed rule change for immediate effectiveness. The implementation date will be January 9, 2006, such that both SR-NASD-2004-045 and SR-NASD-2004-089 will be in effect by that date.

(b) Statutory Basis

NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act, which requires, among other things, that NASD rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. NASD believes that the proposed rule change will ensure consistency in the treatment of customer limit orders and customer market orders for exchange-listed securities and will enhance the integrity of the market.

which substantially meet the original listing requirements of the New York Stock Exchange or the American Stock Exchange."

² In SR-NASD-2004-045 and SR-NASD-2004-089, NASD specifically noted its intent to repeal Rule 6440(f) in light of the overlap between the proposed rule changes and Rule 6440(f).

4. Self-Regulatory Organization's Statement on Burden on Competition

NASD does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The proposed rule change is effective upon filing pursuant to Section 19(b)(3) of the Act and paragraph (f)(6) of Rule 19b-4 thereunder, in that the proposed rule change does not significantly affect the protection of investors or the public interest; does not impose any significant burden on competition; and does not become operative for 30 days after filing. In accordance with Rule 19b-4, NASD submitted written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing. NASD proposes to make the proposed rule change operative on January 9, 2006 to coincide with the implementation of SR-NASD-2004-045 and SR-NASD-2004-089.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Exhibits

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-2005-124)

SELF-REGULATORY ORGANIZATIONS

Proposed Rule Change by National Association of Securities Dealers, Inc. to Repeal NASD Rule 6440(f) in Light of Rule Changes Expanding Market Order Protection and Limit Order Protection to Exchange-Listed Securities

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on , the National Association of Securities Dealers, Inc. ("NASD") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASD. NASD has designated the proposed rule change as constituting a "non-controversial" rule change under paragraph (f)(6) of Rule 19b-4 under the Act,³ which renders the proposal effective upon receipt of this filing by the Commission. NASD proposes to make the proposed rule change operative on January 9, 2006. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

NASD is proposing to repeal NASD Rule 6440(f) in light of proposed rule

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4.

changes that have recently been approved by the Commission expanding market order protection and limit order protection to exchange-listed securities. Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

6440. Trading Practices

(a) through (e) No change.

[(f) (1) No member shall:]

[(A) personally buy or initiate the purchase of an eligible security for its own account or for any account in which it or any person associated with it is directly or indirectly interested, while such member holds or has knowledge that any person associated with it holds an unexecuted market order to buy such security in the unit of trading for a customer; or]

[(B) sell or initiate the sale of any such security for any such account, while it personally holds or has knowledge that any person associated with it holds an unexecuted market order to sell such security in the unit of trading for a customer.]

[(2) No member shall:]

[(A) buy or initiate the purchase of any such security for any such account, at or below the price at which it personally holds or has knowledge that any person associated with it holds an unexecuted limited price order to buy such security in the unit of trading for a customer; or]

[(B) sell or initiate the sale of any such security for any such account at or above the price at which it personally holds or has knowledge that any person associated with it holds an unexecuted limited price order to sell such security in the unit of trading for a customer.]

[(3) The provisions of this paragraph shall not apply:]

[(A) to any purchase or sale of any such security in an amount less than the unit of trading made by a member to offset odd-lot orders for customers,]

[(B) to any purchase or sale of any such security upon terms for delivery other than those specified in such unexecuted market or limited price order,]

[(C) to any unexecuted order that is subject to a condition that has not been satisfied.]

[(D) to any purchase or sale for which a member has negotiated specific terms and conditions applicable to the acceptance of limit orders that are:]

[(i) for customer accounts that meet the definition of an "institutional account" as that term is defined in Rule 3110(c)(4);
or]

[(ii) for 10,000 shares or more, unless such orders are less than \$100,000 in value.]

(g) through (j) redesignated as (f) through (i)

* * * * *

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, NASD included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. NASD has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Rule 6440(f)(1) prohibits a member from personally buying (selling) an exchange-listed security⁴ for its own account while such member holds an unexecuted market order to buy (sell) such security for a customer. Similarly, Rule 6440(f)(2) prohibits a member from buying (selling) an exchange-listed security for its own account while such member holds an unexecuted limit order to buy (sell) such security for a customer. NASD seeks to repeal Rule 6440(f) in light of two proposed rule changes that have recently been approved by the Commission that also restrict a member's trading when holding customer market and limit orders in exchange-listed securities.

⁴ Rule 6440(f) applies to over-the-counter transactions in "eligible securities," which are defined in Rule 6410(d) as "all common stocks, preferred stocks, long-term warrants, and rights entitling the holder to acquire an eligible security, listed or admitted to unlisted trading privileges on the American Stock Exchange or the New York Stock Exchange, and securities listed on regional stock exchanges, which substantially meet the original listing requirements of the New York Stock Exchange or the American Stock Exchange."

Specifically, on August 4, 2005, the Commission approved proposed rule change SR-NASD-2004-089, which, among other things, expands the application of NASD Interpretative Material (IM) 2110-2, Trading Ahead of Customer Limit Order (commonly referred to as the "Manning Rule") to exchange-listed securities. The Manning Rule generally prohibits a member from trading for its own account at prices that would satisfy a customer's limit order, unless the member immediately thereafter executes the customer's limit order. In addition, on August 9, 2005, the Commission approved proposed rule change SR-NASD-2004-045 adopting NASD Rule 2111, which prohibits a member that accepts and holds a customer market order from trading for its own account at prices that would satisfy the customer market order in a Nasdaq or exchange-listed security, unless the member immediately thereafter executes the customer market order.

NASD believes that Rule 6440(f) overlaps and is generally duplicative of the above-referenced rule changes.⁵ Accordingly, NASD is proposing to repeal Rule 6440(f) to ensure consistency in the application of limit order and market order protection and to eliminate potential confusion as to members' obligations with respect to these orders in exchange-listed securities.

NASD has filed the proposed rule change for immediate effectiveness. The implementation date will be January 9, 2006, such that both SR-NASD-2004-045 and SR-NASD-2004-089 will be in effect by that date.

2. Statutory Basis

⁵ In SR-NASD-2004-045 and SR-NASD-2004-089, NASD specifically noted its intent to repeal Rule 6440(f) in light of the overlap between the proposed rule changes and Rule 6440(f).

NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act, which requires, among other things, that NASD rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. NASD believes that the proposed rule change will ensure consistency in the treatment of customer limit orders and customer market orders for exchange-listed securities and will enhance the integrity of the market.

B. Self-Regulatory Organization's Statement on Burden on Competition

NASD does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder. NASD proposes to make the proposed rule change operative on January 9, 2006 to coincide with the implementation of SR-NASD-2004-045 and SR-NASD-2004-089.

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASD-2005-124 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-9303.

All submissions should refer to File Number SR-NASD-2005-124. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent

amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of NASD.

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to the File Number SR-NASD-2005-124 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Secretary

⁶ 17 CFR 200.30-3(a)(12).