

OMB APPROVAL

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No. SR - 2006 - 134

Amendment No.

Proposed Rule Change by National Association of Securities Dealers

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial ☒ Amendment ☐ Withdrawal ☐

Section 19(b)(2) ☐Section 19(b)(3)(A) ☒Section 19(b)(3)(B) ☐

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☒ 19b-4(f)(6)

Pilot ☐ Extension of Time Period
for Commission Action ☐ Date Expires

Exhibit 2 Sent As Paper Document
☐

Exhibit 3 Sent As Paper Document
☐

Description

Provide a brief description of the proposed rule change (limit 250 characters).

Proposed Rule Change Extending the Pilot Relating to the Price-Improvement Standards for Decimalized Securities in IM-2110-2.

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 Last Name
Title
E-mail
Telephone Fax

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 EDFS 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

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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

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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”),¹ the National Association of Securities Dealers, Inc. (“NASD”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to extend through June 30, 2007, the current pilot price-improvement standards for decimalized securities contained in NASD Interpretive Material 2110-2, Trading Ahead of Customer Limit Order (“Manning Rule”).

There are no proposed changes to rule text.²

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was reviewed by the Board of Governors of NASD at its meeting on January 27, 2000, which authorized the filing of the rule change with the SEC. No other action by NASD is necessary for the filing of the proposed rule change. Section 1(a)(iii) of Article VII of the NASD By-Laws permit the NASD Board of Governors to adopt amendments to NASD Rules without recourse to the membership for approval. The proposed rule change will be operative on January 1, 2007.

¹ 15 U.S.C. 78s(b)(1).

² Note: NASD has proposed changes to the text of IM-2110-2 in SR-NASD-2005-146, which is currently pending at the SEC. See Securities Exchange Act Release No. 54705 (November 3, 2006), 71 FR 65863 (November 9, 2006) (notice of filing of SR-NASD-2005-146). The proposed changes in SR-NASD-2005-146 would amend, among other provisions, the price-improvement standards in IM-2110-2. If SR-NASD-2005-146 is approved, the extension in this filing would apply to the pilot price-improvement provisions in IM-2110-2, as amended by SR-NASD-2005-146.

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

(a) Purpose

NASD's Manning Rule requires NASD member firms to provide a minimum level of price improvement to incoming orders in exchange-listed securities if the firm chooses to trade as principal with those incoming orders at prices equal to or better than customer limit orders they currently hold. If a firm fails to provide the minimum level of price improvement to the incoming order, the firm must execute its held customer limit orders at the price at which the firm traded for its own account or better. Generally, if a firm fails to provide the requisite amount of price improvement and also fails to execute its held customer limit orders, it is in violation of the Manning Rule.

On April 6, 2001,³ the Commission approved, on a pilot basis, price-improvement standards for decimalized securities contained in the Manning Rule.⁴ The current text of

³ See Securities Exchange Act Release No. 44165 (April 6, 2001), 66 FR 19268 (April 13, 2001).

⁴ Pursuant to the terms of the Decimals Implementation Plan for the Equities and Options Markets, the minimum quotation increment for Nasdaq securities at the outset of decimal pricing is \$0.01. On June 9, 2005, the SEC adopted Rule 612 of Regulation NMS which establishes minimum pricing increments for NMS stocks (e.g. Nasdaq and exchange-listed securities). Rule 612 of Regulation NMS generally prohibits market participants from displaying, ranking, or accepting quotations, orders, or indications of interest in any NMS stock priced in an increment smaller than \$0.01 if the quotation, order, or indication of interest is priced equal to or greater than \$1.00 per share. If the quotation, order, or indication of interest is priced less than \$1.00 per share, the minimum pricing increment is \$0.0001. See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005). Rule 612 of Regulation NMS became effective on January 31, 2006. See Securities Exchange Act Release No. 52196 (August 2, 2005), 70 FR 45529 (August 8, 2005).

Given the adoption and implementation of Rule 612 of Regulation NMS, Nasdaq, among other market centers, implemented changes to its trading systems to

the price-improvement provisions for decimalized securities contained in the Manning Rule provides:

For Nasdaq securities authorized for trading in decimals pursuant to the Decimals Implementation Plan For the Equities and Options Markets, the minimum amount of price improvement necessary in order for a member to execute an incoming order on a proprietary basis in a security trading in decimals when holding an unexecuted limit order in that same security, and not be required to execute the held limit order, is as follows:

- 1) For customer limit orders priced at or inside the best inside market displayed in Nasdaq, the minimum amount of price improvement required is \$0.01; and
- 2) For customer limit orders priced outside the best inside market displayed in Nasdaq, the member must price improve the incoming order by executing the incoming order at a price at least equal to the next superior minimum quotation increment in Nasdaq (currently \$0.01).

Since approval, these standards continue to operate on a pilot basis which terminates on December 31, 2006.⁵ NASD has determined to seek an extension of its current Manning Rule pilot until June 30, 2007. NASD believes that such an extension provides for an appropriate continuation of the current Manning Rule price-improvement standards while the Commission continues to analyze the issues related to customer limit order protection in a decimalized environment. NASD is not proposing any other

accept, rank, execute and disseminate priced quotations in accordance with Rule 612 of Regulation NMS. Quotations submitted to Nasdaq that are not in compliance with Rule 612 of Regulation NMS are rejected.

⁵ See Securities Exchange Act Release No. 53972 (June 12, 2006), 71 FR 35315 (June 19, 2006).

changes to the pilot at this time.⁶ NASD proposes to make the proposed rule change operative on January 1, 2007.

(b) Statutory Basis

NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,⁷ 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 improve treatment of customer limit orders and enhance the integrity of the market.

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.

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,⁸ in that the proposed rule change

⁶ See supra note 2.

⁷ 15 U.S.C. 78o-3(b)(6).

⁸ 17 CFR 240.19b-4.

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 (subject to waiver by the Commission). In accordance with Rule 19b-4,⁹ 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. In addition, NASD requests that the Commission waive the requirement that the rule change, by its terms, not become operative for 30 days after the date of the filing as set forth in Rule 19b-4(f)(6)(iii),¹⁰ to prevent a lapse in the current pilot. If such waiver is granted by the Commission, 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 thereunder¹¹ and will become operative on January 1, 2007.

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.

⁹ 17 CFR 240.19b-4.

¹⁰ 17 CFR 240.19b-4(f)(6)(iii).

¹¹ 17 CFR 240.19b-4.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-2006-134)

Self-Regulatory Organizations: National Association of Securities Dealers, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Extending the Pilot Relating to Manning Price-Improvement Standards for Decimals

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. 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 extend through June 30, 2007, the current pilot price-improvement standards for decimalized securities contained in NASD Interpretive

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4.

Material 2110-2, Trading Ahead of Customer Limit Order (“Manning Rule”). There are no proposed changes to rule text.⁴

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

NASD’s Manning Rule requires NASD member firms to provide a minimum level of price improvement to incoming orders in exchange-listed securities if the firm chooses to trade as principal with those incoming orders at prices equal to or better than customer limit orders they currently hold. If a firm fails to provide the minimum level of price improvement to the incoming order, the firm must execute its held customer limit orders at the price at which the firm traded for its own account or better. Generally, if a

⁴ Note: NASD has proposed changes to the text of IM-2110-2 in SR-NASD-2005-146, which is currently pending at the SEC. See Securities Exchange Act Release No. 54705 (November 3, 2006), 71 FR 65863 (November 9, 2006) (notice of filing of SR-NASD-2005-146). The proposed changes in SR-NASD-2005-146 would amend, among other provisions, the price-improvement standards in IM-2110-2. If SR-NASD-2005-146 is approved, the extension in this filing would apply to the pilot price-improvement provisions in IM-2110-2, as amended by SR-NASD-2005-146.

firm fails to provide the requisite amount of price improvement and also fails to execute its held customer limit orders, it is in violation of the Manning Rule.

On April 6, 2001,⁵ the Commission approved, on a pilot basis, price-improvement standards for decimalized securities contained in the Manning Rule.⁶ The current text of the price-improvement provisions for decimalized securities contained in the Manning Rule provides:

For Nasdaq securities authorized for trading in decimals pursuant to the Decimals Implementation Plan For the Equities and Options Markets, the minimum amount of price improvement necessary in order for a member to execute an incoming order on a proprietary basis in a security trading in

⁵ See Securities Exchange Act Release No. 44165 (April 6, 2001), 66 FR 19268 (April 13, 2001).

⁶ Pursuant to the terms of the Decimals Implementation Plan for the Equities and Options Markets, the minimum quotation increment for Nasdaq securities at the outset of decimal pricing is \$0.01. On June 9, 2005, the SEC adopted Rule 612 of Regulation NMS which establishes minimum pricing increments for NMS stocks (e.g. Nasdaq and exchange-listed securities). Rule 612 of Regulation NMS generally prohibits market participants from displaying, ranking, or accepting quotations, orders, or indications of interest in any NMS stock priced in an increment smaller than \$0.01 if the quotation, order, or indication of interest is priced equal to or greater than \$1.00 per share. If the quotation, order, or indication of interest is priced less than \$1.00 per share, the minimum pricing increment is \$0.0001. See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005). Rule 612 of Regulation NMS became effective on January 31, 2006. See Securities Exchange Act Release No. 52196 (August 2, 2005), 70 FR 45529 (August 8, 2005).

Given the adoption and implementation of Rule 612 of Regulation NMS, Nasdaq, among other market centers, implemented changes to its trading systems to accept, rank, execute and disseminate priced quotations in accordance with Rule 612 of Regulation NMS. Quotations submitted to Nasdaq that are not in compliance with Rule 612 of Regulation NMS are rejected.

decimals when holding an unexecuted limit order in that same security, and not be required to execute the held limit order, is as follows:

- 1) For customer limit orders priced at or inside the best inside market displayed in Nasdaq, the minimum amount of price improvement required is \$0.01; and
- 2) For customer limit orders priced outside the best inside market displayed in Nasdaq, the member must price improve the incoming order by executing the incoming order at a price at least equal to the next superior minimum quotation increment in Nasdaq (currently \$0.01).

Since approval, these standards continue to operate on a pilot basis which terminates on December 31, 2006.⁷ NASD has determined to seek an extension of its current Manning Rule pilot until June 30, 2007. NASD believes that such an extension provides for an appropriate continuation of the current Manning Rule price-improvement standards while the Commission continues to analyze the issues related to customer limit order protection in a decimalized environment. NASD is not proposing any other changes to the pilot at this time.⁸ NASD proposes to make the proposed rule change operative on January 1, 2007.

2. Statutory Basis

NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,⁹ which requires, among other things, that NASD rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just

⁷ See Securities Exchange Act Release No. 53972 (June 12, 2006), 71 FR 35315 (June 19, 2006).

⁸ See supra note 4.

⁹ 15 U.S.C. 78o-3(b)(6).

and equitable principles of trade, and, in general, to protect investors and the public interest. NASD believes that the proposed rule change will improve treatment of customer limit orders and 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.

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.¹⁰

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.

¹⁰ 17 CFR 240.19b-4(f)(6).

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-2006-134 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NASD-2006-134. 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. 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 File Number SR-NASD-2006-134 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.¹¹

Nancy M. Morris

Secretary

¹¹ 17 CFR 200.30-3(a)(12).