

Under the proposal, for each security, only market makers in that security will be able to see the full limit order file; all other members are limited to viewing the top of the file. The Commission requests comment on whether there should be an exception to the NASD's price protection rule for block trades. In addition, the Commission requests comment on whether full file display of the NAQcess limit order file should be broadened and, if so, to what extent; and

(10) The Commission requests comment on whether the NASD's proposal, and in particular the amendments to the Rules of Fair Practice, would result in any burdens on competition, and if so, the extent of such burdens and whether they are necessary and appropriate in furtherance of the Act.

Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. 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 the filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to the file number SR-NASD-95-42 and should be submitted by January 16, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>34</sup>

Margaret H. McFarland,  
Secretary.

## Exhibit A—Rules of Operation and Procedures for the NAQcess System

### I. Definitions

The terms used in this Section shall have the same meaning as those defined in the Association's By-Laws and Rules of Fair Practice, unless otherwise specified.

A. The term "NAQcess" shall mean the limit order and market order delivery and execution system owned and operated by The Nasdaq Stock Market, Inc. (a wholly owned subsidiary

of the National Association of Securities Dealers, Inc.).

B. The term "NAQcess participant" shall mean either a market maker or order entry firm registered for participation in NAQcess.

C. The term "NAQcess eligible security" shall mean any Nasdaq National Market or Nasdaq SmallCap equity security.

D. The term "open quote" shall mean a market maker's quotation price and size (up to its designated exposure limit) in an eligible security against which orders may be executed through the NAQcess system during normal market hours, as specified by the NASD. For the purposes of these Rules, a market maker has a "closed quote" when its exposure limit in NAQcess has been exhausted or it has been deemed "closed" pursuant to Section IV. A. 9 below.

E. The term "NAQcess market maker" shall mean a member of the Association that is registered as a Nasdaq market maker pursuant to the requirements of Schedule D to the NASD By-Laws and as a market maker in one or more NAQcess eligible securities.

F. The term "NAQcess order entry firm" shall mean a member of the Association that is registered as an order entry firm for participating in NAQcess which permits the firm to enter agency orders of limited size for delivery to and execution against NAQcess market makers and customer limit orders in NAQcess that are included in the inside market.

G. The term "agency order" shall mean an order from a public customer that is entered by the NAQcess order entry firm or NAQcess market maker on an agency basis.

An order will not be considered an agency order if it is for any account of a person associated with any member firm or any account controlled by such an associated person. An order will not be considered an agency order if it is for any account of a member of the "immediate family" (as that term is defined in the NASD Free-Riding and Withholding Interpretation, Article III, Section 1 of the Rules of Fair Practice) of an associated person who has physical access to a terminal capable of entering orders into NAQcess.

H. The term "directed order" shall mean an order entered into NAQcess and directed to a particular NAQcess market maker or an order entered by a NAQcess market maker that is self-directed. Each market maker has the ability to select order entry firms from which it will accept directed orders.

I. The term "non-directed order" shall mean an order entered into NAQcess and not directed to any particular

market maker, or a directed order that has been directed to a market maker that has not identified the order entry firm as one from which it will accept directed orders, or a directed order sent to a firm that is not registered as a market maker in that security.

J. The term "limit order" shall mean an order entered into NAQcess that is a priced order.

K. The term "marketable limit order" shall mean a limit order that, at the time it is entered into NAQcess, if it is a limit order to buy, is priced at the current inside offer or higher, or if it is a limit order to sell, is priced at the inside bid or lower.

L. The term "executable limit order" shall mean a limit order that, at the time a limit order, market order, or marketable limit order on the opposite side of the market is entered, is either included in the inside market or is equal in price to the inside market and has time priority over other limit orders or dealer quotations included in the inside market.

M. The term "marker order" shall mean a limit order for a market maker's principal account that is a part of a contemporaneously executed transaction that the firm is engaged in for the benefit of one or more customers.

N. The term "takeout order" shall mean an order entered by an NASD member firm, acting as principal or as agent, that executes against NAQcess limit orders viewable by that firm.

O. The term "inside market" shall mean the best dealer bid, UTP exchange bid, or NAQcess limit order(s) to buy and the best dealer offer, UTP exchange offer or NAQcess limit order(s) to sell, as the case may be, displayed by Nasdaq.

P. The term "UTP exchange" shall mean any registered national securities exchange that has unlisted trading privileges in Nasdaq securities.

Q. The term "matched or crossed file" shall mean the entry of: (1) a bid quotation by a market maker equal to or greater than a limit order to sell resident in the NAQcess file in the same security; or (2) an offer quotation by a market maker equal to or less than a limit order to buy resident in the NAQcess file in the same security.

R. The term "maximum market order size" shall mean the maximum size of individual market orders for a NAQcess eligible security that may be entered into or executed through NAQcess. The maximum market order size for each security shall be advertised in the system and published from time to time by the Association. In establishing the maximum market order size for each Nasdaq National Market security, the Association generally will give

<sup>34</sup> 17 CFR 200.30-3(a)(12).