

consideration to the average daily non-block volume, bid price, and number of market makers for each security. Maximum market order size for Nasdaq National Market securities shall be 200, 500 or 1,000 shares, depending upon the trading characteristics of the securities.<sup>1</sup> These sizes may be adjusted on an issue by issue basis, depending upon trading characteristics of the issue and other relevant factors as determined by the Association. Maximum market order size for Nasdaq SmallCap securities shall be 500 shares.

S. The term "maximum limit order size" shall mean the maximum size of a limit order for a security that may be entered into or matched through NAQcess. The maximum limit order size for Nasdaq National Market securities shall be 1,000 shares for each tier of Nasdaq National Market securities, except for the securities that comprise the Nasdaq 100 Index,<sup>2</sup> which shall have a maximum limit order size of 3,000 shares. Maximum limit order size for Nasdaq SmallCap securities shall be 1,000 shares.

T. The term "exposure limit" shall mean the number of shares of a NAQcess eligible security specified by a NAQcess market maker that it is willing to have executed for its account by orders entered into NAQcess on either side of the market.

U. The term "minimum exposure limit" for a security shall mean an exposure limit equal to the maximum market order size for that security.

V. The term "automated quotation update facility" shall mean the facility in the NAQcess system that allows the system to automatically refresh a market maker's quotation in any security that the market maker designates when the market maker's exposure limit has been exhausted. The facility will update: (1) either the bid or the offer side of the

quote using a quotation interval designated by the market maker, depending upon the side of the market on which the execution has occurred and refresh the market maker's exposure limit; or (2) close the market maker's quote for five minutes, within which time the market maker shall update its quote or be placed in a suspended state for 20 days.

W. The term "Automated Confirmation Transaction service" ("ACT"), for purposes of the NAQcess rules, shall mean the automated system owned and operated by The Nasdaq Stock Market, Inc. which accommodates trade reporting of transactions executed through NAQcess and submits locked-in trades to clearing.

## II. NAQcess Participant Registration

A. All members participating in NAQcess shall register and be authorized as NAQcess market makers and/or order entry firms. Registration as a NAQcess participant shall be conditioned upon the member's initial and continuing compliance with the following requirements: (1) membership in a clearing agency registered with the Securities and Exchange Commission which maintains facilities through which NAQcess compared trades may be settled; or entry into a correspondent clearing arrangement with another member that clears trades through such clearing agency; (2) registration as a market maker (if applicable) in Nasdaq pursuant to Schedule D of the NASD By-Laws and compliance with all applicable rules and operating procedures of the Association and the Securities and Exchange Commission; (3) maintenance of the physical security of the equipment located on the premises of the member to prevent the unauthorized entry of orders or other data into NAQcess or Nasdaq; and (4) acceptance and settlement of each trade for which it is responsible that is executed through the facilities of the NAQcess service, or if settlement is to be made through another clearing member, guarantee of the acceptance and settlement of such identified NAQcess trades by the clearing member on the regularly scheduled settlement date.

B. Upon effectiveness of the member's registration to participate in NAQcess, participants may commence activity within NAQcess for entry and/or execution of orders, as applicable, and their obligations as established in this rule will commence.

C. Pursuant to Schedule D to the NASD By-Laws, participation as a NAQcess market maker is required for any Nasdaq market maker registered to make a market in a Nasdaq National

Market security. A market maker in a Nasdaq SmallCap security may withdraw from and reenter NAQcess at any time, and without limitations, during the operating hours of the service.

D. Each NAQcess participant shall be under a continuing obligation to inform the Association of noncompliance with any of the registration requirements set forth above.

## III. Operating Hours of NAQcess

The operating hours of NAQcess will be the normal market hours specified for The Nasdaq Stock Market.

## IV. Participant Obligations in NAQcess

### A. Market Makers

1. A NAQcess market maker shall commence participation in NAQcess by initially contacting the Market Operation Center to obtain authorization for market making in particular Nasdaq securities and identifying those terminals on which the NAQcess trade information is to be displayed. Thereafter, on-line registration on a security-by-security basis is permissible, consistent with the requirements of Schedule D to the NASD By-Laws.

2. Participation as a NAQcess market maker obligates the firm, upon presentation of a market order or marketable limit order through the service, to execute such order as provided in Section V. A. 5. below. NAQcess market makers are not permitted to decline orders directed to the firm pursuant to a directed order arrangement acknowledged by the market maker. The system will transmit to the market maker on the Nasdaq Workstation screen and printer, if requested, or through a computer interface, as applicable, an execution report generated following each execution.

3. For each NAQcess eligible security in which a market maker is registered, the market maker shall enter into NAQcess its exposure limit. For a Nasdaq National Market security, that limit shall be any amount equal to or larger than the minimum exposure limit for the particular security. If no exposure limit is entered for a Nasdaq National Market security, the firm's exposure limit will be either the default size selected by the particular market maker or the minimum exposure limit. "Default size" shall mean an exposure limit greater than the minimum exposure limit that may be selected by a market maker for individual securities or for all securities in which it makes a market.

4. A NAQcess market maker may elect to use the automated quotation update

<sup>1</sup> The applicable maximum market order size for each Nasdaq National Market security is determined generally by the following criteria:

(i) a 1,000 share maximum market order size shall apply to Nasdaq National Market securities with an average daily non-block volume of 6,000 shares or more a day, a bid price of less than or equal to \$100, and three or more market makers;

(ii) a 500 share maximum market order size shall apply to Nasdaq National Market securities with an average daily non-block volume of 2,000 shares or more a day, a bid price of less than or equal to \$150, and two or more market makers; and

(iii) a 200 share maximum market order size shall apply to Nasdaq National Market securities with an average daily non-block volume of less than 2,000 shares a day, a bid price of less than or equal to \$250, and that have two or more market makers.

<sup>2</sup> The Nasdaq 100 Index is an index comprised of many of the largest capitalized issues quoted in the Nasdaq National Market. The securities that make up the Nasdaq 100 are changed from time to time and The Nasdaq Stock Market publishes notice of such changes as they occur.