

New Short Sale Bid Tick Indicator



To: Head of NASDAQ Trading; Technical Contacts; Compliance Officers

From: Gene Lopez, Senior Vice President
The NASDAQ Stock Market

Date: March 13, 2003

Re: **New Short Sale Bid Tick Indicator**
(Head Trader Alert #2003-037)

****Please show this to your Compliance Officer****

Summary

- NASDAQ calculates a Short Sale Bid Tick Indicator to help participants comply with NASD Rule 3350
- Market Participants have 90-calendar days to convert their systems to the NASDAQ Bid Tick Indicator for Short Sale Rule Compliance
- Bid Tick Transition form
- Contact information

Overview

In order to assist market participants to comply with NASD Rule 3350, the Short Sale Rule, The NASDAQ Stock Market® calculates a Short Sale Bid Tick Indicator. Currently, the Bid Tick Indicator that NASDAQ® calculates and disseminates is a National Bid Tick Indicator based on changes to the bid price of the National Best Bid or Offer (National BBO), which is disseminated on the UTP Quotation Data FeedSM (UQDFSM). On March 31, 2003, NASDAQ will begin distributing a NASDAQ Bid Tick Indicator based on the best quote/order within NASDAQ systems, which will be disseminated over the NASDAQ Quotation Dissemination ServiceSM (NQDSSM) data feed. Within 90-calendar days of March 31, or by June 30, 2003, NASDAQ market participants must utilize the NASDAQ Bid Tick Indicator to comply with the Short Sale Rule for trades executed on or reported to NASDAQ. SuperMontageSM currently enforces Short Sale Rule compliance automatically based on the NASDAQ Bid Tick Indicator. Starting on June 30, 2003, market participants must use the NASDAQ Bid Tick Indicator to comply with the Short Sale Rule for trades executed outside of SuperMontage and reported to NASDAQ.

Market Participants have 90-calendar days to convert systems for Short Sale Rule Compliance

On March 31, 2003, when the NASDAQ Bid Tick Indicator can be disseminated over NQDS, NASDAQ participants will have 90-calendar days, until the opening of business on June 30, 2003, to convert their systems to utilize the NASDAQ Bid Tick Indicator for Short Sale Rule compliance. During this transition period, NASDAQ market participants may continue to use the National Bid Tick Indicator to comply with NASD Rule 3350 until NASDAQ has received notification from market

participants that their systems are ready to transition to the NASDAQ Bid Tick Indicator. At the end of the 90-calendar day period, all NASDAQ market participants must use the NASDAQ Bid Tick rather than the National Bid Tick for all NASDAQ trades to comply with NASD Rule 3350.

Bid Tick Transition Form Requirements

All market participants must inform NASDAQ of the date on which they will transition to the NASDAQ Bid Tick Indicator. NASDAQ MarketWatch® will monitor this transition, which must be made firm-wide, not on a market participant identifier (MPID) by MPID, basis, and in all stocks. NASDAQ is providing this short **Bid Tick Transition Form**, which market participants should complete to provide notice of the date on which they will make the transition. In order to comply with the NASD Short Sale rule, NASDAQ needs to receive the transition form no later than Monday, June 23, 2003 and the conversion must be completed by opening of business on Monday, June 30, 2003. Market participants that fail to comply may be in violation of NASD Rule 3350.

We request that market participants that encounter any problems during the transition period that would prevent them from meeting their chosen transition date notify NASDAQ MarketWatch at 800.211.4953 or 240.386.6049 prior to that date.

How to Submit the Bid Tick Transition Form

- Make sure an authorized official of the firm signs the form.
- Fax to MarketWatch five (5) business days prior to the planned transition date.
 - The transition date must be on the first business day of the week.
- The first properly executed Form received by MarketWatch will serve as the official notification of the planned transition date.
- Until the Bid Tick Transition Form is received, NASDAQ will presume that a market participant is using the National Bid Tick Indicator.

Contact Information

If you have any questions regarding this information, please contact:

- NASDAQ MarketWatch, 800.211.4953 or 240.386.6049.

If you need Technical Assistance regarding the Bid Tick, please contact:

- NASDAQ Technical Support Help Desk at 800.243.4284.

If you have any legal questions regarding this topic, please contact:

- NASDAQ Office of General Counsel at 202.912.3000.