

*permanently converted into an unpegged limit order.*

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#### 4706. Order Entry Parameters

##### (a) Non-Directed Orders—

(1) General. The following requirements shall apply to Non-Directed Orders Entered by NNMS Market Participants:

(A) An NNMS Participant may enter into the NNMS a Non-Directed Order in order to access the best bid/best offer as displayed in Nasdaq.

(B) A Non-Directed Order must be a market or limit order, must indicate whether it is a buy, short sale, short-sale exempt, or long sale, and may be designated as an “Immediate or Cancel”, or as a “Day” or a “Good-till-Cancelled” order. If a priced order designated as “Immediate or Cancel” (“IOC”) is not immediately executable, the unexecuted order (or portion thereof) shall be returned to the sender. If a priced order designated as a “Day” order is not immediately executable, the unexecuted order (or portion thereof) shall be retained by NNMS and remain available for potential display/execution until it is cancelled by the entering party, or until 4 p.m. Eastern Time on the day such order was submitted, whichever comes first, whereupon it will be returned to the sender. If the order is designated as “Good-till-Cancelled” (“GTC”), the order (or unexecuted portion thereof) will be retained by NNMS and remain available for potential display/execution until cancelled by the entering party, or until 1 year after entry, whichever comes first. Starting at 7:30 a.m., until the 4 p.m. market close, IOC and Day Non-Directed Orders may be entered into NNMS (or previously entered orders cancelled), but such orders entered prior to market open will not become available for execution until 9:30 a.m. Eastern Time. GTC orders may be entered (or previously entered GTC orders cancelled) between the hours 7:30 a.m. to 6:30 p.m. Eastern Time, but such orders entered prior to market open, or GTC orders carried over from previous trading days, will not become available for execution until 9:30 a.m. Eastern Time. Exception: Non-Directed Day (*other than Pegged Orders*) and GTC orders may be executed prior to market open if required under Rule 4710(b)(3)(B).

*In addition, an order may be assigned the designations described below. An order may be designated as “Pegged,” in which case the order will also automatically be designated as Day. A Pegged Order may not be designated as a Preferred Order. A Pegged Order (or*

*unexecuted portion thereof) will be retained by NNMS and its price adjusted in response to changes in the Nasdaq inside market. A Pegged Order will be cancelled if there is no displayable Quote/Order to which its price can be pegged. Starting at 7:30 a.m., until the 4 p.m. market close, Pegged Orders may be entered into NNMS (or previously entered orders cancelled), but such orders entered prior to market open will not become available for execution until 9:30 a.m. Eastern Time. The initial price of Pegged Orders entered prior to market open will be established at 9:30 a.m. based on the Nasdaq inside bid or offer at that time.*

*To maintain the capacity and performance of the NNMS, Nasdaq may at any time suspend the entry of Pegged Orders for all securities or for any security. Pegged Orders that are in the NNMS at the time of such suspension will continue to be available for adjustment and execution.*

(C)–(F) No Change.

(2) Entry of Non-Directed Orders by NNMS Order Entry Firms—In addition to the requirements in paragraph (a)(1) of this rule, the following conditions shall apply to Non-Directed Orders entered by NNMS Order-Entry Firms:

(A) All Non-Directed orders shall be designated as Immediate or Cancel, GTC or Day but shall be required to be entered as Non-Attributable if not entered as IOC. NNMS Order Entry Firms may designate orders as “Pegged,” in which case the order will also automatically be designated as Day. For IOC orders, if after entry into the NNMS of a Non-Directed Order that is marketable, the order (or the unexecuted portion thereof) becomes non-marketable, the system will return the order (or unexecuted portion thereof) to the entering participant.

(B) No change.

(b)–(e) No change.

#### 4707. Entry and Display of Quotes/Orders

(a) Entry of Quotes/Orders—Nasdaq Quoting Market Participants may enter Quotes/Orders into the NNMS, and NNMS Order Entry Firms may enter Non-Attributable Quotes/Orders into the NNMS, subject to the following requirements and conditions:

(1) No change.

(2) Upon entry of a Quote/Order into the system, the NNMS shall time-stamp it, which time-stamp shall determine the ranking of the Quote/Order for purposes of processing Non-Directed Orders as described in Rule 4710(b). For each subsequent size increase received for an existing quote at a given price, the system will maintain the original time-

stamp for the original quantity of the quote and assign a separate time-stamp to that size increase. When a Pegged Order is displayed as a Quote/Order, its time-stamp will be updated whenever its price is adjusted.

(3)–(4) No change.

(b)–(e) No change.

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

In its filing with the Commission, Nasdaq 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. Nasdaq 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

In order to provide increased functionality to system users, Nasdaq proposes to adopt a new order type, the pegged order, for use in SuperMontage. A pegged order is a limit order, the price of which is automatically adjusted to follow the price movements of the Nasdaq inside market. A “regular” pegged order would peg to the same side of the market it is entered on. Thus, the price of a regular pegged buy order would always equal the best inside bid in Nasdaq, and the price of a regular pegged sell order would always equal the best inside offer in Nasdaq. By entering a regular pegged order, a market participant indicates its willingness to provide liquidity at the best inside price set by other market participants.

A “reverse” pegged order would peg to the opposite side of the market. Specifically, it would peg at a price that deviates from the opposite side of the market by \$0.01.<sup>6</sup> Thus, a reverse pegged buy order would be priced at \$0.01 less than the inside offer, and a reverse pegged sell order would be priced at \$0.01 more than the inside bid. By entering a reverse pegged order, a market participant indicates its willingness to provide liquidity at a price as close as possible to the opposite

<sup>6</sup> Nasdaq states that requiring the price of a reverse pegged order to deviate from the opposite side of the market would ensure that the price of the reverse pegged order would not lock or cross the Quote/Order to which it is pegged.