

The NASDAQ Official Opening Price / NOOP

NASDAQ opens for regular hours trading at 9:30 AM EST. At that time the orders that are held in the queue which have not been paired off are executed and reported to the tape. The first trade that is reported to the tape creates the NASDAQ Official Opening Price (NOOP). If at 9:30:15 no trades in the queue have been matched and reported to the tape, the first, last sale trade that is reportable to the tape becomes the NOOP. NASDAQ has created new types of orders as a result of the creation of the opening cross. The orders are:

- ✓ Early regular hours, orders entered prior to 9:28 AM for the regular trading session
- ✓ Late regular hours, orders entered after 9:28 AM for the regular trading session
- ✓ OO On Open, market and limit orders that are entered to be executed at the opening price only
- ✓ IO, Imbalance Only, orders that are only to be executed against imbalances on the open that are away from the bid or offer at 9:30 AM
- ✓ X- Extended hours orders are entered before or after the market opens and can be day, GTC or IOC

The Closing Cross

NASDAQ has developed the closing cross to determine a uniform closing price for securities at the end of the trading day. Customers and firms may enter on the close orders at any point after the start of the normal trading day from 9:30 AM up until 3:50 PM. After 3:50 PM, on the close orders may not be entered or modified. On the close orders that may be entered include both market and limit on close orders. Starting at 3:30 PM and up until the close of the market, firms may enter imbalance only orders. Imbalance only orders must be priced and will not be executed prior to the close nor will they be included in the market maker's displayed quote prior to the close. Orders that are entered to sell short on the close must be executed at least 1 cent above the closing bid regardless of the direction of the closing bid. Sell orders entered to sell short may be entered as market and limit on close orders as well as imbalance only orders.

Withdrawing Quotes

There are two ways that a market maker may withdraw their quotes for a security. A market maker may withdraw their quotes on either a voluntary basis or on an excused basis. If a market maker withdraws their quotes on a voluntary basis they simply remove or "pull" their quote. A market maker who voluntarily withdraws their quote may not re-register as a market maker in that security for 20 business days. If a market maker removes their quote for any of the following reasons it would be considered a voluntary withdraw:

- ✓ A sudden influx of orders
- ✓ Trading losses
- ✓ Lack of interest

A market maker may also withdraw their quotes on an excused basis by applying to the NASDAQ for permission to withdraw their quotes. A market maker may request an excused withdrawal under the following circumstances:

- ✓ The firm has 3 or fewer NASDAQ level III workstations and key personnel are going on vacation. The application must be made 1 business day prior to removing the quotes.
- ✓ A firm may be granted an excused withdrawal for up to 5 business days for circumstances beyond the market maker's control such as illness or acts of God.
- ✓ The market maker is participating in a distribution or is acting as a passive market maker.
- ✓ The firm may be granted an excused withdrawal for up to 60 days for legal or regulatory reasons, i.e., the firm has inside information regarding the issuer of the security as a result of an investment banking relationship.
- ✓ The firm involuntarily fails to maintain a clearing relationship.
- ✓ An excused withdrawal may be granted for religious holidays provided that the application to NASDAQ is made 1 business day prior to the withdrawal.

Accidental Withdrawal of Quotes

If a market maker is attempting to withdraw its quote for a given security and inadvertently types in the wrong symbol, resulting in the market maker's quote being withdrawn from the wrong security; the market maker may immediately have its quote reinstated by NASDAQ. NASDAQ will reinstate the market maker's quote so long as the market maker contacts NASDAQ within one hour and it is apparent that the removal of the quote was accidental in nature. Additionally NASDAQ will look at the market maker's accidental withdrawals over the course of the year. NASDAQ considers 2-6 accidental withdrawals acceptable depending on the number of securities the firm makes markets in.

Handling and Displaying Customer Limit Orders

If a market maker accepts customer limit orders, it must handle the order in accordance with The Limit Order Display Rule. If a market maker accepts a customer's limit order that would improve its quoted price, the market maker must update its quote to reflect the customer's limit order. A market maker is required to update its quote within 30 seconds of receiving the customer's order. The 30-second time frame only applies to normal market conditions and does not include the opening or reopening of a security after a halt.

Example:

In the market for XYAD listed below the inside market is 15.00 bid and 15.05 offered. The size of the bid is for 500 shares and there are 300 shares offered

XYAD			
	<u>Bid</u>	<u>Ask</u>	<u>Size</u>
	15.00	15.05	5 X 3
MM 1	14.90	15.10	10 X 10
MM 2	15.00	15.20	5 X 5
MM 3	14.85	15.05	2 X 3
MM 4	14.95	15.15	15 X 15
MM 5	14.98	15.18	10 x 10

If market maker 2 who is the best bid received a customer's limit order to buy 200 shares at 15.02 the market maker would have to update its quote and the market would look as follows:

XYAD			
	<u>Bid</u>	<u>Ask</u>	<u>Size</u>
	15.02	15.05	2 X 3
MM 1	14.90	15.10	10 X 10
MM 2	15.02	15.20	5 X 5
MM 3	14.85	15.05	2 X 3
MM 4	14.95	15.15	15 X 15
MM 5	14.98	15.18	10 x 10

If market maker 2, who is the best bid, instead had received a customer's limit order to buy 1000 shares at 15.00, the market maker would have to update its quote by adding the customer's size to its current quote and the market would look as follows:

XYAD			
	<u>Bid</u>	<u>Ask</u>	<u>Size</u>
	15.00	15.05	15 X 3
MM 1	14.90	15.10	10 X 10
MM 2	15.00	15.20	15 X 5
MM 3	14.85	15.05	2 X 3
MM 4	14.95	15.15	15 X 15
MM 5	14.98	15.18	10 x 10

If the customer's limit order is equal in price to the firm's displayed quote but is 10% or less than its displayed size, the firm does not have to update the size of its quote to reflect the customer's order.