

MEMORANDUM

TO: File

FROM: Division of Market Regulation

DATE: April 6, 2005

RE: Analysis of Rule 11Ac1-5 Statistics for Nasdaq-100 Index

To help evaluate and respond to comments received on the Regulation NMS reproposal, and to supplement the reproposal's analysis of execution quality for marketable limit orders in Nasdaq stocks, this memorandum analyzes Rule 11Ac1-5 ("Dash 5) statistics for stocks in the Nasdaq-100 Index. The two tables set forth below analyze such statistics for two reporting market centers – the Inet ATS and the NASDAQ Market Center. The statistics are for marketable limit orders and are categorized by size of order: small (100-499 shares), medium (500-1999 shares), medium-large (2000-4999 shares), and large (5000-9999 shares).

The Dash 5 data covers trading in December 2004 and was obtained from Market Systems, Inc. ("MSI") on March 5, 2005. MSI is an information vendor that collects the publicly available Dash 5 reports of trading centers each month and includes them in a searchable database. The statistics are equal-weighted for each stock to give a more representative view of trading across all stocks, rather than a view concentrated on trading in a few stocks that are much more active than the others. To give a fuller picture of how the statistics vary depending on the type of stock, additional tables set forth statistics separately for (1) three stocks with the largest market capitalization – MSFT, INTC, and CSCO; (2) seven stocks with prices less than \$10 per share; and (3) the other 90 stocks in the Nasdaq-100 Index.

"Volume %" is the executed shares for the order size divided by the total executed shares for all four order sizes. "Orders Per Day" is the average daily number of orders submitted for the order size. "Average Order Size" is the average size of submitted orders. "Fill %" is the percentage of total submitted shares of orders that received an execution. "% OQ" is the percentage of executed shares that received an execution at a price inferior to the national best bid and offer ("NBBO") at the time the order was received by the market center. "¢ OQ" is the average amount in cents that shares were executed outside the NBBO. "Quoted Spread" is the difference in cents between the national best bid and the national best offer at the time an order is received. "Effective Spread" is calculated by comparing execution prices for all executed shares with the midpoint of the NBBO at the time of order receipt. "OQ Spread" is the outside-the-quote spread, which compares execution prices for shares executed outside the quote with the midpoint of the NBBO at the time of order receipt. It is calculated by doubling the average amount outside the quote and then adding the quoted spread.

Table 1

Inet ATS Nasdaq-100 Marketable Limit Orders– December 2004 All 100 Stocks									
Order Category	Volume %	Orders Per Day	Average Order Size	Fill %	% OQ	¢ OQ	Quoted Spread	Effective Spread	OQ Spread
Small	42.5	4,956	181	44.7	16.3	2.5	1.5	2.3	6.5
Medium	38.5	1,922	817	35.9	16.1	2.4	1.6	2.3	6.4
Med/Large	12.7	299	2,949	23.5	18.9	2.5	1.6	2.5	6.6
Large	6.3	83	6,630	17.0	19.5	2.7	1.6	2.5	7.0

Table 2

Inet ATS Nasdaq-100 Marketable Limit Orders– December 2004 MSFT, INTC, CSCO									
Order Category	Volume %	Orders Per Day	Average Order Size	Fill %	% OQ	¢ OQ	Quoted Spread	Effective Spread	OQ Spread
Small	10.3	37,197	199	28.1	6.3	1.6	0.4	0.6	3.6
Medium	45.0	13,399	847	47.6	5.3	1.6	0.3	0.5	3.5
Med/Large	25.9	2,393	2,842	44.9	10.1	1.5	0.5	0.8	3.5
Large	18.8	601	6,366	58.5	9.5	1.4	0.6	0.9	3.4

Table 3

Inet ATS Nasdaq-100 Marketable Limit Orders– December 2004 Seven Stocks With Prices Less Than \$10 Per Share									
Order Category	Volume %	Orders Per Day	Average Order Size	Fill %	% OQ	¢ OQ	Quoted Spread	Effective Spread	OQ Spread
Small	12.7	8,257	220	40.8	10.5	1.3	0.5	0.6	3.1
Medium	40.6	6,161	818	45.2	11.7	1.3	0.4	0.6	3.0
Med/Large	27.3	1,188	2,842	54.0	11.1	1.5	0.5	0.5	3.5
Large	19.5	312	6,417	55.0	6.9	1.5	0.6	0.6	3.6

Table 4

Inet ATS Nasdaq-100 Marketable Limit Orders– December 2004 Other 90 Stocks									
Order Category	Volume %	Orders Per Day	Average Order Size	Fill %	% OQ	¢ OQ	Quoted Spread	Effective Spread	OQ Spread
Small	46.0	3,625	177	45.5	17.1	2.6	1.6	2.4	6.8
Medium	38.1	1,210	816	34.8	16.8	2.5	1.7	2.5	6.7
Med/Large	11.1	160	2,960	20.4	19.8	2.6	1.7	2.7	6.9
Large	4.8	48	6,655	12.6	20.8	2.8	1.7	2.7	7.3

Table 5

NASDAQ Market Center Nasdaq-100 Marketable Limit Orders– December 2004 All 100 Stocks									
Order Category	Volume %	Orders Per Day	Average Order Size	Fill %	% OQ	¢ OQ	Quoted Spread	Effective Spread	OQ Spread
Small	39.9	1,546	174	70.2	10.2	1.8	1.3	1.7	4.9
Medium	35.0	828	848	54.0	12.4	2.0	1.5	2.0	5.5
Med/Large	15.9	133	2,941	40.0	14.3	2.0	1.6	2.2	5.6
Large	9.2	43	6,515	31.6	14.7	2.3	1.6	2.5	6.2

Table 6

NASDAQ Market Center Nasdaq-100 Marketable Limit Orders– December 2004 MSFT, INTC, CSCO									
Order Category	Volume %	Orders Per Day	Average Order Size	Fill %	% OQ	¢ OQ	Quoted Spread	Effective Spread	OQ Spread
Small	11.3	4,822	262	58.2	2.1	1.0	0.4	0.5	2.4
Medium	45.8	9,462	838	40.0	2.1	1.0	0.2	0.3	2.2
Med/Large	21.2	728	2,773	68.7	3.1	1.0	0.4	0.5	2.4
Large	21.7	292	6,295	76.6	2.8	1.0	0.6	0.6	2.6

Table 7

NASDAQ Market Center Nasdaq-100 Marketable Limit Orders– December 2004 Seven Stocks With Prices Less Than \$10 Per Share									
Order Category	Volume %	Orders Per Day	Average Order Size	Fill %	% OQ	¢ OQ	Quoted Spread	Effective Spread	OQ Spread
Small	10.0	976	212	73.9	3.0	1.2	0.4	0.5	2.8
Medium	31.6	1,489	899	61.1	2.6	1.2	0.4	0.5	2.8
Med/Large	32.1	694	2,733	63.8	2.3	1.2	0.4	0.5	2.8
Large	26.3	171	6,406	70.1	2.9	1.4	0.5	0.5	3.3

Table 8

NASDAQ Market Center Nasdaq-100 Marketable Limit Orders– December 2004 Other 90 Stocks									
Order Category	Volume %	Orders Per Day	Average Order Size	Fill %	% OQ	¢ OQ	Quoted Spread	Effective Spread	OQ Spread
Small	43.1	1,481	168	70.3	11.0	1.9	1.4	1.8	5.2
Medium	34.9	489	844	53.9	13.5	2.0	1.7	2.2	5.7
Med/Large	14.5	70	2,962	37.2	15.7	2.1	1.7	2.4	5.9
Large	7.5	25	6,531	27.1	16.0	2.4	1.7	2.8	6.5