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NASDAQ® THE NASDAQ STOCK MARKET
ONE LIBERTY PLAZA, 50TH FLOOR
NEW YORK, NY 10006

May 26, 2006

Via e-mail to rule-comments@sec.gov

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: Response to Comments - SR-NASDAQ-2006-001

Dear Ms. Morris:

The NASDAQ Stock Market LLC ("Nasdaq") assumes that the Commission will disregard the comment letter of OnTrade, Inc. as untimely filed, and that it will resist this and any other attempt to use the statutory notice and comment period as a competitive weapon to delay consideration of Nasdaq's Single Book proposal. OnTrade's letter appears to be part of a concerted tactic designed to lengthen the comment process beyond its statutory limit, and thereby delay or deny Nasdaq a fair review of its proposal.

Four order delivery ECNs filed the first comment letter on this proposal on March 6, 2006, ***six weeks before*** the statutory notice and comment period began. The same four ECNs re-filed similar comments on May 5, 2006, the last day of the statutory comment period. OnTrade, formerly NexTrade ECN, dated its letter May 17, 2006, almost ***two weeks after*** the close of the statutory notice and comment period. It was received by Nasdaq on May 24, 2006, almost three weeks after the comment period ended. OnTrade's May 17 comment, if accepted, would lengthen the 21-day statutory comment period to 72 days.

Had Nasdaq's proposal been considered and resolved within the time allotted under Section 19(b) of the Exchange Act of 1934, there would have been no active proposal for OnTrade to attempt to delay. Section 19(b) states: Within thirty-five days of the date of publication of notice of the filing of a proposed rule change in accordance with paragraph (1) of this subsection, or within such longer period as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or as to which the self-regulatory organization consents…." The Commission has made no such finding and Nasdaq has issued no such consent.

Were OnTrade's letter timely filed, no response by Nasdaq would have been necessary because OnTrade's comments failed to raise any new issues that Nasdaq has not already answered in its letter dated May 8, 2006. First, as noted in Nasdaq's May 8 letter, OnTrade does not quote or trade on Nasdaq's order delivery system. Its predecessor, NexTrade, has been quoting in the NASD Alternative Display Facility for over three years, according to the NASD website. Clearly, NexTrade considered the NASD ADF a "viable alternative" to Nasdaq, at least until its recent purchase by Citigroup. The fact that Citigroup may have a different, undisclosed business model or profit target than NexTrade's prior owners is no basis for delaying approval of the Single Book proposal.

Second, the cost of connectivity to participate in the ADF has not previously deterred OnTrade's participation there and neither is it in any way relevant to the Single Book proposal. In fact, Nasdaq's order routing technology currently supports connectivity to any ADF participant that displays a quote through the ADF into the consolidated quote. We do not view this as an "economic disincentive" but rather a cost of doing business.[1]

Third, OnTrade, like Bloomberg before it, claims that it cannot participate in Nasdaq because, as an agency broker, it cannot carry inventory and cannot risk double executions. OnTrade, again like Bloomberg, neglects to mention the scores of agency brokers that participate in Nasdaq systems and accept automatic executions. These agency brokers manage their risk of double executions by canceling the quote or order on Nasdaq (or another automatic execution system) before matching the order internally. OnTrade voluntarily chooses not to participate on an automatic execution basis because its business model is to isolate orders within its own system and to preserve internal executions as much as possible. Nasdaq should not be forced to conform to OnTrade's business model and thereby impair its own ability to compete effectively.

Finally, OnTrade misstates that there will be no alternative facility available for the trading of NYSE and Amex securities. In doing so, OnTrade distorts the Commission's statements regarding the ADF in the order conditionally approving Nasdaq's registration as a national securities exchange. In fact, the cited passage was the basis for the Commission's mandate that there be an alternative facility for non-Nasdaq stocks prior to Nasdaq's operation as a national securities exchange, just as there is today for Nasdaq stocks

Nasdaq urges the Commission to reject OnTrades's letter. Acquiescing in blatant dilatory tactics reinforces their appeal and encourages their use in the future. As stated in Nasdaq's May 8 letter, approval of the Single Book proposal will spur competition in the

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[1] Nor is it relevant how the ADF handles sub-penny trading or whether the ADF quote is protected under Regulation NMS. If OnTrade wishes to criticize the adoption of Regulation NMS, it should direct those comments elsewhere.

provision of technological services to the investing public, stimulate further innovation, and preserve the United States as a leader in the financial markets.

Sincerely,

Edward S. Knight

Edward S. Knight
Executive Vice President
and General Counsel

cc: The Hon. Christopher Cox, Chairman
The Hon. Paul S. Atkins, Commissioner
The Hon. Roel C. Campos, Commissioner
The Hon. Cynthia A. Glassman, Commissioner
The Hon. Annette L. Nazareth, Commissioner
Robert L.D. Colby, Esquire, Acting Director, Division of Market Regulation
Douglas Shulman, Vice Chairman, NASD