

**Sharon K. Zackula**  
Associate General Counsel

June 2, 2004

Katherine A. England  
Assistant Director  
Division of Market Regulation  
Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549-1001

**Re: File No. SR-NASD-2004-057 – Consent to Extension of Time and Response to Comments on Proposed Amendment to Reduce Reporting Period for Transactions in TRACE-Eligible Securities**

Dear Ms. England:

In SR-NASD-2004-057, NASD proposes changes to Rule 6230 to reduce the period to report a transaction in a TRACE-eligible security from 45 minutes to 30 minutes, and subsequently, from 30 minutes to 15 minutes.<sup>1</sup> Rule 6230 is one of the Trade Reporting and Compliance Engine rules (“TRACE rules”). NASD hereby consents to an extension of time for Securities and Exchange Commission (“SEC”) action on SR-NASD-2004-057 to June 14, 2004. NASD is also responding to the comments submitted to the SEC in response to the publication of the rule filing.<sup>2</sup> The commenters raise the following issues relating to the proposed rule change.<sup>3</sup>

Reduction of the TRACE Reporting Period is Inappropriate for the Market and the Products Traded. Both commenters state that they are opposed to any further reduction of the period to report a transaction in a TRACE-eligible corporate debt security. They view any such reduction as inconsistent with the complexity and variety of corporate debt products being traded, in contrast to transactions in common stock. They also view it as inconsistent with the nature of the corporate bond markets, which,

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<sup>1</sup> The 30-minute reporting period and the 15-minute reporting period will become effective on, respectively, October 1, 2004 and July 1, 2005.

<sup>2</sup> See Securities Exchange Act Release No. 49607 (April 23, 2004), 69 FR 23549 (April 29, 2004).

<sup>3</sup> Letter from Richard F. Seifer, President and CEO, Bernard, Richards Securities Inc., to SEC, dated May 10, 2004, and letter from Alan H. Schlesinger, Sage Securities Corp., to Jonathan G. Katz, Secretary, SEC, dated May 20, 2004.

according to the commenters, are “slower” than equity markets because the products are more complex and less automation is used. They note that, in the bond markets, some firms still negotiate the terms of a trade in a TRACE-eligible security orally or by fax and employ at least some manual processes to execute and confirm a transaction. In their view, the thirteen reporting requirements in TRACE Rule 6230(c) are evidence of the differences in reporting stock and corporate debt transactions. One commenter states that NASD is trying to reduce the reporting period for TRACE to that which is feasible for an equity securities transaction.

NASD believes that member firms have taken, and continue to take, the steps necessary to achieve the proposed TRACE requirement of 30-minute, and, subsequently, 15-minute reporting. Current reporting statistics support this position. During the first four months of 2004, approximately 84% of all transactions in TRACE-eligible securities were reported within 30 minutes, and approximately 73% all TRACE-eligible securities transactions were reported within 15 minutes, although a 45-minute reporting period was in effect. In addition, both NASD and the SEC have provided notice over a period of years that 15-minute TRACE reporting was a regulatory goal. To achieve this goal and facilitate the transition to 15-minute reporting, NASD is proposing a two-stage process to allow firms to implement the measures necessary to comply with 15-minute reporting. In developing this two-stage process, NASD consulted extensively with member firms and industry associations. Finally, in response to the concern that NASD is trying to reduce the TRACE reporting period to one that is feasible for equity securities, we note that the current reporting requirement for equity securities is 90 seconds, a significant difference from the current proposal to reduce the reporting period to 30 minutes, and, later, to 15 minutes.

Costs to Members and Benefit to Investors. The two commenters also oppose reducing the TRACE reporting period because such a reduction would increase members’ costs of trading TRACE-eligible securities. They state that their costs previously increased with the implementation of TRACE, and that their costs would increase again if the proposed rule change were approved. In particular, they note that to comply with a shorter reporting period, they and other members may be required to hire additional staff. One commenter also states that it will incur significant technology costs; the other commenter indicates that it will incur additional regulatory costs because it may be subject to additional fines levied for late TRACE trade reporting. Finally, one commenter expresses doubt that TRACE provides market transparency for the general public, noting that, with the exception of information published on a small number of actively traded bonds, real-time quotes and trades of TRACE-eligible securities are not printed in newspapers.

As noted in the rule filing, NASD’s two-stage proposal will allow firms to make incremental improvements, as needed, to their reporting processes over this timeframe.

In part, the two-stage process is being used to minimize the impact to firms as they make any necessary changes, including the costs of such changes. By extending the period over which the TRACE reporting period will be reduced, NASD believes that firms should be able to plan and prepare more efficiently to make the changes needed to achieve 15-minute reporting.

NASD respectfully disagrees with the comment that TRACE has not provided market transparency for the general public. Investors, including the general public, and other market participants have been provided increased transparency in the corporate bond markets as a direct result of TRACE, because, TRACE provides, for the first time, current transaction pricing information. Currently, transaction information is publicly disseminated on approximately 70% of the total par value traded in Investment Grade TRACE-eligible securities.<sup>4</sup> Members of the public (non-professionals) may access last sale pricing *at no cost* in these debt securities at NASD's website, <http://www.nasdbondinfo.com>, by identifying specific securities or searching by a particular characteristic (e.g., rating, maturity, coupon rate, or industry). Transaction information is also available at other websites, such as that of The Bond Market Association. In addition, members of the public seeking more immediate access to transaction data may contract to receive all disseminated transaction data for \$1 per month. Also, information on certain actively traded bonds is published daily in the Wall Street Journal. Finally, NASD expects transaction information to be more widely available in the future. NASD is currently in extensive negotiations with various print and Internet publishers regarding TRACE transaction data, which will enhance and improve access to TRACE data.

Time of Execution. One commenter notes that NASD should not reduce the time to report, the period for which is triggered from the "time of execution," until NASD clarifies the meaning of "time of execution." The commenter states that "a meeting of the minds" evidencing an executed transaction, does not occur until a "report is given and accepted." NASD believes that this is an inaccurate description of an execution, and notes that executing a transaction precedes the steps described by the commenter, which are those generally taken to confirm a trade previously executed.<sup>5</sup>

If you have any questions, please contact me at (202) 728-8985 or

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<sup>4</sup> The Board of Governors of NASD voted on April 22, 2004 to disseminate publicly all TRACE-eligible securities transactions. NASD expects to file the related rule change shortly. (*See* Press Release, "NASD Proposes Increasing Sale Data on Corporate Bonds For Dissemination To Public Through TRACE," dated April 22, 2004.)

<sup>5</sup> The commenters raise two other issues. One involves the method of reporting agency trades, and the second involves the method of funding TRACE. Neither of the issues is related to the proposed rule change and is not addressed herein.

Katherine A. England  
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[sharon.zackula@nasd.com](mailto:sharon.zackula@nasd.com), or Elliot Levine, Chief Counsel and Senior Advisor, Markets, Services, and Information, at (202) 728-8405 or [elliott.levine@nasd.com](mailto:elliott.levine@nasd.com). The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Sharon K. Zackula

cc: Stephen L. Williams  
Gordon K. Fuller  
Mary N. Simpkins

Katherine A. England  
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