

Notice to Members

JANUARY 2004

SUGGESTED ROUTING

Legal & Compliance
Operations
Senior Management
IT Management

KEY TOPICS

Debt Securities
Trade Reporting and
Compliance Engine (TRACE)
Rule 7010(k)

INFORMATIONAL

Trade Reporting and Compliance Engine (TRACE)

SEC Approves Permanent TRACE Fee Structure and Nine-Month Pilot Program for BTDS Professional Delayed-Time Data Display Fee

Executive Summary

The TRACE system became effective on July 1, 2002. Since that time the TRACE fee structure has been operating under a pilot program approved by the SEC that was due to expire on January 31, 2004. On January 15, 2004, the SEC approved a rule change amending Rule 7010(k) to establish a permanent fee structure for TRACE and a nine-month pilot program for the BTDS Professional Delayed-Time Data Display Fee.¹

Rule 7010(k), as amended, is set forth in Attachment A. The fee structure is effective as of February 1, 2004.

Questions/Further Information

Questions concerning this *Notice* may be directed to NASD Market Operations at 866-776-0800, or Kosha K. Dalal, Assistant General Counsel, Office of General Counsel, Regulatory Policy and Oversight, NASD, at (202) 728-6903.

Background and Discussion

Since the TRACE system became effective on July 1, 2002, the TRACE fee structure has been operating under a pilot program approved by the SEC. On October 14, 2003, NASD proposed a rule change to establish a permanent fee structure for TRACE. The fee structure was approved by the SEC on January 15, 2004, and the fee structure will become effective on February 1, 2004. The BTDS Professional Delayed-Time Data Display Fee was approved by the SEC as a nine-month pilot program due to expire on October 31, 2004. The TRACE fee structure is outlined below.

Below is a chart outlining the approved TRACE fee structure.

System Fees	Transaction Reporting Fees	Market Data Fees
Level I Trade Report Only Web Browser Access - \$20/month per user ID	Trades up to and including \$200,000 par value - \$0.475/trade;	BTDS Professional Real-Time Data Display - \$60/month per terminal
Level II Full Service Web Browser Access - \$80/month per user ID	Trades between \$201,000 and \$999,999 par value - \$0.002375 times the number of bonds traded/trade;	BTDS Professional Delayed-Time Data Display - \$15/month per terminal (for a nine-month pilot period beginning February 1, 2004 and ending October 31, 2004)
CTCI/Third Party - \$25/month per firm	Trades of \$1,000,000 par value or more - \$2.375/trade	BTDS Internal Usage Authorization - \$500/month per application/service for Real-Time and Delayed-Time Data
	Cancel/Correct - \$1.50/trade	BTDS External Usage Authorization - \$1,000/month per application/service for Real-Time and Delayed-Time Data
	"As of" Trade Late - \$3/trade	BTDS Non-Professional Real-Time Data Display - \$1/month per terminal

System Fees

Web Browser Access Fees

Level I Trade Report Only Web Browser access permits a member to report TRACE transaction data to NASD over the Internet, but does not allow access to real-time TRACE data. Level II Full Service Web Browser access permits reporting of TRACE transaction data to NASD over the Internet and allows access to real-time transaction data through a query function. The Level I charge has been reduced from \$25 per month, per user ID, to \$20 per month, per user ID; and the Level II charge has been reduced from \$85 per month, per user ID, to \$80 per month, per user ID.

CTCI Fees and Third-Party Access Fees

The charge for CTCI service and for reporting data through third-party intermediaries will remain at \$25 per month, per firm.

Transaction Reporting Fees

Trade Reporting Fees

Trade Reporting Fees will remain at their current levels. The range for trade reporting fees will be from \$0.475 to \$2.375 per transaction based on the size of the reported transaction. Trades up to and including \$200,000 par value will be charged a \$0.475 fee per trade; trades between \$201,000 par value and \$999,999 par value will be charged a fee of \$0.002375 multiplied by the number of bonds traded, and trades of \$1,000,000 par value or more will be charged a fee of \$2.375 per trade.

Corrective Transaction Fees

The Cancel or Correct Fee will remain at \$1.50 per corrected trade and the "As of" Trade Late reporting fee will remain at \$3.00 per late trade for those transactions that are not reported "As of" as required under the Rule 6200 Series.

Market Data Fees

The market data services and fees are as follows: (1) BTDS Professional Real-Time Data Display Fee of \$60 per month, per terminal; (2) BTDS Professional Delayed-Time Data Display Fee of \$15 per month, per terminal; (3) BTDS Internal Usage Authorization Fee of \$500 per month, per application/service; (4) BTDS External Usage Authorization Fee of \$1,000 per month, per application/service; and (5) BTDS Non-Professional Real-Time Data Display Fee of \$1 per month, per terminal.

The term “Real-Time” as used in Rule 7010(k)(3) will mean that period of time starting from the time of dissemination by NASD of transaction data on a TRACE-eligible security, and ending four hours thereafter. “Delayed-Time” as used in Rule 7010(k)(3) will mean that period of time starting four hours after the time of dissemination by NASD of transaction data on a TRACE-eligible security, and ending at 11:59:59 p.m., Eastern Time, that calendar day.

BTDS Professional Delayed-Time Data Display Fee

The SEC has approved the BTDS Professional Delayed-Time Data Display on a pilot basis for a period of nine months beginning February 1, 2004, and ending October 31, 2004. The fee for the BTDS Professional Delayed-Time Data Display is \$15 per month, per terminal, for each device receiving Delayed-Time TRACE transaction data. Transaction data for TRACE-eligible securities disseminated by NASD after this time frame will be provided free of charge. Professionals subscribing for the BTDS Professional Real-Time Data Display Fee of \$60 per month, per terminal, to receive Real-Time TRACE transaction data will not pay this charge for Delayed-Time data in addition to the \$60 fee for Real-Time data. NASD has also clarified that charges for BTDS Internal Usage and BTDS External Usage apply to Real-Time and/or Delayed-Time TRACE transaction data.

In addition, NASD has clarified the definition of “non-professional.” NASD has added language to the definition to state that a natural person can qualify as a “non-professional” only if he or she receives TRACE market data primarily for personal, non-commercial use.

Effective Date

The rule amendments become effective on February 1, 2004.

Endnote

- 1 See Securities Exchange Act Release No. 34-49086 (January 15, 2004), 69 *Fed. Reg.* 3416 (January 23, 2004), File No. SR-NASD-2003-157.

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ATTACHMENT A

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7010. System Services

(a) through (j) No Change.

(k) Trade Reporting and Compliance Engine (TRACE)

The following charges shall be paid by participants for the use of the Trade Reporting and Compliance Engine ("TRACE"):

System Fees	Transaction Reporting Fees	Market Data Fees
Level I Trade Report Only Web Browser Access - \$20/month per user ID	Trades up to and including \$200,000 par value - \$0.475/trade;	BTDS Professional Real-Time Data Display - \$60/month per terminal
Level II Full Service Web Browser Access - \$80/month per user ID	Trades between \$201,000 and \$999,999 par value - \$0.002375 times the number of bonds traded/trade;	BTDS Professional Delayed-Time Data Display - \$15/month per terminal (for a nine-month pilot period beginning February 1, 2004 and ending October 31, 2004)
CTCI/Third Party - \$25/month per firm	Trades of \$1,000,000 par value or more - \$2.375/trade	BTDS Internal Usage Authorization - \$500/month per application/service for Real-Time and Delayed-Time Data
	Cancel/Correct - \$1.50/trade	BTDS External Usage Authorization - \$1,000/month per application/service for Real-Time and Delayed-Time Data
	"As of" Trade Late - \$3/trade	BTDS Non-Professional Real-Time Data Display - \$1/month per terminal

(1) System Related Fees.

There are three methods by which a member may report corporate bond transactions that are reportable to NASD pursuant to the Rule 6200 Series. A member may choose among the following methods to report data to NASD: (a) a TRACE web browser; (b) a Computer-to-Computer Interface ("CTCI") (either one dedicated solely to TRACE or a multi-purpose line); or (c) a third-party reporting intermediary. Fees will be charged based on the reporting methodology selected by the member.

(A) Web Browser Access

The charge to be paid by a member that elects to report TRACE data to NASD via a TRACE web browser shall be as follows: \$20 per month, per user ID for Level I Web Trade Report Only Browser Access and \$80 per month, per user ID for Level II Full Service Web Browser Access.

(B) Computer-to-Computer Interface Access

The charge to be paid by a member that elects to report TRACE data to NASD via a CTCI line shall be \$25 per month, per firm, regardless of whether the line is or is not dedicated exclusively for TRACE.¹

(C) Third Party Access – Indirect Reporting

A member may elect to report TRACE data indirectly to NASD via third-party reporting intermediaries, such as vendors, service bureaus, or the National Securities Clearing Corporation ("NSCC"). The charge to be paid by a member shall be \$25 per month, per firm. Nothing in this Rule shall prevent such third-party intermediaries from charging additional fees for their services.

(2) Transaction Reporting Fees.

For each transaction in corporate bonds that is reportable to NASD pursuant to the Rule 6200 Series, the following charges shall be assessed against the member responsible for reporting the transaction:

(A) Trade Reporting Fee

A member shall be charged a Trade Reporting Fee based upon a sliding scale ranging from \$0.475 to \$2.375 per transaction based on the size of the reported transaction. Trades up to and including \$200,000 par value will be charged a \$0.475 fee per trade; trades between \$201,000 par value and \$999,999 par value will be charged a fee of \$0.002375 multiplied by the number of bonds traded per trade; and trades of \$1,000,000 par value or more will be charged a fee of \$2.375 per trade.

(B) Cancel or Correct Trade Fee

A member shall be charged a Cancel or Correct Trade Fee of \$1.50 per canceled or corrected transaction.

(C) "As of" Trade Late Fee

A member shall be charged an "As of" Trade Late Fee of \$3.00 per transaction for those transactions that are not timely reported "As of" as required by these rules.

(3) Market Data Fees.

Professionals and non-professionals may subscribe to receive Real-Time and Delayed-Time TRACE data disseminated by NASD in one or more of the following ways for the charges specified. Members, vendors and other redistributors shall be required to execute appropriate agreements with NASD.

(A) Professional Fees. Professionals may subscribe for the following:

(i) Bond Trade Dissemination Service ("BTDS") Professional Real-Time Data Display Fee of \$60 per month, per terminal charge for each interrogation or display device receiving Real-Time TRACE transaction data.

(ii) For a pilot period commencing February 1, 2004, and lasting until October 31, 2004. BTDS Professional Delayed-Time Data Display Fee of \$15 per month, per terminal charge for each interrogation or display device receiving Delayed-Time TRACE transaction data; provided, that subscribers to the BTDS Professional Real-Time Data Display Fee described above shall not be charged this additional fee. Subject to the execution of appropriate agreements with NASD, certain summary market information of Delayed-Time TRACE transaction data may be published or distributed by newspapers, press associations, newsletters, or similar media sources without charge.

(iii) BTDS Internal Usage Authorization Fee of \$500 per month, per application/service [charge] for internal dissemination of Real-Time and/or Delayed-Time TRACE transaction data used in one or more of the following ways in a single application/service: internal operational and processing systems, internal monitoring and surveillance systems, internal price validation, internal portfolio valuation services, internal analytical programs leading to purchase/sale or other trading decisions, and other related activities.²

(iv) BTDS External Usage Authorization Fee of \$1,000 per month, per application/service for dissemination of Real-Time and/or Delayed-Time TRACE transaction data used in one or more of the following ways in a single application/service: repackaging of market data for delivery and dissemination outside the organization, such as indices or other derivative products.³

(B) Non-Professional Fees

The charge to be paid by a non-professional for each terminal receiving all or any portion of Real-Time TRACE transaction data disseminated through TRACE shall be \$1.00 per month, per terminal.

(C) Definitions

(i) "Delayed-Time" as used in Rule 7010(k)(3) shall mean that period of time starting four hours after the time of dissemination by NASD of transaction data on a TRACE-eligible security, and ending at 11:59:59 p.m. Eastern Time that calendar day.

(ii) "Non-Professional" - A non-professional subscriber must provide certain information to NASD and shall receive TRACE market data primarily for his or her personal, non-commercial use. As used in Rule 7010(k)(3) a "non-professional" is a natural person who is neither:

a. registered nor qualified in any capacity with the Commission, the Commodity Futures Trading Commission, any state securities agency, any securities exchange or association, or any commodities or futures contract market or association, or an employee of the above who uses such information primarily for business-related activities;

b. engaged as an "investment adviser" as that term is defined in Section 202(a)(11) of the Investment Advisers Act of 1940 (whether or not registered or qualified under that Act), or an employee of the above who uses such information primarily for business-related activities;

c. employed by a bank, insurance company or other organization exempt from registration under federal or state securities laws to perform functions that would require registration or qualification if such functions were performed for an organization not so exempt; or

d. engaged in, or has the intention to engage in, any redistribution of all or any portion of the information disseminated through TRACE.

(iii) "Real-Time" as used in Rule 7010(k)(3) shall mean that period of time starting from the time of dissemination by NASD of transaction data on a TRACE-eligible security, and ending no more than four hours thereafter.

(D) Other Requests for Data

NASD may impose and collect charges for data NASD supplied upon request, where there is no provision elsewhere in this Rule 7010(k) for charges for such service or sale.

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- 1 The charges that may be imposed by third parties, such as CTCL line providers, are not included in these fees.
 - 2 Under this service, Real-Time and/or Delayed-Time TRACE transaction data may not be used in any interrogation display devices, any systems that permit end users to determine individual transaction pricing, or disseminated to any external source.
 - 3 Under this service, Real-Time and/or Delayed-Time TRACE transaction data may not be used in any interrogation display devices or any systems that permit end users to determine individual transaction pricing.