

Notice to Members

DECEMBER 2002

SUGGESTED ROUTING

Compliance
Legal
Operations
Senior Management

KEY TOPICS

Rule 7010(k)
TRACE Fees
Rule 6200 Series

INFORMATIONAL

TRACE Fees

NASD Reduces Certain TRACE Fees for the 4th Quarter of 2002. The fee changes are effective as of October 1, 2002.¹

Executive Summary

On November 15, 2002, NASD submitted a rule filing (SR-NASD-2002-167) to the Securities and Exchange Commission (SEC) for immediate effectiveness to amend Rule 7010(k), reducing the Web Browser Access Fee, Cancel or Correct Fee, and "As of" Trade Late Fee for the TRACE system during the 4th quarter of 2002. The fee changes are effective as of October 1, 2002.

Questions/Further Information

Questions concerning this *Notice* may be directed to Kosha K. Dalal, Assistant General Counsel, Office of General Counsel, NASD Regulatory Policy and Oversight, at (202) 728-6903; or Justin Tubiolo, Vice President, Regulatory Services and Operations, at (212) 858-4419.

Discussion

On July 1, 2002, the Trade Reporting and Compliance Engine (TRACE) became effective. On June 28, 2002, the Commission approved proposed NASD fees relating to the operation of the TRACE system (Rule 7010(k)) on a pilot basis for a six-month period expiring on December 28, 2002.² As part of that rule filing (Amendment No. 3 to SR-NASD-2002-63), NASD committed to review and reassess the proposed TRACE fees as soon as practicable and within six months after the effective date of TRACE, based on such factors as actual volume, usage, costs, and revenues.

Based on an initial review of the TRACE fees, and input from member firms, on November 15, 2002, NASD submitted to the SEC for immediate effectiveness a rule change to reduce certain TRACE fees for the 4th quarter of 2002. The SEC published the rule filing in the *Federal Register* on December 3, 2002. The fee reductions are effective as of October 1, 2002.

The adjustments to the TRACE fee structure are:

Web Browser Access Fee. The current Web Browser Access Fee is \$85 per month for the first user ID; \$75 per month for the second through ninth user ID; and \$70 per month for the second through ten or more user ID, if the member registers for ten or more user IDs. For the period commencing October 1, 2002 and ending December 31, 2002, for those firms that report less than 25 transactions per month, the Web Browser Access Fee has been reduced to \$25 per month, per user ID.

Cancel or Correct Fee. The current Cancel or Correct Fee is \$3.00 for each canceled or corrected transaction reported. For the month of October 2002, the Cancel or Correct Fee has been reduced to \$1.50 for each canceled or corrected transaction reported. For the month of November 2002, the Cancel or Correct Fee has been reduced to \$2.25 for each canceled or corrected transaction reported. For the month of December 2002, the Cancel or Correct Fee will return to \$3.00 for each cancelled or corrected transaction reported.

"As of" Trade Late Fee. The current "As of" Trade Late Fee is \$3.00 for each trade that is not timely reported. For the month of October 2002, the "As of" Trade Late Fee has been reduced to \$1.50 for each such transaction reported. For the month of November 2002, the "As of" Trade Late Fee has been reduced to \$2.25 for each such transaction reported.

NASD believes that these fee adjustments will alleviate some of the immediate burden on small firms resulting from TRACE reporting requirements and grant all firms additional time to adjust to the Cancel or Correct Fee and the "As of" Trade Late Fee.

NASD is in the process of reviewing the entire TRACE fee structure and expects to submit additional proposed amendments to TRACE fees to the SEC prior to the December 28, 2002 expiration of the pilot program. Future fee adjustments will be announced in *Notices to Members*.

Endnotes

- 1 See SR-NASD-2002-167 (November 15, 2002), Exchange Act Release No. 46893, 67 FR 232 (December 3, 2002).
- 2 The Commission approved Rule 7010(k) relating to TRACE fees on June 28, 2002 on a six-month pilot basis. See SEC Approval Order File No. SR-NASD-2002-63, Securities Exchange Act Release No. 46145.

© 2002. NASD. All rights reserved. *Notices to Members* attempt to present information to readers in a format that is easily understandable. However, please be aware that, in case of any misunderstanding, the rule language prevails.

ATTACHMENT A

New text is underlined. Deletions are in brackets.

Proposed New Text of Rule 7010(k) – Trade Reporting and Compliance Engine (TRACE)

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

(Rule 7010(k) shall expire on December 28, 2002, unless amended, extended, or permanently adopted by NASD pursuant to SEC approval at or before such date).

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
Web Browser Access: \$85/month for 1 user ID; \$75/month for 2-9 user IDs; \$70/month for 2-10+ user IDs <u>If less than 25 trades per month, in October, November, or December 2002 – \$25/month per user ID</u>	Trades up to and including \$200,000 par value – \$0.50/trade; Trades between \$201,000 and \$999,999 par value – \$0.0025 times the number of bonds traded/trade; Trades of \$1,000,000 par value or more – \$2.50/trade	BTDS Professional Display – \$60/month per terminal
CTCI – \$25/month/line	Cancel/Correct – \$3/trade <u>For October 2002 – \$1.50/trade</u> <u>For November 2002 – \$2.25/trade</u>	BTDS Internal Usage Authorization – \$500/month per organization
Third Party – \$25/month	"As of" Trade Late – \$3/trade <u>For October 2002 – \$1.50/trade</u> <u>For November 2002 – \$2.25/trade</u>	BTDS External Usage Authorization – \$1,000/month per organization
PDN Administrative – \$100/month/line	Browse & Query – \$0.05 after first page	BTDS Non-Professional Display – \$1/month per terminal
		Daily List Fax – \$15/month per fax number/addressee

(1) System Related Fees. There are three methods by which a member may report corporate bond transactions that are reportable to NASD [the Association] pursuant to the Rule 6200 Series. A member may choose among the following methods to report data to NASD [the Association]: (a) a TRACE web browser (either over the Internet or a secure private data network ("PDN")); (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 [the Association] via a TRACE web browser shall be as follows: for the first user ID registered, a charge of \$85 per month; for the next two through nine user IDs registered, a charge of \$75 per month, per such additional user ID; and for ten or more user IDs registered, a charge of \$70 per month, per user ID from two to ten or more. If a member reports less than 25 trades per month to the TRACE system in October, November, or December 2002, the charge to be paid by a member for the TRACE web browser shall be \$25, per such month, per user ID. In addition, a member that elects to report TRACE data to the Association via a web browser over a secure PDN rather than over the Internet shall pay an additional administrative charge of \$100 per month, per line.¹

(B) Computer-to-Computer Interface Access

No change.

(C) Third Party Access – Indirect Reporting

No change.

(2) Transaction Reporting Fees

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

¹ Charges that may be imposed by third parties, such as network providers, are not included in these fees.

(A) Trade Reporting Fee

No change.

(B) Cancel or Correct Trade Fee

A member shall be charged a Cancel or Correct Trade Fee of \$3.00 per canceled or corrected transaction. To provide firms with time to adjust to the new reporting system, the Cancel or Correct Trade Fee will not be charged until the later of October 1, 2002 or 90 days after the effective date of TRACE. For the month of October 2002, the Cancel or Correct Trade Fee shall be \$1.50 per canceled or corrected transaction. For the month of November 2002, the Cancel or Correct Trade Fee shall be \$2.25 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. To provide firms with time to adjust to the new reporting system, the "As of" Trade Late Fee will not be charged until the later of October 1, 2002 or 90 days after the effective date of TRACE. For the month of October 2002, the "As of" Trade Late Fee shall be \$1.50 per such transaction. For the month of November 2002, the "As of" Trade Late Fee shall be \$2.25 per such transaction.

(D) Browse and Query Fee

No change.

(3) Market Data Fees

No change.

(4) Daily List Fax Service

No change.