

NASD NOTICE TO MEMBERS 97-62

SEC Transaction Fees For Off-Exchange Transactions In Exchange-Registered Securities; Refinement Of SEC Fee Rate Algorithm

Suggested Routing

- Senior Management
- Advertising
- Continuing Education
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- Municipal
- Mutual Fund
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- Options
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Executive Summary

The National Association of Securities Dealers, Inc. (NASD[®]) is reminding member firms that, effective October 1, 1997, the Securities and Exchange Commission (SEC) Transaction Fees for transactions in exchange-registered securities traded off an exchange will be collected by the NASD. Currently, NASD members remit these fees directly to the SEC.

Questions regarding this *Notice* should be directed to James Shelton, Billing Manager, NASD Regulation, Inc., at (301) 590-6757.

SEC Transaction Fees

In *Special Notice to Members 96-81* (December 3, 1996), the NASD published detailed information concerning the SEC Transaction Fee (SEC fee) as outlined in the National Securities Market Improvement Act of 1996. Effective January 1, 1997, the SEC fee applies to transactions by or through any member other than on a securities exchange for securities subject to prompt last-sale reporting. This included securities listed on The Nasdaq Stock MarketSM (Nasdaq[®]), as well as other non-Nasdaq OTC Equity Securities.

As previously reported in *NTM 96-81*, the National Securities Market Improvement Act also provides that off-exchange transactions in exchange-registered securities (third-market transactions), currently paid directly to the SEC, will be paid through the NASD beginning October 1, 1997.

Covered Securities/Fee Rate

The SEC fee will apply to all third-market transactions in exchange-registered securities other than bonds, debentures and other evidences of indebtedness.

The rate for the SEC fee for third-market transactions is 1/300th of one percent of the aggregate dollar amount of sales. This rate will remain fixed through fiscal year 2006. In fiscal year 2007, the rate will decline to 1/800th of one percent.

Covered Transactions

The SEC fee for third-market transactions applies generally to all transactions by or through any member of the NASD otherwise than on a national securities exchange of securities registered on such an exchange. For transactions between two NASD members, the charge will apply to the member on the sell side. For transactions between a member and a non-member or customer, the charge will apply to the member.

Collection Mechanism—Automated Trading Reports

The SEC fee for third-market transactions will be collected in the same manner as the SEC fee for transactions in Nasdaq securities and OTC Equity Securities. Payment will be the responsibility of the NASD member clearing firms. The NASD will calculate the SEC fee based on transaction data submitted into the Automated Confirmation Transaction ServiceSM (ACTSM) for reporting purposes. NASD member clearing firms with primary clearing relationships with the National Securities Clearing Corporation (NSCC) or the Stock Clearing Corporation of Philadelphia (SCCP) will have the SEC fees deducted from their respective NSCC or SCCP settlement accounts on a monthly basis. An NASD-generated invoice will be forwarded to the firm as a confirmation of the deduction from their respective settlement accounts. Member clearing firms that are considered *self-clearing* (i.e., that have no relationship with NSCC

or SCCP) will be billed directly, with payment terms due upon receipt.

Collection Mechanism—Odd-Lot/Exercised Options Report

Member firms that conduct odd-lot transactions (*i.e.*, less than 100-share trading units) for third-market securities that are not trade reported to ACT, or that process exercised options that are not reported to the secondary market, will be required to submit transaction information on a

monthly basis on the NASD's "SEC Fee Odd-Lot & Exercised Options Report" to pay the required fee on SEC fee-eligible securities. Member firms that do not conduct these types of transactions may request a filing exemption in writing.

SEC Fee Rate Refinement

The NASD currently uses a seven-digit decimal rate (0.0000333) for the SEC fee that is applied to all SEC fee-eligible transactions. At the

request of the SEC, the billing algorithm will be refined to more clearly reflect the requirements of the National Securities Market Improvement Act. Effective for all SEC fee-eligible trades beginning January 1, 1998, the formula will be applied as follows: (contract amount times one percent times 1/300th). Please reflect this change in your business processes accordingly.

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