Notice to Members

AUGUST 2005

SUGGESTED ROUTING

Legal and Compliance
Operations
Registered Representatives
Senior Management
Technology
Training

KEY TOPICS

Debt Securities
Operations
Rule 7010
Transaction Reporting

GUIDANCE

Trade Reporting and Compliance Engine (TRACE)

SEC Approves Amendments to TRACE Fee Structure Establishing an Enterprise Fee and Lowering Fee for Receipt of Real-Time TRACE Transaction Data via Web Browser; **Effective Date: October 1, 2005**

Executive Summary

On August 1, 2005, the Securities and Exchange Commission (SEC or Commission) approved an amendment to Rule 7010(k), adding an enterprise fee structure and lowering another fee related to the receipt of Real-Time TRACE transaction data. This fee change will enable an enterprise such as a broker-dealer to display Real-Time TRACE transaction data on an unlimited number of internal display devices for a fee of $7,500 per month. The fee for Level II Full Service Web Browser Access also has been lowered, so that the charge for the first user ID obtained for such access will be $50 per month rather than the current $80 per month.

The rules, as amended, are set forth in Attachment A.

The amendments become effective October 1, 2005.

Questions/Further Information

Questions concerning this *Notice* should be directed to James L. Eastman, Assistant General Counsel, Office of General Counsel (OGC), Regulatory Policy and Oversight (RPO), at (202) 728-6961; Sharon K. Zackula, Associate General Counsel, OGC, RPO, at (202) 728-8985; or David Lefferts, Associate Vice President, Corporate Debt, at (212) 858-4389.

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Background and Discussion

On August 1, 2005, the SEC approved an amendment to Rule 7010(k)(3)(A)(i), the Bond Trade Dissemination Service (BTDS) Professional Real-Time Data Display Fee, to enable an enterprise such as a broker-dealer to display Real-Time TRACE transaction data within the enterprise on an unlimited number of internal display devices for a fee of $7,500 per month.[1] The SEC also approved an amendment to Rule 7010(k)(1)(A), Web Browser Access, to lower the fee for Level II Full Service Web Browser Access, so that the charge for the first user ID obtained for such access will be $50 per month rather than the current $80 per month.

NASD has modified the TRACE fee structure because NASD believes the new structure may significantly increase the use of Real-Time TRACE transaction data among users of such data (Subscribers) such as registered representatives, investment advisors, and other persons serving retail investors, as well as address cost concerns that have been expressed by members. NASD believes that broadening the distribution of Real-Time TRACE transaction data will facilitate its use by persons who provide brokerage and/or advisory services to retail investors, and will provide such professionals with an additional tool to better serve and inform retail investors. Moreover, broadening the distribution of Real-Time TRACE transaction data is likely to have an incremental, beneficial effect on corporate bond market transparency and pricing by generally raising the level of awareness and overall knowledge of specific bond issues as well as the bond market generally.

Proposed "Enterprise" Fee

Currently, NASD charges Subscribers $60 per month, per terminal (the BTDS Professional Real-Time Data Display Fee) to display Real-Time TRACE transaction data. Members have indicated that this $60 per month, per terminal charge is cost prohibitive for organizations with large numbers of potential internal users of the data. Subscribers serving large numbers of retail investors have indicated that they likely would distribute Real-Time TRACE transaction data much more widely within their organizations if the costs were reduced.

To address these concerns, NASD has amended Rule 7010(k)(3)(A)(i) to provide Subscribers the option of paying a flat, enterprise fee of $7,500 per month instead of $60 per terminal (*i.e.*, per screen or interrogation or display device). This amendment is intended to benefit Subscribers that have a large staff of potential internal data users who desire access to Real-Time TRACE transaction data. Instead of paying multiple $60 BTDS Professional Real-Time Data Display Fees, a Subscriber would have the option to pay a flat fee of $7,500 per month to display Real-Time TRACE transaction data on an unlimited number of internal terminals/workstations.

The proposed amendment to Rule 7010(k)(3)(A)(i) will apply only to a Subscriber's internal display of Real-Time TRACE transaction data and will be independent of access method or data vendor. The proposed $7,500 enterprise fee option will include unlimited terminal display use for individual access for all of a Subscriber's employees and the employees of certain of its corporate affiliates.[2]

Level II Full Service Web Browser Access Fee

To encourage use of Real-Time TRACE transaction data among Subscribers of varying sizes, NASD also has amended Rule 7010(k)(1)(A) to reduce the fees paid by Subscribers who receive Real-Time TRACE transaction data through Level II Full Service Web Browser Access. Such smaller Subscribers are unlikely to directly benefit from the new enterprise pricing structure.

Currently, the implicit cost for Level II Full Service Web Browser Access used to receive Real-Time TRACE transaction data is $60 per month (per user ID).[3] NASD has reduced the cost of the first user ID per Subscriber to receive Level II Full Service Web Browser Access from $80 per month to $50 per month. This change will reduce a Subscriber's marginal cost for the data portion of Level II Full Service Web Browser Access for the first user ID by 50 percent to $30 per month.

Endnotes

1 *See* Securities Exchange Act Release No. 52183 (August 1, 2005), 70 FR 46239 (August 9, 2005) (SR-NASD-2005-063).

2 A Subscriber wishing to take advantage of this option must first enter into an agreement directly with NASD, which in turn will notify the data vendors with which the Subscriber does business to provide blanket permission for use of Real-Time TRACE transaction data to any user within that organization. A Subscriber interested in this option should contact NASD's TRACE group at (888) 507-3665.

3 Level II Full Service Web Browser Access today costs $80 per month. However, Level II Full Service Web Browser Access also grants users Level I Web Trade Report Only Browser Access (for trade reporting), which otherwise would cost an additional $20 per month per user ID. Therefore, prior to the fee changes adopted by NASD the marginal cost of Level II Full Service Web Browser Access was $60 per month, per user ID.

ATTACHMENT A

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 Level II Full Service Web Browser Access - $80/month per user ID, except that the charge for the first such user ID shall be $50/month	Trades up to and including $200,000 par value - $0.475/ trade; Trades between $201,000 and $999,999 par value - $0.002375 times the number of bonds traded/ trade; Trades of $1,000,000 par value or more - $2.375/trade	BTDS Professional Real-Time Data Display - $60/month per terminal, or a flat fee of $7,500/month entitling Professionals to make unlimited internal use of Real-Time TRACE transaction data on any number of interrogation or display devices
CTCI/Third Party - $25/month/per firm	Cancel/Correct - $1.50/trade	Vendor Real-Time Data Feed - $1,500/month for Real-Time TRACE transaction data, except for qualifying Tax-Exempt Organizations
	"As of" Trade Late - $3/trade	Vendor Real-Time Data Feed - $400/month for Real-Time TRACE transaction data for qualifying Tax-Exempt Organizations
		BTDS TRACE Non-Professional Real-Time Data Display – No charge

(1) System Related Fees

There are three methods by which a member may report corporate bond transactions that are reportable to the Association pursuant to the Rule 6200 Series. A member may choose among the following methods to report data to the Association: (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<u>, except that the charge for the first such user ID for Level II Full Service Web Browser Access shall be $50 per month.</u>

(B) No change.

(C) No change.

(2) Transaction Reporting Fees

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

(A) through (C) No change.

(3) Market Data Fees

Professionals and Non-Professionals may subscribe to receive Real-Time TRACE transaction data disseminated by NASD in one or more of the following ways for the charges specified, as applicable. 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<u>, or a flat fee of $7,500 per month entitling Professionals to make unlimited internal use of Real-Time TRACE transaction data on any number of interrogation or display devices.</u>

(ii)-(iii) No change.

(B) through (D) No change.

(I) through (v) No change.