

Via Messenger

May 10, 2002

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

Re: **Amendment No. 1 to File No. SR-NASD-2002-46**
Proposed Amendments to NASD Rule 6200 Series ("TRACE Rules")

Dear Ms. England:

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934 ("Act"), the National Association of Securities Dealers, Inc. ("NASD" or "Association") is filing with the Securities and Exchange Commission ("SEC" or "Commission") Amendment No. 1 to SR-NASD-2002-46 relating to the new Rule 6200 Series (or "TRACE rules"), which provide for the reporting and dissemination of transaction information in eligible corporate debt securities.¹ In Amendment No. 1, the Association proposes to simplify the reporting requirement for yield in Rule 6230(c)(13), and to modify the period by which a member must notify the NASD of the Committee on Uniform Securities Identification Procedures ("CUSIP") numbers ("CUSIP numbers") of new securities in Rule 6260. The text of the proposed rule change is set forth in attached Exhibit 1.

Proposed Amendment to Rule 6230(c)(13). The NASD proposes to amend Rule 6230(c)(13), which requires the reporting of yield, except as otherwise specified in the rule. The Association proposes to delete the final sentence of (c)(13), which provides: "When yield is not reported and the reporting method chosen provides a 'memo' field, the reason must be stated in the 'memo' field." The Association has determined that requiring certain members (those members that will report using a method that contains a memo field) to specify the reason that

¹ The SEC has approved the new Rule 6200 Series, but the rules have not yet taken effect. The rules will become effective on July 1, 2002. The SEC initially approved the rules on January 23, 2001. File No. SR-NASD-1999-65, Securities Exchange Act Release No. 43873 (Jan. 23, 2001), 66 FR 8131 (Jan. 29, 2001) (approval order). The SEC approved additional amendments to the rules on March 5, 2001 and December 13, 2001. File Nos. SR-NASD-2001-04, Securities Exchange Act Release No. 44039 (March 5, 2001), 66 FR 14234 (March 9, 2001) (approval order) and SR-NASD-2001-91, Securities Exchange Act Release No. 45229 (Jan. 3, 2002), 67 FR 1255 (Jan. 9, 2002) (notice of proposed rule and immediate effectiveness upon filing on December 13, 2001, and approval order).

yield is not reported would delay reporting and impede automated reporting, and may be a redundant requirement. The TRACE system has been designed to identify those securities for which yield is not meaningful or for which yield cannot be calculated. When yield is not reported, the TRACE system will aid regulatory surveillance personnel in determining whether yield has been properly omitted. For these reasons, the Association proposes to delete the requirement and both expedite and simplify this aspect of reporting a transaction. (See Exhibit 1.)

Proposed Amendment to Rule 6260. The NASD proposes to amend Rule 6260 to require that an underwriter notify the NASD's TRACE Operations Center of the CUSIP number of newly issued TRACE-eligible securities not later than the end of the business day prior to the first day of trading. The proposed amendment will enable the NASD to add TRACE-eligible securities, identified by their CUSIP numbers, to the TRACE system the night before trading commences and provide the updated list of TRACE-eligible CUSIPs to members the next business day, prior to the opening of the TRACE system at 8:00 a.m. Eastern Time. The change will enable the TRACE system to capture all transactions in such securities, if properly reported (except the initial sale, which is not required to be reported). (See Exhibit 1.)²

Previously, the NASD had proposed to allow members an additional 24-48 hour period to provide the CUSIP number of a new security to the NASD. (See proposed changes to Rule 6260, in SR-NASD-2002-47, filed April 2, 2002.) After consultation with the Commission staff, the Association determined that the proposed extension of time in Rule 6260 for a managing underwriter to report CUSIP numbers would eliminate the NASD's ability to capture transactions on the first, and in some cases, the second, day of trading in a TRACE-eligible security, which may be the most important and active period of trading for certain types of debt securities. The lack of data for the first and second days of trading would hamper the NASD's ability to surveil the debt markets for a significant number of securities. For these reasons, the Association has determined to amend Rule 6260 to require that an underwriter provide the TRACE Operations Center all CUSIPs of TRACE-eligible securities that will be issued and sold the following day.³ As stated in the original rule filing, in those offerings in which there is no lead or managing underwriter, the group of underwriters has an obligation to obtain and provide the CUSIP number to the TRACE Operations Center within the period described above.

If you have any questions, please contact Sharon K. Zackula, Assistant General Counsel,

² The proposed change would require an underwriter to obtain CUSIPs for each security prior to the offering of the security. This requirement already exists as to municipal securities. See MSRB Rule G-34, which requires an underwriter of such securities to make application "as promptly as possible, but in no event later than, in the case of negotiated sales, a time sufficient to ensure assignment of a CUSIP number or numbers on or prior to the business day on which the contract to purchase the securities from the issuer is executed; or in the case of competitive sales, the date of award."

³ Requiring that CUSIP numbers be obtained prior to the sale of a security is also consistent with forward looking industry initiatives for T+1 clearance and settlement.

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Office of General Counsel, NASD Regulation, Inc., at (tel) 202-728-8985; (fax) 202-728-8264;
or (e-mail) sharon.zackula@nasd.com.

Very truly yours,

Barbara Z. Sweeney
Senior Vice President and
Corporate Secretary

Exhibit 1

cc: Stephen Williams
Gordon Fuller

Below is the text of the proposed rule change. The text of the originally proposed Rule 6230(c)(13) and Rule 6260 is marked with the original language changes shown as if adopted and the new language marked to show additions and deletions.

6200. TRADE REPORTING AND COMPLIANCE ENGINE (TRACE)

6230. Transaction Reporting

(a) No change.

(b) No change.

(c) Transaction Information To Be Reported

Each TRACE trade report shall contain the following information:

(1) -(12) No change.

(13) The lower of yield to call or yield to maturity. A member is not required to report yield when the TRACE-eligible security is a security that is in default, a security for which the interest rate is floating; a security for which the interest rate will be or may be increased (e.g., certain "step-up bonds") or decreased (e.g., certain "step-down bonds") and the amount of increase or decrease is an unknown variable; a pay-in-kind security ("PIK"); any other security where the principal or interest to be paid is an unknown variable or is an amount that is not currently ascertainable, or any other security that the Association designates if the Association determines that reporting yield would provide inaccurate or misleading information concerning the price of, or trading in, the security.

[When yield is not reported and the reporting method chosen provides a "memo" field, the reason must be stated in the "memo" field.]

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6260. Managing Underwriter Obligation To Obtain CUSIP

In order to facilitate trade reporting of secondary transactions in TRACE-eligible securities, the member that is the managing underwriter of any newly issued TRACE-eligible security shall obtain the CUSIP number for the TRACE-eligible security and provide it to the TRACE Operations Center not later than 5:00 p.m. on the [first] business day preceding the day that [following the day] the registration statement will become [becomes] effective, or, if registration is not required, the day that the securities will be priced initially. [are first priced.] If a managing underwriter is not appointed, the group of underwriters has an obligation to obtain and provide the CUSIP number to the TRACE Operations Center within the time required. A member must make a good faith determination that a security is a TRACE-eligible security before submitting the CUSIP number for such security to the TRACE Operations Center.

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