

May 2, 2003

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

Re: File No. SR-NASD-2003-78 – Proposed Amendment to Rule 6230 To Reduce Reporting Period

Dear Ms. England:

Pursuant to Rule 19b-4, enclosed please find the above-numbered rule filing. Also enclosed is a 3-1/2" disk containing the rule filing in Microsoft Word 7.0 to facilitate production of the Federal Register release.

If you have any questions, please contact Sharon K. Zackula, Office of General Counsel, Regulatory Policy and Oversight, at (202) 728-8985; e-mail sharon.zackula@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Barbara Z. Sweeney
Senior Vice President
and Corporate Secretary

Enclosures

cc: Gordon Fuller
Mary Simpkins

File No. SR-NASD-2003-78
Consists of 20 Pages
May 2, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

Form 19b-4

Proposed Rule Change

by

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”), the National Association of Securities Dealers, Inc. (“NASD”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend NASD Rule 6230 to reduce the period to report a transaction in a TRACE-eligible debt security from 75 minutes to 45 minutes. Rule 6230 is one of the Trade Reporting and Compliance Engine (“TRACE”) rules. Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

6200. TRADE REPORTING AND COMPLIANCE ENGINE (TRACE)

6230. Transaction Reporting

(a) When and How Transactions are Reported

A member that is required to report transaction information pursuant to paragraph (b) below must report such transaction information within [one hour and fifteen]45 minutes of the time of execution, except as otherwise provided below, or the transaction report will be "late." The member must transmit the report to TRACE during the hours the TRACE system is open ("TRACE system hours"), which are 8:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time. Specific trade reporting obligations during a 24-hour cycle are set forth below.

(1) Transactions Executed During TRACE System Hours

Transactions in TRACE-eligible securities executed on a business day at or after 8:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time must be reported within

45[one hour and fifteen] minutes of the time of execution. If a transaction is executed on a business day less than 45[one hour and fifteen] minutes before 6:30 p.m. Eastern Time, a member may report the transaction the next business day within 45[one hour and fifteen] minutes after the TRACE system opens. If reporting the next business day, the member must indicate “as/of” and provide the actual transaction date.

(2) Transactions Executed At or After 6:30 P.M. Through 11:59:59 P.M. Eastern Time

Transactions in TRACE-eligible securities executed on a business day at or after 6:30 p.m. Eastern Time through 11:59:59 p.m. Eastern Time must be reported the next business day within 45[one hour and fifteen] minutes after the TRACE system opens. The member must indicate “as/of” and provide the actual transaction date.

(3) Transactions Executed At or After 12:00 A.M. Through 7:59:59 A.M. Eastern Time

Transactions in TRACE-eligible securities executed on a business day at or after 12:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day within 45[one hour and fifteen] minutes after the TRACE system opens.

(4) Transactions Executed on a Non-Business Day

Transactions in TRACE-eligible securities executed on a Saturday, Sunday, or a federal or religious holiday on which the TRACE system is closed, at any time during that day (determined using Eastern Time), must be reported the next business day within 45[one hour and fifteen] minutes after the TRACE system opens. The transaction must be reported as follows: the date of execution must be the first business day (the same day the report must be made); the execution time must be “12:01:00 a.m. Eastern Time” (stated in

military time as “00:01:00”); and the modifier, “special price,” must be selected. In addition, the transaction must not be designated “as/of”. When the reporting method chosen provides a ”special price” memo field, the member must enter the actual date and time of the transaction in the field.

(5) through (6) No Change

(b) through (f) No Change

* * * * *

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

(a) The proposed rule change was approved by the Board of Governors of NASD at its meeting on April 24, 2003, which authorized the filing of the rule change with the SEC. No other action by NASD is necessary for the filing of the proposed rule change. Section 1(a)(ii) of Article VII of the NASD By-Laws permits the NASD Board of Governors to adopt amendments to NASD Rules without recourse to the membership for approval.

NASD will announce the effective date of the proposed rule change in a Notice to Members to be published no later than 60 days following Commission approval. The effective date will be October 1, 2003.

(b) Questions regarding this rule filing may be directed to Sharon K. Zackula, Assistant General Counsel, Office of General Counsel, Regulatory Policy and Oversight, at (202) 728-8985.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

NASD Rule 6230(a) currently requires a member that is a party to a transaction in a TRACE-eligible security to report the transaction information to TRACE within 75 minutes of the time of execution.¹

NASD is proposing to reduce the period to report from 75 minutes to 45 minutes. In Rule 6230(a), the general requirement to report transaction information within 75 minutes of the time of execution is restated as 45 minutes. In addition, NASD is proposing to amend the next-day reporting exceptions in Rules 6230(a)(1) through (4) to require that the report be filed within 45 minutes of the time the TRACE system opens instead of the current 75 minutes. Specifically, in Rule 6230(a)(1), a member *could elect* to report the next business day if a transaction occurs within 45 minutes before the TRACE system closing. If the member elects to report the following business day that the TRACE system is open, the member *must report* the transaction within 45 minutes after the TRACE system opens. In addition, in Rule 6230(a)(2) through (4), a member would be required to report transaction information for specified transactions the next business day that the TRACE system is open and would be required to do so within 45 minutes after the system's opening.

¹ Limited exceptions to the general requirement are stated in Rule 6230(a)(1) through (4), which provide for reporting a transaction the next business day that the TRACE system is open in certain circumstances. Specifically, in Rule 6230(a)(1), a member currently *may elect* to report a transaction the next business day that the TRACE system is open at any time within 75 minutes after the TRACE system opens, if the member executed the trade the prior business day less than 75 minutes before the TRACE system closed. (Currently, on a business day, the TRACE system is open from 8:00 a.m. Eastern Time to 6:30 p.m. Eastern Time to receive reports.) In Rule 6230(a)(2) through (4), members are directed how to report trades that occur (1) after TRACE system hours, (2) before TRACE system hours, or (3) on a weekend or a holiday. In each case, the member must report the transaction the next business day that the TRACE system is open within 75 minutes of the opening.

The proposed rule change, if approved, would result in important trade information reaching the market in a timelier manner, furthering NASD's goals with respect to improving transparency under TRACE, and enhancing specific TRACE reporting provisions. The goal to reduce the reporting period in TRACE has been understood by the industry for several years and has been noted as a goal in rule filings with the SEC since 1999, as well as in the SEC's first order approving the full set of the TRACE Rules.²

The SEC approved the current 75-minute period after several phases of discussion about the appropriate reporting period.³ In early TRACE discussions occurring in 1998 and 1999, NASD staff recommended that the industry prepare for a 15-minute reporting period. In response to industry feedback, NASD revised its proposal to include a 60-minute period, with the caveat that NASD intended to reduce the reporting period to 15-minutes after TRACE became operational and members had acquired experience with reporting.⁴

Prior to the July 1, 2002 TRACE effective date, the SEC staff requested NASD to coordinate with the National Securities Clearing Corporation ("NSCC") regarding the TRACE reporting initiative. Certain member firms utilizing NSCC for reporting municipal bond transactions to the Municipal Securities Rule Making Board ("MSRB") requested that NASD and NSCC develop a TRACE reporting option so that members could utilize the same NSCC

² Securities Exchange Act Release No. 43873 (January 23, 2001); 66 Fed. Reg. 8131, 8135 (January 29, 2001) (order approving SR-NASD-99-65).

³ Securities Exchange Act Release No. 46144 (June 28, 2002); 67 Fed. Reg. 44907 (July 5, 2002) (order approving SR-NASD-2002-46).

⁴ Currently, NASD staff intends to recommend a further reduction in the TRACE reporting period to 15 minutes that would be effective mid-year 2004. The reduction in the TRACE reporting period would be consistent with the Municipal Securities Rulemaking Board's published plan to implement a 15-minute transaction reporting requirement for municipal securities that would take effect on July 1, 2004.

functionality for reporting transactions in TRACE-eligible securities. Because of NSCC operational issues, it became clear that firms would be precluded from reporting through NSCC unless NSCC improved its “batch processing” to allow for more submissions per day, and NASD adopted a slightly longer reporting period. As a result the SEC approved the NASD’s proposal to extend the reporting period to 75 minutes for the initial period of reporting under TRACE. The basis for extending the period to 75 minutes was that NASD planned to reduce the reporting period substantially after TRACE became operational. Consistent with the NASD's goal of a reduced reporting period, National Securities Clearing Corporation ("NSCC") has publicly committed to support the proposed 45-minute reporting requirement.

The NASD proposal to reduce the reporting period at this time to 45 minutes is supported by statistical evidence from TRACE data. The data indicates that the industry generally has achieved technological readiness to implement the proposed rule change. For example, in the fourth quarter of 2002, eighty-three percent (83%) of all trades reported to TRACE were reported within 45 minutes of execution. NASD will work with firms that are currently not able to report trades within 45 minutes generally between the date of the SEC’s approval of the proposed rule change, if so approved, and October 1, 2003, the planned date of implementation, to assist such firms to be ready and able to comply with a 45-minutes reporting period on October 1, 2003.

(b) Statutory Basis

NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act, which requires, among other things, that NASD's rules must be designed to

prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. NASD believes that the proposed rule change, if approved, will provide NASD, as the self-regulatory organization designated to regulate the over-the-counter markets, with heightened capabilities to regulate and provide surveillance of the debt securities markets to prevent fraudulent and manipulative acts and practices, and will improve transparency by reducing the period between the time of execution of a transaction and the dissemination of the transaction information, for securities subject to dissemination, for the protection of customers and the public interest.

4. Self-Regulatory Organization's Statement on Burden on Competition

NASD does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

NASD does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

NASD requests the Commission to find good cause pursuant to Section 19(b)(2) of the Act for approving the proposed rule change prior to the 30th day after its publication in the Federal Register. NASD believes that the Commission may find good cause for approving the

proposed rule change in that accelerated approval will provide members prior notification, by several months, of a clear, fixed, certain deadline to implement a modest reduction in the reporting period. Firms will have sufficient notice to enable firms' operational staffs to make any necessary systems changes or enhancements to comply with the reduced reporting period on October 1, 2003. As noted above, NASD is aware that some firms may have greater operational and technical difficulties in making the operational enhancements to support a 45-minute reporting period. NASD is interested in working with these firms, and believes that an accelerated approval and a fixed implementation date would encourage such firms to begin addressing 45-minute reporting concerns earlier in 2002.

In addition, approval of this provision on an accelerated basis to create a date certain for implementation is likely to improve price transparency for the benefit of investors by effectively reducing the reporting period prior to the time this rule change would take effect on October 1, 2003. Specifically, members have indicated that they will begin to modify operations and systems, as necessary, as soon as the membership is certain that the reporting period will be reduced, and to what extent, and is able to ascertain the effective date of the new reporting requirement. As firms reduce their reporting windows, reported prices will begin to be disseminated more quickly.

Moreover, NASD believes that members have been aware that the NASD would reduce the TRACE reporting period because NASD, the SEC, and the industry have publicly discussed reduction of the reporting period for several years. TRACE has now been operational for almost nine months, and NASD's proposal to reduce the reporting period would not take effect until October 1, 2003, which is 15 months from the date of implementation of TRACE.

NASD intends to respond to comments filed with the SEC regarding the proposed reduction. However, because NASD believes that a substantial reduction in the reporting period has been addressed previously in comments to prior TRACE rule filings and would provide important benefits to investors by increasing transparency, NASD requests the Commission to accelerate the effectiveness of the proposed rule change prior to the 30th day after its publication in the Federal Register.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Exhibits

1. Completed notice of proposed rule change for publication in the Federal Register.

Pursuant to the requirements of the Securities Exchange Act of 1934, NASD has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

NASD, INC.

BY: _____
Barbara Z. Sweeney, Senior Vice President and
Corporate Secretary

May 2, 2003

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASD-2003-78)

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Proposed Amendment to Rule 6230 To Reduce TRACE Reporting Period

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on , the National Association of Securities Dealers, Inc. (“NASD”), filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASD. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons. For the reasons discussed below, the Commission is granting accelerated approval of the proposed rule change.

I. SELF-REGULATORY ORGANIZATION'S STATEMENT OF THE TERMS OF SUBSTANCE OF THE PROPOSED RULE CHANGE

NASD is proposing to amend Rule 6230 to reduce the period to report a transaction in a TRACE-eligible debt security from 75 minutes to 45 minutes. Rule 6230 is one of the Trade Reporting and Compliance Engine (“TRACE”) rules. Below is the text of the proposed rule change. Proposed new language is in italics; proposed deletions are in brackets.

* * * * *

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

6200. TRADE REPORTING AND COMPLIANCE ENGINE (TRACE)

6230. Transaction Reporting

(a) When and How Transactions are Reported

A member that is required to report transaction information pursuant to paragraph (b) below must report such transaction information within [one hour and fifteen]45 minutes of the time of execution, except as otherwise provided below, or the transaction report will be "late." The member must transmit the report to TRACE during the hours the TRACE system is open ("TRACE system hours"), which are 8:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time. Specific trade reporting obligations during a 24-hour cycle are set forth below.

(1) Transactions Executed During TRACE System Hours

Transactions in TRACE-eligible securities executed on a business day at or after 8:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time must be reported within 45[one hour and fifteen] minutes of the time of execution. If a transaction is executed on a business day less than 45[one hour and fifteen] minutes before 6:30 p.m. Eastern Time, a member may report the transaction the next business day within 45[one hour and fifteen] minutes after the TRACE system opens. If reporting the next business day, the member must indicate "as/of" and provide the actual transaction date.

(2) Transactions Executed At or After 6:30 P.M. Through 11:59:59 P.M. Eastern Time

Transactions in TRACE-eligible securities executed on a business day at or after 6:30 p.m. Eastern Time through 11:59:59 p.m. Eastern Time must be reported the next

business day within 45[one hour and fifteen] minutes after the TRACE system opens. The member must indicate “as/of” and provide the actual transaction date.

(3) Transactions Executed At or After 12:00 A.M. through 7:59:59 A.M. Eastern Time

Transactions in TRACE-eligible securities executed on a business day at or after 12:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day within 45[one hour and fifteen] minutes after the TRACE system opens.

(4) Transactions Executed on a Non-Business Day

Transactions in TRACE-eligible securities executed on a Saturday, Sunday, or a federal or religious holiday on which the TRACE system is closed, at any time during that day (determined using Eastern Time), must be reported the next business day within 45[one hour and fifteen] minutes after the TRACE system opens. The transaction must be reported as follows: the date of execution must be the first business day (the same day the report must be made); the execution time must be “12:01:00 a.m. Eastern Time” (stated in military time as “00:01:00”); and the modifier, “special price,” must be selected. In addition, the transaction must not be designated “as/of”. When the reporting method chosen provides a ”special price” memo field, the member must enter the actual date and time of the transaction in the field.

(5) through (6) No Change

(c) through (f) No Change

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II. SELF-REGULATORY ORGANIZATION'S STATEMENT OF THE PURPOSE OF, AND STATUTORY BASIS FOR, THE PROPOSED RULE CHANGE

In its filing with the Commission, NASD included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. NASD has prepared summaries, set forth in Sections (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

NASD Rule 6230(a) currently requires a member that is a party to a transaction in a TRACE-eligible security to report the transaction information to TRACE within 75 minutes of the time of execution.³

NASD is proposing to reduce the period to report from 75 minutes to 45 minutes. In Rule 6230(a), the general requirement to report transaction information within 75 minutes of the time of execution is restated as 45 minutes. In addition, NASD is proposing to amend the next-day reporting exceptions in Rules 6230(a)(1) through (4) to require that the report be filed within 45 minutes of the time the TRACE system opens instead of the current 75 minutes. Specifically,

³ Limited exceptions to the general requirement are stated in Rule 6230(a)(1) through (4), which provide for reporting a transaction the next business day that the TRACE system is open in certain circumstances. Specifically, in Rule 6230(a)(1), a member currently *may elect* to report a transaction the next business day that the TRACE system is open at any time within 75 minutes after the TRACE system opens, if the member executed the trade the prior business day less than 75 minutes before the TRACE system closed. (Currently, on a business day, the TRACE system is open from 8:00 a.m. Eastern Time to 6:30 p.m. Eastern Time to receive reports.) In Rule 6230(a)(2) through (4), members are directed how to report trades that occur (1) after TRACE system hours, (2) before TRACE system hours, or (3) on a weekend or a holiday. In each case, the member must report the transaction the next business day that the TRACE system is open within 75 minutes of the opening.

in Rule 6230(a)(1), a member *could elect* to report the next business day if a transaction occurs within 45 minutes before the TRACE system closing. If the member elects to report the following business day that the TRACE system is open, the member *must report* the transaction within 45 minutes after the TRACE system opens. In addition, in Rule 6230(a)(2) through (4), a member would be required to report transaction information for specified transactions the next business day that the TRACE system is open and would be required to do so within 45 minutes after the system's opening.

The proposed rule change, if approved, would result in important trade information reaching the market in a timelier manner, furthering NASD's goals with respect to improving transparency under TRACE, and enhancing specific TRACE reporting provisions. The goal to reduce the reporting period in TRACE has been understood by the industry for several years and has been noted as a goal in rule filings with the SEC since 1999, as well as in the SEC's first order approving the full set of the TRACE Rules.⁴

The SEC approved the current 75-minute period after several phases of discussion about the appropriate reporting period.⁵ In early TRACE discussions occurring in 1998 and 1999, NASD staff recommended that the industry prepare for a 15-minute reporting period. In response to industry feedback, NASD revised its proposal to include a 60-minute period, with the caveat

⁴ Securities Exchange Act Release No. 43873 (January 23, 2001); 66 Fed. Reg. 8131, 8135 (January 29, 2001) (order approving SR-NASD-99-65).

⁵ Securities Exchange Act Release No. 46144 (June 28, 2002); 67 Fed. Reg. 44907 (July 5, 2002) (order approving SR-NASD-2002-46).

that NASD intended to reduce the reporting period to 15-minutes after TRACE became operational and members had acquired experience with reporting.⁶

Prior to the July 1, 2002 TRACE effective date, the SEC staff requested NASD to coordinate with the National Securities Clearing Corporation (“NSCC”) regarding the TRACE reporting initiative. Certain member firms utilizing NSCC for reporting municipal bond transactions to the Municipal Securities Rule Making Board (“MSRB”) requested that NASD and NSCC develop a TRACE reporting option so that members could utilize the same NSCC functionality for reporting transactions in TRACE-eligible securities. Because of NSCC operational issues, it became clear that firms would be precluded from reporting through NSCC unless NSCC improved its “batch processing” to allow for more submissions per day, and NASD adopted a slightly longer reporting period. As a result the SEC approved the NASD’s proposal to extend the reporting period to 75 minutes for the initial period of reporting under TRACE. The basis for extending the period to 75 minutes was that NASD planned to reduce the reporting period substantially after TRACE became operational. Consistent with the NASD's goal of a reduced reporting period, National Securities Clearing Corporation (“NSCC”) has publicly committed to support the proposed 45-minute reporting requirement.

The NASD proposal to reduce the reporting period at this time to 45 minutes is supported by statistical evidence from TRACE data. The data indicates that the industry generally has achieved technological readiness to implement the proposed rule change. For example, in the

⁶ Currently, NASD staff intends to recommend a further reduction in the TRACE reporting period to 15 minutes that would be effective mid-year 2004. The reduction in the TRACE reporting period would be consistent with the Municipal Securities Rulemaking Board's published plan to implement a 15-minute transaction reporting requirement for municipal securities that would take effect on July 1, 2004.

fourth quarter of 2002, eighty-three percent (83%) of all trades reported to TRACE were reported within 45 minutes of execution. NASD will work with firms that are currently not able to report trades within 45 minutes generally between the date of the SEC's approval of the proposed rule change, if so approved, and October 1, 2003, the planned date of implementation, to assist such firms to be ready and able to comply with a 45-minute reporting period on October 1, 2003.

(b) Statutory Basis

NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act, which requires, among other things, that NASD's rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. NASD believes that the proposed rule change, if approved, will provide NASD, as the self-regulatory organization designated to regulate the over-the-counter markets, with heightened capabilities to regulate and provide surveillance of the debt securities markets to prevent fraudulent and manipulative acts and practices, and will improve transparency by reducing the period between the time of execution of a transaction and the dissemination of the transaction information, for securities subject to dissemination, for the protection of customers and the public interest.

(B) Self-Regulatory Organization's Statement on Burden on Competition

NASD does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. DATE OF EFFECTIVENESS OF THE PROPOSED RULE CHANGE AND TIMING FOR COMMISSION ACTION

NASD has requested that the Commission find good cause pursuant to Section 19(b)(2) for approving the proposed rule change prior to the 30th day after publication in the Federal Register. The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to NASD and, in particular, the requirements of Section 15A and the rules and regulations thereunder. The Commission finds good cause for approving the proposed rule change prior to the 30th day after the date of publication of notice of filing thereof in that accelerated approval will benefit investors and member firms as follows. Member firms will receive prior notification, by several months, of a clear, fixed, certain deadline to implement a modest reduction in the reporting period. Firms will have sufficient notice to enable firms' operational staffs to make any necessary systems changes or enhancements to comply with the reduced reporting period on October 1, 2003. As noted above, NASD is aware that some firms may have greater operational and technical difficulties in making the operational enhancements to support a 45-minute reporting period. NASD is interested in working with these firms, and believes that an accelerated approval and a fixed implementation date would encourage such firms to begin addressing 45-minute reporting concerns earlier in 2002.

In addition, approval of this provision on an accelerated basis to create a date certain for implementation is likely to improve price transparency for the benefit of investors by effectively

reducing the reporting period prior to the time this rule change would take effect on October 1, 2003. Specifically, members have indicated that they will begin to modify operations and systems, as necessary, as soon as the membership is certain that the reporting period will be reduced, and to what extent, and is able to ascertain the effective date of the new reporting requirement. As firms reduce their reporting windows, reported prices will begin to be disseminated more quickly.

Moreover, NASD believes that members have been aware that the NASD would reduce the TRACE reporting period because NASD, the SEC, and the industry have publicly discussed reduction of the reporting period for several years. TRACE has now been operational for almost nine months, and NASD's proposal to reduce the reporting period would not take effect until October 1, 2003, which is 15 months from the date of implementation of TRACE.

NASD intends to respond to comments filed with the SEC regarding the proposed reduction.

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- A. by order approve such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be disapproved.

IV. SOLICITATION OF COMMENTS

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons

making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of NASD. All submissions should refer to the file number in the caption above and should be submitted by [insert date 21 days from the date of publication.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority, 17 CFR 200.30-3(a)(12).

Margaret H. McFarland
Deputy Secretary