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September 21, 2001

Nancy Sanow, Esq.
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Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-1001

Re: File No. SR-NASD-00-42, Amendment No. 2 -- Recording and Reporting Requirements for Certain Quotation Data

Dear Ms. Sanow:

NASD Regulation, Inc. ("NASD Regulation") hereby submits Amendment No. 2 to the above-referenced rule filing. The attached proposed rule language replaces the proposed rule language filed with the Commission on January 4, 2001 and incorporates the amendment described herein.

NASD Regulation is clarifying that the exclusion to the proposed rule change, which provides that the proposed recording and reporting requirements do not apply to quotations provided on an inter-dealer quotation system that is qualified pursuant to Section 17B of the Exchange Act, was intended to cover all systems operated by a national securities association or a national securities exchange, not solely those qualified pursuant to Section 17B. NASD Regulation does not require this quotation data be provided to it because such a system already would be regulated by a registered securities association or a national securities exchange, and thus, the association or exchange would have access to this information. This includes, for example, the OTC Bulletin Board, which currently is operated and regulated by the NASD.

Accordingly, NASD Regulation is amending proposed Rule 6630(c), as set forth in Amendment No. 1, as follows (additions are underlined; deletions are bracketed):

(c) Quotations Not Required To Be Recorded

The recording requirements contained in paragraphs (a) and (b) of this Rule shall not apply to quotations of OTC Equity Securities that are displayed on an inter-dealer quotation system that is:

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- (1) operated by a registered securities association or a national securities exchange
[qualified pursuant to Section 17B of the Act]; or
- (2) operated by a member of the Association.

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If you have any questions, please feel free to contact Stephanie Dumont, Office of General Counsel, NASD Regulation, at (202) 728-8176.

Very truly yours,

Jeffrey S. Holik

Attachment

Attachment A
Proposed Rule Language, as amended by
Amendment No. 2 to SR-NASD-00-42

Proposed new language is underlined; proposed deletions are in brackets.

6600. [REPORTING TRANSACTIONS IN] OVER-THE-COUNTER EQUITY SECURITIES

This Rule 6600 Series sets forth recording and reporting requirements for certain quotations and unpriced indications of interest displayed on inter-dealer quotation systems and the trade reporting requirements applicable to members' transactions in equity securities for which real-time trade reporting is not otherwise required (hereinafter referred to as "OTC Equity Securities"). Members shall utilize the Automated Confirmation Transaction Service (ACT) for trade reporting in OTC Equity Securities.

Rules 6610 and 6620 No Change.

Rule 6630. Recording of Quotation Information

(a) Quotation Recording Requirements

(1) Subject to the terms and conditions contained herein, each OTC Market Maker that displays priced quotations (bid and/or offer) or unpriced indications of interest in OTC Equity Securities in an inter-dealer quotation system that permits quotation updates on a real-time basis shall record each item of information described in paragraph (b) of this Rule. This quote activity record must reflect all changes in an OTC Market Maker's priced quotation or quotation size displayed or unpriced indication of interest, and the time any such change was effected.

(2) Members shall record each item of information required to be recorded under this Rule in such form as is prescribed by the Association from time to time.

(3) Maintaining and Preserving Records

(A) Each member shall maintain and preserve records of the information required to be recorded under this Rule for the period of time and accessibility specified in SEC Rule 17a-4(a).

(B) The records required to be maintained and preserved under this Rule may be immediately produced or reproduced on "micrographic media" as defined in SEC Rule 17a-4(f)(1)(i) or by means of "electronic storage media" as defined in SEC Rule 17a-4(f)(1)(ii) that meet the conditions set forth in SEC Rule 17a-4(f) and may be maintained and preserved for the required time in that form.

(b) Information to be Recorded

The quotation activity record required pursuant to paragraph (a) of this Rule shall contain, at a minimum, the following information for every priced quotation (bid and/or offer) or unpriced indication of interest displayed by the member during the trading day:

(1) Submitting firm;

- (2) Inter-dealer quotation system or medium;
- (3) Trade date;
- (4) Time quotation displayed (expressed in hours, minutes and seconds);
- (5) Security name and symbol;
- (6) Bid and bid quotation size (if applicable);
- (7) Offer and offer quotation size (if applicable);
- (8) Prevailing Inside Bid; and
- (9) Prevailing Inside Offer

If no updates were entered to an OTC Market Maker's quotation or quotation size for any given trading day, the member must record the information in subparagraphs (b)(1) through (7).

(c) Quotations Not Required To Be Recorded

The recording requirements contained in paragraphs (a) and (b) of this Rule shall not apply to quotations of OTC Equity Securities that are displayed on an inter-dealer quotation system that is:

- (1) operated by a registered securities association or a national securities exchange; or
- (2) operated by a member of the Association.

(d) Reporting Requirements

(1) General Requirement

Members shall report information required to be recorded under this Rule to the Association upon its request.

(2) Method of Transmitting Data

Members shall transmit this information in such form prescribed by the Association.

(e) Reporting Agent Agreements

(1) "Reporting Agent" shall mean a third party that enters into any agreement with a member pursuant to which such third party agrees to fulfill such member's obligations under this Rule.

(2) Any member may enter into an agreement with a Reporting Agent pursuant to which the Reporting Agent agrees to fulfill the obligations of such member under this Rule. Any such agreement shall be evidenced in writing, which shall specify the respective functions and responsibilities of each party to the agreement that are required to effect full compliance with the requirements of this Rule.

(3) All written documents evidencing an agreement described in paragraph (e)(2) shall be maintained by each party to the agreement.

(4) Each member remains responsible for compliance with the requirements of this Rule, notwithstanding the existence of an agreement described in this paragraph.

(f) Withdrawal of Quotations or Unpriced Indications of Interest

If a member knows or has reason to believe that it or its Reporting Agent is not complying with the requirements of this Rule, the member must withdraw its quotations or unpriced indications of interest until such time that the member is satisfied that its quotation data is being properly recorded and reported.

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