

December 12, 2001

Ms. 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-2001-91 – To Establish Effective Date of Debt Securities
Reporting and Dissemination Rules (Rule 6200 Series)**

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, Assistant General Counsel, Office of General Counsel, NASD Regulation, Inc., 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,

Patrice M. Gliniecki
Vice President
and Deputy General Counsel

Enclosures

File No. SR-NASD-2001-91
Consists of 14 Pages

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 (“Exchange Act” or “Act”), the National Association of Securities Dealers, Inc. (“NASD” or “Association”), through its wholly owned subsidiary, NASD Regulation, Inc. (“NASD Regulation”), is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to establish July 1, 2002 as the effective date for the new Rule 6200 Series (“TRACE Rules”). The TRACE Rules, when effective, will require NASD members to report secondary market transactions in eligible debt securities to the NASD and will subject certain transaction information to dissemination. The NASD also is proposing to replace the term “Trade Reporting and Comparison Entry Service” with “Trade Reporting and Compliance Engine.” This change preserves the “TRACE” acronym by which the system is commonly known while more accurately describing the functions of the TRACE system.¹

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)[TRADE REPORTING AND COMPARISON ENTRY SERVICE (TRACE)]

6210. Definitions

The terms used in this Rule 6200 Series shall have the same meaning as those defined in the Association’s By-Laws and Rules unless otherwise specified.

¹ The SEC approved the Rule 6200 Series on January 23, 2001. See SR-NASD-99-65 and Amendments No. 1 through 4 thereto, approved in Securities Exchange Act Release No. 43873 (Jan. 23, 2001); 66 FR 8131 (Jan. 29, 2001) (“TRACE Approval Order”).

(a) No change.

(b) The term **“Trade Reporting and Compliance Engine”** [“Trade Reporting And Comparison Entry Service”] or “TRACE” shall mean the automated system owned and operated by the NASD that, among other things, accommodates reporting and dissemination of transaction reports where applicable in TRACE-eligible securities and which may submit "locked-in" trades to National Securities Clearing Corporation for clearance and settlement and provide participants with monitoring and risk management capabilities to facilitate a "locked-in" trading environment.

(c) through (i). No change.

* * * *

(b) The current Rule 6200 Series, Fixed Income Pricing System (“FIPS Rules”) will be directly affected by this rule change. The FIPS Rules will remain in effect until June 30, 2002, 12:00 p.m. (midnight), and will be repealed, without further action, at 12:01 a.m. on July 1, 2002, when the new Rule 6200 Series (TRACE Rules) take effect.

(c) The FIPS Rules will be repealed, without further action, as of the effective date of the TRACE Rules as provided in SR-NASD-99-65.²

2. Procedures of the Self-Regulatory Organization

(a) The proposed rule change was approved by the Board of Governors of the NASD at its meeting on July 29, 1999, which authorized the filing of the proposed rule change with the SEC. Counsel for The Nasdaq Stock Market and NASD Dispute Resolution have been provided an opportunity to consult with respect to the proposed rule change, pursuant to the Plan of Allocation and Delegation of Functions by the NASD to its Subsidiaries. No other action by the

² See TRACE Approval Order.

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.

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

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

(a) Purpose

The NASD is filing the proposed rule change to establish July 1, 2002 as the effective date of the TRACE Rules and to substitute the term, "Trade Reporting and Compliance Engine," within the rules for the term, "Trade Reporting and Comparison Entry Service," as discussed in greater detail below.

Effective Date. The NASD is filing the proposed rule change to establish July 1, 2002 as the effective date of the TRACE Rules. The TRACE Rules, when effective, will require NASD members to report secondary market transactions in eligible debt securities to the NASD and will subject certain transaction information to dissemination.

In the TRACE Approval Order, the Commission stated that the effective date of the TRACE Rules should be 180 days after the date that the NASD provided technical specifications concerning TRACE to members to allow members to make the system changes necessary to comply with TRACE.³ On June 1, 2001, the NASD published technical specifications.⁴ At that time, the NASD targeted the first day of reporting under the TRACE system as February 4, 2002,

³ See Amendment No. 4 to SR-NASD-99-65, dated January 5, 2001, p. 4.

⁴ See NASD Regulation web site at <http://www.nasdr.com/trace.htm>.

which was the time the NASD estimated was needed to complete development of the system, provide members and vendors time to implement the specifications published on June 1, 2001, and avoid the implementation of an industry-wide regulatory program during a major holiday.

Since the September 11, 2001 terrorist attacks, the NASD has worked with its members to help the securities industry recover from the attacks. As part of this process, the NASD is delaying the TRACE implementation date to allow its members the time they need to re-establish, to the extent possible, normal business operations. The NASD determined that the original February 2002 implementation date would have been a hardship on the industry in its efforts to recover from September 11. Accordingly, the NASD is proposing to implement the TRACE system, including the TRACE Rules, on July 1, 2002.

Renaming The Initiative. At the same time, the NASD proposes to substitute a new term, “Trade Reporting and Compliance Engine” for the term used for the TRACE system and related rules approved by the SEC on January 23, 2001. The current term, “Trade Reporting and Comparison Entry Service,” was developed when the NASD proposed to provide comparison services as part of the TRACE initiative. In the TRACE Approval Order, the Commission noted that the NASD intended to rename the system and the related rules.⁵ By substituting the new term, “Trade Reporting and Compliance Engine,” the NASD is able to eliminate the reference to the comparison function, which will no longer be part of TRACE, while preserving the acronym, “TRACE,” which is currently in widespread use.

⁵ TRACE Approval Order, 66 FR 8131, 8132, n. 11.

(b) Statutory Basis

NASD Regulation 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 the Association'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. The NASD's proposed rule change, if approved, will implement existing rules for the reporting and dissemination of information on eligible debt securities transactions. NASD believes that the proposed rule change will provide the NASD, as the self-regulatory organization designated to regulate the over-the-counter markets, with heightened capabilities to regulate the debt securities markets to prevent fraudulent and manipulative acts and practices; and that the proposed rule change, by requiring reporting and dissemination of such transaction information, will protect investors and the public interest by, among other things, increasing transparency in the debt securities markets.

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

NASD Regulation 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 Regulation 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)

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A) of the Act and paragraph (f)(1) of Rule 19b-4 thereunder, in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule series, the Rule 6200 Series previously approved by the SEC. The sole purpose of the rule change is to establish an effective date of July 1, 2002 for rules previously approved and to re-define the "TRACE" acronym as used in the existing Rule 6200 Series.

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 Regulation has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

NASD REGULATION, INC.

BY: _____
Patrice M. Gliniecki, Vice President and
Deputy General Counsel

Date: December 12, 2001

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASD-2001-91)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Establishing Effective Date of Rules Requiring Debt Securities Reporting and Dissemination (TRACE Rules)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act” or “Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on , the National Association of Securities Dealers, Inc. (“NASD” or “Association”), through its wholly owned subsidiary, NASD Regulation, Inc. (“NASD Regulation”), 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 Regulation. NASD Regulation has designated the proposed rule change as constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule series under paragraph (f)(1) of Rule 19b-4 under the Act,³ which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR § 240.19b-4(f)(1).

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

NASD Regulation is filing a proposed rule change to establish July 1, 2002 as the effective date for the new Rule 6200 Series ("TRACE Rules"). The TRACE Rules, when effective, will require NASD members to report secondary market transactions in eligible debt securities to the NASD and will subject certain transaction information to dissemination. The NASD also is proposing to replace the term, "Trade Reporting and Comparison Entry Service" with "Trade Reporting and Compliance Engine." This change preserves the "TRACE" acronym, by which the system is commonly known while more accurately describing the functions of the TRACE system.⁴

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

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⁴ The SEC approved the Rule 6200 Series on January 23, 2001. See SR-NASD-99-65 and Amendments No. 1 through 4 thereto, approved in Securities Exchange Act Release No. 43873 (Jan. 23, 2001); 66 FR 8131 (Jan. 29, 2001) ("TRACE Approval Order").

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(c) through (i). 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 Regulation 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 Regulation 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

The NASD is filing the proposed rule change to establish July 1, 2002 as the effective date of the TRACE Rules and to substitute the term, “Trade Reporting and Compliance Engine,” within the rules for the term, “Trade Reporting and Comparison Entry Service,” as discussed in greater detail below.

Effective Date. The NASD is filing the proposed rule change to establish July 1, 2002 as the effective date of the TRACE Rules. The TRACE Rules, when effective, will require NASD members to report secondary market transactions in eligible debt securities to the NASD and will subject certain transaction information to dissemination.

In the TRACE Approval Order, the Commission stated that the effective date of the TRACE Rules should be 180 days after the date that the NASD provided technical specifications concerning TRACE to members to allow members to make the system changes necessary to comply with TRACE.⁵ On June 1, 2001, the NASD published technical specifications.⁶ At that time, the NASD targeted the first day of reporting under the TRACE system as February 4, 2002, which was the time the NASD estimated was needed to complete development of the system, provide members and vendors time to implement the specifications published on June 1, 2001, and avoid the implementation of an industry-wide regulatory program during a major holiday.

Since the September 11, 2001 terrorist attacks, the NASD has worked with its members to help the securities industry recover from the attacks. As part of this process, the NASD is delaying the TRACE implementation date to allow its members the time they need to re-establish, to the extent possible, normal business operations. The NASD determined that the original February 2002 implementation date would have been a hardship on the industry in its efforts to recover from September 11. Accordingly, the NASD is proposing to implement the TRACE system, including the TRACE Rules, on July 1, 2002.

⁵ See Amendment No. 4 to SR-NASD-99-65, dated January 5, 2001, p. 4.

⁶ See NASD Regulation web site at <http://www.nasdr.com/trace.htm>.

Renaming The Initiative. At the same time, the NASD proposes to substitute a new term, “Trade Reporting and Compliance Engine,” for the term used for the TRACE system and related rules approved by the SEC on January 23, 2001. The current term, “Trade Reporting and Comparison Entry Service,” was developed when the NASD proposed to provide comparison services as part of the TRACE initiative. In the TRACE Approval Order, the Commission noted that the NASD intended to rename the system and the related rules.⁷ By substituting the new term, “Trade Reporting and Compliance Engine,” the NASD is able to eliminate the reference to the comparison function, which will no longer be part of TRACE, while preserving the acronym, “TRACE,” which is currently in widespread use.

(b) Statutory Basis

NASD Regulation 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 the Association’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. The NASD’s proposed rule change, if approved, will implement existing rules for the reporting and dissemination of information on eligible debt securities transactions. NASD believes that the proposed rule change will provide the NASD, as the self-regulatory organization designated to regulate the over-the-counter markets, with heightened capabilities to regulate the debt securities markets to prevent fraudulent and manipulative acts and practices; and that the proposed rule change, by requiring reporting and dissemination of such transaction information, will protect

⁷ TRACE Approval Order, 66 FR 8131, 8132, n. 11.

investors and the public interest by, among other things, increasing transparency in the debt securities markets.

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

NASD Regulation 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

Written comments were neither solicited nor received.

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

The proposed rule change has been filed by the Association as a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule series under Rule 19b-4(f)(1) under the Act.⁸ Consequently, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder.

At any time within 60 days of this filing, the Commission may summarily abrogate this proposal if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. SOLICITATION OF COMMENTS

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. 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

⁸ 17 CFR § 240.19b-4(f)(1).

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 the 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].

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

Jonathan G. Katz
Secretary