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BY HAND

February 10, 2000

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

Re: SR-NASD-99-65 - Amendment #1

Dear Ms. England:

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

If you have any questions, please contact Thomas P. Moran, Office of General Counsel, The Nasdaq Stock Market, Inc., at (202) 728-8401. The fax number of the Office of General Counsel is (202) 728-8321.

Very truly yours,

Robert E. Aber
Senior Vice President and General Counsel

Attachment

File No. SR-NASD-99-65
Amendment #1
Consists of 13 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

Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 (“Act”), The National Association of Securities Dealers, Inc. (“NASD” or “Association”), through its wholly-owned subsidiary The Nasdaq Stock Market, Inc. (“Nasdaq”), is herewith filing a proposed amendment to SR-NASD-99-65 which was filed on October 28, 1999, by the NASD.¹ Below is the text of the proposed amendment. Other than the title of the rule filing section, proposed new language is underlined; proposed deletions are in brackets.

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

[No further written comments were solicited or received.]

The NASD received one comment letter on its proposal from the Regional Municipal Operations Association ("RMOA"). A copy of this letter is attached as Exhibit 2 to this filing. In their comment letter, the RMOA raised several issues concerning NASD's proposal to establish a mandatory trade reporting and comparison system for corporate bonds. The RMOA's concerns and a brief NASD response are provided below:

First, RMOA asserts that any changes in the trade reporting regime should be considered with the eventuality of trade date plus one (T+1) settlement in mind. NASD concurs. Indeed, many of the comparison capabilities of the TRACE service are readily adaptable to a T+1 settlement cycle. Moreover, TRACE leverages the pre-existing infrastructure and architecture of the NASD's Automated Confirmation Transaction Service ("ACT") to provide a cost-effective and timely solution to the problem of providing increased transparency to the corporate bond market.

Next, the RMOA raises concerns about the timetable for TRACE implementation given industry data processing limitations. The NASD is well aware of the technological challenges that TRACE presents to some corporate bond market participants. In response, the NASD has proposed an extended phase-in of the TRACE service and is working diligently to develop multiple methods for TRACE users to interact with the service and meet their trade reporting obligations in a manner that is the most appropriate for their business activity and technology resources. In addition, the TRACE phase-in plan specifically includes NASD-sponsored technology reviews designed to accurately gauge industry readiness. NASD believes that this combination will ensure that TRACE implementation is carried out in the most reasonable and efficient manner possible.

Third, the RMOA questions the wisdom of shifting corporate bond trade comparison to the NASD and away from the National Securities Clearing Corp (“NSCC”). NASD is seeking to provide an on-line comparison service that it expects will decrease the number of un-compared corporate bond trades, and assist the industry in more quickly identifying such trades, in a new T+1 trading environment. The NASD has extensive experience in the field of trade comparison and is confident that it can provide a valuable service to its members in this area. Moreover, trade comparison within the NASD provides an important data integrity review function as it relates to the consolidation and public dissemination of trade report information. Whatever the extent of trade comparison within TRACE, the NASD believes that NSCC will continue to play a vital role in the clearance and settlement process.

The NASD is also cognizant that its proposed comparison process will need to allow users to correct or otherwise alter their trade report inputs. The NASD is well-versed in

¹ See SEC Release No. 34-42201(December 3, 1999); 64 FR 237 (December 10, 1999).

providing such tools and procedures and is confident that it can provide a flexible, cost-effective, real-time trade comparison system for corporate fixed-income instruments that will allow users to better manage their trading risk.

Fourth, the RMOA contends that both reporting an “all-in” price, including any commission charged, will result in investor confusion. Instead, RMOA urges the adoption of more traditional yield-based methods as the standard for TRACE reporting. RMOA also suggests separating customer and dealer transaction price reporting to avoid confusing investors. NASD determined to propose “all-in” price reporting and dissemination based on its belief that such pricing provides a more accurate method for investors to determine the ultimate cost and yield of their transactions. The NASD will continue to review industry comments concerning this aspect of its proposal and consider modifications if appropriate. With regard to the RMOA's second suggestion , the Association is concerned that segregation of trade reports based on the status of the trading parties may decrease transparency for all market participants and thus be antithetical to the concept of an open and complete public market. In the NASD's view, issues surrounding differences between dealer and customer transactions are more appropriately dealt with through open and frank communication between a firm and its various customers.

Fifth, RMOA counsels that a ‘big bang’ approach for incorporating securities into TRACE is preferable to a gradual phase-in by security-type. If a gradual phase-in methodology is retained, RMOA urges NASD to consider a numerical phase-in by CUSIP number which they believe is preferable to a security-type by security-type approach. As outlined in the filing, the NASD remains flexible with regards to the method of phasing-in TRACE-eligible bonds. NASD will continue to consult with bond market participants on this issue as it refines the TRACE phase-in plan.

Finally, the RMOA states its view that the NASD has inappropriately placed a higher priority on the gathering of trade data for price transparency purposes than on the need for efficient trade clearance. The NASD, however, does not believe that the two are mutually exclusive, and that the immediacy of transaction price reporting and dissemination militates in favor of submission of trade reports first to the NASD and then to clearing entities.

2. Procedures of the Self-Regulatory Organization

(a) NASD's original rule filing was approved by the Board of Directors of Nasdaq at its meeting on July 28, 1999, and was approved by the Board of Governors of the NASD at its meeting on July 29, 1999, which authorized the filing of the rule change with the SEC. The staff of Nasdaq provided an opportunity for the staff of NASD Regulation, Inc. to consult with respect to the original proposed rule change, pursuant to the Plan of Allocation and Delegation of Functions by NASD to Subsidiaries. No other action by the NASD is necessary for this amendment. Questions regarding this amendment may be directed to Robert E. Aber, Senior Vice President and General Counsel, at (202) 728-8290, Thomas P. Moran, Assistant General Counsel, at (202) 728-8401.

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

As outlined above, the NASD is filing this amendment to reflect the receipt of a comment letter from the Regional Municipal Operations Association ("RMOA"). A copy of this letter is attached as Exhibit 2 to this filing.

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

Nasdaq does not believe that either the original proposed rule change or this amendment

will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

No further written comments were solicited or received.

6. Extension of Time Period for Commission Action

Nasdaq 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)

Not applicable.

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

9. Exhibits

1. Completed notice of proposed amendment for publication in the Federal Register.
2. Copy of Comment Letter from the Regional Municipal Operations Association dated August 27, 1999.

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

THE NASDAQ STOCK MARKET, INC..

BY: _____
Joan C. Conley
Corporate Secretary

Date: February 10, 2000

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-99-65)

Self-Regulatory Organizations; Notice of Filing of Amendment #1 to Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to the Creation of a Corporate Bond Trade Reporting and Transaction Dissemination Facility and the Elimination of Nasdaq's Fixed Income Pricing System ("FIPS")

[leave space for date]

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on **[leave space]**, the National Association of Securities Dealers, Inc. ("NASD" or "Association"), through its wholly-owned subsidiary The Nasdaq Stock Market, Inc. ("Nasdaq"), filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed amendment as described in Items I, II, and III below, which Items have been prepared by Nasdaq. The Commission is publishing this notice to solicit comments on the proposed amendment from interested persons.

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

Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 ("Act"), The National Association of Securities Dealers, Inc. ("NASD" or "Association"), through its wholly-owned subsidiary The Nasdaq Stock Market, Inc. ("Nasdaq"), is herewith filing a proposed amendment to SR-NASD-99-65 which was filed on October 28, 1999, by the NASD.¹ Below is the text of the proposed amendment. Other than the title of the rule filing section, proposed new language is underlined; proposed deletions are in brackets.

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

[No further written comments were solicited or received.]

The NASD received one comment letter on its proposal from the Regional Municipal Operations Association ("RMOA"). A copy of this letter is attached as Exhibit 2 to this filing. In their comment letter, the RMOA raised several issues concerning NASD's proposal to establish a mandatory trade reporting and comparison system for corporate bonds. The RMOA's concerns and a brief NASD response are provided below:

First, RMOA asserts that any changes in the trade reporting regime should be considered with the eventuality of trade date plus one (T+1) settlement in mind. NASD concurs. Indeed, many of the comparison capabilities of the TRACE service are readily adaptable to a T+1 settlement cycle. Moreover, TRACE leverages the pre-existing infrastructure and architecture of the NASD's Automated Confirmation Transaction Service ("ACT") to provide a cost-effective and timely solution to the problem of providing increased transparency to the corporate bond market.

Next, the RMOA raises concerns about the timetable for TRACE implementation given industry data processing limitations. The NASD is well aware of the technological challenges that TRACE presents to some corporate bond market participants. In response, the NASD has proposed an extended phase-in of the TRACE service and is working diligently to develop multiple methods for TRACE users to interact with the service and meet their trade reporting obligations in a manner that is the most appropriate for their business activity and technology resources. In addition, the TRACE phase-in plan specifically includes NASD-sponsored

¹ See SEC Release No. 34-42201(December 3, 1999); 64 FR 237 (December 10, 1999).

technology reviews designed to accurately gauge industry readiness. NASD believes that this combination will ensure that TRACE implementation is carried out in the most reasonable and efficient manner possible.

Third, the RMOA questions the wisdom of shifting corporate bond trade comparison to the NASD and away from the National Securities Clearing Corp (“NSCC”). NASD is seeking to provide an on-line comparison service that it expects will decrease the number of un-compared corporate bond trades, and assist the industry in more quickly identifying such trades, in a new T+1 trading environment. The NASD has extensive experience in the field of trade comparison and is confident that it can provide a valuable service to its members in this area. Moreover, trade comparison within the NASD provides an important data integrity review function as it relates to the consolidation and public dissemination of trade report information. Whatever the extent of trade comparison within TRACE, the NASD believes that NSCC will continue to play a vital role in the clearance and settlement process.

Fourth, the RMOA contends that both reporting an “all-in” price, including any commission charged, will result in investor confusion. Instead, RMOA urges the adoption of more traditional yield-based methods as the standard for TRACE reporting. RMOA also suggests separating customer and dealer transaction price reporting to avoid confusing investors. NASD determined to propose “all-in” price reporting and dissemination based on its belief that such pricing provides a more accurate method for investors to determine the ultimate cost and yield of their transactions. The NASD will continue to review industry comments concerning this aspect of its proposal and consider modifications if appropriate. With regard to the RMOA's second suggestion, the Association is concerned that segregation of trade reports based on the status of the trading parties may decrease transparency for all market participants and thus be antithetical

to the concept of an open and complete public market. In the NASD's view, issues surrounding differences between dealer and customer transactions are more appropriately dealt with through open and frank communication between a firm and its various customers.

Fifth, RMOA counsels that a 'big bang' approach for incorporating securities into TRACE is preferable to a gradual phase-in by security-type. If a gradual phase-in methodology is retained, RMOA urges NASD to consider a numerical phase-in by CUSIP number which they believe is preferable to a security-type by security-type approach. As outlined in the filing, the NASD remains flexible with regards to the method of phasing-in TRACE-eligible bonds. NASD will continue to consult with bond market participants on this issue as it refines the TRACE phase-in plan.

Finally, the RMOA states its view that the NASD has inappropriately placed a higher priority on the gathering of trade data for price transparency purposes than on the need for efficient trade clearance. The NASD, however, does not believe that the two are mutually exclusive, and that the immediacy of transaction price reporting and dissemination militates in favor of submission of trade reports first to the NASD and then to clearing entities.

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

In its filing with the Commission, Nasdaq 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. Nasdaq 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

As outlined above, the NASD is filing this amendment to reflect the receipt of a comment letter from the Regional Municipal Operations Association ("RMOA"). A copy of this letter is attached as Exhibit 2 to this filing.

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

Nasdaq 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.

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

Further written comments were neither solicited nor received.

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

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. 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 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