

OMB APPROVAL

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Page 1 of 14

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No. SR - 2007 - 017

Amendment No.

Proposed Rule Change by National Association of Securities Dealers

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

Initial ☒	Amendment ☐	Withdrawal ☐	Section 19(b)(2) ☐	Section 19(b)(3)(A) ☒	Section 19(b)(3)(B) ☐
Pilot ☐			Rule		
Extension of Time Period for Commission Action ☐			☐ 19b-4(f)(1) ☐ 19b-4(f)(4) ☐ 19b-4(f)(2) ☐ 19b-4(f)(5) ☐ 19b-4(f)(3) ☒ 19b-4(f)(6)		
Date Expires 					

Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document

**Description**

Provide a brief description of the proposed rule change (limit 250 characters).

Proposed rule change to amend NASD Rule 7010A to adjust the fee structure for the Alternative Display Facility ("ADF") in light of the current participant quoting and trading activity.

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name Last Name
Title
E-mail
Telephone Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

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

Date By
(Name)

(Title)

NOTE: Clicking the button at right will digitally sign and lock
this form. A digital signature is as legally binding as a physical
signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EDFS website.

Form 19b-4 Information

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit Sent As Paper Document

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Exhibit 3 - Form, Report, or Questionnaire

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit Sent As Paper Document

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Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ 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 7010A to adjust the fee structure for the Alternative Display Facility (“ADF”) in light of the current participant quoting and trading activity. Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

7010A. System Services

(a) No Change.

(b) Quotation Updates

The following quotation update charges will apply based on the average daily number of publicly disseminated trades reported to the media through the ADF during the billing period. A "quotation update" includes any change to the price or size of a displayed quotation.

Average Trades Reported Through the ADF Per Day	Quotation Update Charge	Quotes Updates Provided at No Charge
Less than 1	\$.02 per quotation update	None
Between 1 and 100,000	\$.01 per quotation update	5 quotation updates per trade
Between 100,001 and [150,000]	[\$.01] <u>\$.005</u> per quotation	[10] <u>20</u> quotation updates

¹ 15 U.S.C. 78s(b)(1).

<u>125,000</u>	update	per trade
<u>Between 125,001 and 150,000</u>	<u>\$.005 per quotation update</u>	<u>25 quotation updates per trade</u>
Greater than 150,000	No Charge	N/A

* * * * *

(b) Not applicable.

(c) Not applicable.

2. **Procedures of the Self-Regulatory Organization**

The proposed rule change was approved by the Board of Governors of NASD (“Board”) and authorized for filing with the SEC pursuant to a delegation of authority granted by the Board at its meeting on July 31, 2003, to the Chief Executive Officer of NASD (or her officer designee) (“Delegation of Authority”) to file, without further specific Board authorization, de minimis changes to all fees administered by NASD. The staff will advise the Board of any action taken pursuant to the Delegation of Authority. No other action by NASD is necessary for the filing of this 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 has filed the proposed rule change for immediate effectiveness. This proposed rule change will be operational as of February 1, 2007, and will therefore apply to February’s quotation and trading activity.

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

(a) Purpose

The current ADF pricing structure imposes a quote fee of \$.01 per quote for any ADF participant that has a daily average of 150,000 or less trade reports and no quote fee for daily average trade reports over that activity level. It also offers three tiers of free quotes. Specifically, participants that generate between one and 100,000 trade prints per day receive five free quotes per trade print, participants that generate between 100,001 and 150,000 trade prints per day receive ten free quotes per trade print, and those participants that generate over 150,000 trade prints are not charged for quotation updates. This pricing structure was designed in part to address the typical electronic communications network ("ECN") business model at the time, given that ECNs were the only ADF participants.

NASD has seen an increase in the quote to trade ratios experienced by certain ECNs and believes the impact of Regulation NMS could potentially increase them even further. Thus, NASD is amending the ADF quote update pricing structure to address these changes. Specifically, the new pricing structure would continue to require participants with high quote to trade ratios to pay for a portion of their quote activity, but at a reduced rate and with the benefit of additional free quote updates. The new pricing system introduces five pricing tiers. Participants that do not submit a single trade report to NASD are not entitled to receive any free quotes. Participants that generate between one and 100,000 trade prints per day receive five free quotes per trade print, participants

that generate between 100,001 and 125,000 trade prints per day receive twenty free quotes per trade print, participants that generate between 125,001 and 150,000 trade prints per day receive twenty-five free quotes per trade print, and those participants that generate over 150,000 trade prints are not charged for quotation updates.

As noted in Item 2 of this filing, NASD has filed the proposed rule change for immediate effectiveness. This proposed rule change will be operational as of February 1, 2007, and will therefore apply to February's quotation and trading activity.

(b) Statutory Basis

NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(5) of the Act,² which requires, among other things, that NASD rules provide for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system that NASD operates or controls. NASD believes that the proposed rule change will more equitably set the level of charges being imposed upon ADF participants in light of changing market practices.

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.

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**

Not applicable.

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

The proposed rule change is effective upon filing pursuant to Section 19(b)(3) of the Act and paragraph (f)(6) of Rule 19b-4 thereunder,³ in that the proposed rule change does not significantly affect the protection of investors or the public interest and does not impose any significant burden on competition. NASD requests that the Commission waive the five-day pre-filing notice requirement specified in Rule 19b-4(f)(6)(iii) under the Act.⁴ NASD requests that the Commission waive the requirement that the rule change, by its terms, not become operative for 30 days after the date of the filing as set forth in Rule 19b-4(f)(6)(iii),⁵ because NASD wants to provide the benefits of this new pricing structure as soon as possible to ADF trading centers. As noted above, the new fees will become operational on February 1, 2007 and will therefore apply to February's quotation and trading activity.

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

Not applicable.

9. Exhibits

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

² 15 U.S.C. 78o-3(b)(5).

³ 17 CFR 240.19b-4(f)(6).

⁴ 17 CFR 240.19b-4(f)(6)(iii).

⁵ 17 CFR 240.19b-4(f)(6)(iii).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-2007-017)

Self-Regulatory Organizations: National Association of Securities Dealers, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Amendments to the Alternative Display Facility Quotation Update Fee

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. NASD has designated the proposed rule change as constituting a "non-controversial" rule change under paragraph (f)(6) 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.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

NASD is proposing to amend Rule 7010A in light of the current participant quoting and trading activity on the Alternative Display Facility ("ADF"). 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.

³ 17 CFR 240.19b-4(f)(6).

* * * * *

7010A. System Services

(a) No Change.

(b) Quotation Updates

The following quotation update charges will apply based on the average daily number of publicly disseminated trades reported to the media through the ADF during the billing period. A "quotation update" includes any change to the price or size of a displayed quotation.

Average Trades Reported Through the ADF Per Day	Quotation Update Charge	Quotes Updates Provided at No Charge
Less than 1	\$.02 per quotation update	None
Between 1 and 100,000	\$.01 per quotation update	5 quotation updates per trade
Between 100,001 and [150,000] <u>125,000</u>	[\$.01]. <u>005</u> per quotation update	[10] <u>20</u> quotation updates per trade
<u>Between 125,001 and 150,000</u>	<u>\$.005 per quotation update</u>	<u>25 quotation updates per trade</u>
Greater than 150,000	No Charge	N/A

* * * * *

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

1. Purpose

The current ADF pricing structure imposes a quote fee of \$.01 per quote for any ADF participant that has a daily average of 150,000 or less trade reports and no quote fee for daily average trade reports over that activity level. It also offers three tiers of free quotes. Specifically, participants that generate between one and 100,000 trade prints per day receive five free quotes per trade print, participants that generate between 100,001 and 150,000 trade prints per day receive ten free quotes per trade print, and those participants that generate over 150,000 trade prints are not charged for quotation updates. This pricing structure was designed in part to address the typical electronic communications network ("ECN") business model at the time, given that ECNs were the only ADF participants.

NASD has seen an increase in the quote to trade ratios experienced by certain ECNs and believes the impact of Regulation NMS could potentially increase them even further. Thus, NASD is amending the ADF quote update pricing structure to address these changes. Specifically, the new pricing structure would continue to require participants with high quote to trade ratios to pay for a portion of their quote activity, but at a reduced rate and with the benefit of additional free quote updates. The new pricing system introduces five pricing tiers. Participants that do not submit a single trade report to NASD are not entitled to receive any free quotes. Participants that generate between

one and 100,000 trade prints per day receive five free quotes per trade print, participants that generate between 100,001 and 125,000 trade prints per day receive twenty free quotes per trade print, participants that generate between 125,001 and 150,000 trade prints per day receive twenty-five free quotes per trade print, and those participants that generate over 150,000 trade prints are not charged for quotation updates.

As noted in Item 2 of this filing, NASD has filed the proposed rule change for immediate effectiveness. This proposed rule change will be operational as of February 1, 2007, and will therefore apply to February's quotation and trading activity.

2. Statutory Basis

NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(5) of the Act,⁴ which requires, among other things, that NASD rules provide for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system that NASD operates or controls. NASD believes that the proposed rule change will more equitably set the level of charges being imposed upon ADF participants in light of changing market practices.

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.

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.

⁴ 15 U.S.C. 78o-3(b)(5).

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not:

- (i) significantly affect the protection of investors or the public interest;
- (ii) impose any significant burden on competition; and
- (iii) become operative for 30 days from the date on which it was filed, or such

shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.⁵

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change 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, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASD-2007-017 on the subject line.

Paper Comments:

⁵ 17 CFR 240.19b-4(f)(6).

- Send paper comments in triplicate to Nancy M. Morris, Secretary,
Securities and Exchange Commission, 100 F Street, NE, Washington, DC
20549-1090.

All submissions should refer to File Number SR-NASD-2007-017. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). 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 also will be available for inspection and copying at the principal office of NASD.

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NASD-2007-017 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Nancy M. Morris

Secretary

⁶ 17 CFR 200.30-3(a)(12).