Notice to Members

MARCH 2007

GUIDANCE

Trade Reporting and Compliance Engine (TRACE)

SEC Approves Amendments to TRACE Rules to Reflect the Availability of TRACE “Snapshot” Data for a Reduced Monthly Fee; Effective Date: May 1, 2007

Executive Summary

On March 6, 2007, the Securities and Exchange Commission approved an amendment to Rule 7030 relating to the availability of TRACE Snapshot data, which is real-time TRACE transaction data that is available once per day, for a reduced monthly fee. The rules, as amended, are set forth in Attachment A.

The amendments become effective May 1, 2007.

Questions/Further Information

Questions concerning this Notice should be directed to Ola Persson, Director, TRACE Data, Transparency Services, at (212) 858-4796; Elliot Levine, Chief Counsel, Transparency Services, Markets, Services and Information, at (202) 728-8405; and James L. Eastman, Assistant General Counsel, Office of General Counsel, at (202) 728-6961.

Background and Discussion

On March 6, 2007, the SEC approved amendments to Rule 7030 (until recently Rule 7010(k)), which sets forth certain fees related to NASD’s Trade Reporting and Compliance Engine (TRACE). Specifically, the rule changes lower the fee related to the receipt of real-time TRACE transaction data by persons opting to receive the data once a day (Snapshot TRACE data), which will be limited to one TRACE price per security per day rather than made available on a continuous basis. A person choosing to receive Snapshot TRACE data (a Snapshot TRACE data subscriber) will pay $250 per month for the receipt of Snapshot TRACE data rather than paying $1,500 per month to receive TRACE data continuously throughout the day.
A Snapshot TRACE data subscriber will be able to choose the specific time of day it will receive Snapshot TRACE data each day; however, it is expected that certain market participants will choose to receive Snapshot TRACE data at or shortly after 4:00 p.m. each day and use it to value certain positions held in their investment portfolios. The reduced fee for Snapshot TRACE data is intended to be better aligned with the more tailored information requirements of a subset of market participants that today are foregoing TRACE data at the higher costs per month for continuous TRACE data. For example, to date, no institutional buy-side participants have subscribed for the receipt of TRACE data continuously throughout the day for portfolio valuation purposes. As is the case today with the distribution of TRACE desktop data, NASD will work with third-party re-transmission vendors to distribute Snapshot TRACE data to market participants.

Frequently asked questions regarding the new Snapshot TRACE data program are available on NASD’s Web site at www.nasd.com/trace.

Endnote

1 See Securities Exchange Act Release No. 55409 (March 6, 2007), 72 FR 11416 (March 13, 2007) (SR-NASD-2007-004). Amendment No. 1 to SR-NASD-2007-004 was filed on March 2, 2007, to reflect renumbering of the Rule 7000 Series, which became immediately effective on March 1, 2007. See SR-NASD-2007-018 (available at www.nasd.com/RulesRegulation/RuleFilings/2007RuleFilings/NASD_018722. Attachment A to this Notice reflects changes made to the text of the Rule 7000 Series by SR-NASD-2007-004 and is marked to show changes against the newly renumbered rules of the Rule 7000 Series. For example, former Rule 7010(k) has been renumbered as Rule 7030 and the changes initially made to the text of Rule 7010(k) have been reflected in the newly renumbered Rule 7030.
ATTACHMENT A

New language is underlined; deletions are in brackets

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7010. OTC Reporting Facility  No change.

7020. OTC Bulletin Board Service  No change.

7030. Trade Reporting and Compliance Engine (TRACE)

The following charges shall be paid by participants for the use of the Trade Reporting and Compliance Engine (“TRACE”):

<table>
<thead>
<tr>
<th>System Fees</th>
<th>Transaction Reporting Fees</th>
<th>Market Data Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level I Trade Report Only Web Browser Access - $20/month per user ID</td>
<td>Trades up to and including $200,000 par value - $0.475/trade; Trades between $201,000 and $999,999 par value - $0.002375 times the number of bonds traded/trade; Trades of $1,000,000 par value or more - $2.375/trade</td>
<td>BTDS Professional Real-Time Data Display - $60/month per terminal, or a flat fee of $7,500/month entitling Professionals to make unlimited internal use of Real-Time TRACE transaction data on any number of interrogation or display devices</td>
</tr>
<tr>
<td>Level II Full Service Web Browser Access - $80/month per user ID, except that the charge for the first such user ID shall be $50/month</td>
<td>Cancel/Correct - $1.50/trade</td>
<td>Vendor Real-Time Data Feed - $1,500/month for receipt of continuous Real-Time TRACE transaction data except for qualifying Tax-Exempt Organizations, or $250/month for daily receipt of Snapshot Real-Time TRACE transaction data</td>
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<tr>
<td>CTCI/Third Party - $25/month/ per firm</td>
<td>&quot;As of&quot; Trade Late - $3/trade</td>
<td>Vendor Real-Time Data Feed - $400/month for Real-Time TRACE transaction data for qualifying Tax-Exempt Organizations</td>
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<td></td>
<td></td>
<td>BTDS TRACE Non-Professional Real-Time Data Display - No charge</td>
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</table>
(c) Market Data Fees

Professionals and Non-Professionals may subscribe to receive Real-Time TRACE transaction data disseminated by NASD in one or more of the following ways for the charges specified, as applicable. Members, vendors and other redistributors shall be required to execute appropriate agreements with NASD.

(1) Professional Fees

Professionals may subscribe for the following:

(A) Bond Trade Dissemination Service (“BTDS”) Professional Real-Time Data Display Fee of $60 per month, per terminal charge for each interrogation or display device receiving Real-Time TRACE transaction data, or a flat fee of $7,500 per month entitling Professionals to make unlimited internal use of Real-Time TRACE transaction data on any number of interrogation or display devices.

(B) Vendor Real-Time Data Feed Fee of $1,500 per month for receipt of continuous Real-Time TRACE transaction data for any person or organization (other than a Tax-Exempt Organization) that receives a Real-Time TRACE transaction data feed, or $250 per month for daily receipt of Snapshot Real-Time TRACE transaction data which shall consist of one TRACE price per security per day. These fees entitles use in one or more of the following ways: internal operational and processing systems, internal monitoring and surveillance systems, internal price validation, internal portfolio valuation services, internal analytical programs leading to purchase/sale or other trading decisions, and other related activities, and the repackaging of market data for delivery and dissemination outside the organization, such as indices or other derivative products. (These fees do not include per terminal charges for each interrogation or display device receiving Real-Time TRACE transaction data.)

(C)-(D) No change.

(2) through (4) No change.