

CTCI fee	\$575.00/month
[Nasdaq]	\$300/month (full
WebLink ACT.	functionality) or
	\$150/month (up to
	an average of
	twenty trans-
	actions per day
	each month)**
Trade reporting	\$0.029/side (applica-
	ble only to report-
	able transaction
	not subject to
	trade comparison
	through ACT)***
Risk Management	\$0.035/side and
Charges.	\$17.25/month per
	correspondent firm
	(maximum
	\$10,000/month per
	correspondent
	firm)
Corrective Trans-	\$0.25/Cancel, Error,
action Charge.	Inhibit, Kill, or
	'No' portion of No/
	Was transaction,
	paid by reporting
	side;
	\$0.25/Break, Decline
	transaction, paid
	by each party
ACT Workstation	\$525/logon/
	month****

* Each ACT query incurs the \$0.288 fee; however, the first accept or decline processed for a transaction is free, to insure that no more than \$0.288 is charged per comparison. Subsequent queries for more data on the same security will also be processed free. Any subsequent query on a different security will incur the \$0.288 query charge.

** For the purposes of this service only, a transaction is defined as an original trade entry, either on trade date or as-of transactions per month.

*** The trade reporting service charge is applicable to those trades input into ACT for reporting purposes only, such as NSCC Qualified Special Representative reports and reports of internalized transactions.

**** A firm that uses ACT risk management through one or more NWII terminals when the ACT Workstation is introduced will be eligible to evaluate the ACT Workstation for a free, three-month trial period, provided that the firm continues to pay charges associated with its NWII terminal(s) during that period.

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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, Nasdaq included statements concerning the purpose of and basis for its proposal and discussed any comments it received regarding the proposal. 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

1. Purpose

ACT is an automated trade reporting and reconciliation service that speeds the post-execution steps of price and volume reporting, comparison, and clearing of trades completed in Nasdaq, OTC Bulletin Board, and other over-the-counter securities. ACT handles transactions executed through Nasdaq's automated trading systems, as well as transactions negotiated over the telephone. It also manages post-execution procedures for transactions in exchange-listed securities that are traded in the Nasdaq InterMarket.

An integral part of ACT is the risk management function. The ACT risk management function provides firms that clear for other firms with the capability to establish acceptable levels of credit for their introducing firms. ACT risk management also enables clearing brokers to monitor buy/sell trading activity of their introducing firms, establish trading thresholds, allow or inhibit large trades, add or delete clearing relationships, and access a real-time database of correspondent trading activity.⁶

On or about March 10, 2003, Nasdaq will be introducing the ACT Workstation, a new product that is designed to allow clearing firms to access the ACT risk management function without using an NWII terminal. In conjunction with the launch of the new product, Nasdaq is also making several minor modifications to the ACT risk management function, and offering certain enhancements to ACT risk management that will be available through the ACT Workstation. Following the launch of the ACT Workstation, however, ACT risk management will continue to be available through NWII terminals and WebLink ACT.⁷

Currently, ACT risk management allows users to receive alerts when a correspondent broker's trading activity exceeds user-defined gross dollar thresholds. In addition, when a correspondent broker's trading activity exceeds a "Super Cap" equal to twice its gross dollar threshold, ACT provides notice of this event to all ACT participants and allows the clearing broker to decline trades compared

through ACT that are in excess of \$200,000 (known as "sizeable" trades). Nasdaq is combining the functionality of the gross dollar threshold and the Super Cap, so that the limit on sizeable trades will apply whenever a correspondent broker's trading activity exceeds its gross dollar threshold. In effect, a firm's gross dollar threshold and its Super Cap will be the same dollar amount. Nasdaq has made this change in response to requests from ACT risk management users, who view the restriction of sizeable trades as a more meaningful risk management tool than the alerts associated with gross dollar thresholds in the current system.

Users of the ACT Workstation will be able to establish gross dollar thresholds and sizeable limits for their correspondent firms that vary based on the type of security being traded by the correspondent firm (*i.e.*, Nasdaq National Market, Nasdaq SmallCap, OTC Bulletin Board, or CQS), as well as aggregate gross dollar thresholds and sizeable limits.⁸ For example, a clearing broker might establish a gross dollar limit of \$500,000 and a sizeable limit of \$200,000 for purchases of Nasdaq National Market securities, and lower limits of \$200,000 and \$100,000 for OTC Bulletin Board securities. If the \$200,000 OTCBB limit was exceeded, OTCBB trades in excess of \$100,000 would be subject to review, but trades in Nasdaq National Market securities could continue without review. Nasdaq believes that this enhancement, which has been requested by many ACT risk management users, will provide clearing brokers with greater flexibility in managing their exposure in markets with varying degrees of liquidity and risk. The clearing broker will receive notice when a gross dollar threshold for a particular type of security is exceeded, and all ACT participants will receive notice when an aggregate gross dollar threshold is exceeded.

Currently, ACT risk management imposes a "single trade limit" of \$1,000,000. When a trade in excess of this amount is negotiated by a correspondent broker, its clearing broker has 15 minutes to decide whether to accept or decline the trade. If the clearing broker takes no action, the trade is automatically accepted for normal ACT processing. The ACT Workstation will allow clearing brokers to establish single trade limits that vary based on the type of security (*i.e.*, Nasdaq National

⁶ See NASD Rule 6150.

⁷ "WebLink ACT" is Nasdaq's new name for "Nasdaq ACT," an internet-based version of ACT introduced in 2001. Securities Exchange Act Release No. 43968 (February 15, 2001), 66 FR 11342 (February 23, 2001) (SR-NASD-2001-05).

⁸ As is currently the case, clearing brokers that use ACT risk management through NWII terminals or WebLink ACT will not be able to vary gross dollar thresholds on the basis of the type of security, nor will they be able to establish a sizeable limit other than \$200,000.