

security will be assigned under this paragraph (a)(4).

(B) No Change.

(C) No Change.

(b) through (d) 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 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 purpose of the proposed rule change is to amend Rule 6250(a)(4) to increase the number of TRACE-eligible securities rated "Baa/BBB"⁶ that will be subject to dissemination from 90 bonds to up to 120 bonds. This minor adjustment in the number of "Baa/BBB"-rated bonds to be disseminated under the Trade

Reporting and Compliance Engine ("TRACE") rules is being proposed so that NASD may continue to increase transparency as appropriate, while being cognizant of the potential adverse effects, if any, that transparency may have on the liquidity of the corporate bond market.

On July 1, 2002, when TRACE began, transaction information was disseminated in two types of corporate

bonds: (1) TRACE-eligible securities having an initial issuance size of \$1 billion or greater that are Investment Grade at the time of receipt of the transaction report; and (2) 50 actively traded TRACE-eligible securities that are Non-Investment Grade and meet other criteria set forth in Rule 6250(a)(2). Approximately 540 corporate bonds were disseminated under the two categories.

On December 6, 2002, NASD filed SR-NASD-2002-174, a proposal to increase substantially the dissemination of Investment Grade TRACE-eligible securities. NASD proposed, and obtained approval from the SEC, to increase transparency by requiring dissemination of price and other transaction information in two additional categories of corporate bonds. They are: (1) Any TRACE-eligible security that is Investment Grade, is rated by Moody's as "A3" or higher, and by S&P's as "A-" or higher, and has an original issue size of \$100 million or greater; and (2) ninety TRACE-eligible securities rated "Baa/BBB" at the time of designation, with the bonds being identified in three subgroups to represent the "Baa/BBB" credit spectrum (i.e., "Baa1/BBB+," "Baa2/BBB," and "Baa3/BBB-").⁷

On March 3, 2003, NASD began disseminating the TRACE-eligible securities rated "A3/A-" or higher and with original issue size of 100 million or greater, which increased the number of bonds subject to dissemination to over 4,000 corporate bonds.⁸ However, NASD withheld the dissemination of ninety bonds rated "Baa/BBB" to provide time to assure that the bonds designated for dissemination were appropriately diverse and representative of the "Baa/BBB"-rated group. During the bond identification process, NASD, based on guidance from independent economists, determined that the database of disseminated transaction data on "triple-B-rated bonds" should be increased to include transaction information on up to 120 TRACE-eligible securities to increase transparency in a sufficient number of "Baa/BBB" bonds to improve significantly the quality of the data to be collected. The increased transparency will provide a better foundation for determining the effect, if any, of transparency on liquidity.

2. Statutory Basis

NASD believes that the proposed rule change is consistent with the provisions of section 15A(b)(6) of the Act,⁹ which requires, among other things, that NASD'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. NASD believes that the proposed rule change requiring the dissemination of up to 30 additional "Baa/BBB"-rated TRACE-eligible securities will protect investors and the public interest by increasing transparency in the debt securities markets and serving as an appropriately designed database to aid NASD in determining if transparency has an adverse effect on the liquidity of the bond market.

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, as amended.

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

Written comments on this proposed rule change were neither solicited nor received. However, written comments were solicited concerning the dissemination of a representative group of bonds rated "Baa/BBB" with the publication for notice and comment of SR-NASD-2002-174, and two comment letters were received. NASD represents that these two comment letters generally favored the NASD's proposed rule change.¹⁰ After considering the comments, the SEC approved SR-NASD-2002-174 on January 31, 2003.¹¹ NASD represents that its proposal in this rule filing is a minor, non-controversial proposed change to the provision in Rule 6250(a)(4) providing for the dissemination of TRACE-eligible securities rated "Baa/BBB."

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

Because the proposed rule change: (i) Does not significantly affect the protection of investors or the public

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⁷ Securities Exchange Act Release No. 47302 (January 31, 2003), 68 FR 6233 (February 6, 2003) (order approving SR-NASD-2002-174).

⁸ See NASD Notice to Members 03-12 (February 2003).

⁹ 15 U.S.C. 78o-3(b)(6).

¹⁰ Securities Exchange Act Release No. 47057 (December 19, 2002), 67 FR 79210 (December 27, 2002) (notice of filing of and request for comment on SR-NASD-2002-174).

¹¹ See note 7, *supra*.