

Options	Price
<i>Option 1:</i> Dual 56kb lines (one for redundancy) and single hub and router.	\$1275/month
<i>Option 2:</i> Dual 56kb lines (one for redundancy), dual hubs (one for redundancy), and dual routers (one for redundancy).	\$1600/month
<i>Option 3:</i> Dual T1 lines (one for redundancy), dual hubs (one for redundancy), and dual routers (one for redundancy). Includes base bandwidth of 128kb.	\$8000/month
Option 1, 2, or 3 with Message Queue software enhancement	Fee for Option 1, 2, or 3 (including any Bandwidth Enhancement Fee and Service Bureau Distributor Fee) plus 20%
<i>Disaster Recovery Option:</i> Single 56kb line with single hub and router. (For remote disaster recovery sites only.)	\$975/month
Bandwidth Enhancement Fee (for T1 subscribers only)	\$600/month per 64kb increase above 128kb T1 base
Service Bureau Distributor Fee (for T1 subscribers only)	\$3,400/month per 64kb increase above 128kb T1 base for lines used for service bureau functions
Installation Fee	\$2000 per site for dual hubs and routers
Relocation Fee (for the movement of TCP/IP— \$1700 per relocation capable lines within a single location).	\$1000 per site for single hub and router

(g)(s) 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, Nasdaq included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it had 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

1. Purpose

Nasdaq's CTCI network is a point-to-point dedicated circuit connection from the premises of brokerages and service providers to Nasdaq's Trumbull, Connecticut processing facilities. Through CTCI, firms are able to enter trade reports into Nasdaq's Automated Confirmation Transaction Service ("ACT"), orders into Nasdaq's transaction execution systems, and mutual fund pricing data into Nasdaq's Mutual Fund Quotation Service. The CTCI network operates over the Enterprise Wide Network II ("EWN II") and provides connectivity over powerful 56kb and T1 data lines. In addition, the CTCI network uses the industry-standard Transmission Control Protocol/Internet Protocol ("TCP/IP"), a transmission protocol that Nasdaq

describes as robust, efficient, and well known among the technical community.

Separately, Nasdaq has submitted filings to reduce the fee for CTCI bandwidth enhancements⁵ from \$4,000 to \$600 per month for each 64 kilobit ("kb") increment of additional bandwidth provided over a T1 CTCI line (above the base level of 128 kb).⁶ Nasdaq believes, however, that this price reduction should not be applied to T1 lines that are used to provide service bureau functionality. A service bureau is a firm (which may or may not be an NASD member) that connects to the systems of Nasdaq and other market centers and then offers its customers the ability to route orders to those market centers, in addition to providing the customers various order management, risk management, and regulatory compliance services. It is Nasdaq's understanding that service bureaus generally pass on the costs of connecting to Nasdaq and other market centers to their own customers. Nasdaq believes that, because a service bureau may use a single T1 line pair to provide market access to numerous customers, a service bureau is able to spread the costs of access across its entire customer base. In Nasdaq's view, the service bureau in effect acts as a distributor of access services. Accordingly, Nasdaq believes that an NASD member that accesses the Nasdaq market through a service bureau has generally paid a much lower price for connectivity than a member that

connects directly to Nasdaq through T1 circuits.⁷ To help address this disparity, Nasdaq is proposing to establish a service bureau distributor fee, which would be applicable to additional bandwidth provided over T1 lines that are used for service bureau functionality. The proposed fee would be \$3,400 for each 64 kb increase in bandwidth above the 128 kb base, and would be in addition to the bandwidth enhancement fee of \$600 for each 64 kb increase.⁸ Accordingly, lines used for service bureau functionality would continue to be charged fees that are equivalent to those charged under the price schedule that has been in effect since 2001.⁹ The fee would be assessed

⁷ For example, prior to the merger of Nasdaq Tools Inc. into Nasdaq, Nasdaq charged Nasdaq Tools Inc. for the use of CTCI lines in accordance with the pricing schedule contained in NASD Rule 7010(f), yet by spreading these costs among its customers, Nasdaq Tools Inc. was able to charge a pass-through fee of \$265 per subscriber per month to users of its Tools Plus service bureau product. Following the merger of Nasdaq Tools Inc. into Nasdaq, Nasdaq continues to charge Tools Plus users this same price. Securities Exchange Act Release No. 46973 (December 9, 2002), 67 FR 77305 (December 17, 2002) (SR-NASD-2002-164). Nasdaq believes that other service bureaus pass on CTCI costs to their subscribers in a similar manner. Nasdaq also notes that because the cost of lines used for service bureau functionality will not change, a change in Tools Plus CTCI pricing is not warranted at this time. See *id.* at 77308-09.

⁸ Nasdaq believes that its proposal to charge a distributor fee is analogous to the proposed rule change that the Commission approved in Securities Exchange Act Release No. 45102 (November 26, 2001), 66 FR 59830 (November 30, 2001) (SR-NASD-2001-59), in which Nasdaq adopted a fee schedule for firms acting as distributors of historical market data that was higher than the fee schedule for persons purchasing the data without a license to redistribute it.

⁹ Securities Exchange Act Release No. 43821 (January 8, 2001), 66 FR 3627 (January 16, 2001) (SR-NASD-00-80); Securities Exchange Act

⁵ The term "bandwidth" refers to the amount of data that can be transmitted over a CTCI line in one second. Accordingly, bandwidth enhancements allow a CTCI subscriber to send and receive a greater volume of data over a line.

⁶ See SR-NASD-2003-43 (March 19, 2003) (NASD members) and SR-NASD-2003-46 (March 19, 2003) (non-members).