

transmit the report to TRACE during the hours the TRACE system is open ("TRACE system hours"), which are 8:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time. Specific trade reporting obligations during a 24-hour cycle are set forth below.

(1) Transactions Executed During TRACE System Hours

Transactions in TRACE-eligible securities executed on a business day at or after 8:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time must be reported within 45[one hour and fifteen] minutes of the time of execution. If a transaction is executed on a business day less than 45[one hour and fifteen] minutes before 6:30 p.m. Eastern Time, a member may report the transaction the next business day within 45[one hour and fifteen] minutes after the TRACE system opens. If reporting the next business day, the member must indicate "as/of" and provide the actual transaction date.

(2) Transactions Executed at or After 6:30 P.M. Through 11:59:59 P.M. Eastern Time

Transactions in TRACE-eligible securities executed on a business day at or after 6:30 p.m. Eastern Time through 11:59:59 p.m. Eastern Time must be reported the next business day within 45[one hour and fifteen] minutes after the TRACE system opens. The member must indicate "as/of" and provide the actual transaction date.

(3) Transactions Executed at or After 12:00 A.M. Through 7:59:59 A.M. Eastern Time

Transactions in TRACE-eligible securities executed on a business day at or after 12:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day within 45[one hour and fifteen] minutes after the TRACE system opens.

(4) Transactions Executed on a Non-Business Day

Transactions in TRACE-eligible securities executed on a Saturday, Sunday, or a federal or religious holiday on which the TRACE system is closed, at any time during that day (determined using Eastern Time), must be reported the next business day within 45[one hour and fifteen] minutes after the TRACE system opens. The transaction must be reported as follows: the date of execution must be the first business day (the same day the report must be made); the execution time must be "12:01:00 a.m. Eastern Time" (stated in military time as "00:01:00"); and the modifier, "special price," must be selected. In

addition, the transaction must not be designated "as/of". When the reporting method chosen provides a "special price" memo field, the member must enter the actual date and time of the transaction in the field.

(5) Through (6) No Change.

(b) Through (f) 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

NASD Rule 6230(a) currently requires a member that is a party to a transaction in a TRACE-eligible security to report the transaction information to TRACE within 75 minutes of the time of execution.<sup>4</sup>

NASD is proposing to reduce the period to report from 75 minutes to 45 minutes. In Rule 6230(a), the general requirement to report transaction information within 75 minutes of the time of execution is restated as 45 minutes. In addition, NASD is proposing to amend the next-day reporting exceptions in Rules 6230(a)(1) through (4) to require that the report be filed within 45 minutes of the time the TRACE system opens instead of the current 75 minutes. Specifically, in Rule 6230(a)(1), a member *could elect to*

<sup>4</sup> Limited exceptions to the general requirement are stated in Rule 6230(a)(1) through (4), which provide for reporting a transaction the next business day that the TRACE system is open in certain circumstances. Specifically, in Rule 6230(a)(1), a member currently *may elect* to report a transaction the next business day that the TRACE system is open at any time within 75 minutes after the TRACE system opens, if the member executed the trade the prior business day less than 75 minutes before the TRACE system closed. (Currently, on a business day, the TRACE system is open from 8 a.m. Eastern Time to 6:30 p.m. Eastern Time to receive reports.) In Rule 6230(a)(2) through (4), members are directed how to report trades that occur (1) after TRACE system hours, (2) before TRACE system hours, or (3) on a weekend or a holiday. In each case, the member must report the transaction the next business day that the TRACE system is open within 75 minutes of the opening.

report the next business day if a transaction occurs within 45 minutes before the TRACE system closing. If the member elects to report the following business day that the TRACE system is open, the member *must report* the transaction within 45 minutes after the TRACE system opens. In addition, in Rule 6230(a)(2) through (4), a member would be required to report transaction information for specified transactions the next business day that the TRACE system is open and would be required to do so within 45 minutes after the system's opening.

The proposed rule change, if approved, would result in important trade information reaching the market in a timelier manner, furthering NASD's goals with respect to improving transparency under TRACE, and enhancing specific TRACE reporting provisions. The goal to reduce the reporting period in TRACE has been understood by the industry for several years and has been noted as a goal in rule filings with the SEC since 1999, as well as in the SEC's first order approving the full set of the TRACE Rules.<sup>5</sup>

The SEC approved the current 75-minute period after several phases of discussion about the appropriate reporting period.<sup>6</sup> In early TRACE discussions occurring in 1998 and 1999, NASD staff recommended that the industry prepare for a 15-minute reporting period. In response to industry feedback, NASD revised its proposal to include a 60-minute period, with the caveat that NASD intended to reduce the reporting period to 15-minutes after TRACE became operational and members had acquired experience with reporting.<sup>7</sup>

Prior to the July 1, 2002 TRACE effective date, the SEC staff requested NASD to coordinate with the National Securities Clearing Corporation ("NSCC") regarding the TRACE reporting initiative. Certain member firms utilizing NSCC for reporting municipal bond transactions to the Municipal Securities Rulemaking Board ("MSRB") requested that NASD and

<sup>5</sup> Securities Exchange Act Release No. 43873 (January 23, 2001), 66 FR 8131, 8135 (January 29, 2001) (order approving SR-NASD-99-65).

<sup>6</sup> Securities Exchange Act Release No. 46144 (June 28, 2002), 67 FR 44907 (July 5, 2002) (order approving SR-NASD-2002-46).

<sup>7</sup> Currently, NASD staff intends to recommend a further reduction in the TRACE reporting period to 15 minutes that would be effective mid-year 2004. The reduction in the TRACE reporting period would be consistent with the Municipal Securities Rulemaking Board's published plan to implement a 15-minute transaction reporting requirement for municipal securities that would take effect on July 1, 2004.