

MEMO# 12934

December 15, 2000

INSTITUTE DRAFT LETTER ON NASD'S PROPOSED "TRACE" AMENDMENTS

[12934] December 15, 2000 TO: FIXED-INCOME ADVISORY COMMITTEE No. 14-00 RE: INSTITUTE DRAFT LETTER ON NASD'S PROPOSED "TRACE" AMENDMENTS The Institute has prepared a draft letter on the NASD's proposed amendments to its TRACE proposal. As we previously reported to you,¹ the proposed amendments clarify that the NASD is the owner and operator of TRACE, the facility that will collect and then disseminate information on corporate bond transactions. The proposed amendments also discuss the NASD's plans to (1) file an application with the SEC to become registered as an exclusive securities information processor under Section 11A of the Exchange Act, (2) establish a new committee, the Bond Transaction Reporting Committee, that will monitor TRACE operations and periodically report to the NASD Board of Governors on TRACE-related issues, and (3) employ Nasdaq as a contractor to provide technology and operational support. A copy of the draft letter is attached. Comments on the NASD's proposed amendments are due by Wednesday, December 20, 2000. Please provide any comments to me by phone at (202) 326-5923, by fax at (202) 326-5827, or by email at bsimmons@ici.org by Monday, December 18, 2000. The Institute's draft letter notes that the proposed amendments reflect several but not all of the concerns that were raised in our comment letter on the original proposal, which we filed earlier this year.² The letter urges the NASD to reconsider those concerns as it continues its rulemaking process in this area. The letter then focuses on the NASD's proposed new Bond Transaction Reporting Committee and expresses concern that the member selection process would permit the NASD staff and The Bond Market Association to select all eight committee members. The letter notes that since this would likely result in eight "sell-side" representatives the NASD should include "buy-side" representatives to ensure that any developments that affect the structure and operation of TRACE reflect the views of all major market constituencies. Barry E. Simmons Associate Counsel Attachment 1 See Memorandum to Fixed-Income Advisory Committee No. 13-00, dated December 8, 2000. 2 See Memorandum to Fixed-Income Advisory Committee No. 3-00, dated February 11, 2000. 2Attachment (in .pdf format)