



Security Traders Association

SR-NA SD-2003-201

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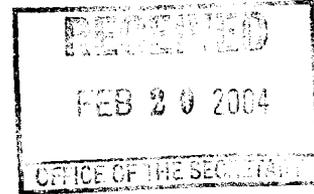
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February 19, 2004

Jonathan Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington DC 20549



Re: File No. SR-NASD 2003-201 (Notice of Filing of Propose Rule Change by National Association of Securities Dealers, Inc. to Amend the Trading Activity Fee Rate and Add TRACE-Eligible and Municipal Securities as Covered Securities)

Dear Mr. Katz:

The Security Traders Association ("STA")<sup>1</sup> is pleased to have this opportunity to comment on the proposal referenced above to amend the Transaction Activity Fee ("TAF") rate administered by the National Association of Securities Dealers, Inc. ("NASD"), and to add to the securities covered by that fee TRACE-eligible and municipal securities.

The TAF is part of a revised regulatory fee structure that the SEC approved for the NASD in 2003.<sup>2</sup> When the NASD implemented the TAF, it stated that as part of a three-year phase-in plan it intended to reduce the revenue collected through the TAF by approximately 50% over the three year period, offset by an increase in the Personnel Assessment that the NASD

<sup>1</sup> As the leading trade organization of industry professionals in the securities industry, the STA's mission is to improve the ethics, business standards and professionalism of its members. The STA has 29 affiliate organizations and more than 7000 individual members, making it the largest group of its kind in the world.

<sup>2</sup> Securities Exchange act Rel. No. 47946 (May 30, 2003), 68 Fed. Reg. 34201 (June 6, 2003) and Securities Exchange Act Rel. No. 47106 (Dec. 30, 2002), 68 Fed. Reg. 819 (Jan. 7, 2003).

AFFILIATES

Alabama Security Dealers Association
Boston Security Traders Association
Security Traders Association of Chicago, Inc.
Cleveland Security Traders Association
Security Traders Association of Connecticut
Dallas Security Traders Association
The Denver Security Traders Association

Security Traders Association of Florida, Inc.
Association Française des Equity Dealers
Georgia Securities Association
Kansas City Securities Association
London Security Traders Association
Security Traders Association of Los Angeles, Inc.
Mid-Atlantic Security Traders Association

Mid-South Security Dealers Association
Minnesota Security Dealers Association
Montreal Institutional Equity Traders Association
Security Traders Association of New York, Inc.
North Carolina Security Traders Association
Investment Traders Association of Philadelphia
Pittsburgh Stock and Bond Association

Security Traders Association of Portland, Oregon
Security Traders Association of St. Louis
San Francisco Security Traders Association, Inc.
Seattle Security Traders Association
Institutional Equity Traders Association of Toronto
Vancouver Security Traders Association
Security Traders Association of Wisconsin, Inc.

Delaware Municipal Securities

assesses each member firm.<sup>3</sup> The NASD now proposes to reduce the TAF rate on covered equity securities from the current rate of \$0.10 per 1,000 shares to \$0.075 per 1,000 shares. In addition, the NASD is proposing that the maximum charge per trade under the TAF be reduced from the current cap of \$10.00 per trade (based on 100,000 shares) to \$3.75 per trade (based on 50,000 shares).<sup>4</sup>

The NASD also proposes to assess the TAF on TRACE-eligible securities and municipal securities based on a review of reported volumes in these securities and a determination based on that review that TAF at this rate reflects NASD's regulatory efforts in the fixed income market. The proposed TAF on TRACE-eligible securities and municipal securities is at a rate of \$0.00075 per bond, with a maximum assessment of \$0.75 per trade (based on 1,000 bonds). The NASD proposes to exempt from the TAF, however, proprietary transactions in TRACE-eligible securities by a firm that is a member of both NASD and a national securities exchange and that are effected in the firm's capacity as an exchange specialist or exchange market maker.<sup>5</sup>

As noted in the Release announcing these proposed amendments, in October 2003, the STA expressed concerns to the NASD that the maximum charges per trade under the TAF might be excessive.<sup>6</sup> The STA therefore appreciates and supports the NASD's proposal to revise the TAF rates.

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<sup>3</sup> Securities Exchange Act Rel. No. 49114 (Jan. 22, 2004), 69 Fed. Reg. 4194 (Jan. 28, 2004).

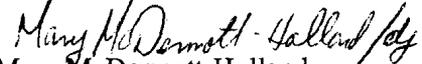
<sup>4</sup> Id.

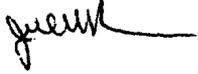
<sup>5</sup> Id.

<sup>6</sup> Letter to Robert R. Glauber and Mary L. Schapiro, NASD, from John P. Hughes and John C. Giese, Security Traders Association (October 21, 2003)

As always, the STA and our membership would be happy to assist the NASD as it evaluates the potential effects of the proposed changes to the TAF charges and covered securities. Please do not hesitate to contact the undersigned.

Truly yours,

  
Mary McDermott-Holland  
Chairman of the Board

  
John C. Giesea  
President and CEO

cc: The Honorable William H. Donaldson  
The Honorable Paul S. Atkins  
The Honorable Roel C. Campos  
The Honorable Cynthia A. Glassman  
The Honorable Harvey J. Goldschmid

Annette L. Nazareth, Director  
Robert L.D. Colby, Deputy Director  
Division of Market Regulation

Robert R. Glauber  
Chairman and CEO  
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National Association of Securities Dealers, Inc.