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December 21, 2000

Jonathan G. Katz, Secretary
Securities & Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

Re: File No. SR-NASD-99-65, Amendments 2 & 3 (NASD Corporate Bond Trade Reporting Facility)

Dear Mr. Katz:

The Fixed Income Transparency Subcommittee (the "subcommittee") of the Securities Industry Association ("SIA")[1] Operations Committee is pleased to offer its comments in response to the above referenced rule filing. The subcommittee is composed of operations professionals at SIA member firms and utilities and the comments included herein are limited to the practical considerations of implementing the proposed system, including programming, training, testing, and the likely effect of the proposed system on the evolving structure for trade processing.

The subcommittee supports the overall goal of greater transparency in the fixed income security markets. In our previous comment letter[2], we urged the NASD to work to ensure that its trade reporting function work within the context of ongoing industry effort to consolidate and expedite all post-trade processing functions across all fixed income markets. SIA stated that the critically important goals of reducing risk in the

[1] The Securities Industry Association brings together the shared interests of more than 740 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. The U.S. securities industry manages the accounts of more than 50-million investors directly and tens of millions of investors indirectly through corporate, thrift, and pension plans. The industry generates more than $300 billion of revenues yearly in the U.S. economy and employs more than 600,000 individuals. (More information about the SIA is available on its home page: http://www.sia.com.)

[2] See letter from Noland Cheng, Chairman, Fixed Income Transparency Subcommittee of SIA's Operations Committee, To Jonathan Katz, Secretary, SEC, February 10, 2000 (available at http://www.sia.com/2000_comment_letters/html/trace_proposals.html).

clearance and settlement process and avoiding duplication of systems efforts for global data transmission should not be sacrificed in the effort to provide transparency. We thank the NASD and SEC for being responsive to these concerns. The purpose of this letter is to address the new and revised elements of the NASD filing and to urge an alignment of the timetable for TRACE with the timetable for implementation of the industry's preferred model for post-trade processing across all markets.

I. Redundant Submission of Trades

As outlined in the SIA's original response to the TRACE proposal, the industry is concerned about the propagation of new trade reporting requirements which would increase the number of separate transmissions of data that would be required for the various post-trade processing functions. This duplication of data flows creates additional cost and reconciliation burdens on member firms at a time when the industry is working toward consolidating data flows and streamlining the number of data originating points in general by reducing duplicative data movement. As currently outlined, the TRACE proposal would require member firms to duplicate the existing clearance data transmission and retention process by re-sending this data to Nasdaq after having sent it to DTCC/NSCC. This is a far more ambitious and complicated goal than the reporting scheme originally proposed. The proposal not only introduces regulatory reporting of clearance data, it is incompatible with the industry's model for intra-day transmission of trade data for all products to a utility or conduit. Under this plan, each particular post-trade processing function (including TRACE reporting) would receive the data it requires from the single source.

We recommend replacing end-of-day submission of clearance information with a requirement that member firms submit dealer "buy-side" trade information in addition to sell side information. SIA understands the importance of including such information to enhancing the quality of the audit trail. SIA believes this goal is achievable if the end-of-day duplicate trade reporting requirement is eliminated. Moreover, under the industry's proposed model, intraday data submissions will eventually include buy and sell trade reports, it will not be necessary to reconcile timely trade submissions with end-of-day data.

Redundancy is also a concern to the degree that other entities may some day offer a reporting solution for other fixed income products. Each could conceivably require separate reporting of selected data elements appropriate for the individual product. It is the specific goal of this committee to see that similar processes created to meet price transparency adopt the most efficient means of meeting those goals. This would suggest that industry participants, regulators, and post-trade processing solution providers would all benefit by embracing the preferred industry model, which will accommodate centralized transmission of data for all products and processes. Such a plan should help jointly focus industry efforts and minimize the waste that would result from piecemeal, interim product-specific measures. The SIA recommendations outlined above take the industry down this path by creating uniform processing structures that permit lockstep industry migration towards uniform price transparency for OTC corporate bonds, as well as for municipal bonds and other fixed income products in the future.

In fact, the SIA recommendation seeks to leverage off the existing infrastructure that the industry developed to accommodate post-trade processing and reporting for municipal securities. This infrastructure represents many years of cooperative effort and investment on the part of the industry, regulators and utilities. To suggest a different path would ignore the benefits that have already been achieved in the industry.

The SIA acknowledges that the above utility consolidation of trade-related data submission may not benefit all segments of the industry equally. While it is the belief that that great majority of firms will strongly support this model, some small volume reporting firms may find that the cost of building an intraday data submission process is too expensive given the size and/or frequency of their trading. These firms will most likely use TRACE's internet browser interface to submit price reports manually. SIA's suggested alternative requiring dealers to submit buy- and sell-side trade reports could create additional work for those smaller entities planning to use the manual process. To avoid unnecessary hardship for smaller firms, SIA recommends that these firms be subject to a modified trade reporting regime commensurate with their trading activity and overall contribution to price transparency. Specifically, SIA believes that these firms should be subject to less frequent reporting requirements for purposes of Phase II of the amended proposal and recommends that the rule be revised to include specific criteria for eligibility.

II. Implementation Schedule

If the NASD rule filing is approved, SIA understands the following timeframes would be established:

- Within 6 months of enactment: Phase I - firms required to submit trades to NASD within one hour of execution.

- Within 12 months of enactment: Phase II - firms required to submit trades to NASD within fifteen minutes of execution.

The industry believes that the current proposal for Phase I is achievable if the SIA's recommendation for utility consolidation of trade data submission is adopted. It is essential that work not proceed on two separate fronts, however, and SIA believes the solution is for all parties to reach agreement now on a realistic timetable that will encompass both the reporting and the global clearance and settlement objectives. SIA is prepared to work with all relevant utilities and the NASD to achieve timely delivery and implementation of technical specifications. With respect to the timing of Phase II, some flexibility will be needed in order to keep the projects on the same plane. First, in consultation with DTCC/NSCC, the industry is projecting that the first phase of its real-time fixed income trade submission efforts will commence pilot implementation during the first half of 2002. The industry feels strongly that, unless the timetables are merged, each firm and DTCC/NSCC will be splitting resources trying to engineer Phase II of NASD reporting at the same time as real-time T+1 fixed income trade reporting pilot. Surely, the wasteful duplication of resources for systems development, new procedures, training and expense would be the only result of separate efforts. The industry recommends that Phase II be implemented in a timeframe that embraces the real-time fixed income pilot project, which would allow corporate bonds to be the first product eligible for real-time submission and reporting.

The SIA believes that final determinations about the exact timing of implementation should be set by an operations steering committee, composed of representatives of firms, utilities and regulators, so that there is a procedure (as with Y2K) for evaluating the results of industry-wide tests and industry readiness.

The industry's preferred model will benefit transparency by providing more accurate information and on a more timely basis. Moreover, it would eliminate the need to expend resources on the 15 minute intra-day requirement since it will be superceded within a relatively short span of time by the real-time model.

III. Optional Comparison

The current TRACE proposal refers to an optional comparison feature within the proposed system. This feature allows firms electing to use the optional feature to submit trades to NASDAQ only for comparison with other trades submitted to the TRACE system by a counter-party dealer. These same transactions would still need to be submitted in a different trade processing flow to DTCC/NSCC for actual comparison if a match is not achieved with the separate NASDAQ trade processing flow. SIA believes that this optional feature can lead to confusion in the industry since member firms will not always know if the counter-party dealer is a TRACE comparison submitting party or a DTCC/NSCC submitting party. Firms will incur high costs maintaining a procedure for monitoring trades submitted separately to TRACE. SIA believes that if the TRACE system is to perform any comparison function, it should be interfaced on a full, real-time basis to the DTCC/NSCC, using industry format standards. This would enable submission by any firm to either party to be compared without failure within the current comparison requirements that the utilities provide the industry. The industry feels strongly that this is a prerequisite to maintaining the safety and soundness surrounding the principals of dealer comparison. The adoption of an "optional comparison system" within TRACE will confuse firms and ultimately result in comparison breaks and uncompared trades. For these reasons, SIA recommends that the comparison feature be dropped from the proposal.

IV. Conclusion

To summarize, we believe price transparency can achieved in a timeframe that both the industry and the SEC could support. We believe that trade reporting for corporate bonds can be incorporated into the existing effort to create a more reliable, comprehensive and permanent fixed income processing solution for all products for the industry as a whole.

This subcommittee stands willing to work with the NASD and others to develop a price transparency solution that works for the marketplace as a whole. If we can provide any further information or clarification of the points made in this letter, please contact the undersigned or Scott Kursman, SIA Assistant General Counsel, at 212-618-0508.

Respectfully submitted,

Noland Cheng
Chairman, Fixed Income Transparency
Subcommittee of SIA's Operations
Committee

cc: Honorable Arthur Levitt, SEC
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