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November 21, 2006

Via Electronic Mail (rule-comments@sec.gov)

Nancy M. Morris
Secretary
Office of the Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: File Number SR-NASD-2004-130

Dear Ms. Morris:

The Security Trader's Association ("STA") welcomes the opportunity to comment on the proposed amendments to NASD Rules 2320(g) and 3110(b) to exclude from the "Three Quote Rule's" coverage transactions in foreign securities of a foreign issuer that are part of the FTSE All-World Index. We support the NASD's efforts to improve the ability of broker-dealers to provide timely and best execution to their customers' orders; however, we express our concerns and endorse the comments submitted by Canaccord Capital Corporation ("Canaccord Letter"). NASD's stated intention to withdraw all existing exemptions it has granted to the "Three Quote Rule" that relate to foreign securities without any explanation, empirical data, analysis or study of the consequences of that action, will have the opposite effect.

Additionally, this is a prime example where international regulators have cooperated in the past to assure that investors are protected while the costs to investors are reduced. The unintended message of the withdrawal of these exemptions may well be that timely and best execution will be possible only if these securities are quoted and traded in U.S. markets.

The STA is a worldwide professional trade organization that works to improve the ethics, business standards and working environment for our members. We have approximately 5,200 members, all engaged in the buying, selling and trading of securities. Our members participate in STA through 26 national and international affiliate organizations and represent the interests of the trading community and institutional investors. The STA provides a forum for our traders, representing institutions, broker dealers, ECNs and floor brokers to their share their unique perspectives on issues facing the securities markets as they work together to promote their shared interests in efficient, liquid markets as well as investor protection.

Dictum Mores Potest

For approximately the last decade, NASD staff has agreed that the protections of the Three Quote Rule may not be necessary with respect to all orders in foreign securities. The NASD has stated that exemptive relief may be appropriate for transactions executed on a foreign exchange¹ because the foreign exchange may constitute the best market for securities that are listed on that market and the time delay involved in contacting three dealers may, therefore, hinder a member from obtaining best execution for the customers.² As aptly stated, in the Canaccord letter, the costs associated with delayed executions resulting from compliance with the Three Quote Rule were not outweighed by the benefits of obtaining three telephone quotes.

The NASD proposal would exclude from the Three Quote Rule's coverage transactions effected in foreign securities of foreign issuers that are part of the FTSE All-World Index.³ The STA supports the proposal.

In this proposal, however, the NASD indicated that contingent upon approval of the proposed rule change, NASD staff plans to withdraw all existing exemptions it has granted to the Three Quote Rule that relate to foreign securities.⁴ NASD staff has granted seven exemptions for customer transactions in Canadian securities executed on a Canadian exchange on an agency or riskless principal basis. See, e.g., Letter to Mr. Kenneth W. Perlman, General Counsel, Mayer & Schweitzer, Inc., from Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, Inc., on May 29, 1998. These exemptions were granted because the NASD concluded that contacting and obtaining quotes from three dealers in these circumstances could result in significant delays and would be unproductive and not in the best interest of the customer and thus would pose a hindrance to achieving best execution for the customer.

As discussed in the Canaccord Letter, a result of the withdrawal of these exemptions will be that approximately 3000 Canadian Securities that are not part of the FSE All-World Index will have to trade as they did pre-1998 where contacting and obtaining quotes from three dealers resulted in significant delays, was unproductive, not in the best interest of the customer and posed a hindrance to achieving best execution for the customer.

The NASD has not presented any analysis, study or empirical evidence that would support its intention to withdraw these exemptions or that their withdrawal is necessary. Such a cost/benefit analysis should be conducted and published before such action is taken.

¹ See Securities Exchange Act Release No. 39266 (October 22, 1997), 62 FR 5617 (October 29, 1997).

² Id.

³ The proposed rule change also would provide a corresponding exclusion to the recordkeeping requirements set forth in Rule 3110(b) relating to the Three Quote Rule if the member can establish and document its reliance on this exclusion. Rule 3110(b) requires that members indicate on the order ticket for each transaction in a non-exchange-listed security the name of each dealer contacted and the quotations received to determine the best inter-dealer market as required by the Three Quote Rule.

⁴ Securities Exchange Act Release No. 54650 (October 25, 2006), 71 FR 63812, 63813, ft. 13 (October 31, 2006)

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In a speech delivered by Chairman Cox on November 16, 2006 to the International Organization of Securities Commissioner's Technical Committee Conference in London, England, he stated

... we should seek the appropriate level of regulation that balances the costs to investors against the benefits they might receive. In some cases we'll need to work with our counterpart regulators to heighten regulation on a multinational basis. In other cases we'll need to tailor our approach where the experience of many nations has shown a more effective way to measured and workable solutions.

As stated above, the costs associated with delayed executions resulting from compliance with the Three Quote Rule are not outweighed by the benefits of obtaining three telephone quotes. The exemptions regarding the execution of Canadian Securities on a Canadian Exchange ~~must~~ tacitly acknowledge the Canadian regulators' efforts to endure and foster best execution of customer orders and for the last eight years, investors have received timely, cheaper and best execution of their orders in Canadian securities.

The unintentional message sent by the withdrawal of these exemptions is not the message of international regulatory cooperation discussed in Chairman Cox's speech referenced above. Instead it states that unless the security is quoted and traded in the United States or included in the FSE All-World Index, execution in other markets may be suspect. For securities that have been trading for the last eight years without the Three Quote Rule because application of that Rule would impede best execution, withdrawing the exemptions without explanation would be misguided.

Based on the foregoing, the STA endorses the Canaccord Letter and respectfully urges the SEC to approve the proposed rule only if the NASD does not withdraw the referenced exemptions or amends the proposed rule to include the relief provided by those exemptions. Please do not hesitate to contact me at (212) 867-7002 if you have any questions or wish to discuss this further.

Very truly yours,



Bill Yancey
Chairman of the Board



John C. Giese
President and CEO

cc: Erik R. Sirri, Director, Division of Market Regulation, SEC
Robert L.D. Colby, Deputy Director, Division of Market Regulation, SEC
Brian Cartwright, General Counsel, Office of General Counsel, SEC
Thomas R. Gira, Executive Vice President and Deputy, NASD
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