



April 3, 2007

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Response to Comments to File No. SR-NASD-2004-130 – Amendments to NASD Rules 2320(g) and 3110(b) Relating to Foreign Securities

Dear Ms. Morris:

On August 26, 2004, the National Association of Securities Dealers, Inc. (“NASD”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-NASD-2004-130, proposing amendments to Rule 2320(g) (the “Three Quote Rule”) and Rule 3110(b) to exclude from the Three Quote Rule’s coverage transactions in foreign securities of a foreign issuer that is part of the FTSE World Index. On May 8, 2006, NASD filed Amendment No. 1 to revise the proposed exclusion to apply to transactions in foreign securities of a foreign issuer that is part of the FTSE All-World Index, rather than the FTSE World Index. On October 19, 2006, NASD filed Amendment No. 2, which replaced and superseded the prior filings in their entirety, to amend the proposed rule text and Purpose section of the rule filing to reflect Commission approval of an intervening rule filing relating to Nasdaq’s operation as an exchange, among other clarifying changes.¹

On October 31, 2006, the Commission published for comment the proposed rule change in the Federal Register.² The Commission received ten comment letters in response to the Federal Register publication, all of which raise one principal issue as described below.³ NASD is hereby responding to the comments made therein. NASD

¹ See Securities Exchange Act Release No. 54084 (June 30, 2006), 71 FR 38935 (July 10, 2006) (order approving of SR-NASD-2005-087).

² See Securities Exchange Act Release No. 54650 (October 25, 2006), 71 FR 63812 (October 31, 2006) (notice of filing of SR-NASD-2004-130 and Amendment Nos. 1 and 2 thereto).

³ The Commission received comment letters from the following: James Duncan, Senior Vice President & Director, International Trading, Canaccord Capital

contemporaneously is filing with the Commission Partial Amendment No. 3 to SR-NASD-2004-130 that makes certain changes, where appropriate, in response to the comments.

Summary of Comments and Responses

Generally, the commenters supported the proposal to amend the Three Quote Rule and the corresponding recordkeeping requirements to exclude transactions in foreign securities of a foreign issuer that is part of the FTSE All-World Index. However, commenters uniformly opposed the proposed withdrawal of the current exemptions previously granted under the Three Quote Rule relating to foreign securities. Specifically, in footnote 13 of the proposed rule change, NASD staff indicated that, if the rule change is approved by the Commission, NASD staff plans to withdraw all existing exemptions it has granted to the Three Quote Rule that relate to foreign securities.⁴ In this regard, NASD staff noted that it had granted certain exemptions for customer transactions in Canadian securities executed on a Canadian exchange on an agency or riskless principal basis. As a result of the withdrawal of such exemptions, members would be required to obtain three quotes in connection with transactions in these Canadian securities that are not part of the FTSE All-World Index.

As noted above, all of the commenters opposed the proposed withdrawal of the existing exemptions granted under the Three Quote Rule, citing such reasons as increased costs, significant delays, and that it would hinder obtaining best execution for customer orders. The commenters also asserted, among other things, that the original rationale for

Corporation, dated November 21, 2006; Grant Vingoe, Esq., Arnold Porter LLP, dated November 21, 2006; Achilles M. Perry, Associate General Counsel, on behalf of CIBC World Markets Corp. and CIBC World Markets Inc., dated November 21, 2006; Bill Yancey, Chairman and John C. Giese, President and CEO, Security Trader's Association, dated November 21, 2006; Rik Parkhill, Executive Vice President, President TSX Markets, dated November 29, 2006; George W. Lennon, President, Canadian Security Traders Association, Inc., dated December 1, 2006; Christopher D. Climo, Managing Director, Compliance, on behalf of TD Securities, Inc. and TD Securities (USA) LLC, dated December 7, 2006; James E. Twiss, Chief Policy Counsel, Market Regulation Services Inc., dated December 8, 2006; and Debra V. Moore, Manager – NASDAQ/OTC Equity Trading, Wachovia Securities, LLC ("Wachovia"), and Glenn A. Hoback, Implementation Consultant – Internal Controls, Wachovia, on behalf of Wachovia and First Clearing Corporation, Inc., dated December 14, 2006; and Bryce Engel, Chief Brokerage Operations Officer, TD AMERITRADE, Inc., dated December 21, 2006.

⁴ See supra note 2, at p. 63813 (footnote 13).

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granting the existing exemptions still exists and NASD has not identified any problems with the current exemptions that would warrant such a withdrawal.

In light of the many of the concerns raised by the commenters relating to existing exemptions granted under the Three Quote Rule, NASD is revising its previous position and is clarifying that the proposal would not supersede any exemptions that previously were granted relating to the application of the Three Quote Rule to transactions in foreign securities. As noted above, NASD contemporaneously has filed with the Commission Partial Amendment No. 3 to SR-NASD-2004-130 to make this clarifying change in response to the comments and to codify the relief granted in the existing exemptions.

* * * * *

NASD believes that the foregoing responds to the material issues raised by commenters to this rule filing. If you have any questions, please contact me at (202) 728-8156; email: andrea.orr@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

A handwritten signature in black ink, appearing to read "Andrea D. Orr", written in a cursive style.

Andrea D. Orr
Assistant General Counsel

cc: Steve Kuan (Securities and Exchange Commission)
Brian Trackman (Securities and Exchange Commission)