

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55379; File No. SR-NASD-2007-017)

March 1, 2007

Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Alternative Display Facility Quotation Update Fee

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 27, 2007, the National Association of Securities Dealers, Inc. (“NASD”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been substantially prepared by NASD. NASD has filed the proposal as a “non-controversial” rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

NASD proposes to amend Rule 7010A in light of the current participant quoting and trading activity on the Alternative Display Facility (“ADF”). Below is the text of the proposed rule change. Proposed new language is underlined and proposed deletions are in [brackets].

7010A. System Services

(a) No Change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

(b) Quotation Updates

The following quotation update charges will apply based on the average daily number of publicly disseminated trades reported to the media through the ADF during the billing period. A “quotation update” includes any change to the price or size of a displayed quotation.

Average Trades Reported Through the ADF Per Day	Quotation Update Charge	Quotes Updates Provided at No Charge
Less than 1	\$.02 per quotation update	None
Between 1 and 100,000	\$.01 per quotation update	5 quotation updates per trade
Between 100,001 and [150,000] <u>125,000</u>	\$.01] <u>.005</u> per quotation update	[10] <u>20</u> quotation updates per trade
<u>Between 125,001 and 150,000</u>	<u>\$.005 per quotation update</u>	<u>25 quotation updates per trade</u>
Greater than 150,000	No Charge	N/A

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II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, NASD included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. NASD has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The current ADF pricing structure imposes a quote fee of \$0.01 per quote for any ADF participant that has a daily average of 150,000 or fewer trade reports and no quote fee for daily average trade reports over that activity level. It also offers three tiers of free quotes.

Specifically, participants that generate between one and 100,000 trade prints per day receive five free quotes per trade print, participants that generate between 100,001 and 150,000 trade prints per day receive ten free quotes per trade print, and those participants that generate over 150,000 trade prints are not charged for quotation updates. This pricing structure was designed in part to address the typical electronic communications network ("ECN") business model at the time, given that ECNs were the only ADF participants.

NASD has seen an increase in the quote-to-trade ratios experienced by certain ECNs and believes the impact of Regulation NMS could potentially increase them even further. Thus, NASD proposes to amend the ADF quote update pricing structure to address these changes. Specifically, the new pricing structure would continue to require participants with high quote-to-trade ratios to pay for a portion of their quote activity, but at a reduced rate and with the benefit of additional free quote updates. The new pricing system introduces five pricing tiers. Participants that do not submit a single trade report to NASD are not entitled to receive any free quotes. Participants that generate between one and 100,000 trade prints per day receive five free quotes per trade print, participants that generate between 100,001 and 125,000 trade prints per day receive 20 free quotes per trade print, participants that generate between 125,001 and 150,000 trade prints per day receive 25 free quotes per trade print, and those participants that generate over 150,000 trade prints are not charged for quotation updates.

NASD has filed the proposed rule change for immediate effectiveness. This proposed rule change would be operational as of February 1, 2007, and would therefore apply to February's quotation and trading activity.

2. Statutory Basis

NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(5) of the Act,⁵ which requires, among other things, that NASD rules provide for the equitable allocation of reasonable dues, fees, and other charges among members and issuers and other persons using any facility or system that NASD operates or controls. NASD believes that the proposed rule change would more equitably set the level of charges being imposed upon ADF participants in light of changing market practices.

B. Self-Regulatory Organization's Statement on Burden on Competition

NASD does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing rule change does not: (1) significantly affect the protection of investors or the public interest; (2) impose any significant burden on competition; and (3) become operative for 30 days from the date of this filing, or such shorter time as the Commission

⁵ 15 U.S.C. 78o-3(b)(5).

may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act⁶ and Rule 19b-4(f)(6) thereunder.⁷

NASD has requested that the Commission waive the 30-day operative delay in this case. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because such waiver will allow the benefits of this new pricing structure to apply immediately. For this reason, the Commission designates the proposed rule change to be operative upon filing with the Commission.⁸

At any time within 60 days of the filing of such proposed rule change the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

⁶ 15 U.S.C. 78s(b)(3)(A).

⁷ 17 CFR 240.19b-4(f)(6)(iii). In addition, Rule 19b-4(f)(6)(iii) requires that a self-regulatory organization submit to the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Commission has decided to waive the five-day pre-filing requirement.

⁸ For the purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASD-2007-017 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NASD-2007-017. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of the filing also will be available for inspection and copying at the principal office of NASD. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-NASD-2007-017 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁹

Florence E. Harmon
Deputy Secretary

⁹ 17 CFR 200.30-3(a)(12).