

# CHAPDELAINÉ CORPORATE SECURITIES, & Co.

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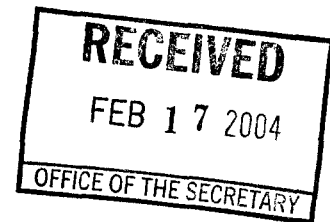
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February 12, 2004

Mr. Jonathan G. Katz  
Secretary  
US Securities & Exchange Commission  
450 Fifth Avenue  
Washington DC 20549



Re: File No. SR-NASD-2003-201; Proposed Expansion of the NASD's Trading Activity Fee to Certain Fixed Income Securities

Dear Mr. Katz:

We would like to take this opportunity to submit our comments to the Securities & Exchange Commission ("SEC") in connection with the proposal by the National Association of Securities Dealers, Inc. ("NASD") to adopt for the first time, a trading activity fee applicable to certain debt securities.

As members of The Bond Market Association, ("TBMA") we understand that the TBMA has submitted comments on behalf of its membership, and we support their efforts in this matter. However, we feel that the imposition of the Trading Activity Fee ("TAF") is such a compelling matter that we need to have our voice as an individual member of the broker-dealer community heard as well.

As means of introduction, Chapdelaine Corporate Securities & Co., ("CCS"), has been a registered broker/dealer with the NASD and SEC since February 1989. The firm's main business office is located at One Seaport Plaza, New York, NY 10038 and it maintains a branch office in Palm Beach Florida. There are currently a total of 112 employees, of which 94 are registered representatives.

The nature of CCS's business is executing buy and sell transactions as an intermediary between brokers, dealers and dealer banks in Corporate and US Government Securities.

Additionally, the firm brokers transactions in mortgage backed securities and certain derivative products on a give-up basis, whereby the executing buyer and seller actually clear the transactions directly. To clarify further, CCS does not deal with the public nor do we carry any inventory.

During our years developing as a broker-dealer, the firm has experienced a pattern of steady growth of gross income with related expenses also steadily growing. Since many expenses are volume driven, the impact of the increase is proportionate to the growth in gross revenues. These are understandable increases in the costs of doing business. However, what is not understandable is the imposition of a new and second fee to a regulatory agency that is already collecting a fee (and a substantial one at that) for a purpose that did not even exist 20 months ago.

Specifically we are referring to the NASD's imposition and collection of fees pursuant to the Trace Fee Structure and their proposal to impose another fee – called a trading activity fee on those same transactions. Not only do we find this additional fee egregious, but the industry has not received any evidence from the NASD that this fee is warranted. Rather it begs the questions; what is the justification for this second fee? What services have the original fees gone to support? What are the costs associated with these programs? How much overall revenue is expected to be collected from this new fee? What are the additional costs to be supported by the fee?

While we do not know the answers to the above, we do know the following facts for certain:

1. a.) For the period from 12/31/2002 to 12/31/2003 our firm's actual gross revenues increased by 18%.  
  
b.) For the period from 12/31/2002 to 12/31/2003 our firm's gross income assessment paid to the NASD increased by 33%.
2. a.) For the year 2002, our firm paid a personnel assessment to the NASD at a rate of \$10.00 per registered employee.  
  
b.) For the year 2003, the personnel assessment increased from \$10.00 per individual to a tiered rate structure of \$40.00 each for the first 5 employees; \$35.00 each for the next 20 employees and \$30.00 each for the balance of the employees.
3. For the period from 7/1/2002 to 12/31/2003 our firm paid over \$200,000 to the NASD pursuant to the Trace Reporting fee structure, without any offsetting increase in revenue stream. This is just an additional expense.

4. In addition to regulatory fees imposed, there are numerous expenses the firm has incurred to ensure compliance with these regulations. These costs include hiring additional personnel in both operations and technology; purchasing additional computer equipment to accommodate the transfer of data to regulators; the cost of dedicated lines and services with back-up service available, as well as purchasing in-house compliance hardware for monitoring and processing the transactions.

As you can see, our costs of doing business has increased quite substantially in the past 18 months without any offsetting increase in revenue, nor any additional benefit being recognized by our firm.

Additionally, you should be mindful that due to the nature of our business we do not even have the ability to pass along any of these costs to our “customers”. Rather our “customers”, who are themselves brokers and dealers, are also being burdened with these same fees on the very same transactions.

To review, CCS acts as an intermediary, brokering transactions on an undisclosed basis for corporate and government products. As an intermediary, Dealer “A” sells an item to us (a reportable event) and we simultaneously sell the same item to Dealer “B”, (another reportable event).

At a minimum, each of our trades results in two reportable events. Every reportable event results in a fee. If we paid over \$200,000 for TRACE fees to the NASD, then the actual fees recognized by NASD for the trades we brokered were in excess of \$400,000.

This same logic can be applied to the proposed TAF. Each transaction that CCS brokers results in a minimum of two reportable events. As a result, the TAF would be collected twice on the same transaction. Not only is the transaction being “taxed” twice, once as a TRACE security and again by the TAF; but two different parties are paying the same fees on the same transactions.

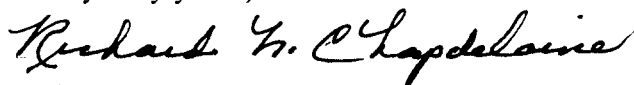
We do not believe that the intent of the proposed fee structure is to overburden the broker-dealer community with double taxation and double fees. Under the current TAF program effecting equity markets, it is quite clear that the NASD has made provisions to exempt this kind of situation from happening. Currently, the NASD has stated that if a member acts as an agent on behalf of another NASD member in the sale of a transaction, the fee should be assessed to the ultimate seller of the security, not the member acting as agent. Though our role in executing transactions is as riskless principal, the concept and result is undeniably the same – that as an intermediary we act in the same capacity as an agent. Under those guidelines, we and those acting in like capacities, should be exempted from these duplication of fees and double “taxation”. This exemption is not clarified in the TAF proposal as applying to our business and we ask that it be included to recognize our status as intermediary.

In making its decision with respect to applying the TAF to the fixed income market, we implore the SEC to consider the financial burdens we already endure with the imposition of the TRACE Reporting Fee as well as the additional assessments we already pay the NASD.

As members of the broker/dealer community we support the regulatory efforts of the NASD, recognizing that enforcement and oversight are necessary to ensure the integrity of the marketplace. However, we draw the line at being "taxed" unfairly and supporting services of which we know not nor do we partake.

We thank the SEC for giving us this opportunity to be heard and would like you to know that we are available for additional discussions if necessary.

Very truly yours,



Richard F. Chapdelaine  
Chairman



Michael Walsh  
President