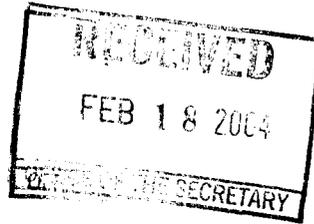


**VIA OVERNIGHT DELIVERY**



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February 17, 2004

Jonathan G. Katz  
Secretary  
U.S. Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549-0609

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

Dear Mr. Katz:

Edward D. Jones & Co., LP ("Edward Jones" or "the Firm") submits this letter concerning the proposal by NASD to extend the applicability of its TAF. The proposed new fees would apply to sales of TRACE-eligible securities and municipal securities subject to MSRB reporting. Under the new fees, each NASD member would pay to NASD a fee of \$0.00075 per bond per sale, with a maximum charge of \$0.75 per trade.

Edward Jones appreciates this opportunity to submit its comments to the Commission. For the reasons detailed below, the Firm respectfully submits that the proposed new fees are duplicative of existing regulatory charges and may result in disparate treatment of firms with a retail investor client base.

Background

Edward Jones is a self-clearing, full-service broker-dealer operating in all 50 States. The Firm services approximately 5.6 million customer accounts, the vast majority of which are retail in nature. The Firm employs approximately 8,700 registered representatives, who operate out of approximately 8,500 registered locations.

The Firm is a member of NASD, the New York Stock Exchange, and the Chicago Stock Exchange. Among other fixed income services, the Firm operates a municipal bond department of approximately 20 employees. For the last 30-day period for which data was available, the Firm executed approximately 1,400 municipal bond trades per day with an average trade size of approximately \$15,000.

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## Discussion

The Firm's concerns with NASD's proposal are three-fold, as detailed below.

- 1) The Firm notes that existing MSRB fees adequately allocate costs to municipal finance activity. Among other considerations, a broker-dealer effecting transactions in the municipal securities market must pay the following: i) an initial fee of \$100 pursuant to MSRB Rule A-12; ii) a fee of \$0.005 cents per \$1,000 par value on all secondary market transactions pursuant to MSRB Rule A-13; and iii) an underwriting fee of \$.03 per \$1000 par value, also pursuant to MSRB Rule A-13. Indeed, charges to the Firm for secondary market transactions alone (for the most recent 90-day period for which data is available) averaged over \$2,300 per month.

Moreover, the MSRB's annual fee to all broker-dealers was raised last year to \$300, at which time the increase was explained as necessary to "increase the MSRB's revenue to accommodate the increased costs associated with regulating municipal fund securities activities."<sup>1</sup>

Of course, TRACE-eligible bonds are already subject to trade reporting fees on a per-transaction basis pursuant to NASD Rule 7010(k).

- 2) Additionally, the Firm believes that the application of one fee to all trades is possibly unfair to "retail" firms. Simply put, a cap of \$0.75 per trade would be applied uniformly to a firm effecting 1,000 trades of 10,000 bonds each and to a firm effecting 100 trades of 100,000 bonds each, thus resulting in fees to the firm doing the "smaller" business that are 10 times larger than those charged to a firm doing the same amount of overall activity but with institutional clients.
- 3) Finally, the Firm notes that NASD's proposal does not preclude the imposition of two charges on a transaction involving a sale by a customer to the Firm followed by the sale to another customer from the Firm's inventory. Indeed, in the context of equity transactions, NASD has interpreted language similar to that currently proposed to mean that a transaction fee would be applied to all "sell side transactions", including "transactions where the sale is for the account of a customer and transactions where the sale is for the member itself."<sup>2</sup> Utilizing such an interpretation for the proposed TAF would discount the fact that in the fixed income market, broker-dealers often act as principals when purchasing from their customers, and they do not always have a contemporaneous offsetting sale.

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<sup>1</sup> See MSRB proposal of July 3, 2003, File No. SR-MSRB-2003-06.

<sup>2</sup> See NASD Notice to Members #02-75 (November 2002), "Question 1."

Such transactions would subject the same bonds to two fees, and such a “double” charge does not seem to comport with NASD’s intent as stated in its proposal.<sup>3</sup>

Conclusion

The Firm understands that, as a self-regulatory organization, NASD incurs significant regulatory costs. Further, Edward Jones understands that the Securities Exchange Act accords both deference and latitude to SROs in assessing these costs to their membership.<sup>4</sup> However, in a rush to achieve uniformity in fees for all investment products, NASD has perhaps duplicated existing charges while also downplaying the need for a sliding scale basis for all fees. Accordingly, the Firm does not support the expansion of the TAF as currently proposed.

Edward Jones again thanks the Commission for this opportunity to present its views. If the Commission has any questions on the views presented herein, or requires any elaboration, please feel free to contact the undersigned at (314) 515 - 3140.

Sincerely,

  
Robert Beck  
Principal  
Municipal Securities

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<sup>3</sup> Specifically, to ensure the “equitable allocation of the TAF on member firms “; Release No. 34-49114 (January 28, 2004), at 4195.

<sup>4</sup> Admittedly, the standard by which such fees are weighed by the Commission delegates much authority to NASD, which is simply required to “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. *Section 15A(b)(5) of the Securities Exchange Act of 1934.*