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May 15, 2003

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

Re: File No. SR-NASD-2003-50
Release No. 34-47693
Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the National Association of Securities Dealers, Inc. To Modify Fees for Computer-to-Computer Interface Lines Used by NASD Members and Non-Members To Provide Service Bureau Functionality

Dear Mr. Katz:

royal**blue** financial corporation ("royal**blue**") is a leading supplier of global financial trading software. Among other things, royal**blue** is a service bureau and an Application Service Provider of trading and order management software connecting to Nasdaq and other market centers. royal**blue** clients include National Association of Securities Dealers, Inc. ("NASD") member firms who are market makers and order entry firms.

royal**blue** appreciates this opportunity to comment on the proposed amendment to NASD rule 7010 wherein the NASD, through its subsidiary, the Nasdaq Stock Market, Inc. ("Nasdaq"), proposes to charge service bureaus more for CTCI lines than what is charged to NASD member firms. With all due respect, Nasdaq assumptions are wrong and reasoning faulty.

Nasdaq seemingly is relying upon an "understanding that service bureaus generally pass on the costs of connection to Nasdaq and other market centers to their own customers." royal**blue** believes this understanding to be incorrect. royal**blue** does not pass on to its customers the cost of connection to Nasdaq and other market centers and understands that certain of its competitors do not pass on these costs either.

Furthermore, Nasdaq states the purpose of the proposed rule change is to address the disparity that a NASD member that accesses the Nasdaq market through a service bureau may have paid a lower price for connectivity than a member that connects directly to Nasdaq through T1 circuits. royal**blue** disagrees. The term disparity is defined in the Miriam Webster dictionary as "containing or made up of fundamentally different and often incongruous elements" or "markedly distinct in quality or character." It is not incongruous that savings in connectivity be passed onto NASD member firms. All organizations including Nasdaq receive the benefits of economies of scale. Large members that directly connect to Nasdaq are able to spread these costs more than small members are. A member firm that has one trader and needs a T1 line pays the same $8,000 as the firm with 100 traders connecting with a T1 line.

These Nasdaq charges for connectivity can be categorized as fixed and variable. There are no economies of scale inherent in variable connectivity charges: small firms, large firms and service bureaus all need more bandwidth, the variable charge, depending on actual use. Rather, as noted above, the savings and lower prices are attributable to spreading fixed costs among more users. Yet the filing proposes to charge a customer class, service bureaus, more for variable costs. If the supposed disparity relates to fixed costs, why charge service bureaus more for variable costs? Service bureaus by their very nature provide economies of scale allowing smaller firms to compete on a more equal footing with larger firms. Contrary to what Nasdaq implies this is not unfair. Rather, the economies of scale offered by service bureaus are critical to the success of smaller firms, which is good for the marketplace. This ultimately translates to lower costs of buying and selling securities, which is good for public investors.

What Nasdaq thinks unfair is the loss of T1 income experienced because of service bureaus. But that's not unfair, that is the nature and benefit of competition. We understand at least several hundred member firms connect to Nasdaq via service bureaus and since Nasdaq charges $8,000 per month per T1 line the loss of revenue is significant indeed. Of course Nasdaq, as a for profit company hoping to go public, is entitled to, and should, seek to maximize its revenues. Our view is that charges should not discriminate against service bureaus and small NASD member firms.

royal**blue** respectfully suggests that such a goal is better achieved by Nasdaq explicitly charging their end-customers (NASD member firms) based on usage. Such a pricing model is already used by Nasdaq for its related SDP service* – this is based largely on usage (plus a small 'cost' element) and charged directly to NASD member firms.

royal**blue** would welcome the opportunity to discuss this matter further with the Commission staff. Please feel free to contact the undersigned.

Yours truly,

Mark Ames

Chief Technology Officer

cc: William H. Donaldson, Chairman, U.S. Securities and Exchange Commission
Cynthia A. Glassman, Commissioner, U.S. Securities and Exchange Commission
Harvey J. Goldschmid, Commissioner, U.S. Securities and Exchange Commission
Paul S. Atkins, Commissioner, U.S. Securities and Exchange Commission
Roel C. Campos, Commissioner, U.S. Securities and Exchange Commission

* SDP linkages, or Service Delivery Platforms are also provided by Nasdaq. Like CTCI linkages, SDPs allow users to enter ACT reports and orders into Nasdaq transaction execution systems. Market participants typically need to use both CTCI and SDP linkages.