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February 8, 2006

Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F. Street, NE
Washington, DC 20549-2001

Re: **Release No. 34-53024**
File No. SR-NASD-2005-095
National Association of Securities Dealers, Inc. Notice of Filing of Proposed Rule Change and Amendment No. 2 Thereto Relating to Sub-Penny Restrictions for Non-Nasdaq Over-the-Counter Equity Securities

Dear Ms. Morris:

The Security Traders Association (STA)¹ appreciates the opportunity provided by the Securities and Exchange Commission ("SEC" or "Commission") to comment on the recent rule filing by the National Association of Securities Dealers, Inc. ("NASD"). The NASD proposes to amend NASD Rule 6750 to impose restrictions on the display of quotes and orders in sub-penny increments for non-Nasdaq Over-the-Counter ("OTC") securities.

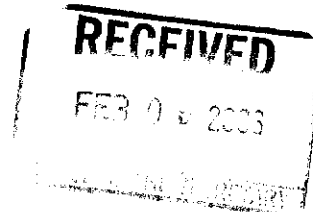
The STA opposes the NASD proposal and asks that the Commission reject Amendment No. 2, which we see as a move "forward to the past." We base our position on the principles of transparency, consistent rulemaking, and investor and market interest.

The STA has long argued for market transparency and for consistent rulemaking across securities and markets. We believe these principles best serve the interests of investors and markets and the interest of building a national market system. We have consistently argued against access fees², and against sub-penny quoting³. That said the STA believes that if access fees are permitted, they need to be fully displayed and capped.

¹ The STA is a worldwide professional trade organization that works to improve the ethics, business standards, and working environments for our members. There are approximately 6,000 members, all engaged in the buying, selling, and trading of securities. Members participate in STA through 28 national and international affiliate organizations and represent the interests of the trading community and institutional investors. The STA provides a forum for our members, representing institutions, broker-dealers, ECNs, and floor brokers to share their unique perspectives on issues facing the securities markets. They work together to promote their shared interests in efficient, liquid markets as well as in investor protection.

² See STA Letter to the Honorable William Donaldson, Chairman, Securities and Exchange Commission Re: ECN Access Fees, from John Giesea, President STA, April 16, 2003; STA Special Report: Fulfilling of the Promise of the National Market System, Recommendation 3 p. 8.; STA Comment Letter on Reg NMS (SEC File No. S7-10-04), June 30, 2004; See STA Letter to the Honorable William Donaldson, Chairman, Securities and Exchange Commission Re: Amended Reg NMS (SEC File No. S7-10-04) January 25, 2005.

³ See STA Letter to the Honorable Laura Unger, Acting Chairman, Securities and Exchange Commission Re: Trading in Increments of Less Than One Penny, from Lee Korins, President, STA, June 27, 2001; STA Comment Letter on Reg NMS (SEC File No. S7-10-04), June 30, 2004; See STA Letter to the Honorable William Donaldson, Chairman, Securities and Exchange Commission Re: Amended Reg NMS (SEC File No. S7-10-04) January 25, 2005.



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We believe that the circumstances that apply in the trading of non-Nasdaq OTC equity securities are different from Nasdaq and exchange listed equities, and that these securities represent a different class of securities, traded with different legitimate historical and marketplace practices.

Investors and markets deserve fully disclosed prices on securities.

The principle of transparency in quotes has a direct bearing on market integrity and the market confidence which flows from such integrity. Failing to display the access fee, as we have learned from previous experience in building the NMS, leads to greater opacity. Sub-penny quoting was rejected in the promulgation of Reg NMS. Yet, the mechanistic and granular argument that the display of access fees in the OTC securities quotes will result in sub-penny quotes must be weighed against the larger principle of market transparency. When judged on this basis, the benefits that accrue to investors and markets by having access to fully-priced transparent quotes far outweigh the inconsistencies that may result from sub-penny quoting in these securities.

Equally important in terms of transparency is that the failure to display access fees in OTC quotes will inevitably lead to gaming the system. Simply put, the access fees could conceivably exceed the price quoted on the security itself. It would only be after the transaction was executed that investors would know the full price with the added access fee. This is a clear unintended consequence that can be avoided at this point by a rejection of the NASD's current proposal.

Finally, the current proposal will lead to price distortion. When ECNs and market makers are both at the inside market, ECN net prices are inferior to market maker prices by the increment of the access fee. If the fee is not disclosed, investors suffer from the belief that the inside market rather than the net price is the fully disclosed cost to them. Failure to display fees will create the illusion of ECN and market maker parity, rather than fostering investor trust through full disclosure.

Investor Interest and Consistent Rules

One goal of the NASD's proposal was for OTC securities to trade on the sub-penny quote standard articulated in Reg NMS. The STA has long held that regulatory arbitrage, the differences in rules and regulations across securities and markets, created confusion for investors and market professionals and surveillance and enforcement problems for regulators. In its White Paper, "Fulfilling the Promise of the National Market System" (issued August 2003), the STA stated: "STA believes the SEC must mandate the adoption of consistent, standardized trading rules...among markets trading like classes of securities (i.e. NASDAQ securities and exchange-listed securities)." In articulating its position in this way, the STA was clear that non-Nasdaq OTC securities constituted a different market with a different class of securities, and as such, may require different rules. The OTC market is robust and has its own historical practices for generating liquidity, which are different from the larger market centers.

We believe that the OTC market ought to be as near to Reg NMS as possible. It is on this basis that we now support the overall goal of greater transparency in quotes on OTC stocks by including access fees in the quotes, even as we know that this will result in the inclusion of sub-pennies. We do not believe that this will reopen the discussion of sub-penny quotes in Nasdaq and exchange listed securities.

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Investors and markets deserve a level playing field when trading.

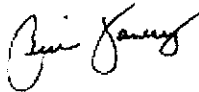
The failure to display access fees will result in a two-tier pricing scheme in the OTC market, which results in no benefit while creating great cost to investors and ultimately to the marketplace itself. Not only will ECNs benefit from the ability to charge fees without restriction, but failure to display will provide a commercial advantage not given to other market participants. In addition, an undisclosed two-tier model will result in negative reputational issues for the marketplace itself.

The STA has always held that the national market system is a work-in-progress. We find that with each move forward to a true NMS investors and markets have benefited. The NASD's proposal is a step backward, and we strongly oppose it. While we recognize that there will be sub-penny quotes when access fees are displayed we see this proposal as a cure which is worse than the disease.

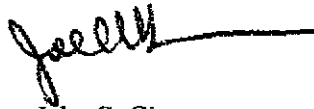
We believe that the OTC securities ought to continue to be traded as is, or require access fee inclusion in ATS and ECN quotes.

We appreciate the open dialogue we have had with both the NASD and the Commission and look forward to an opportunity to discuss our comments further as we mutually seek to protect investor interests, move to a true NMS, and continue to build a robust securities industry.

Sincerely yours,



William Yancey
Chairman



John C. Giesea
President and CEO

cc: Chairman Christopher Cox
Commissioner Paul s. Atkins
Commissioner Roel C. Campos
Commissioner Cynthia A. Glassman
Commissioner Annette L. Nazareth
Mr. Robert L.D. Colby, Acting Director, Division of Market Regulation
Mr. Robert R. Glauber, NASD Chairman and CEO
Ms. Mary L. Shapiro, NASD Vice-Chairman

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