

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56752; File No. SR-NASD-2007-043)

November 6, 2007

Self-Regulatory Organizations; National Association of Securities Dealers, Inc. (n/k/a Financial Industry Regulatory Authority, Inc. (“FINRA”); Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto to Amend NASD Rule 7001C to Increase Percentage of Market Data Revenue Shared with NASD/NSX TRF Participants

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on June 29, 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, II and III below, which Items have been prepared by NASD. On October 29, 2007, Financial Industry Regulatory Authority, Inc. (“FINRA”) filed Amendment No. 1 to the proposed rule change.³ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

FINRA proposes to amend NASD Rule 7001C (Securities Transaction Credit) to increase the percentage of New York Stock Exchange (“Tape A”), American Stock Exchange (“Tape B”)

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Effective July 30, 2007, FINRA was formed through the consolidation of NASD and the member regulatory functions of NYSE Regulation. See Securities Exchange Act Release No. 56146 (July 26, 2007), 72 FR 42190 (August 1, 2007). Accordingly, the NASD/NSX TRF is now doing business as the FINRA/NSX TRF. The formal name change of each of FINRA’s Trade Reporting Facilities is pending and once completed, FINRA will file a separate proposed rule change to reflect those changes in the Manual. In Amendment No. 1, FINRA made certain changes to the original proposed rule change of June 29, 2007, including to: (i) propose to share 75%, rather than 100% as proposed in the original filing, of market data revenue with NASD/NSX TRF participants, and (ii) revise the Self-Regulatory Organization’s Statement on Burden on Competition.

and Nasdaq Exchange (“Tape C”) revenue shared with FINRA members reporting trades to the NASD/NSX Trade Reporting Facility (“NASD/NSX TRF”). The text of the proposed rule change is available at FINRA, www.finra.org, and the Commission’s Public Reference Room.

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

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA 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

Background

On November 6, 2006, the Commission approved the establishment of the NASD/NSX TRF,⁴ and the NASD/NSX TRF commenced operation on November 27, 2006. The NASD/NSX TRF provides FINRA members another mechanism for reporting locked-in transactions in exchange-listed securities effected otherwise than on an exchange. In connection with the establishment of the NASD/NSX TRF, FINRA and National Stock Exchange, Inc. (“NSX”) entered into the Limited Liability Company Agreement of NASD/NSX Trade Reporting Facility LLC (“Agreement”). Under the Agreement, FINRA, the “SRO Member,” has sole regulatory responsibility for the NASD/NSX TRF. NSX, the “Business Member,” is primarily responsible for the management of the NASD/NSX TRF’s business affairs to the extent those activities are not inconsistent with the regulatory and oversight functions of FINRA.

⁴ See Securities Exchange Act Release No. 54715 (November 6, 2006), 71 FR 66354 (November 14, 2006) (SR-NASD-2006-108) (approval order).

Additionally, the Business Member is obligated to pay the cost of regulation and is entitled to the profits and losses, if any, derived from the operation of the NASD/NSX TRF.

Pursuant to NASD Rule 7001C, FINRA members reporting trades in Tape A, Tape B and Tape C securities to the NASD/NSX TRF currently receive a 50% pro rata credit on gross market data revenue earned by the NASD/NSX TRF. “Gross revenue” is the revenue received by the NASD/NSX TRF from the three tape associations after the tape associations deduct allocated support costs and unincorporated business costs.

Proposal to Increase Securities Transaction Credit

FINRA proposes to amend Rule 7001C to increase from 50% to 75% the percentage of market data revenue shared with members under the securities transaction credit program. Thus, FINRA members reporting trades in Tape A, Tape B and Tape C stocks to the NASD/NSX TRF will receive a 75% pro rata credit on gross market data revenue earned by the NASD/NSX TRF.

NSX, as the Business Member under the Agreement, has determined that the proposed increase in the percentage of market data revenue shared with NASD/NSX TRF participants is necessary for competitive reasons. NSX believes that, particularly in light of the fact that FINRA has filed a proposed rule change whereby the NASD/NYSE Trade Reporting Facility (“NASD/NYSE TRF”) would share 100% of market data revenue with its participants,⁵ competitive pricing is crucial to the NASD/NSX TRF’s business. NSX has indicated that because there are currently no fees for reporting trades to the NASD/NSX TRF, NSX will fund regulatory costs associated with the NASD/NSX TRF from NSX general revenues.

FINRA is proposing that the effective date of the proposed rule change shall be retroactive to April 1, 2007, the start of the second calendar quarter of 2007.

⁵ See SR-NASD-2007-031 at www.finra.org/RulesRegulation/RuleFilings/2007RuleFilings/P019027.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A of the Act,⁶ in general, and with Section 15A(b)(5) of the Act,⁷ in particular, which requires, among other things, that FINRA 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 FINRA operates or controls. FINRA believes that the proposed rule change is a reasonable and equitable credit structure in that it will be applied uniformly among members that participate in the NASD/NSX TRF and NSX has indicated that all regulatory costs owed by NSX as the Business Member related to the NASD/NSX TRF will be funded by NSX general revenues.

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

FINRA 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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

A. by order approve such proposed rule change, or

⁶ 15 U.S.C. 78o-3.

⁷ 15 U.S.C. 78o-3(b)(5).

- B. institute proceedings to determine whether the proposed rule change should be disapproved.

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:

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 No. SR-NASD-2007-043 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-NASD-2007-043. 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 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be

available for inspection and copying at the principal office of FINRA. 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-2007-043 and should be submitted on or before [insert date 21 days from the date of publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁸

Florence E. Harmon
Deputy Secretary

⁸ 17 CFR 200.30-3(a)(12).