

November 6, 2007

Sent via pubcom@finra.org

Barbara Z. Sweeney
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: Request for Comments on Proposed Amendments to OTC Trade Reporting Requirements for Equity Securities

Dear Ms. Sweeney:

Archipelago Trading Services, Inc. (“ArcaEdge”) appreciates the opportunity to comment on the Financial Industry Regulatory Authority’s (“FINRA’s”) proposal to amend the reporting requirements for over-the-counter transactions of listed and unlisted equity securities (“OTC Securities”). We believe the current trade reporting hierarchy leads to unintentional confusion by and between market participants, placing unnecessary burdens, both from a regulatory and financial point of view, on the member firms. ArcaEdge strongly supports FINRA’s efforts to continue to improve upon the mechanisms of the OTC Securities market, and its proposal to create a more efficient means to report such transactions. Therefore, as described more fully below, ArcaEdge supports FINRA’s proposal that the sell-side to each transaction be required to report each trade, except where such trade is with a customer or non-member firm.

Executive Summary

FINRA Rule 6000 et seq. stipulates the hierarchy by which member organizations must coordinate to report transaction of OTC Securities. Terms such as “Reporting ECN” and “Reporting Market Maker” are defined for use within a complex reporting matrix, which attempts to assign reporting responsibility to one of the parties involved within each transaction. For some time now, this system, and the confusion that may surround the implied responsibility, has caused unintentional delays by member organizations to accept or decline the contra party’s trade report, subjecting firms such as ArcaEdge to burdensome regulatory inquiries to explain the disparity. These situations are compounded by the lack of understanding of reporting requirements by non-member service bureaus, which do not properly recognize the reporting responsibility of an alternative trading system (“ATS”).

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Background

As you are aware, ArcaEdge operates an ATS within the OTC Securities market. Orders of our registered broker-dealer subscribers (“Subscribers”) are matched within our systems electronically, or routed to other, non-Subscriber market participants. ArcaEdge also submits the best bid and offer to the OTC Bulletin Board service (“OTCBB”) for each security quoted within our system. Market participants that are not Subscribers of ArcaEdge may access these bids and offers by contacting ArcaEdge. For each trade, two events occur, only one of which is to be reported to the tape. Transactions between Subscribers are reported by ArcaEdge through the execution of an Attachment II form, recognizing and granting responsibility by a Subscriber to ArcaEdge, allowing proper reporting, including the suppression of one event from being reported to the tape. Absent this form, non-Subscribers frequently submit trade reports for transactions with ArcaEdge when the reporting responsibility primarily lies with our firm.

FINRA Rule 6130(b) requires member organizations to “use the Browse function [of the FINRA/Nasdaq Trade Reporting Facility]¹ to accept or decline trades within twenty (20) minutes after execution.” The reporting confusion described herein exacerbates the need for a member such as ArcaEdge to utilize the browse function, at a cost of \$0.50 per use, in order to maintain its compliance with the rule. These fees equate to thousands of dollars per month. ArcaEdge believes its regulatory requirement, being associated with a single system operated by the NASDAQ Stock Market, L.L.C. (“Nasdaq”), to be unreasonable.

Previously, member firms had but one option to report Nasdaq and other over-the-counter transactions, the system formerly known as the Automated Confirmation Transaction, or ACT service. Since the introduction of the TRF reporting model, member firms may now have access to a variety of reporting systems, offering convenience and competition, which is hindered by limited interaction by and between the operators of such systems through a fragmented framework of reporting mechanisms with similar intentions, all associated with and maintained by a central self-regulatory organization, FINRA.

The use of this browse function illustrates the importance of FINRA’s second proposal, which is to link certain tape and non-tape transactions together for the same overall transaction. We believe this ability to link transactions should not be limited to the FINRA/Nasdaq system, but to link all similar reporting mechanisms (e.g., the FINRA/NYSE Trade Reporting Facility) so as to offer participants of the OTC Securities marketplace a viable alternative to fulfill their Rule 6130(b) obligations.

¹ The Nasdaq website describes the FINRA/NASDAQ Trade Reporting Facility (“TRF”) as “an automated trade reporting and reconciliation service operated on the ACT technology platform. The TRF electronically facilitates the post-execution steps of price and volume reporting, comparison and clearing of trades for NASDAQ-listed securities as well as for transactions in NYSE-, Amex- and regional-listed securities that occur off the floor. The TRF handles transactions negotiated broker-to-broker.”

Summary

Despite a recent attempt² by FINRA to clarify the trade reporting role of an ATS within the OTC Securities market, confusion has persisted among other member firms and service bureaus which provide trade reporting functions for member organizations. ArcaEdge made an individual effort to resolve this confusion, but to no avail. Enclosed for your reference, please find a copy of ArcaEdge's notice to non-subscribers of its system, dated December 1, 2006.

Based on the historical issues surrounding trade reporting by and with an ATS, ArcaEdge supports the proposal to move towards a simplified, sell-side reporting requirement.

If you or any member of the FINRA staff has any questions concerning our comments, please contact me at (312) 442-7149 or Andrew Stevens at (312) 442-7632.

Regards,



Greg O'Connor
Chief Compliance Officer

² See Exchange Act Release No. 54798 (SR-NASD-2006-104) (November 21, 2006). "...[FINRA] proposes to amend the definition of 'Reporting ECN' in [FINRA] Rule 6110(i) to clarify that the term includes alternative trading systems, as well as [electronic communication networks]..."