

NOTICE TO MEMBERS: 75-58
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

September 11, 1975

MAIL VOTE

I M P O R T A N T

Officers * Partners * Proprietors

TO: All NASD Members

RE: Mail Vote on By-Law Amendment Concerning
Prompt Filings of Notices of Termination by Members

LAST VOTING DATE IS OCTOBER 11, 1975

Enclosed herewith are proposed amendments to Article XV, Section 5 of the Association's By-Laws concerning the requirement that members promptly file with the Association a written notice of termination for any registered person associated with the member whose association with it has been terminated. They must receive an affirmative vote of the membership before they can become effective.

On December 16, 1974, in Notice to Members No. 74-50, the Board of Governors published for membership comment proposed amendments to Article XV, Section 5, and the proposed adoption of new Section 7 under Schedule A of Article III of the Association's By-Laws. At that time the Board expressed its concern with the need to effect a timely review of terminations for cause of registered persons whose activities at the firms they leave require staff investigation and where such activities may lead to District Business Conduct Committee sanctions. Existing Section 5 of Article XV requires that members promptly file notices of termination for persons who are registered with the member. However, the Board is aware that all too often such notices are not promptly filed with the Association, if filed at all, thereby allowing an individual to register with another member firm or open his own securities firm before the circumstances surrounding his former employment can be investigated.

As originally published in Notice No. 74-50, the proposed amendments to Section 5 would have required all members to file a written notice

of termination no later than fifteen (15) business days following the actual date of termination. In addition, the Board at that time proposed the adoption of new Section 7 under Schedule A of the Association's By-Laws which would provide for a late filing fee of \$25 to be charged a member who did not file a notice of termination within the time prescribed.

Following the close of the comment period, the Board of Governors reviewed the original proposals and, in consideration of the comments received, has made appropriate revisions thereto. In respect to the proposed amendments to Section 5 of Article XV, the revised proposal approved by the Board would require all members to file with the Association a written notice of termination on a form designated by the Board of Governors for any registered person associated with the member no later than thirty (30) calendar days following the actual date of termination of such person by the member.

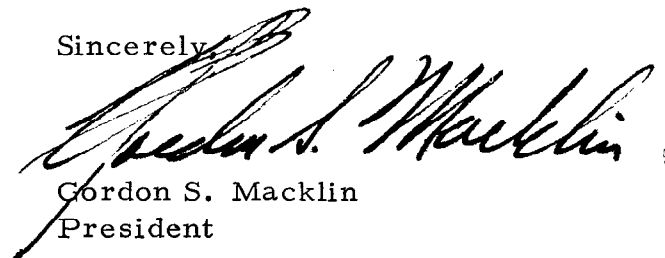
In connection with the proposed amendment to Schedule A of the By-Laws, the Board has approved the adoption of new Section 7 thereunder which would require a \$25 late filing fee to be charged a delinquent member who does not file a termination notice within the time prescribed by the proposed amendment to Section 5 of Article XV. However, the provision in the original proposal requiring payment of such fee by certified check has been eliminated. The adoption of new Section 7 under Schedule A has been approved by the Board pursuant to the provisions of Article III, Section 1 of the By-Laws and does not require a membership vote.

If the proposed amendments to Article XV, Section 5 are approved by the membership, they must be submitted together with proposed new Section 7 under Schedule A to the Securities and Exchange Commission for approval prior to becoming effective.

The Board of Governors believes the proposed amendments are necessary and in the public interest; will allow the Association the opportunity to exercise its statutory obligations with respect to the review of applicants for registration and membership; and, help expedite the administrative processing attendant to such on a timely basis.

The proposed amendments to Section 5 of Article XV of the Association's By-Laws are important and merit your immediate attention. Please mark your ballot according to your conviction and return it in the enclosed, stamped envelope to "The Corporation Trust Company." Ballots must be postmarked no later than October 11, 1975.

Sincerely,



Gordon S. Macklin
President

Enclosures

Proposed Amendment to Article XV, Section 5

Section 5 - Notification by Member to Board of Termination

No person associated with a member who is registered with the Corporation may transfer his registration or any right arising therefrom. Promptly upon, but in no event later than thirty (30) calendar days after, the termination of the employment association by with a member of a person who is registered with it, such member shall give written notice on a form * designated by the Board of Governors to the Board of Governors of the termination of such employment association. A member who does not submit such notification in writing within the time period prescribed shall be assessed a late filing fee as specified by the Board of Governors in Schedule A of the By-Laws. Termination of registration (subject to Section 6) of such person associated with a member shall not take effect until thirty (30) days after receipt thereof by the Board of Governors nor so long as any complaint or action is pending against a member and to which complaint or action such person associated with a member is also a respondent, or so long as any complaint or action is pending against such person individually or so long as any examination of the member or person associated with such member is in process. The Board of Governors, however, may in its discretion declare the resignation effective at any time.

* * * *

*The form currently designated for this purpose is Form T-325.

NASD

NOT ANN...
by US

Notice to Members No. 75-59
Notices to Members should be
retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

September 19, 1975

TO: All NASD Members

RE: Investors Security Corporation
231 Monroevill Mall
Monroeville, Pa. 15146

ATTN: Operations Officer, Cashier, Fail-Control Department

On Monday, September 15, 1975 a SIPC Trustee was appointed for the below indicated firm. Members may use the "immediate close-out" procedure as provided in Section 59(i) of the NASD's Uniform Practice Code to close-out open OTC contracts. *

Questions regarding the firm should be directed to the Trustee.

SIPC Trustee

Thomas P. Ravis, Esq.
Stevens, Clark, Laubach & Semple
Suite 1677, Gateway Two
Pittsburgh, PA. 15222
Telephone (412) 471-8350

* This notice, which is directed to all NASD Members, has been issued by National Clearing Corporation (NCC). The Board of Directors of NCC interprets and enforces the provisions of the NASD's Uniform Practice Code.

NOTICE TO MEMBERS: 75-60
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

September 26, 1975

I M P O R T A N T

TO: All NASD Members

RE: Form U-4, "Uniform Application for Securities and Commodities
Industry Representative and/or Agent" and Revised Form BD

On July 10, 1975, the Securities and Exchange Commission postponed the effective date of the use of Form U-4, "Uniform Application for Securities and Commodities Industry Representative and/or Agent," until October 1, 1975. Such was necessary in order to incorporate necessary technical modifications in the final version of the form. In this connection, on October 1, 1975, Form U-4 will become effective as the required form for requesting registration of personnel under the provisions of Schedule C of the Association's By-Laws. This new form will replace the Association's present application for registration, Form B-302. As the membership is aware, Form U-4 is also an acceptable form for registration of individuals with the Securities and Exchange Commission, national stock exchanges, and a substantial majority of state jurisdictions.

A supply of Form U-4 is enclosed herewith for your use. Additional forms are available through the NASD's Office Services Administrator located in the Executive Office in Washington. Under joint agreement, Association members who are also members of the New York Stock Exchange will receive their initial supply in accord with procedures established by that organization. Reorders for such members will also be handled by the NYSE.

Members should reference previous NASD Notices to Members 74-53 and 75-21 for additional information regarding Form U-4. In summary, it should be noted that the NASD will accept copies of the form provided the copies are on 8 1/2 by 11 inch paper, are completely legible, and contain original signatures of both the applicant for registration and the registered principal signing the form on behalf of the firm. Firms should separate the Form U-4 and attendant addenda from the yellow covering jacket before transmitting the completed document to the Association.

Although declaring the form effective for NASD use as of October 1, 1975, the Association has given consideration to mail delays and for lead time necessary for the membership to alter internal procedures for use of Form U-4. In this regard, applications for registration of individuals on NASD Form B-302 will be accepted by the Association until November 15, 1975. No extension of this time frame is anticipated.

The Commission has also announced that a revised Form BD, the application for registration, license, or membership as a broker-dealer or amendment thereto, will become effective October 1, 1975. The NASD and approximately 45 state jurisdictions will also utilize this revised form. In this regard, this revised form will replace NASD Form C-350 on October 1, 1975. Initial distribution of the form will be made by the Commission. In the future, forms will be available both at the Association's Executive and District offices. Applicants for NASD membership will be required to complete and sign the NASD Addendum to revised Form BD. As with the Form U-4, the Association will continue to accept membership applications on the present Form C-350 until November 15, 1975. Any questions regarding this notice should be directed to Mr. Gerard F. Foley, Director, Membership Department at (202) 833-7395.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank J. Wilson", written in a cursive style.

Frank J. Wilson
Senior Vice President
Regulation

NASD

Notices to Members should be retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

September 29, 1975

To: All NASD Members

Transactions made on Monday, October 13, 1975 (Columbus Day observance), Tuesday, November 4, 1975 (General Election Day), and Tuesday November 11, 1975 (Veterans' Day observance) and transactions on the business days immediately preceding such days will be subject to the schedule of settlement dates below (for "regular-way" transactions). These adjustments to the usual settlement date schedules have been made to insure uniformity since the observance of public holidays and banking holidays differ from state to state. No settlements will be made on October 13, November 4, or November 11, but securities markets and the NASDAQ system will be in operation for trading.

Deliveries of securities and payments ordinarily due on October 13, November 4, and November 11, shall be due on the business day following such days.

Transactions made on October 13, November 4 and November 11 shall be combined for settlement with transactions made on the business day preceding such days.

These days shall not be considered business days in determining the day for settlement of a transaction, the day on which stock shall be quoted ex-dividend or ex-rights or in computing interest on bonds.

Further, marks to the market, reclamations, buy-ins and sell-outs, as provided for in the Uniform Practice Code, shall not be exercised on these days.

Settlement dates for "regular-way"
transactions and regulation T dates

<u>Trade Date</u>	<u>Settlement Date</u>	<u>7th Business Day*</u>
October 6	October 14	October 15
7	15	16
8	16	17
9	17	20
10 and 13	20	21 and 22
14	21	23

<u>Trade Date</u>	<u>Settlement Date</u>	<u>7th Business Day*</u>
October 27	November 3	November 5
28	5	6
29	6	7
30	7	10
31	10	11
November 3 and 4	12	12 and 13
5	13	14
6	14	17
7	17	18
10 and 11	18	19 and 20
12	19	21
13	20	24

Questions regarding this notice may be directed to the Uniform Practice Division of National Clearing Corporation**, Two Broadway, 8th Floor, New York, New York 10004. Telephone (212) 952-4018.

* Date for determining the close out provisions under Section 4(c)(2) of Regulation T of the Federal Reserve Board.

** This notice, which applies to all NASD members, has been issued by National Clearing Corporation. The Board of Directors of NCC interprets and enforces the provisions of the NASD's Uniform Practice Code.

NEW YORK CLEARING HOUSE

100 BROAD STREET, NEW YORK, N. Y. 10004

NORMAN M. DYKES, JR.
VICE PRESIDENT

September 5, 1975

Mr. Joseph F. Morley
Assistant Vice President
Securities Industry Association
20 Broad Street
New York, N.Y. 10005

Dear Mr. Morley:

Based on further discussions among the member banks of the New York Clearing House Association regarding the New York corporate bond transfer tax, it has been agreed that the common operating procedures should, pending further clarification from the New York State Tax Commission, be as follows effective immediately:

Transfer Agent Procedures

Transfer agents ordinarily will accept transfers only if one of the following evidences of tax status is affixed or imprinted to the certificates, or to an attached document such as an internal processing fanfold copy, or a broker's delivery bill, or copy thereof:

1. On transfers presented by a broker-dealer or bank to which section 593.3 of the regulations apply (hereinafter called a "New York broker-dealer" or a "New York bank", respectively), one of the following:

(a) Purchased and cancelled tax stamps.

(b) A rubber stamped or printed certification by the New York broker-dealer or the New York bank in substantially the following form:

It is hereby certified that (a) New York City bond transfer tax due and owing has been paid (the words "direct to the Tax Commission" should appear here, if appropriate) or (b) the transfer of the attached certificate of indebtedness is made under such circumstances

as to come within one of the exemptions specified in Title HH of Chapter 46 of the Administrative Code of the City of New York, or is otherwise not subject to tax thereunder, with respect to the tax on the seller and/or the tax on the purchaser and that evidence in proof of payment or nontaxability is maintained by the undersigned and is available for inspection by officers and representatives of the New York State Tax Commission.

(Firm name)

(Authorized signature and title)

(c) One of the items enumerated in paragraph 2(b) or 2(c) below.

2. On transfers presented by a person other than a New York broker-dealer or a New York bank, one of the following:

(a) Purchased and cancelled tax stamps.

(b) A "Tax Paid" rubber stamp as specified in sections 592.2 or 592.3 of the regulations. In all cases, unless otherwise indicated, it will be assumed that a single rubber stamp will indicate the payment of both the purchaser's and seller's taxes where applicable.

(c) An exemption waiver pursuant to section 593.4 of the regulations.

Banks Acting as Custodians or Clearing Agents

Member banks acting as custodians or clearing agents ordinarily will accept deliveries from a New York broker-dealer or a New York bank accompanied by one of the following:

(a) Certification by the New York broker-dealer or the New York bank in substantially the form set forth in paragraph 1 above.

(b) one of the items enumerated in paragraph 2 above.

Mr. J. Morley

September 5, 1975

- page 3 -

Member banks acting as custodians or clearing agents ordinarily will accept deliveries from a person other than a New York broker-dealer or a New York bank only if they include one of the items enumerated in paragraph 2 above.

Bearer Bonds

The foregoing policies apply to deliveries of bearer bonds as well as to registered bonds, but in the case of bearer bonds the tax stamps and any rubber stamp certifications should be affixed to delivery bills rather than to the bond certificates themselves.

Very truly yours,



cc: DTC
SIAC
N.Y. State Tax Department

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

October 6, 1975

TO: All NASD Members

RE: Quarterly Check-List of Notices to Members (Third Quarter, 1975)

Listed below are the Notices to Members which have been issued during the third quarter of 1975.

Members should note that only one copy of each Notice to Members is mailed to every main office of every member. Copies are not mailed to branch offices or to additional personnel in the main office other than the Executive Representative. Therefore, we suggest that all members retain the original copy of each Notice to Members in a separate file in their main office, and that copies needed for internal or branch office distribution be duplicated from the original Notice.

If your main office file is missing any of the following notices, please write to the Office Services Administrator at the NASD Executive Office. Requests for copies should be accompanied by a self-addressed label.

<u>Serial No.</u>	<u>Subject</u>	<u>Date</u>
75-44	Applications of Mandatory Clearance Provisions/NASD By-Law Article XVII/NCC/PCC Interface Arrangement	7/1/75
75-45	Municipal Securities Legislation Adopted Under the Securities Acts Amendments of 1975	7/3/75
75-46	Mail Vote on By-Law Amendment Concerning Entry Standards	7/11/75
75-47	Quarterly Check List (Second Quarter 1975)	7/14/75
75-48	Dividend Claims Made to DTC Against Stock in the Name of CEDE & Co.	7/23/75
75-49	Operations Officer, Cashier, Fail-Control Department	7/23/75
75-50	Revision of Operating and Interim Rules to Establish Charges for Envelope Settlement System (ESS), Continuous Net Settlement (CNS) System and Free Position Insurance Funds	7/23/75

75-51	Court Order Restraining Disposition of Certain Municipal Securities	8/7/75
75-52	Adoption of Amendments to SEC Net Capital Rule	8/11/75
75-53	New York State and New York City Taxes on Securities Transactions	8/8/75
75-54	Proposed Interim Amendments to NCC Rules and Procedures with Regard to New York City Tax on Sale and Purchase of Certificates of Indebtedness	8/14/75
75-55	Labor Day, Monday, September 1, 1975 - Holiday Settlement Schedule for Non-NCC Transactions	8/20/75
75-56	New Corporate Bond Tax (New York City)	8/22/75
75-57	Procedures Governing the Review and Approval of Subordination Agreements	8/25/75
75-58	Mail Vote on By-Law Amendment Concerning Prompt Filings of Notices of Termination by Members	9/11/75
75-59	Appointment of SIPC Trustee for Investors Security Corporation	9/19/75
75-60	Form U-4, "Uniform Application for Securities and Commodities Industry Representative and/or Agent" and Revised Form BD	9/26/75
75-61	Holiday Settlement Schedule - Columbus Day, General Election Day and Veteran's Day	9/29/75

NOTICE TO MEMBERS: 75-63
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

October 6, 1975

To: ALL NASD MEMBERS

Re: REPORTING TRANSACTIONS VIA FORM T

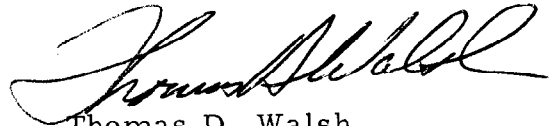
In Notice to Members No. 75-42 dated June 10, 1975, new Article XVIII of the Association's By-Laws and Schedule G thereunder were declared effective. Article XVIII and Schedule G contain rules, procedures and charges in connection with the collection and reporting of over-the-counter transactions in listed securities on the Consolidated Tape. Attached hereto is a copy of Form T which should be used by members for reporting transactions pursuant to Section 1(b)(6) of Schedule G.

Section 1(b)(6) provides an exemption from the requirement in Schedule G that all over-the-counter transactions in listed securities be reported within one and one-half minutes after execution. This exemption was adopted by the Board of Governors to facilitate reporting by members who may execute only occasional over-the-counter transactions in listed securities. Section 1(b)(6) provides that members may report in writing on a weekly basis, transactions which do not exceed 500 shares and \$5,000 in any one trading day as long as such member's transactions have not exceeded 500 shares and \$5,000 for five of the previous ten trading days.

Form T should be used for reporting transactions pursuant to Section 1(b)(6) and also for reporting transactions executed outside of the normal trading hours of the Consolidated Tape. Those hours currently are 10:00 to 4:00 EST. Members may make copies of the attached Form T or obtain copies from the NASDAQ supervisory office in New York City. Members whose transactions exceed the limits contained in Section 1(b)(6) must report their transactions through the NASDAQ Transaction Reporting System or, if such System is unavailable, via Telex, TWX or telephone

to the NASDAQ supervisory office in New York City. The telephone number of that office is 212-952-4100. Any questions with regard to this notice should be directed to Mark DeNat at that number.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Thomas D. Walsh".

Thomas D. Walsh
Secretary

Encl.

NASD

NOTICE TO MEMBERS: 75-64
Notices to Members should be
retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

October 7, 1975

To: All NASD Members

SUBJECT: New York City Corporate Bond Tax

In earlier notices, members were advised that further information would be forthcoming with respect to the corporate bond tax imposed by New York City at such time as rulings, clarifications and procedures were issued.

Accordingly, we have attached the following letter for your information which was distributed by the New York Clearing House on September 5, 1975.

NASD

NOTICE TO MEMBERS: 75-65
Notices to Members should be retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

October 28, 1975

RECEIVED

OCT 29 1975

N.A.S.D.
REGULATORY
AND

To: ALL NASD MEMBERS

Re: Responsibilities of Members Concerning Commissions,
Markups and Charges for Services in a Competitive
Environment

The obligation of members to deal with customers at fair prices, commissions and charges under Article III, Sections 3 (services) and 4 (commissions) of the Rules of Fair Practice is unchanged by the elimination of fixed commission rates or the enactment of the Securities Acts Amendments of 1975. Although Association rules do not specify and delineate exactly how a member may establish its commissions, markups or charges, they require that they must be fair under the relevant circumstances and a member should be prepared to justify that its prices are fair as to each customer and transaction.

In addition, the ending of fixed commission rates has raised questions of the application of the antitrust laws in establishing commissions and pricing programs. Special problems in this area may exist as to which members should be aware, and the purpose of this notice is to alert members in this respect and advise them to consult their attorneys if in doubt as to the appropriate course of conduct to follow.

While it is not possible to predict precisely how or when the various antitrust requirements may relate to the securities industry, their application in other industries may be relevant. The philosophy of antitrust statutes is to prohibit combinations, agreements or conspiracies which effect a restraint of trade or commerce, whether in services or goods, and judicial interpretations of these laws have given them broad coverage. Even informal agreements or combinations which accomplish an unreasonable restraint of trade, regardless of motive, have been

held to be violations. Where formal agreements or combinations have existed which accomplish such a restraint of trade, violations have been found.

Certain of these activities, such as price fixing, have been held to be unreasonable violations on their face. The establishment of a "going rate" by agreement between two or more persons, even informally, has been found to be a violation. However, a "going rate" which is the result of competitive market pressures, is not necessarily a violation. For example, a large organization may set its prices or rates in advance of the majority of its competitors. Should this action be followed by certain of its competitors in an attempt to meet the competitive price, absent some prior understanding, tacit or explicit, no violation need result. However, where competitors were aware in advance of what each intended to do with regard to prices, and had exchanged such information, even on an informal basis, coupled with subsequent uniformity in changed prices which is not primarily and readily explicable in terms of competitive pressures, an antitrust violation may result.

Other problems may arise as to "tying" contracts. A "tying" contract may exist when availability of a product or service is contingent upon the purchase of another product or service. In this regard, a Justice Department official recently stated that such practices raise antitrust questions. Further problems which members should be aware of include boycotts and similar concerted refusals to deal, as well as geographic and customer market allocations among competitors.

An additional example of questionable antitrust conduct relates to predatory pricing. Such pricing exists where a competitor prices his products or services at unreasonably low levels in an attempt to drive competition out of the market or limit the access of other competitors to a market.

This notice is intended merely to highlight certain problems which may exist for competitors under the antitrust laws. It is essential that each member in developing pricing programs, and in attempting to meet competition in this industry, seek the advice of counsel.

NOTICE TO MEMBERS: 75-66
Notices to Members should ~~be~~
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

November 10, 1975

TO: All NASD Members

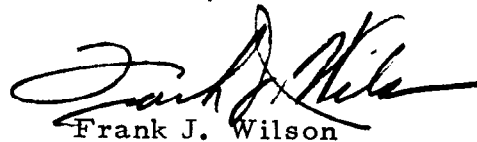
RE: Registration of Personnel Engaged in Municipal
Securities Transactions

Under the Securities Acts Amendments of 1975 (1975 Amendments), the basic coverage of the Securities Exchange Act of 1934 (1934 Act) has been extended to provide for, among other things, a comprehensive pattern for the registration and regulation of securities firms and banks which underwrite and trade securities issued by states and municipalities. Under the 1975 Amendments municipal securities are no longer deemed to be "exempted" securities for certain purposes under the 1934 Act including the registration and regulation of broker-dealers. Because of such, previously unregistered broker-dealers who trade in these securities are now required to register with the Securities and Exchange Commission. Presently registered broker-dealers who engage in a municipal securities business do not have to reregister. Many of the previously unregistered firms have applied for membership in the National Association of Securities Dealers, Inc., which has been delegated certain enforcement authority under the 1975 Amendments in connection with the municipal securities business. The Association has requested these firms to submit registration applications for principals and sales personnel on Form U-4. Similarly, all existing members of the Association which have personnel engaged in the municipal securities business should register such personnel if they are not currently registered with the Association. Absent a specific registration form for these personnel, the Association will accept recently adopted Form U-4 for registration of these persons. Question 11 on the Form U-4 requires an applicant for registration to detail the type of registration approval requested. Since there is no category on the form for registration as a municipal securities principal or representative, applicants for registration should disclose their intention to register in such category by checking the box marked "other" in Question 11 and specify "municipal securities" in the adjacent space provided on the Form. The current registration fee of \$35.00 should accompany each registration application.

Employees of an NASD member who are engaged in municipal securities activities, including the functions of supervision, solicitation or conduct of municipal securities business or who are engaged in the training of persons associated with a member for any of the above-noted functions, should register with the NASD as Representatives. Persons associated with a member who are actively engaged in the management of a member's municipal securities department or section should register with the NASD as Principals. As noted previously, personnel currently registered with the NASD are not required to submit a new registration application. The provisions of the Securities Acts Amendments of 1975 relating to the regulation of municipal securities trading are effective December 1, 1975. In light of such, registration applications for an NASD member's nonregistered personnel dealing in municipal securities should be forwarded to the Association as soon as possible.

The 1975 Amendments also provide for the creation of a Municipal Securities Rulemaking Board (MSRB). The statute authorizes the MSRB to propose and adopt rules, subject to SEC approval, to effect the purposes of the new law with respect to transactions in municipal securities. In this connection, the MSRB is authorized to adopt rules in the public interest containing minimum qualification standards in such areas as training, experience and competency for persons and firms engaged in municipal securities transactions. Since this Board will determine the appropriate qualification examination to be administered to municipal securities personnel, if any, at this time no qualification examination will be administered by the NASD for persons who register in the municipal securities category. If you have any questions concerning the matter discussed herein, please contact Mr. Gerard F. Foley, Director, Membership Department at (202) 833-7395.

Sincerely,



Frank J. Wilson
Senior Vice President
Regulation

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

November 18, 1975

To: All NASD Members

Re: Westco Financial Corporation
222 Milwaukee Street
Rollnick Bldg. #400
Denver, Colorado 80206

Attn: Operations Officer, Cashier, Fail-Control Department

On Wednesday, November 12, 1975, a SIPC Trustee was appointed for the above-captioned firm. Members may use the "immediate close-out" procedure as provided in Section 59(i) of the NASD's Uniform Practice Code to close-out open OTC contracts.*

Accordingly, questions regarding the firm should be directed to:

SIPC Trustee
Mr. William J. Fisher
Trustee for the Liquidation of
Westco Financial Corporation
P. O. Box 8314
Denver, Colorado 80201
Telephone: (303) 623-9200

*This notice, which applies to all NASD Members, has been issued by National Clearing Corporation. The Board of Directors of NCC interprets and enforces the provisions of the NASD's Uniform Practice Code.

NASD

NOTICE TO MEMBERS: 75-68
Notices to Members should be
retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

November 19, 1975

IMPORTANT

MUTUAL FUND AND VARIABLE ANNUITY SALES CHARGE RULES DECLARED EFFECTIVE FILING REQUIREMENTS ADOPTED

TO: All Members of the National Association of Securities
Dealers, Inc.

RE: Adoption of Amendments to Article III Sections 26 and 29
of Rules of Fair Practice.

Adoption of Related Filing Requirements.

Enclosed herewith are amendments to the Association's Rules of Fair Practice which the President of the Association has declared effective as of June 1, 1976.

The effective date of the amendments is being established approximately six months from today in order to give members ample time to make required changes in prospectuses as well as in record-keeping and computer systems. Members should make efforts to initiate required changes as promptly as possible. The Board of Governors believes that adequate time is being allowed for such and no further extension of the effective date is contemplated.

Also enclosed are the details of a new one-time filing requirement which is effective immediately.

The rule amendments were published for member comment on November 6, 1972 and were subsequently submitted to the Securities and Exchange Commission in connection with the Commission's public hearings on mutual fund distribution in February, 1973. In revised form, the amendments were submitted to the membership for formal approval on January 27, 1975 (Notice to Members 75-8). They were thereafter formally filed with the Securities and Exchange Commission, and following another public comment period, were approved by the Commission on October 9, 1975 (Securities Exchange Act Release No. 11725/October 10, 1975).

The authority for the rule amendments is contained in Section 15A of the Securities Exchange Act of 1934, as amended, 15 U.S.C. 78o-3; Section 22 of the Investment Company Act of 1940, as amended, 15 U.S.C. 80-22; and Article VII of the Association's By-Laws.

The authority for the new filing requirement is contained in Article IV, Section 5 of the Association's Rules of Fair Practice and Article IV, Section 2 of the By-Laws.

As specified in more detail in the aforementioned Notices to Members of November 6, 1972 and January 27, 1975, the proposed amendments are based on the regulatory approach recommended by independent consultants who conducted an extensive economic study for the Association.

EXPLANATION OF AMENDMENTS

Amendment to Article III Section 26 of the Rules of Fair Practice-- Sales Charges on Mutual Fund Shares

Amendment to Subsection (a)

The amendment to subsection (a) of Section 26 is a conforming amendment necessitated by those provisions contained in the amendments to subsection (d) pertaining to "single payment" investment plans issued by a unit investment trust registered under the Investment Company Act of 1940.

Amendments to Subsection (b)

The amendments to subsection (b) are for the purpose of defining terms used in the amendments to subsection (d).

Subsection (b) (4) defines Rights of Accumulation in a manner which, while establishing minimum standards, permits flexibility in establishing the quantity of shares held by an investor. Thus the quantity can be based either on the current value of the shares owned or on the investor's purchase cost of the shares, or, as a third option, the higher of current value or cost. If based on current value, the value may be the net asset value or the offering price.

Subsection (b) (5) establishes a minimum standard in terms of persons who shall be entitled to the features specified in the rule, when such features are offered. It requires that such benefits be offered either to "any person" or to any "purchaser" as those terms are defined in Rule 22d-1 under the Investment Company Act of 1940.

Amendments to Subsection (d)

The amendments to subsection (d) of Section 26 prohibit members from selling shares of an open-end investment company or single payment plans issued by a unit investment trust registered under the Investment Companies Act of 1940 if the public offering price includes a sales charge which is excessive. Subsections (1) through (4) of subsection (d) specify the provisions which must be met in order for the sales charge to be deemed not excessive. The provision of the Rule extending its application to "single payment plans issued by a unit investment trust" covers so-called "single

payment" or "fully paid" contractual plans (i.e. plans other than periodic payment plans) as well as other types of securities issued by unit investment trusts, such as municipal bond funds. Variable annuities structured as unit investment trusts are excluded as they would be subject to Section 29.

Subsection (d) (1) of Section 26 establishes a maximum sales charge of 8.50% of offering price on any transaction. Subsections (d) (2) through (d) (4) specify standards which must be met in order for a charge of 8.50% to be made, or alternatively, the reductions in sales charge which must be made in the absence of any or all of these standards.

Subsection (d) (2) requires that if dividend reinvestment is not made available at net asset value under the circumstances described, the maximum sales charge must be reduced as specified.

Subsection (d) (3) requires that Rights of Accumulation be offered on specified terms or that the maximum sales charge be reduced as specified.

Subsection (d) (4) sets forth the minimum quantity discounts which must be offered or, alternatively, the amount by which the maximum sales charge must be reduced.

The reductions specified in Subsections (d) (2) through (d) (4) are cumulative so that if, for example, none of the three standards are met, the maximum permissible sales charge on any transaction would be 6.25%.

Subsection (d) (5) establishes an ongoing filing requirement for principal underwriters of investment company shares. It requires that the Association be notified of any increases in sales charges prior to the implementation of such changes. This requirement applies to newly offered funds as well as to sales charges on existing funds.

Amendment to Article III Section 29
of the Rules of Fair Practice--
Sales Charges on Variable Annuities

Amendment to Subsection (c)

Under this amendment a member may not offer or sell a variable annuity contract if the sales charge described in the prospectus is excessive.

Paragraph 1 specifies that in contracts which provide for more than one purchase payment (deferred variable annuity contracts) the sales charge will not be regarded as excessive if it is not more than 8.50% of the total purchase payments made during the first twelve years. If a contract is issued for a period of less than twelve years then the sales charge may not exceed 8.50% of the total purchase payments made during such period.

Paragraph 2 provides that in contracts where only one purchase payment is to be made (single payment deferred and immediate annuities) the sales charge will not be excessive if a schedule of sales charges against the purchase payment is used which is no greater than the following:

First \$25,000	- 8.50%	of purchase payment
Next \$25,000	- 7.50%	of purchase payment
Over \$50,000	- 6.50%	of purchase payment

In some contracts no breakdown is provided in the prospectus between sales charges and other deductions from purchase payments. Paragraph 3 provides that in such contracts the total deduction (minus any charges for insurance premiums or state premium taxes) will be regarded as a sales charge and will be subject to the maximum percentages described in paragraphs 1 and 2 above.

Paragraph 4 establishes a requirement that every underwriter and/or issuer of variable annuities must notify the Association of any proposed increases in sales charges on variable annuity contracts prior to their introduction.

EXPLANATION OF NEW ONE-TIME FILING REQUIREMENT

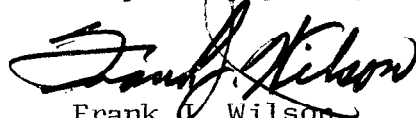
Both Sections 26 and 29 contain filing requirements applicable to principal underwriters. Both requirements apply only when sales charges are increased. In Notice to Members 75-8, the Board of Governors stated its intention to also require the filing of sales charge data in connection with the implementation of these amendments. The purpose of such is both to insure compliance with the new provisions as well as to gather data on the sales charge structures of the various mutual funds and variable annuities offered.

Therefore, in accordance with the provisions of Article IV, Section 5 of the Rules of Fair Practice and Article IV, Section 2 of the By-Laws, the Board of Governors has determined that every member who is a principal underwriter of securities issued by an open-end investment company, a variable annuity contract, or a single payment plan issued by a unit investment trust, shall file with the Association the details of all sales charges which will be made in connection with sales of such securities occurring after June 1, 1976, including any available discounts or reductions in charges available and the terms of such discounts and reductions. Such filing should be made as soon as such data is available but in any event no later than April 30, 1976. Copies of prospectuses or preliminary prospectuses will satisfy this requirement where no changes in sales charges are expected between the date of filing and June 1, 1976.

Filings regarding open end companies and single payment plans must be clearly identified as "Filing - Mutual Fund Sales Charges" and should be directed to the Investment Companies Department. Filings regarding variable annuities must be clearly labeled as "Filing - Variable Annuity Sales Charges" and should be directed to the Variable Contracts Department. All filings should be sent to 1735 "K" Street, N.W., Washington, D C. 20006.

Questions regarding the mutual fund sales charge rule should be addressed to Robert L. Butler, and questions regarding the variable annuity sales charge rule should be addressed to A. John Taylor at the Association's Washington Office.

Very truly yours,



Frank V. Wilson
Senior Vice President
Regulation

Article III, Section 26 of Rules of Fair Practice

(a) Except for the provisions of paragraph (d), this rule shall apply exclusively to the activities of members in connection with the securities of an "open-end management investment company" as defined in the Investment Company Act of 1940.

(b) (4) The term "Rights of Accumulation" as used in paragraph (d) of this Rule shall mean a scale of reducing sales charge in which the sales charge applicable to the securities being purchased is based upon the aggregate quantity of securities previously purchased or acquired and then owned plus the securities being purchased. The quantity of securities owned shall be based upon:

- a) the current value of such securities (measured by either net asset value or maximum offering price); or
- b) total purchases of such securities at actual offering prices; or
- c) the higher of the current value or the total purchases of such securities.

The quantity of securities owned may also include redeemable securities of other registered investment companies having the same principal underwriter.

(5) The term "any person" as used in this rule shall mean "any person" as defined in paragraph (a) or "purchaser" as defined in paragraph (b) of Rule 22d-1 under the Investment Company Act of 1940.

Sales Charge

(d) No member shall offer or sell the shares of any open-end investment company or any "single payment" investment plan issued by a unit investment trust registered under the Investment Company Act of 1940 if the public offering price includes a sales charge which is excessive, taking into consideration all relevant circumstances. Sales charges shall be deemed excessive if they do not conform to the following provisions:

- (1) The maximum sales charge on any transaction shall not exceed 8.50% of the offering price.
- (2) (a) Dividend reinvestment shall be made available at net asset value per share to "any person" who requests such reinvestment at least ten days prior to the record date, subject only to the right to limit the availability of dividend reinvestment to holders of securities of a stated minimum value, not greater than \$1,200, and provided that a reasonable service charge may be applied against each reinvestment of dividends.

- (b) If dividend reinvestment is not made available on terms at least as favorable as those specified in subsection (2) (a), the maximum sales charge on any transaction shall not exceed 7.25% of offering price.
- (3) (a) Rights of Accumulation (cumulative quantity discounts) shall be made available to "any person" for a period of not less than ten (10) years from the date of first purchase in accordance with one of the alternative quantity discount schedules provided in subsection (4) (a) below, as in effect on the date the right is exercised.
 - (b) If Rights of Accumulation are not made available on terms at least as favorable as those specified in subsection (3) (a), the maximum sales charge on any transaction shall not exceed:
 - (1) 8.0% of offering price if the provisions of subsection (2) (a) are met; or
 - (2) 6.75% of offering price if the provisions of subsection (2) (a) are not met.
- (4) (a) Quantity discounts shall be made available on single purchases by "any person" in accordance with one of the following two alternatives:
 - (1) A maximum sales charge of 7.75% on purchases of \$10,000 or more and a maximum sales charge of 6.25% on purchases of \$25,000 or more; or
 - (2) A maximum sales charge of 7.50% on purchases of \$15,000 or more and a maximum sales charge of 6.25% on purchases of \$25,000 or more.
 - (b) If quantity discounts are not made available on terms at least as favorable as those specified in subsection (4) (a), the maximum sales charge on any transaction shall not exceed:
 - (1) 7.75% of offering price if the provisions of subsections (2) (a) and (3) (a) are met;
 - (2) 7.25% of offering price if the provisions of subsection (2) (a) are met but the provisions of subsection (3) (a) are not met;
 - (3) 6.50% of offering price if the provisions of subsection (3) (a) are met but the provisions of subsection (2) (a) are not met;
 - (4) 6.25% of offering price if the provisions of subsection (2) (a) and (3) (a) are not met
- (5) Every member who is an underwriter of shares of an open-end investment company or of a "single payment" investment plan issued by a unit investment trust shall file with the Investment Companies Department of the Association, prior to implementation, the details of any changes or proposed changes in the sales charges on any such securities, if the changes or proposed changes would increase the effective sales charge on any transaction. Such filings shall be clearly identified as an "Amendment to Investment Company Sales Charges."

Article III, Section 29 of Rules of Fair Practice

Sales Charges

- (c) No member shall participate in the offering or in the sale of variable annuity contracts if the purchase payment includes a sales charge which is excessive:
- (1) Under contracts providing for multiple payments a sales charge shall not be deemed to be excessive if the sales charge stated in the prospectus does not exceed 8.5% of the total payments to be made thereon as of a date not later than the end of the twelfth year of such payments, provided that if a contract be issued for any stipulated shorter payment period, the sales charge under such contract shall not exceed 8.5% of the total payments thereunder for such period.
 - (2) Under contracts providing for single payments a sales charge shall not be deemed to be excessive if the prospectus sets forth a scale of reducing sales charges related to the amount of the purchase payment which is not greater than the following schedule:

First \$25,000 - 8.5% of purchase payment
Next \$25,000 - 7.5% of purchase payment
Over \$50,000 - 6.5% of purchase payment
 - (3) Under contracts where sales charges and other deductions from purchase payments are not stated separately in the prospectus the total deductions from purchase payments (excluding those for insurance premiums and premium taxes) shall be treated as a sales charge for purposes of this rule and shall not be deemed to be excessive if they do not exceed the percentages for multiple and single payment contracts described in paragraphs (1) and (2) above.
 - (4) Every member who is an underwriter and/or an issuer of variable annuities shall file with the Variable Contracts Department of the Association, prior to implementation, the details of any changes or proposed changes in the sales charges of such variable annuities, if the changes or proposed changes would increase the effective sales charge on any transaction. Such filings should be clearly identified as an "Amendment to Variable Annuity Sales Charges."

NOTICE TO MEMBERS: ~~75-70~~
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

November 11, 1975

TO: All NASD Members

RE: Application of Sales Charge Refund Requirements
to Exchanges of Mutual Fund Shares

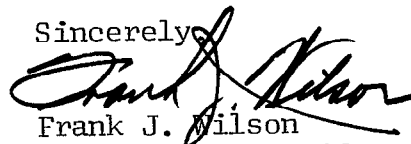
Article III, Section 26(i) of the Association's Rules of Fair Practice requires, in pertinent part, that sales agreements between principal underwriters and dealers in mutual fund shares contain a provision:

"that if (a security of an open-end management investment company) is repurchased by the issuer or by the underwriter for the account of the issuer or is tendered for redemption within seven business days after confirmation by the underwriter of the original purchase order of the dealer or broker for such security, (1) the dealer or broker shall forthwith refund to the underwriter the full concession allowed to the dealer or broker on the original sale and (2) the underwriter shall forthwith pay to the issuer the underwriter's share of the 'load' on the original sale by the underwriter and shall also pay to the issuer the refund which he receives under clause (1) when he receives it."

A question has arisen as to whether this provision applies to a redemption of mutual fund shares resulting from the exercise by a shareholder of the commonly available privilege of exchanging his shares for shares of a different mutual fund within a complex or "family" of funds managed by the adviser or distributed by the same principal underwriter.

The Board of Governors has reviewed this question and finds no basis for exempting or excepting such transactions from the provisions of Section 26(i). Accordingly, members should continue to comply with the refund requirements of this Section regardless of whether a redemption of shares results from the exercise of an exchange privilege.

Sincerely,



Frank J. Wilson
Senior Vice President, Regulation

NASD

NOTICE TO MEMBERS: 75-69
Notices to Members should be
retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

December 11, 1975

To: All NASD Members

Re: Christmas Day and New Years Day Closings - Non-NCC
Transactions

Securities markets and the NASDAQ System will be closed on Christmas Day, Thursday, December 25, 1975 and New Years Day, Thursday, January 1, 1976. "Regular-way" transactions made on the business days immediately preceding such days will be subject to the settlement dates below.* Members with NCC transactions should refer to NCC Important Notice to be issued shortly.

<u>Settlement dates for "regular-way" transactions</u>		
<u>Trade Date</u>	<u>Settlement Date</u>	<u>7th Business Day**</u>
December 15	December 22	December 24
16	23	26
17	24	29
18	26	30
19	29	31
22	30	January 2
23	31	5
24	January 2	6
25 Christmas Day	-	-
26	5	7
29	6	8
30	7	9
31	8	12
January 1 New Years Day	-	-
2	9	13

* This notice, which applies to all NASD Members, has been issued by National Clearing Corporation. The Board of Directors of NCC interprets and enforces the provisions of the NASD's Uniform Practice Code. Questions may be directed to the Uniform Practice Division (212)952-4018.

** Date for determining close out provisions under Section 220.4 (c) (2) of Regulation T of the Federal Reserve Board.

NOTICE TO MEMBERS: 75-70
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

November 11, 1975

TO: All NASD Members

RE: Application of Sales Charge Refund Requirements
to Exchanges of Mutual Fund Shares

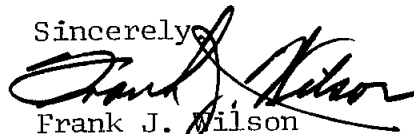
Article III, Section 26(i) of the Association's Rules of Fair Practice requires, in pertinent part, that sales agreements between principal underwriters and dealers in mutual fund shares contain a provision:

"that if (a security of an open-end management investment company) is repurchased by the issuer or by the underwriter for the account of the issuer or is tendered for redemption within seven business days after confirmation by the underwriter of the original purchase order of the dealer or broker for such security, (1) the dealer or broker shall forthwith refund to the underwriter the full concession allowed to the dealer or broker on the original sale and (2) the underwriter shall forthwith pay to the issuer the underwriter's share of the 'load' on the original sale by the underwriter and shall also pay to the issuer the refund which he receives under clause (1) when he receives it."

A question has arisen as to whether this provision applies to a redemption of mutual fund shares resulting from the exercise by a shareholder of the commonly available privilege of exchanging his shares for shares of a different mutual fund within a complex or "family" of funds managed by the adviser or distributed by the same principal underwriter.

The Board of Governors has reviewed this question and finds no basis for exempting or excepting such transactions from the provisions of Section 26(i). Accordingly, members should continue to comply with the refund requirements of this Section regardless of whether a redemption of shares results from the exercise of an exchange privilege.

Sincerely,



Frank J. Wilson
Senior Vice President, Regulation

NOTICE TO MEMBERS: 75-71
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

December 29, 1975

TO: All NASD Members

RE: New York (State) Stock Transfer Tax
New York City (Corporate) Bond Transfer Tax

The Opinion of Counsel issued by the New York Department of Taxation and Finance which has been attached hereto for your information, addresses the above-captioned taxes in light of the Securities Exchange Act of 1934 as it has been amended by the Amendments of 1975, portions of which became effective on December 1.

Questions on the opinion may be directed to:

Miscellaneous Tax Bureau
Stock Transfer Tax Section
2 World Trade Center
New York, New York 10048
(212) 488-6073, 6074 or 6079

*This notice, which is directed to all NASD Members, has been issued by National Clearing Corporation. The Board of Directors of NCC interprets and enforces the provisions of the NASD's Uniform Practice Code.

OPINION OF COUNSEL

STATE OF NEW YORK DEPARTMENT OF TAXATION AND FINANCE
DECEMBER 1, 1975

Peter Crotty, Counsel --

Inquiries have been received regarding the application of the Securities Acts Amendments of 1975, Public Law 94-29, to the administration of the New York Stock Transfer Tax. Section 21 of the new Federal Law adds a new Section 28(d) to the Securities Exchange Act of 1934. This act provides, in part, as follows:

"(d) No State or political subdivision thereof shall impose any tax on any change in beneficial or record ownership of securities effected through the facilities of a registered clearing agency or registered transfer agent or any nominee thereof or custodian therefor or upon the delivery or transfer of securities to or through or receipt from such agency or agent or any nominee thereof or custodian therefor, unless such change in beneficial or record ownership or such transfer or delivery or receipt would otherwise be taxable by such State or political subdivision if the facilities of such registered clearing agency, registered transfer agent, or any nominee thereof or custodian therefor were not physically located in the taxing State or political subdivision..."

The Stock Transfer Tax Regulations provide that a transfer of record ownership on the books of a corporation within the State is subject to the Stock Transfer Tax (20 NYCRR 440.2). However, in view of the Federal Law, where the sole event in New York State is the delivery or transfer to or by a "registered clearing agency" or a "registered transfer agent", as those

terms are defined under the Securities Exchange Act of 1934, there is no Stock Transfer Tax due and owing on and after December 1, 1975. However, where a sale, agreement to sell, memorandum of sale or any other delivery or transfer takes place in New York State, the Stock Transfer Tax due and owing thereon must be paid.

Transfer agents may accept a certification in the following form when certificates of stock are presented for transfer in New York and the sole event in the State is the delivery or transfer by a registered transfer agent:

"It is hereby certified that the delivery and transfer of the attached certificate is not subject to the New York Stock Transfer Tax under Section 28(d) of the Securities Exchange Act of 1934 and no transaction subject to tax has occurred."

(Firm Name)

(Authorized Signature and Title)

As to parties who are not qualified to use the form of exemption certification under Section 593.3(a) of the Regulations on the New York City Tax on sale and purchase of certificates of indebtedness, the words "New York City Bond Transfer Tax" may be substituted for or added to the words "New York Stock Transfer Tax" in the above certification.

END OF OPINION

NOTICE TO MEMBERS: 75-72
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

December 31, 1975

IMPORTANT

PLEASE DIRECT THIS NOTICE
TO ALL
FINANCIAL AND OPERATIONAL OFFICERS AND PARTNERS

TO: All NASD Members
RE: Uniform Net Capital Rule Interpretations

In Securities Exchange Act Release No. 11497, dated June 26, 1975, the Securities and Exchange Commission announced the adoption of amendments to Rule 15c3-1 (the "uniform net capital rule") under the Securities Exchange Act of 1934. The rule became effective September 1, 1975, subject to the transitional provisions of paragraph (g) which delayed the effective date of certain provisions of the rule until January 1, 1976.

Since the publication of the amended rule, numerous questions have been asked and requests for clarification sought by both members and other interested parties. Although many of these items were thoroughly discussed by Association representatives during the course of the NASD sponsored net capital seminars recently held across the country, they were not discussed at all locations. Also, questions occasionally arose at these seminars for which answers were not available at the time. Following further study and after discussions with the staff of the SEC, many of these questions have now been answered.

The purpose of this notice is to provide members with an up-to-date compilation of the major interpretations concerning the new uniform net capital rule. Such interpretations are presented below in a question and answer format. For reference purposes, the subparagraph of the rule under discussion appears below each numbered question.

Question 1: From what date is a new member considered to have
(a)(1) commenced doing a business?

- Answer: From the date the firm became effectively registered with the Commission. In this connection, it should be noted that the Commission has interpreted this provision not to apply to those broker-dealers engaged solely in a municipal securities business for 12 months prior to their becoming effectively registered with the Commission.
- Question 2: Can a \$5,000 broker-dealer participate in a firm commitment underwriting as a member of the selling group?
(a)(2)(iii)
- Answer: No. A \$5,000 broker-dealer may not participate in a firm commitment underwriting, since the limiting conditions prescribed for this category of broker-dealer restrict its underwriting capacity to a "best effort" or "all or none" basis.
- Question 3: Can a \$5,000 broker-dealer maintain a trading account at a clearing broker-dealer?
(a)(2)(iv)
- Answer: No. The limiting conditions prescribed for this category of broker-dealer permit only an occasional transaction for its own investment account. At its option, however, it may execute and clear such investment transactions itself. Any firm which trades for its own account must maintain minimum net capital of \$25,000.
- Question 4: Can a \$5,000 category firm write listed options as a fully disclosed broker-dealer?
(a)(2)(iv)
- Answer: Yes. An introducing broker-dealer may write listed option contracts on an occasional basis for its own investment account.
- Question 5: Can a \$5,000 broker-dealer sell to customers from its investment account?
(a)(2)(vi)
- Answer: No. Its dealer activities must be limited to effecting simultaneous "riskless" transactions on a fully disclosed basis. It cannot maintain positions for retail purposes.
- Question 6: Paragraph (a)(4) of the uniform net capital rule refers to the number of markets made by a broker-dealer within the last 30 days. Does this mean calendar days or business days?
(a)(4)
- Answer: Calendar days.

Question 7: How is the average number of markets made by a broker-dealer during the 30 calendar days immediately preceding the computation date determined?
(a)(4)

Answer: Add the total number of markets made during the 30 calendar day period for securities with a representative ask price of \$5 per share. Add the total number of business days for the same 30 calendar day period. Divide the total number of markets by the total number of business days. Round the quotient to the next highest number to determine the average number of markets made. The same procedure should be used when determining the average number of markets made in securities with a representative ask price of \$5 or less.

Question 8: Are the additional net capital requirements for market makers as stipulated in subparagraph (a)(4) of the rule applicable to market makers making markets in corporate and municipal bonds?
(a)(4)

Answer: No. The market making provisions of paragraph (a)(4) are applicable only to markets made in equity securities.

Question 9: Can liabilities of a broker-dealer to banks, institutions and vendors be subordinated pursuant to a nonconforming subordination agreement?
(c)(1)(xi)

Answer: Yes. Although a nonconforming subordination agreement receives no value for net capital purposes, it is subordinate to the claims of other creditors (see paragraph (c)(1)(xi)). Such items are not viewed as aggregate indebtedness, but rather as "other liabilities" for purpose of the net capital rule. This treatment only applies to nonconforming subordination agreements entered into by persons defined as noncustomers at the time of such subordinations. Nonconforming subordination agreements by customers must be approved by the examining authority for the broker-dealer.

Question 10: Whenever immediate credit is received on drafts in the process of collection, does a loan result which would be classified as part of aggregate indebtedness?
(c)(1)

Answer: Yes.

Question 11: What is the treatment given funds deposited as so-called "clearing deposits" by an introducing broker-dealer with its correspondent or clearing broker?
(c)(2)

Answer: Deposits maintained by an introducing broker-dealer with its correspondent or clearing broker are considered allowable assets for the purposes of Rule 15c3-1.

Question 12: Under what circumstances may partners contribute securities as capital and have them included in net worth for net capital purposes?
(c)(2)

Answer: A partner may contribute securities as capital provided the securities are considered the property of the broker-dealer for all purposes (i.e., the firm has all of the benefits of ownership) and are thus recorded in the firm trading and investment accounts and are subject to appropriate haircuts. In addition, the firm must reflect the contribution of these securities as capital in a corresponding net worth account.

Question 13: In computing the amount of the adjustment allowed to offset the deferred tax liability on the unrealized profit on proprietary positions, is each position treated individually or is the adjustment computed on the aggregate haircut on all securities positions?
(c)(2)(i)(C)(1)

Answer: The adjustment is applied to the aggregate value of all securities haircuts.

Question 14: Is a broker-dealer who maintains its books on a cash basis required to set up a deferred tax liability?
(c)(2)(i)(C)

Answer: Yes. Every incorporated broker-dealer is required to reflect on its financial statements and in its net capital computation deferred tax liabilities arising from the unrealized appreciation of assets if any.

Question 15: Is a firm required to set up a deferred income tax liability if it realizes its inventory profits and losses on a monthly basis?
(c)(2)(i)(C)

Answer: No. Because in realizing its profits on a monthly basis the firm accounts for its tax liability in an accrued taxes payable account.

Question 16: Can a parent broker-dealer net unrealized profits or losses in its proprietary accounts with those of its subsidiaries for the purpose of reducing its deferred income tax liability?
(c)(2)(i)(C)

Answer: Yes. Provided all such adjustments are in conformity with Internal Revenue Service Regulations.

Question 17: Is a firm required to set up a deferred tax liability for its
(c)(2)(i)(C) nonallowable assets carried at cost?

Answer: No. Provided the nonallowable assets are reflected on the firm's books and records in accordance with generally accepted accounting procedures.

Question 18: The rule provides that tax benefits can be added to net
(c)(2)(i)(C) worth to the extent that income tax liabilities could have been reduced on the date of the capital computation had the related unrealized losses been realized on that date. Does this mean, for example, that a corporation with realized gains but unrealized losses at the end of its fiscal year can offset the realized gains to the extent of the unrealized losses on that date but that beginning with the next fiscal year would not have the right of offset for the unrealized losses since no realized gains exist as yet?

Answer: That is correct.

Question 19: Since Regulation T does not apply to municipal securities
(c)(2)(iv)(B) transactions, how are customer cash accounts which are unsecured or partially secured to be treated in instances in which the underlying security is a municipal security?

Answer: Firms having customer partially or fully unsecured accounts wherein the underlying security is a municipal security are to make the deductions required by subparagraph (c)(2)(iv)(B) commencing on the day following settlement date.

Question 20: Can the market value of a customer's fully paid securities
(c)(2)(iv)(B) which are in the physical possession of a broker-dealer, be considered an "offset" to deficits in that same customer's account pursuant to Rule 15c3-1?

Answer: The market value of all securities positions long in a customer's account are considered for the purposes of determining whether or not a debit balance in an account is fully secured.

Question 21: What treatment is given accrued interest receivable
(c)(2)(iv)(C) on bond positions held in proprietary accounts?

Answer: Between coupon dates, accrued interest receivable on securities held in a firm's proprietary accounts is considered an allowable asset under the rule and is not

aggregated with the market value of the bond for purposes of applying a haircut. However, interest receivable on bonds held in proprietary accounts is an allowable asset for 30 calendar days following the payable date. Thereafter, no value is received.

Question 22: Are free shipments of mutual fund redemptions outstanding more than seven business days deducted in full from net worth?
(c)(2)(iv)(B)

Answer: The total value of all free shipments, including mutual funds redemptions, outstanding more than seven business days is deducted in full from net worth.

Question 23: Are securities shipped to stock clearing corporations, banks acting as agent or clearing for the broker, or securities shipped delivery vs payment considered free shipments subject to the \$5,000, seven business day, parameters?
(c)(2)(iv)(B)

Answer: No. Shipments to clearing corporations and banks acting as agent for the broker-dealer, and securities shipped delivery vs payment are not considered free shipments under the rule.

Question 24: Are commissions receivable from oil and gas participation programs considered allowable assets?
(c)(2)(iv)(C)

Answer: Yes. Pursuant to subparagraph (c)(2)(iv)(C) of the rule such receivables are viewed as allowable assets provided they are outstanding not longer than 30 calendar days from the date they arise.

Question 25: Are concessions receivable from an issuer or its escrow agent outstanding less than 30 calendar days considered allowable assets under the rule?
(c)(2)(iv)(C)

Answer: No. Such items are considered to be nonallowable assets and must be deducted in full from net worth in computing capital beginning with the date they arise.

Question 26: How are institutional bonds treated pursuant to the amended net capital rule?
(c)(2)(vi)

Answer: Bonds issued by hospitals and extended care facilities which are rated in one of the four highest categories by at least one nationally recognized rating service are subject to the haircuts prescribed in subparagraph (c)(2)(vi)(F) of the amended net capital rule. All institutional bonds not meeting the above criteria, for which a

a ready market has been established, are subject to the haircuts set forth in subparagraph (c)(2)(vi)(J). This interpretation will continue to be effective through December 31, 1976, in order to allow time for the issuers of these securities to obtain a second rating from a nationally recognized statistical rating service.

Question 27: Are redeemable shares of registered investment companies exempt from the undue concentration provisions?
(c)(2)(vi)(M)

Answer: It is expected that subparagraph (c)(2)(vi)(M) will be amended shortly to exclude shares of registered investment companies from the undue concentration haircut requirements. Pending such an amendment redeemable shares of registered investment companies are subject to an undue concentration haircut.

Question 28: Does a specific security have to exceed 10 percent of a broker-dealer's net capital before application of haircuts on a continuous basis for 11 consecutive business days before the undue concentration haircut to be applied?
(c)(2)(vi)(M)

Answer: No. The rule requires that if a position is more than eleven business days old and on that date (or thereafter) its market value is in excess of the 10 percent test, the excess portion thereof is given a penalty haircut.

Question 29: Under the undue concentration haircut provisions, are proprietary positions of the same issue and same maturity with different coupon rates treated separately?
(c)(2)(vi)(M)

Answer: Securities of the same issue and maturity having different coupon rates are treated as separate positions for the purpose of determining the undue concentration haircut.

Question 30: To what amount is an undue concentration haircut applied in the case of an inventory position of 600 shares of stock with a market value of \$90,000, for example, when the net capital of the broker-dealer with the position is \$120,000 before the application of the haircuts as set forth in subparagraph (c)(2)(vi) or Appendix A? Is it:
(c)(2)(vi)(M)

(1) \$78,000 - the excess of the market value of the position (\$90,000) over 10 percent of net capital before the application of haircuts (\$12,000); or

(2) \$80,000 - the excess of the market value of the position (\$90,000) over the \$10,000 minimum exclusion amount; or

- (3) \$15,000 - the excess of the market value of the position (\$90,000) over the 500 share exclusion test?

Answer: In the example given, the undue concentration haircut would be applied to the \$15,000 amount which, as noted, is the market value of the position (\$90,000) in excess of the market value of the 500 shares exclusion test (\$75,000). The undue concentration haircut is applied to the excess of the market value of the position after it has been reduced by the greater of

- (1) 10 percent of net capital before the application of the haircuts set forth in subparagraph (c)(2)(vi) or Appendix A, or
- (2) the market value of 500 shares or
- (3) \$10,000 (\$25,000 in the case of debt securities).

Question 31: In what instances are option positions subject to an undue (c)(2)(vi)(M) concentration charge?

Answer: Undue concentration charges are applied to options and the market value of the underlying securities of all "in the money" options. To the extent that an option is "out of the money" it is unlikely to be exercised and therefore no consideration is given to whether it might increase, create or reduce a concentration.

The following chart illustrates some of the undue concentration charges relating to listed calls:

	<u>Type of Position</u>	<u>Treatment</u>
1)	Uncovered In the Money	Haircut the market value of the underlying security.
	Out of the Money	Haircut the market value of the option contract only.
2)	Covered In the Money	No haircut applied to either the underlying security or option contract.
	Out of the Money	Haircut the market value of the underlying security.

- | | | |
|----|---------------------------------------------------------------------------------|------------------------------------------------------------------------------|
| 3) | Long Call Option Position | Haircut the market value of the option contract. |
| 4) | Long Call Option Position
offset by Short Position
in Underlying Security | |
| | In the Money | No haircut applied to either the underlying security or the option contract. |
| | Out of the Money | Haircut the market value of the underlying security. |
| 5) | Spreads | No haircut applied to either option contract. |

Similar treatments apply to conversion accounts, unlisted options, puts, etc. For example, under the uniform net capital rule where a long unlisted call is valued at the "in the money" amount, the market value of the underlying security should be included, provided the aggregate of the regular and undue concentration haircuts related to that call do not exceed its value.

Question 32: (c)(2)(vii) If it can be established that the market place can absorb only a limited number of shares of a security for which a ready market seemingly exists, what treatment is afforded the nonmarketable portion of that position?

Answer: Pursuant to subparagraph 15c3-1(c)(2)(vii) whenever it can be determined that a "ready market" does not exist for all or a portion of a position, a deduction of 100 percent of the carrying value is to be given to that position or the unmarketable portion thereof.

Question 33: (c)(2)(viii) How is the price of municipal securities to be underwritten determined during the period in which an open contractual commitment exists?

Answer: The market value of municipal securities, subject to an open contractual commitment, is the net price to the dealer in the case of a primary offering

or the current market value in the event that an after-market exists. Each individual member's commitment is determined by dividing the total commitment by his percentage share.

Question 34: In an undivided account, how is the haircut on the securities being underwritten determined?
(c)(2)(viii)

Answer: If the individual maturities are determinable, the securities are haircut by issue and by maturity. In those instances where the individual maturities are not known, the total position is haircut.

Question 35: Are securities which a broker-dealer is failing to deliver to a Customer Net Settlement (CNS) clearance system subject to aged fail to deliver haircuts?
(c)(2)(ix)

Answer: No. Provided that the clearance facility is either the contra party to the transaction or guarantees the trade.

Question 36: Is a broker-dealer considered a market maker when entering a "bid" or an "offer" quotation in an inter-dealer quotation service in response to a customer's order?
(c)(8)

Answer: No.

Question 37: Is a broker-dealer considered a market maker when entering an interdealer quotation service with either "OW - BW" or the name of the firm?
(c)(8)

Answer: Yes, if the firm furnishes bona fide competitive quotations on request. Other factors to be considered are trading activity and the firm's position in the security. The burden of proof is on the broker-dealer to demonstrate that it is not making a market.

Question 38: Do quotations in any interdealer quotation service other than "NASDAQ" the National Quotation Bureau "Pink Sheets," etc., constitute a bona fide market?
(c)(11)(i)

Answer: Yes. Among others, local securities listings may qualify as a bona fide interdealer market.

Question 39: What haircut, if any, is applied to nonmarketable securities which have satisfied the ready market test of the rule by being accepted as collateral for a loan?
(c)(11)(ii)

Answer: The amount of the loan received by the broker-dealer is considered to be the fully discounted value of the securities position and no other haircut need be applied.

Question 40: For what period of time does a broker-dealer have to maintain a bank loan collateralized by nonmarketable securities in order to satisfy the ready market test under the rule?
(c)(11)(ii)

Answer: Net capital value is received for such positions only while the loan remains open.

Question 41: Are the provisions of subparagraph (c)(11)(ii) available to a broker-dealer having securities positions in its proprietary accounts, the marketability of which is restricted by law?
(c)(11)(ii)

Answer: Yes. A bank loan obtained by a broker-dealer secured by either controlled or restricted securities is considered an allowable asset under the rule. No haircut need be applied to the amount of the loan received.

Question 42: Can a broker-dealer demonstrate a "ready market" as defined pursuant to paragraph (c)(11)(ii) of the amended net capital rule, for nonmarketable securities by obtaining a line of credit from a bank collateralized by such securities?
(c)(11)(ii)

Answer: No. A line of credit is simply an informal commitment by the bank to make funds available to a prospective borrower, up to the stated maximum amount. It is essentially a declaration of intent, and may be canceled or amended by the bank at any time. The commitment by the bank is often qualified by the requirement that the borrower maintain compensating balances equal to a substantial fraction of the prospective loan. Because of this, the SEC staff is of the view that a line of credit from a bank when backed by nonmarketable securities does not meet the demonstrative provisions of subparagraph (c)(11)(ii) and therefore does not satisfy the ready market test under the rule.

Question 43: Which subordination agreements may be considered as equity capital for the purposes of the debt-equity requirement?
(d)

Answer: A satisfactory subordination agreement entered into by a partner, stockholder (regardless of the size of his holding), or wholly owned subsidiary or affiliate can be considered equity provided that such subordination agreement has a maturity of three years with more than 12 months remaining. Subordination agreements entered into by registered principals or officers of a corporation who are not stockholders cannot be treated as equity.

Question 44: Are satisfactory subordination agreements entered into
(d) by banks, institutions and vendors considered equity for the purposes of the debt-equity requirements.

Answer: No. Such subordination agreements are deemed to debt for the purposes of the debt-equity requirements.

Question 45: Is an open ended subordination for cash or a secured
(d) demand note which has no maturity date other than a term of not less than three years, meeting all other requirements, considered equity?

Answer: No. By interpretation the Commission requires that pursuant to Appendix D of the amended net capital rule, all subordination agreements must have a fixed maturity date.

Question 46: Can a lender be a limited partner and the subordination
(d) considered as equity?

Answer: Yes. Capital subordinated by any stockholder or partner of a firm is considered equity provided it meets the requirements of subparagraph (d) of the rule.

Question 47: Can an equity subordination agreement which is approaching
(d) one year to maturity be rewritten or a new subordination agreement be prepared to become effective on the maturity date of the existing agreement?

Answer: Yes. An equity subordination agreement which is approaching one year to maturity may either be rewritten or amended to extend its maturity, provided the surviving agreement conforms in all respects with the provisions of subparagraphs (d) and (e) and, Appendix D of the rule.

Question 48: If an existing subordination agreement which is considered
(d) equity can be rewritten after two years, does it, in affect, circumvent the requirement which prohibits the inclusion of an accelerated maturity provision in such agreements.

Answer: No. The rewriting or amending of an existing equity subordination agreement does not constitute an event of acceleration.

Question 49: Is the 4 percent minimum net capital requirement under
(f) the alternative method based upon 15c3-3 Reserve Formula

aggregate debit items before the 3 percent reduction or after taking that reduction into account?

Answer: The 4 percent minimum net capital requirement is based on the aggregate debit items before the 3 percent reduction.

Question 50: What is the treatment given excess collateral contributed by a subordinated lender under a secured demand note?
Appendix D (a)(2)(D)

Answer: The excess collateral contributed by a subordinated lender is considered to be fully paid securities of noncustomers.

Question 51: In the event accrued interest on a subordination agreement cannot be paid, without incurring a capital deficiency, can it then be subordinated pursuant to the terms of that agreement?
Appendix D (b)(3)

Answer: Yes. Paragraph b(3) of Appendix D makes it mandatory that such provision be contained in each subordination agreement.

Question 52: What treatment is given cash which has been deposited to bring the value of securities pledged as secured demand note collateral up to an amount not less than the unpaid principal amount of such secured demand note?
Appendix D (b)(6)(ii)

Answer: At the origination of a \$100,000 secured demand note, the following entries are made to the general ledger:

	DR	CR
SDN Receivable (current asset)	100,000	
SDN Account (capital)		100,000

When \$20,000 of cash is deposited:

Cash (current asset)	20,000	
Cash deposited (by "lender name") against SDN account (other liability, i. e. valuation account)		20,000

It should be noted that the additional deposit of cash by the lender is a nonaggregate indebtedness item which is not included in the 15c3-3 Reserve Formula inasmuch as a subordinated lender is deemed a noncustomer pursuant to subparagraph 15c3-3(a)(1).

Question 53: What treatment is given a subordination agreement, the
Appendix D repayment of which has been suspended because repay-
(b)(8) ment would place the broker-dealer in capital violation?

Answer: The subordination agreement is treated as capital of the
broker-dealer until it matures. Maturity of a subordina-
tion agreement cannot occur until such time as the broker-
dealer is able to repay in accordance with Rule 15c3-1 or
is required to repay the agreement as a result of the
occurrence of an event pursuant to which the lender can
accelerate the maturity of the agreement.

Question 54: Are the provisions governing the treatment of repurchase,
E(10) reverse repurchase, and matched repurchase agreements
Narrative in government securities applicable to municipal securities?

Answer: Yes. Broker-dealers executing repurchase, reverse
repurchase, or matched repurchase agreements in munici-
pal securities may treat those transactions as they would
similar transactions in U. S. Government securities.


* * * *

There are also a number of other questions currently under
study by the staffs of both the SEC and NASD. In addition, as the Association
and its members gain experience in working with this rule, more questions
are likely to arise. It is, therefore, the Association's intention to publish
periodic notices such as this to keep the membership fully informed as to
all developments in this area.

It should be noted that the SEC's Division of Market Regu-
lation has reviewed this question and answer summary and has advised
that the interpretations and clarifications contained herein accurately
reflect the staff's views.

Should you have any questions concerning this memorandum,
you are asked to contact either Theodore W. Prush or Stephen A. Boyko
at (202) 833-7209 or (202) 833-4827, respectively.

Sincerely,



Frank J. Wilson
Senior Vice President
Regulation

NOTICE TO MEMBERS 75- 73
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

December 31, 1975

TO: All NASD Members and Branch Offices
ATTN: Registration and Training Personnel
RE: NASD Qualification Program for Principals

I. Financial and Operations Principals Examination

Effective January 1, 1976, the Association will withdraw from its test centers Forms A and B of the Financial Principal Examination (FP-4) and replace them with Form A of the Financial and Operations Principal Examination (Series 27). The Series 27 Examination will reflect the provisions of the amended Net Capital Rule (SEC Rule 15c3-1) and will include the latest changes in the Customer Protection Rule (SEC Rule 15c3-3). The Series 27 Examination will be composed of both subjective and objective response questions, as well as a number of items requiring candidates to compute the requirements under various financial responsibility rules. Candidates will be allowed three hours to complete the Series 27 Examination and will be permitted to use electronic calculators to answer computational questions if they so desire. Candidates must provide their own calculators when sitting for the examination. The Association will forward new test center admission certificates for the Series 27 Examination to pending candidates holding FP-4 certificates after January 1, 1976. Candidates wishing to sit for the Series 27 Examination prior to receiving a new admission certificate may do so, however, since test center proctors have been instructed to accept FP-4 certificates for purposes of taking the new examination after January 1, 1976.

The new Financial and Operations Principal Examination (Series 27) is designed to test a candidate's knowledge of the primary financial responsibility rules of the Securities and Exchange Commission, the Federal Reserve Board, the Securities Investor Protection Corporation and the NASD. Candidates should concentrate their study in the following areas:

- A. General Rules and Regulations of the SEC under the Securities Exchange Act of 1934

Rule 8c-1	Rule 17a-4
Rule 15c3-1	Rule 17a-5
Rule 15c3-2	Rule 17a-10
Rule 15c3-3	Rule 17a-11
Rule 17a-2	Rule 17a-12
Rule 17a-3	Rule 17a-13

- B. Regulations T and U of the Federal Reserve Board
- C. Securities Investor Protection Act and Rules thereunder
- D. NASD Rules

Minimum net capital requirements of NASDAQ Market Makers under Schedule D of Article XVI of the NASD By-Laws

Requirements with respect to Customers' Securities or Funds under Section 19 of the NASD Rules of Fair Practice

Requirements with respect to Books and Records under Section 21 of the NASD Rules of Fair Practice

Requirements with respect to Disclosure of Financial Condition under Section 22 of the NASD Rules of Fair Practice

Minimum margin requirements under Section 30 of the Rules of Fair Practice and Appendix A thereof

Requirements with respect to Securities "Failed to Receive" and "Failed to Deliver" under Section 31 of the Rules of Fair Practice and Appendix B thereof

II. Principals Examination

Effective January 1, 1976, the Association will withdraw from its test centers Form P-4 of the Principals Examination. Subsequent to this date candidates for registration as Principals will be required to pass the Coordinate Examination for Principals (Series 40). The Series 40 Examination has been used in the past to qualify Principals from exchange member firms who were also required to qualify as exchange Branch Office Managers or Allied Members. The Series 40 Examination, while shorter than the Series P-4 Examination (100 questions vs. 170 questions), covers the same material and its use will not require any substantive changes to training programs for Principals.

The Association will forward new test center admission certificates for the Series 40 Examination to pending candidates holding P-4 certificates

after January 1, 1976. Candidates wishing to sit for the Series 40 Examination prior to receiving a new admission certificate may do so, however, since test center proctors have been instructed to accept P-4 certificates for purposes of taking the Series 40 Examination after January 1, 1976.

The Series 40 Examination will be used by the Association to qualify Principals until such time as proposed changes to Schedule "C" of the NASD By-Laws are approved by the SEC and new examinations are implemented for various categories of Principals.

These categories include:

General Securities Principal

Investment Company Products/Variable Contracts Principal

Direct Participation Programs Principal

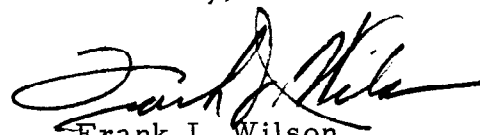
Underwriter Principal

Financial and Operations Principal (in existence)

Implementation of the new categories of registration will be preceded by the publication of appropriate study outlines.

Questions regarding the content of the new Financial and Operations Principal Examination (Series 27) should be directed to Herbert J. Millard, Assistant Director, Qualifications and Examinations Department, at (202) 833-7392. Questions on administrative matters should be directed to Janet G. Hale, Assistant Director, Qualifications and Examinations Department, at (202) 833-7174.

Sincerely,



Frank J. Wilson
Senior Vice President
Regulation

NOTICE TO MEMBERS: 75-74
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

December 31, 1975

TO: All NASD Members and Branch Offices
ATTN: Registration and Training Personnel
RE: NASD Qualification Examination Program

I. STUDY OUTLINES

A new study outline for the General Securities Registered Representative Examination (Test Series 7) is now available from the Association. This outline will replace the NASD and New York Stock Exchange publications which have been used to date in this testing program. Study outlines are also available for the examinations for the proposed limited categories of representative registration listed below. A listing of these publications along with the applicable price quotes is shown below:

<u>Study Outline</u>	<u>1-9 Copies each</u>	<u>10-49 Copies each</u>	<u>50 or More Copies each</u>
General Securities RR	\$5.00	\$4.00	\$3.50
Investment Company Products/ Variable Contracts RR	2.00	1.50	1.00
Direct Participation Program RR	2.00	1.50	1.00
Real Estate Securities RR	2.00	1.50	1.00
Security Trader*	.30	.30	.30

Copies of these outlines can be obtained from the NASD Treasurer or from any one of the fourteen NASD District Offices.

* Until the preparation of a new examination, Security Traders will continue to qualify by taking the same type of examination used by the Association since 1962. For this reason the original Study Outline for Registered Representatives and Principals can be used in the preparation of Security Trader candidates. A specialized examination for Security Trader Representatives will be implemented during 1976 and a new study outline made available at that time.

II. IMPLEMENTATION OF NEW EXAMINATIONS FOR LIMITED CATEGORIES FOR REGISTERED REPRESENTATIVES

The new representative examinations for Investment Company Products/Variable Contracts, Direct Participation Programs and Real Estate Securities will be implemented by the Association upon approval by the Securities and Exchange Commission of proposed amendments to Schedule "C" of the NASD By-Laws dealing with the registration requirements of principals and representatives. These amendments have been filed for approval by the Securities and Exchange Commission under the new procedures specified in the Securities Acts Amendments of 1975. Due to the newness and complexity of these procedures, it is difficult to identify a fixed date when the amendments will become effective and likewise the precise implementation date of the new examinations. The NASD will notify all members of the expected start-up date of new programs at the earliest date a definitive statement can be made. A February 1, 1976 start-up date is presently anticipated but it could be somewhat later depending upon SEC action on the Association's proposals. A subsequent Notice to Members will establish a definitive effective date.

III. GENERAL SECURITIES RR EXAMINATION (TEST SERIES 7) - AREAS OF DIFFICULTY ENCOUNTERED BY NASD-ONLY CANDIDATES

From time to time the Association intends to publish results of its analyses of candidate performance on examinations used in its qualification program. The following analysis identifies subject matter areas in which candidates from NASD-only firms, that is, candidates from firms which are not also members of a national securities exchange, are experiencing difficulty in the General Securities Examination. It is intended that this information will be useful in the training of representatives and will result in better test performance by candidates sitting for the General Securities Examination. A similar analysis is provided by the New York Stock Exchange for the benefit of its members (see NYSE memo to Managing Partners, Chief Executive Officers and Branch Office Managers dated September 5, 1975).

The specific areas of weakness for NASD-only candidates are shown below in terms of the major subject matter sections of the new General Securities Study Outline.

General Comment - Regardless of the subject matter area, all candidates are experiencing difficulty with those test questions which require the application of knowledge to problem solving situations. For example, knowledge of tax rules or other regulations must be complimented by practice drills in applying these rules to individual cases. In many questions computational skills are necessary.

Part I - Investment Instruments - In general candidates are well prepared in this area. More intense study would be helpful, however, in the following sections:

- | | |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------|
| Section 1.4 | Money Market Instruments |
| Section 1.5 | Subscription Rights, Stock Purchase Warrants, Security Options and American Depository Receipts (ADR's) |
| Section 2.12 | Structure and Operation of Open-end Investment Companies (cross reference: Section 15.3 Investment Company Act of 1940) |
| Section 2.16.5 | Contractual Plans, especially the unconditional and limited rights of withdrawal under the Investment Company Act Amendments of 1970. |

Part II - Securities Markets

- | | |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Section 5.0 | New Issue Market - generally poor performance, especially in understanding of the different types of underwriting commitments (5.1.4), the components of underwriter compensation (5.1.6) and the public offering process (5.1.10) (cross reference: Section 15.1.3 and 15.1.9) |
| Section 6.0 | OTC Market - generally good performance. Some confusion is indicated as to the representative and wholesale nature of OTC security quotations in newspaper quotation services. |
| Section 7.0 | Exchange markets, especially
Section 7.1 Nature of Exchange Markets
Section 7.5 Order Qualification
Section 7.6 Role of the Specialist
Section 7.9 Tape Displays |
| Section 8.0 | Options Markets - a better understanding needed of the differences between adjustments to option terms in OTC and listed options (Sections 8.1.6 and 8.2.2). |

Part III - Brokerage Office Procedures

- Section 9.0 Client Accounts - generally good performance with additional study indicated in Section 9.3.7 Custodial Accounts under the Uniform Gifts to Minor Act.
- Section 10.0 Short Sales and Transactions in Margin Accounts - poor performance by all candidates at both the definitional and problem solving levels. Practice drills in margin computations should be incorporated into training programs.

Part IV - Analysis, Selection and Purchase of Securities

- Section 11.0 Economic, Market and Industry Factors Affecting Prices of Securities - better understanding needed of the material covered in Section 11.1.5, Monetary Policies of the Federal Reserve Board. There is also a widespread inability of candidates to read or interpret the financial news (see Section 11.5). Use of the Wall Street Journal or other business publications to develop this skill is strongly advised.
- Section 12.0 Securities Analysis - There is a general weakness in this area on the part of all candidates. Greater emphasis in all areas in this section is advised, including practice drills utilizing the financial news and corporate financial reports.
- Section 13.0 Investment Risks and Portfolio Policies - need for a better understanding of the different kinds of investment risks is indicated.

Part V - Taxation

- Section 14.0 Tax Consequences of Securities Transactions - Generally poor performance by candidates in all aspects of taxation. Candidates must be prepared to analyze the performance of a portfolio over a period of several years and to determine the tax consequences of various transactions in one or more years.

Part VI - Regulation - In general candidates are well prepared in this area. Additional study would be helpful, however, in the following sections:

- Section 15.2.1.8.9 Purpose of broker/dealer net capital requirements (SEC Rule 15c3-1)
- Section 15.2.1.8.10 Notification to customers of free credit balances held by broker/dealers
- Section 15.2.1.8.11 Customer Protection Rule (SEC Rule 15c3-3) - general provisions, not the computational intricacies
- Section 15.5 Securities Investor Protection Corporation (SIPC)
- Section 15.3.2 Classifications of Investment Companies under the '40 Act
- Section 16.3.4.1 NASD Mark-Up Policy
- Section 16.3 Uniform Practice Code, particularly Section 16.5.2 - Transactions ex-dividend, ex-rights or ex-warrants.

IV. NEW CONTENT OR CHANGES IN EMPHASIS ON THE GENERAL SECURITIES EXAMINATION (SERIES 7)

Advance notice will be given when new subject matter areas or markedly different emphasis are to appear in the examination. The following changes may be expected in future forms of the General Securities Examination.

A. Consolidated Tape - Questions on the consolidated tape, which became effective on June 16, 1975 have been added to the examination. Candidates must be prepared to differentiate the networks, to identify the market centers included in each network and to read and interpret displays appearing on the tape. This material is covered in Sections 7.9 and 7.10 of the General Securities Study Outline. Reference should also be made to NASD Notice to Members 75-42, dated June 10, 1975, and/or NYSE memo to Members and Allied Members, dated May 29, 1975.

B. Listed and OTC Options - The number of questions on options will be increased and will cover the material included in Section 8.0 in the General Securities Study Outline. Additional reference can be made to CBOE

memo dated December 30, 1974, "Certification of Registered Personnel Servicing Options Accounts", or AMEX Information Circular #121-74, dated December 17, 1974.

V. REQUIREMENTS WITH RESPECT TO REQUESTS FOR WAIVER OF QUALIFICATION EXAMINATIONS

The NASD has established the following guidelines and procedures for the handling of requests for waiver of qualification examinations.

A. Formal Requests - Waiver requests for each applicant must be submitted in writing by a registered principal of the sponsoring firm. Waiver requests should be addressed to the Director, Qualifications and Examinations Department, NASD Executive Office, 1735 "K" Street, N.W., Washington, D.C. 20006.

B. Expiration of the Termination Grace Period

Requests for waivers for applicants whose registration with the NASD has been terminated for a period in excess of that stipulated in Schedule "C" of the NASD By-Laws, and who have not been engaged in work activities related to the securities business during this period, will generally be denied. Currently, the termination grace period is limited to two years from the date of termination of registration on NASD records.

C. Advanced Age or Physical Infirmary

A waiver request based solely on the advanced age or physical infirmity of an applicant will generally be denied.

D. Full and Partial Waivers of Qualification Examinations

1. Principal Examinations - The Association will grant waivers of its Principal examination requirements only in the most exceptional situations. At a minimum, applicants requesting waivers of Principal examination requirements must either

- a. have been previously registered as a principal with the NASD and be able to demonstrate supervisory experience during the period of termination in a non-member broker/dealer or other entity subject to the same or similar regulations as an NASD member; or
- b. have qualified by examination in a testing program acceptable to the Association for the purpose of qualifying principals and be able to demonstrate continuous supervisory experience since so qualifying in a non-member

broker/dealer or other entity subject to the same or similar regulations as an NASD member.

2. Representative Examinations - A full or partial waiver of a representative examination requirement may be granted to an applicant whose business activity during the period of termination was in a field closely related to the securities industry or to an applicant, all of whose work career has been in such a related field. Business activity in a related field would include, but not necessarily be limited to, experience in certain types of legal practice requiring extensive knowledge of securities regulations, securities analysis, experience in the trust and investment departments of banks, portfolio management and related investment advisory services.

E. Explanation of Partial Waivers - Partial waivers entail a waiver of the usual qualification examination for representatives and substitution of a set of questions dealing solely with the Federal Securities Acts and the rules and regulations of the SEC, Federal Reserve Board, SIPC and the NASD. A partial waiver allows for credit being given for an applicant's investment experience and at the same time requires the individual to demonstrate a working knowledge of applicable securities industry regulations.

F. Documentation of Experience in Related Fields

Requests for waivers based on previous experience in related fields will not qualify for consideration unless the nature of such experience is fully documented. Such demonstration should contain the following:

1. A detailed listing of the actual job functions performed in the related fields. A simple listing of previous employers and job titles will not be sufficient for this purpose.

2. Signed certification from the previous employer(s) in the most recent three-year period preceding the date of application to the NASD. Such certifications should confirm that the actual job functions listed for the applicant were in fact performed during the period of employment.

Consideration of any waiver request which does not meet the above requirements will be delayed until all necessary documentation has been received by the Association.

G. Denial of Waiver - The Association reserves the right to deny a waiver request on the basis of information provided by the applicant and his or her sponsoring firm. The Association will reconsider its original decision to deny if new information relevant to its consideration of a waiver request becomes available.

VI. TEST ADMINISTRATION PROCEDURES

A. Verbal Admissions to Test Centers and Telephone Queries on Candidate Test Performance

The Association processes approximately 40,000 examinations per year. These examinations include not only those which meet NASD requirements, but also the examinations administered for the New York, American and Pacific Stock Exchanges, the Chicago Board Options Exchange, the Inter-commodity Exchange Committee, the Securities and Exchange Commission, approximately twenty State Securities Commissions and others.

Since the processing of examination requests and test results is handled on a manual basis entailing a sequential flow of paper through the Qualifications and Examination Department, the primary responsibility of the Association is to ensure that each candidate is afforded equal treatment and that the whole test processing system operates as efficiently as possible. It is necessary, therefore, that member firms allow sufficient time for documents to be delivered through the mails and processed by the NASD. The current standards are as follows:

1. Applications or examination requests should be submitted no later than ten (10) business days prior to the date a candidate intends to sit for an examination.
2. A period of ten (10) business days from the date an examination has been taken should be allowed to process and return grade results to the sponsoring firm.

Requests for verbal admissions to test centers or telephone requests for candidate grades during the periods specified above will generally be denied. In situations where NASD processing errors have caused delays exceeding these periods, however, the NASD will respond to such requests.

The once-a-month administration of the General Securities Registered Representative Examination (Series 7) places a premium on rapid processing of grade results, particularly for candidates who have failed and wish to sit for the examination the following month. For this reason Series 7 examinations are handled on a priority basis during the week following the test date. These results will generally be mailed during the week following the examination.

Since the General Securities Registered Representative Examination (Series 7) is utilized by other regulatory agencies, the NASD furnishes such agencies with grade reports at the same time written notices are forwarded by mail to the sponsoring firm. While these agencies may respond to telephone

queries on candidate test performance, the responsibilities of the Association to expeditiously process this and the many other examination programs precludes such an individualized service at this time. However, the Association intends to fully automate its test processing system during the first half of 1976. It is anticipated that such a system will be capable of rapid data retrieval and will provide the capability of servicing telephone requests for grade results, thus materially speeding up the reporting period for examination results. Developments in this area will be reported to the membership.

B. Foreign Test Centers - Since January 1, 1975, the Association has conducted its foreign test program through two centers in Europe - Frankfurt, Germany and Paris, France - and one center in the Far East - Tokyo, Japan. Candidates wishing to sit for an examination at one of these centers must submit a Foreign Session Appointment Request at least one month prior to the desired session and a \$15.00 reservation fee in addition to all other required fees. The reservation book for any one session is closed no later than three weeks prior to the session and all test materials forwarded at that time to the center. Appointment requests received after the reservation book on a session has been closed cannot be honored. It is the responsibility of the sponsoring firm to ensure that all necessary documents are submitted prior to the cut-off date.

In its Notice to Members 75-23, dated March 12, 1975, announcing the procedures to be followed when requesting a foreign session appointment, the Association stated that it would consider the opening of new centers and/or the addition of more sessions at existing foreign centers if such steps were warranted in view of the service needs of member firms. The Association wishes to reiterate this pledge and requests that all interested parties respond to the Director, Qualifications and Examinations Department as soon as possible. Any expansion of the foreign testing program may result in a higher reservation fee.

C. Pending Applications and Requests for Examinations

Pending applications and examination requests on file with the NASD will be maintained for a period of two years following either the date the application/request was received by the Association or the date on which a candidate last sat for an examination, whichever is later. At the end of the applicable two-year period pending applications/requests will be withdrawn from the active file. Subsequent to such action by the NASD, a candidate wishing to sit for an examination must submit a new application/request (whichever the case might be) accompanied by the appropriate fees. Monies paid on the original application/request will not be transferrable or refundable.

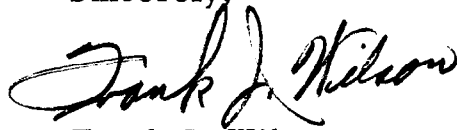
D. Payment of Examination Fees for the General Securities Examination (Series 7)

There are numerous situations where individuals from NASD-only member firms with effective General Securities registrations at the NASD

(but who have not taken the new Series 7 examination) transfer to NASD/ securities exchange member firms and the securities exchange requires that such individuals pass the Series 7 examination. While there is no NASD qualification requirement in such cases, the thirty dollar (\$30.00) examination fee is still due at the time the U-4 applications are submitted to the Association. Failure to do so may result in delays in processing candidates' test results.

Questions regarding the study outlines, examination content and the implementation of new examination programs should be directed to Frank J. McAuliffe, Director, Qualifications and Examinations Department, at (202) 833-7394. Questions regarding waiver of examination requirements and test administration should be directed to Janet G. Hale, Assistant Director, Qualifications and Examinations Department, at (202) 833-7174.

Sincerely,

A handwritten signature in black ink, reading "Frank J. Wilson". The signature is written in a cursive style with a large initial "F".

Frank J. Wilson
Senior Vice President
Regulation