NOTICE TO MEMBERS No. 77-16
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

June 3, 1977

IMPORTANT

TO: All NASD Members

RE: Municipal Securities Rulemaking Board Rule A-12; Initial Fee for Municipal Securities Brokers and Municipal Securities Dealers

The purpose of this notice is to remind all member firms of the requirements of Municipal Securities Rulemaking Board (MSRB) Rule A-12 entitled, "Initial Fee for Municipal Securities Brokers and Municipal Securities Dealers." This rule, which became effective on December 11, 1975, requires every municipal securities broker and municipal securities dealer to pay a one-time initial fee of $100 to the MSRB. It is important to note that any activity in municipal securities on the part of a broker or dealer will cause such firm to be included within the definition of either a "municipal securities broker" or "municipal securities dealer" as those terms are defined in Sections 3(a)(30) and 3(a)(31) of the Securities Exchange Act of 1934.

In connection with the aforementioned requirement, the Association has received a number of inquiries from member firms questioning the applicability of MSRB Rule A-12 to a broker or dealer who may only effect, on an occasional basis, a very limited number of transactions in municipal securities. In this regard, the Association has recently been advised by the MSRB, following discussions by that organization with the staff of the SEC, that any broker or dealer effecting municipal securities transactions - even one - would be included within the statutory definition of a "municipal securities broker" or "municipal securities dealer" and, as such, become subject to the $100 initial fee prescribed by MSRB Rule A-12.

It is therefore essential that members take steps to comply with the requirements of MSRB Rule A-12 in paying the $100 fee upon the occurrence of any activity in municipal securities even though such activity may

be limited to a single isolated transaction. On this point, however, the MSRB has advised that if a firm does not thereafter effect any other transactions in municipal securities it would not be subject to any other rules of the MSRB.

Should you have any questions concerning this notice or with respect to the application of MSRB Rule A-12 to a particular situation, please contact Mr. Jack Rosenfield, Assistant Director, Department of Regulatory Policy and Procedures, (202) 833-4828, at the Association's Executive Office, 1735 K Street, Northwest, Washington, D. C. 20006.

Sincerely,

Gordon S. Macklin
President

* * *

TEXT

Rule A-12 Initial Fee For Municipal Securities Brokers and Municipal Securities Dealers.

Every municipal securities broker and municipal securities dealer presently or hereafter registered with the Commission shall, not later than (1) December 15, 1975 or (2) the date which is ten days from the date of registration of such municipal securities broker or municipal securities dealer with the Commission, whichever shall last occur, pay to the Board an initial fee of $100, accompanied by a written statement setting forth the name, address and Commission registration number of the municipal securities broker or municipal securities dealer on whose behalf such fee is paid. The Commission registration number shall also be set forth on the face of the remittance. Such fee shall be payable at the offices of the Board in Washington, D. C. In the event any person subject to this rule shall fail to pay the required fee, the Board may recommend to the Commission that the registration of such person with the Commission be suspended or revoked.

NOTICE TO MEMBERS: 77-17
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

June 3, 1977

MEMORANDUM

TO: All NASD Members

RE: Municipal Securities Rulemaking Board
Rules on Professional Qualification

SUMMARY

Recently, the Securities and Exchange Commission approved a series of Municipal Securities Rulemaking Board (MSRB) rules pertaining to professional qualification. These rules specify and delineate the standards which must be met by municipal securities brokers and municipal securities dealers, and persons associated with such firms, before they may effect transactions in municipal securities. The qualification rules of the MSRB (Rules G-2, G-3, G-4, G-5 and G-7) directly affect every member of the NASD that transacts a business in municipal securities.

The purpose of this notice is to explain both the rules and the steps which each member and certain associated persons must take in order to comply with the MSRB's standards of professional qualification. It is important to note that these qualification requirements apply to brokers, dealers and municipal securities dealers, including bank dealers, if any portion of their business involves transactions in municipal securities. Although many Association members may conduct only a nominal amount of business in municipal securities, they are nonetheless subject to the qualification standards of the MSRB to the same extent as if their business was limited solely to transactions in municipal securities.

Rule G-3 establishes various classes of associated persons to be known as "municipal securities principals," "financial and operations principals" and "municipal securities representatives." It also establishes examination requirements for persons who are required to qualify in each of these classes and who are not otherwise exempt from such requirements. Rule G-7, entitled "Information Concerning Associated Persons," will require the filing of a Form U-4 (the uniform registration form for sales

personnel) by, and on behalf of, all such associated persons. The requirements of Rule G-7 will become effective on September 1, 1977. The provisions of Rules G-2 through G-5 are currently effective.

BACKGROUND

The Securities Acts Amendments of 1975 (1975 Amendments) amended the Securities Exchange Act of 1934 (the "Act") in several important respects. Specifically, Section 3(a)(12) of the Act was amended to exclude municipal securities from the term "exempted security" for purposes of Sections 15, 17A and most of 15A. In addition, a new section, Section 15B, was adopted. It created the MSRB and empowered it to formulate rules to regulate the activities of all firms transacting a business in municipal securities. Prior to the 1975 Amendments, municipal securities firms and municipal bank dealers were subject only to the anti-fraud provisions of the federal securities laws. Pursuant to Section 15B(b)(2), however, the MSRB has been given the authority to propose and adopt rules establishing standards of operational capability and professional competence for municipal securities brokers, municipal securities dealers, and individuals associated with such firms, as are necessary or appropriate in the public interest or for the protection of investors. In this connection, the MSRB was given the authority to classify such persons, to prescribe standards for such classes, and to require such persons to pass tests to evidence their qualifications.

In adopting its rules on professional qualification, the MSRB has sought, to the extent appropriate, to apply uniform standards to all firms and to persons engaged in a municipal business, whether members of the NASD, members of SECO or bank dealers. Pursuant to the provisions of its rules, the MSRB is requiring all such firms and associated persons to satisfy certain standards of qualification before they may engage in a municipal securities business. By virtue of the authority granted to it under the Act, the NASD has the responsibility to enforce these rules and to administer the appropriate qualification examinations (when developed by the MSRB) in respect to all persons associated with municipal securities brokers and dealers having membership in the Association.

In terms of definitions of categories of associated persons, the MSRB's qualification rules are, in certain respects, more extensive than those of the NASD. For example, persons associated with a municipal securities broker-dealer who perform research and/or financial advisory services with respect to municipal securities are defined by the MSRB to be either principals or representatives depending on whether they also exercise managerial or supervisory authority. In this regard, every member must review the qualification requirements of the MSRB which are described below and determine which individuals will be required to qualify in the respective classes. Such is necessary in order to make certain each member is itself qualified as a municipal securities broker-dealer and therefore eligible to transact a municipal securities business.

MSRB RULES ON PROFESSIONAL QUALIFICATION

RULE G-2 STANDARDS OF PROFESSIONAL QUALIFICATION

Summary

The provisions of this rule prohibit any municipal securities broker or municipal securities dealer from effecting, inducing or attempting to induce any transaction in municipal securities unless every such firm and every person associated therewith is qualified under the rules of the MSRB.

Additional Comments

The 1975 Amendments defined, for purposes of the Act, the terms "municipal securities broker," "municipal securities dealer" and "person associated with a municipal securities dealer." Generally, securities firms effecting transactions in municipal securities were required to register with the SEC as a "broker or dealer" in accordance with Section 15 of the Act. A bank, or a "separately identifiable department or division" of a bank, that trades in municipal securities was required to register with the SEC under Section 15B as a municipal securities dealer. Reregistration was not required for any securities firm previously registered as a broker-dealer with the SEC.

Rule G-2 essentially says that any broker, dealer or municipal securities dealer shall first be qualified as such in accordance with all applicable rules of the MSRB prior to conducting a business in municipal securities. Failure of any firm to so qualify, or to maintain its qualification status, prohibits such firm from effecting transactions in municipal securities.

RULE G-3 CLASSIFICATION OF PRINCIPALS AND REPRESENTATIVES; NUMERICAL REQUIREMENTS; TESTING

Summary

Definitions - paragraph (a)

The provisions of this rule classify individuals associated with municipal securities brokers and dealers as (1) municipal securities principals; (2) municipal securities representatives; and, (3) financial and operations principals depending upon the function or functions to be performed.

"Municipal securities principals" are defined as individuals directly engaged in a managerial or supervisory capacity with respect to a firm's activities in municipal securities. Such activities include, among

others, underwriting, trading or sales of municipal securities, financial advisory or consultant services for issuers, research or investment advice and the training of municipal securities principals or representatives [subparagraph (a)(i)].

"Municipal securities representatives" are defined as individuals associated with municipal securities brokers or dealers, other than municipal securities principals and persons performing clerical functions, whose activities include, among other things, underwriting, trading or sales of municipal securities, financial advisory or consultant services for issuers and/or research advice with respect to municipal securities. Individuals classified as municipal securities representatives are not permitted to function in any supervisory capacity or perform training activities with respect to municipal securities principals or representatives [subparagraph (a)(iii)].

"Financial and operations principals" are defined as individuals performing essentially the same functions as are performed by persons required to qualify and register with the NASD in the capacity of financial principal as that term is defined in Schedule C of the Association's By-Laws. A person required to qualify as a financial and operations principal would have overall responsibility for such matters as the preparation of financial reports and the supervision of persons involved in the administration and maintenance of processing, clearance and safekeeping functions of a municipal securities broker or dealer [subparagraph (a)(ii)].

Additional Comments

Municipal Securities Principal - The term "municipal securities principal," as defined by the rule, is more functional in scope than the definition of "principal" presently used by the Association. While the Association defines a principal as one who is an associated person "actively engaged in the management of the member's investment banking or securities business," the components of the Rule G-3 definition are much more comprehensive. It specifies that the performance of supervisory responsibility in the areas of processing, clearance or safekeeping functions with respect to municipal securities; the maintenance of records pertaining to such activities and functions; and/or the training of municipal securities principals and representatives requires qualification as a municipal securities principal.

Under the MSRB's rule, any person engaged in training municipal securities principals and municipal securities representatives must qualify as a municipal securities principal. Municipal securities representatives are not permitted to train other principals or representatives.

The question has been raised with the MSRB with respect to determining whether and under what circumstances a person qualified only as

a municipal securities principal would be permitted to engage fully in the same activities as does a municipal securities representative. In an interpretive release dated January 27, 1977, the MSRB stated that a person who is qualified under NASD rules to function in both principal and representative capacities (i.e., a general securities principal), on the date the Rulemaking Board first prescribes a qualification examination for municipal securities representatives, may continue to function in a representative capacity with a municipal securities firm without having to take and pass the MSRB's qualification examination for municipal securities representative. However, the MSRB has not as yet determined whether to require persons who will function in a municipal securities principal capacity and who are not previously qualified, eligible for grandfathering or otherwise exempt, to take and pass a qualification examination for municipal securities representative, if they themselves plan to engage in underwriting, trading or sales of municipal securities and so on. The MSRB has indicated that a final determination on this matter will not be reached until the examinations in question are developed.

In regard to the above, persons who are classified as municipal securities principals and have not taken and passed an NASD examination for general securities principal or general securities representative may be required at some future date to take and pass MSRB qualification examinations for municipal securities principal and representative if functioning in both capacities, and not grandfathered or exempt from such requirement. Persons grandfathered as a municipal securities principal but who have not continuously engaged in selling activities since December 1, 1975, may have to take and pass an MSRB qualification examination for municipal securities representative, when such becomes effective, in order to actively engage in selling activities. Likewise, persons who are qualified and registered as a general securities principal with an NASD member, but who have never taken and passed the Association's general securities representative examination, may be required in the future to pass the MSRB's municipal securities representative examination in order to function in a municipal securities representative capacity.

Members will be promptly advised of the MSRB's determinations in these areas as soon as they are announced.

Municipal Securities Representative - The provisions of Rule G-3 define "municipal securities representative" as a person associated with a municipal securities broker-dealer who performs, among other things, the functions of underwriting, trading or sales of municipal securities; who renders financial advisory or consultant services for issuers; and, who provides research or investment advice with respect to municipal securities. Heretofore, members of the Association were not required to qualify or register with the NASD any personnel performing research or financial advisory activities unless they were also engaged in selling or training

activities. This new requirement establishes a new standard in the area of qualification requirements for persons associated with member firms.

As noted above, a person qualified only as a municipal securities representative may not engage in any supervisory activities. The Association inquired of the MSRB as to the status of NASD registered representatives who presently exercise some supervisory authority over other municipal representatives and whether such persons would qualify to be grandfathered as a municipal securities principal. The MSRB advised the staff that if such persons have been continuously exercising supervisory authority, as specified in paragraph (a)(i) of Rule G-3, since December 1, 1975, they may be able to qualify by grandfathering as a municipal securities principal. Such would have to be determined, however, on a case by case basis. [See also discussion of grandfathering criteria under paragraphs (c) and (e) below].

Numerical Requirements - paragraph (b)

Summary

Every municipal securities broker-dealer is required to have at least two municipal securities principals except in the case of NASD members which conduct a general securities business or firms with less than 11 employees; they would be permitted to have only one municipal securities principal [subparagraph (b)(i)].

Every municipal securities broker-dealer other than a bank dealer is required to have at least one financial and operations principal. The chief financial officer of every municipal securities broker-dealer shall be required to qualify in this class. Member firms that are exempt from the requirements of SEC Rule 15c3-1 pursuant to paragraph (b)(3) thereof, or which meet the net capital requirements of either paragraphs (a)(2) or (a)(3) of that rule are not required to qualify any person as a financial and operations principal [subparagraph (b)(ii)].

Qualification Requirements for Municipal Securities Principals - paragraph (c)

Summary

All municipal securities principals are required to take and pass a qualification examination, to be prescribed by the MSRB at some future date, prior to being qualified in this class. There are, however, certain exceptions to this general requirement including grandfather provisions which will operate to excuse many individuals from the requirement to pass such examination. For example, if a person has continuously performed the functions of a municipal securities principal from December 1, 1975, to the

effective date of a rule of the MSRB first prescribing a qualification examination, he would not be required to take such examination. In addition, any person who is qualified and registered as a general securities principal with a member of the NASD on the date an examination is so prescribed, would not be required to take any such examination [subparagraphs (c)(i) and (c)(ii)]. */

Any person associated with a municipal securities broker-dealer who is classified and qualified as a municipal securities representative, general securities principal or general securities representative and who is elevated to, and assumes the function of, a municipal securities principal, must take and pass a qualification examination within 90 days of his acting in the capacity of a municipal securities principal [subparagraph (c)(iv)].

The NASD, in the case of persons associated with a member firm, has the authority to waive the qualification examination requirement with respect to any such person who is able to demonstrate appropriate background and work experience which would permit the granting of such a waiver [subparagraph (c)(v)].

The requirement to take and pass any qualification examination for municipal securities principal will not become effective until six months after the effective date of a rule adopted by the MSRB establishing such examination [subparagraph (c)(vi)].

Additional Comments

Every municipal securities broker-dealer that is a member of the NASD is required to have associated with it at least one person qualified as a municipal securities principal before the firm may transact a municipal securities business. In order for any such person to so qualify, he must (1) satisfy the grandfather provisions of the rule; (2) qualify and register as a general securities principal; or, (3) eventually take and pass an MSRB qualification examination for municipal securities principal. After an MSRB rule prescribing its examination becomes effective, every person who has not qualified as a municipal securities principal and performs the functions of such will be required to pass such examination unless he can substantiate a basis for the NASD approving a waiver of such requirement.

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* The term "general securities principal" as used in the rules of the MSRB refers to a proposed category of principal embodied in amendments to Schedule C of the NASD's By-Laws currently on file with, and pending approval by, the SEC. The term "financial and operations principal" is a modification of the Association's financial principal category and is essentially the same as the MSRB's class. Explanatory coverage of the NASD's amendments to Schedule C may be found in NASD Notice to Members No. 75-25, dated March 31, 1975.

The provisions of subparagraph (c)(iv) require municipal securities representatives, general securities representatives and general securities principals who are elevated to the position of municipal securities principal to pass an MSRB qualification examination. Such persons will be required to pass the MSRB's examination within 90 days of assuming the responsibilities and functions of a municipal securities principal if not otherwise grandfathered or exempted from that requirement after the MSRB's examination is developed.

Qualification Requirement for Financial and Operations Principals - paragraph (d)

Summary

Every person required to qualify as a financial and operations principal with a municipal securities broker-dealer must do so by passing an examination to be prescribed by the MSRB. Persons already qualified and registered as a financial principal with a member of the NASD will not have to take and pass an additional examination [subparagraphs (d)(i) and (d)(ii)].

If a person, who is qualified as a financial and operations principal, ceases to be associated with a municipal securities broker-dealer for two or more years, he must first pass an appropriate qualification examination prior to functioning again in that capacity [subparagraph (d)-(iii)].

The NASD has the authority to waive the examination requirement for any person who is able to justify and support the contention that a waiver is appropriate. The requirement to take and pass an examination for (municipal securities) financial and operations principal will not become effective until six months after a rule is first adopted by the MSRB establishing an appropriate examination [subparagraphs (d)(iv) and (d)(v)].

Additional Comments

With certain exceptions, the provisions of Rule G-3 require every municipal securities broker-dealer to have associated with it a person, including the firm's chief financial officer, qualified as a financial and operations principal. Because there are no grandfather provisions for financial and operations principals, each such person will be required to pass an examination in order to so qualify. Persons may qualify as a municipal securities financial and operations principal at any time by satisfying the NASD's existing financial principal examination requirements and, by so doing, they need not await the development of a separate examination by the MSRB. Financial principals already qualified and registered as such with the NASD will not be required to requalify unless they have not functioned in the capacity of a financial principal for two or more years with a member firm.

Qualification Requirements for Municipal Securities Representatives - paragraph (e)

Summary

All persons who perform the functions of a municipal securities representative are required to pass an appropriate examination to be developed by the MSRB. This requirement will not apply to persons who (a) were actively performing the functions of a municipal securities representative from December 1, 1975, to the effective date of a rule of the MSRB first prescribing its examination; or, (b) are qualified and registered with a member of the NASD as either a general securities representative or principal on such date. After the effective date of an examination rule prescribed by the MSRB, persons not qualified at that time will be required to pass the MSRB's examination [subparagraphs (e)(i) and (e)(ii)].

Any municipal securities representative whose association with a municipal securities broker-dealer ceases for two or more years would be required to requalify and pass an examination prior to assuming the functions of a municipal securities representative [subparagraph (e)(iii)].

Additional Comments

The MSRB considers the activities of a municipal securities representative to be sufficiently distinct from the activities performed by municipal securities principals, general securities principals and general securities representatives so as to warrant a separate qualification requirement for individuals required to qualify in this class. Individuals qualified solely as a municipal securities principal are not qualified, per se, to function as a municipal securities representative. Municipal securities principals may only occasionally effect transactions in municipal securities and, on a limited basis, perform other activities for which a municipal securities representative is qualified.

In regard to the above, after the effective date of a rule of the MSRB prescribing a municipal securities representative examination, any person qualified only as a municipal securities principal whose duties change to that of a municipal securities representative may have to qualify as such by taking the examination. Such persons would have 90 days within which to pass such examination after becoming a municipal securities representative. This would also be true for persons qualified either as a general securities principal or as a general securities representative [subparagraph (e)(iv)].

The NASD has the authority to waive the examination requirement for persons required to qualify as a municipal securities representative once an examination is prescribed by the MSRB. However, it is anticipated that such waivers will be the exception rather than the rule and permitted only in extraordinary cases [subparagraph (e)(v)].

The requirement to take and pass any qualification examination for municipal securities representative will not become effective until six months after the effective date of a rule adopted by the MSRB establishing such examination [subparagraph (e)(vi)].

Employment - paragraph (f)

Summary

The provisions of this section require all persons, not having previously qualified as either a general securities principal or representative, or municipal securities principal or representative, to serve a 90-day apprenticeship before they may function as either a municipal securities principal or municipal securities representative. Generally, anyone who is subject to the 90 day apprenticeship period may not effect transactions in municipal securities with members of the public including institutional accounts or be compensated for transactions in municipal securities. They may, however, do a wholesale business with any municipal securities broker or dealer acting in its capacity as such provided they are compensated on a straight salary basis. Persons who pass either an NASD or MSRB qualification examination during the 90-day period would still be fully subject to the apprenticeship requirements for the remainder of such period.

RULE G-4 STATUTORY DISQUALIFICATIONS

Summary

Pursuant to the provisions of Rule G-4, persons and firms which have been expelled, suspended or barred from the NASD or an exchange by reason of certain statutory disqualifications are prohibited from engaging in a municipal securities business. The statutory disqualifications covered include, among others, violation of any rule of the NASD or any national securities exchange which prohibits conduct inconsistent with just and equitable principles of trade, willful violation of federal securities laws or the rules of the MSRB.

RULE G-5 DISCIPLINARY ACTIONS BY THE COMMISSION, BANK REGULATORY AGENCIES AND REGISTERED SECURITIES ASSOCIATIONS

Summary

The provisions of Rule G-5 permit the NASD, the SEC and the bank regulatory agencies to impose limitations on the activities of persons and firms engaged or about to engage in a municipal business. In the case of the NASD, Section 15A(b)(7) of the Act gives the Association the authority to adopt rules which provide for the disciplining of members and persons associated with members for violations of, among others, the rules of the NASD

and the MSRB. Such sanctions include expulsion or suspension from membership or a limitation of activities with respect to such persons or firms.

RULE G-7 INFORMATION CONCERNING ASSOCIATED PERSONS

Summary

The provisions of this rule require all associated persons of a municipal securities broker-dealer to make available and furnish to such firms certain specified background data enumerated in the rule. This information is required to be provided on a questionnaire which, when completed, must be signed by either a general securities principal or municipal securities principal who is associated with the employing municipal securities broker-dealer. Failure of any associated person to provide the required information, or to correct a material inaccuracy, would prevent such individual from becoming, or being, qualified as a municipal securities representative. A completed Form U-4 containing all of the necessary information would satisfy the requirements of the rule insofar as NASD members are concerned [paragraphs (a) and (b)].

Every municipal securities broker-dealer is required to make an inquiry of an associated person's employers for the three years immediately preceding the date of his becoming associated with the firm. The purpose of this inquiry is to make certain that the information provided on the questionnaire is accurate and complete in every respect. Every such previous employer, if a municipal securities broker-dealer, must respond and satisfy the request within ten business days after receipt of the inquiry [paragraph (d)].

All relevant material pertaining to an associated person including, among other things, his questionnaire and amendments thereto, and information concerning his residence address and history of qualification must be preserved and retained by the municipal securities broker-dealer for a period of at least three years following his termination [paragraphs (e) and (f)].

The rule also requires every municipal securities broker-dealer which is a member of the NASD, to file with the Association any information prescribed by Rule G-7 as the NASD shall, by rule or regulation, require [paragraph (g)].

The requirement to obtain a background questionnaire from every associated person will not become effective until September 1, 1977. The requirement to make inquiry of former employers became effective on December 3, 1976, with respect to persons becoming associated with a municipal securities firm on or after that date [paragraph (h)].

Additional Comments

Rule G-7 will require municipal securities broker-dealers to obtain, maintain and preserve background information concerning every individual defined as an "associated person." Such persons include municipal securities principals, financial and operations principals and municipal securities representatives. While the MSRB does not mandate the use of a particular form, the provisions of G-7 state that a completed Form U-4 would satisfy the information gathering requirements of the rule. In addition, the rule also authorizes the NASD to require municipal securities firms that are members of the Association to file with the NASD any or all of the information required by this rule. In this regard, the Association requires every member firm that is a municipal securities broker-dealer to submit a completed Form U-4 on behalf of every individual associated with the member who is required to qualify as a municipal securities principal, as a financial and operations principal and/or as a municipal securities representative and who is not currently registered with the NASD under Schedule C of the By-Laws.

Since there is no category on Form U-4 for registration as a municipal securities principal or representative, applicants for registration should indicate their category by checking the box marked "other" in question 11 and specify "municipal securities" in the adjacent space. The current registration fee of $35.00 should accompany each application. Requests for a waiver of any examination should also accompany each Form U-4 with a detailed explanation of the reasons which may warrant approval of such waiver.

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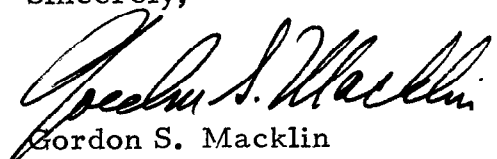
Should you have any questions concerning this notice, please contact Jack Rosenfield, Assistant Director, Department of Regulatory Policy and Procedures, (202) 833-4828, at the Association's Executive Office, 1735 K Street, N. W., Washington, D. C. 20006.

Sincerely,



Gordon S. Macklin
President

corresponding share of all costs associated with the production of income.

Section 2 - General Requirements and Requirements Concerning Subscriptions, Assessments, Reinvestment of Revenue and Liquidations

A member or person associated with a member shall not underwrite or participate in the distribution to the public of a direct participation program of which a member or an affiliate of a member is the sponsor unless:

General

(a) such sponsor and affiliates of the sponsor have expertise appropriate to the program and in services to be rendered of not less than three (3) years or such expertise is directly or readily available to it within its corporate complex, under contract or otherwise and there is full and complete disclosure of the details of that expertise in the prospectus;

(b) the sponsor or sponsors of the program have a combined fair market net worth at least equal to the greater of (1) $50,000, or (2) the lesser of $1,000,000 or 5 percent of the total capital contributions made by the holders of program participations issued by all programs of which such persons are a sponsor organized during the twelve (12) month period immediately preceding the offering date of the program plus 5 percent of the gross amount of the current offering; provided, however, that for purposes of this subsection the term "sponsor" shall not include members of the immediate family of or persons associated with a sponsor except to the extent that such persons are guarantors of obligations entered into by the sponsor in its capacity as sponsor of the program in question;

(c) in the case of an oil and gas program, the program requires:

(1) as a prerequisite to the activation thereof minimum public sales in the amount of no less than $500,000 per program (except specified oil and gas operations registered pursuant to or validly exempt from registration under the Securities Act of 1933, including Regulation B exemptions, or under applicable state laws);

(2) that until that sum is raised all money received shall be placed in an escrow account specifically designated for that purpose; and,

(3) that if the amount is not raised the capital contribution of all participants, including sales commissions, shall be returned to them promptly following termination of the offering period which period shall not be unreasonably extended;

(d) excepting an oil and gas program, the program:

(1) contains a provision preventing the activation of the program if a stated minimum amount of money is not raised which shall be sufficient, after funding all of the organization and offering expenses and giving due consideration to the fixed obligations of the program, to effect the objectives thereof without changing the nature of the investment called for by the general terms of the program;

(2) requires that until the stated minimum amount of money is raised all money received shall be placed in an escrow account specifically designated for that purpose; and,

(3) requires that if the stated minimum amount of money is not raised, the capital contribution of all participants, including sales commissions, shall be returned to them promptly following termination of the offering period which period shall not be unreasonably extended;

(e) (1) the program meets the requirements of the Internal Revenue Code which enable participants to obtain tax benefits as described in the prospectus and such can be demonstrated by a tax ruling or an opinion with respect to such requirements by independent tax counsel; or,

(2) in the case where such a tax ruling or opinion has not been received:

a. the program provides for a right of withdrawal and the return of the capital contribution including commissions to all participants from the program in the event a tax ruling or opinion is subsequently received which states in substance that the program will not enable participants to obtain the tax benefits as described in the prospectus; and,

b. the program requires that all funds received will be placed in an escrow account and not used until a tax ruling or opinion has been

received which states in substance that the program will enable participants to obtain the tax benefits described in the prospectus.

Subscriptions

(f) in the case of an oil and gas program, the program's terms require that the minimum subscription, whether as a result of a direct purchase or an assignment, except by gift or operation of law, shall be not less than $5,000, or such higher amount as required by state or local law;

(g) the program's terms require that all subscriptions be fully paid for within a twelve (12) month period following the date of the commencement of the program or as otherwise required to conform with applicable federal credit regulations; however, a period of deferred payment in excess of the twelve months may be granted in certain types of offerings, i.e., farming, real estate development, among others, where the nature of the investment and development of the product demand a longer period provided, however, the period of payment shall coincide with the anticipated cash needs of the program;

(h) in the case of an unspecified property program, it prohibits deferred payment plans;

(i) the program prohibits interest or other similar charges assessed against a participant for purchasing units on an installment basis;

Assessments

(j) the program prohibits payment of sales commissions for assessments on units;

(k) the possibility of assessments is fully disclosed in the prospectus with a statement as to the maximum amount which the units may be assessed and whether the assessments are mandatory;

(l) in the case of real estate programs, it prohibits the levying of assessments other than to the extent necessary to meet any deficiencies in partnership obligations, including default;

(m) in the case of unspecified property programs, it prohibits the levying of assessments;

(n) mandatory assessments of the program are not in excess of 25 percent of the original amount of the participant's capital contribution;

(o) when the penalties are to be imposed upon participants for failure to meet mandatory assessments, the penalty:

(1) is fair and reasonable;

(2) is disclosed in the prospectus;

(3) accrues to the benefit of the program rather than the sponsor; and

(4) does not cause a forfeiture or a significant dilution of a participant's capital contribution in an amount in excess of 300 percent of the amount of the unpaid assessment;

(p) failure to pay an optional assessment does not cause a forfeit or unfair penalty to a participant's interest;

(q) if a failure on the part of a participant to meet an assessment in the case of an oil and gas program is to result in a forfeiture by him of a right to participate in future optional development wells, this fact is disclosed in the prospectus;

Reinvestment of Distributable Cash Flow

(r) when the reinvestment of a program's distributable cash flow into a subsequent program is provided for, such reinvestment is optional to the investor who shall, pursuant to the terms of the program being offered, prior to his election, be provided with complete information on the amount of money to which he is entitled and a copy of a prospectus relating to the subsequent program in which reinvestment is contemplated;

Liquidation of Program Interests

(s) the program prohibits the sponsor or an affiliate of the sponsor from transferring or selling his program interest therein without requiring that an offer comparable in all respects simultaneously be made to all participants and a reasonable period of time be given to them to transfer or sell their interests;

(t) the program prohibits:

(1) the purchase by it of the program interests of any other program with the same sponsor; however, nothing herein shall preclude the investment in general partnerships or ventures which own and operate a particular property provided the program acquires a controlling interest in such other

ventures or general partnerships; or

(2) the repurchase by the program of its participants' interests in a manner or in an amount which is not in the best interests of the program; provided, however, this shall not be construed so as to prevent the sponsor of a program from purchasing and reselling such interests on a non-exclusive basis;

(u) when the liquidation of participants' interests in a program are provided for other than as a result of the resale of properties in a program, cash liquidation values are required to be computed on the basis of an appraisal of the program's properties made within the preceding twelve (12) months by a qualified independent appraiser pursuant to a formula or in accordance with terms clearly spelled out in the prospectus; provided, however, if there has been a material change in value subsequent to the last appraisal a new appraisal must be made prior to any liquidation;

Business Transacted

(v) when the program contemplates transacting business with any person in an amount aggregating at least 20 percent of the total dollar value of the participants' interests therein, that fact is disclosed in the prospectus; and,

(w) the details with respect to subsections (a) through (v) hereof are fully disclosed in the prospectus.

Section 3 - Rights of Participants

Unless such conflicts with federal law or the law of the state within which the program has been organized, a member or person associated with a member shall not underwrite or participate in the distribution to the public of a direct participation program of which a member or an affiliate of a member is a sponsor which:

(a) does not permit its participants the right by a majority of the then outstanding units:

(1) to remove the sponsor;

(2) to amend the partnership or other agreement organizing the program entity;

(3) to dissolve the partnership or other entity formed to carry out the purposes of the program; and/or,

(4) to approve or disapprove the sale of all or substantially all of the assets of the program;

(b) does not:

(1) provide for the termination of all contracts between the program and the sponsor or affiliate of the sponsor, and the sponsor and the underwriter of the program without penalty on 60 days notice in writing; and/or,

(2) require the sponsor upon the written request of 10 percent of the outstanding program units to cause a vote to be taken on any of the matters referred to in subsections (a) and (b) hereof;

(c) imposes any restrictions on the assignment of a participant's program interests; provided, however, such shall not be construed to prohibit a requirement for approval by a sponsor of the transfer of a participant's interests;

(d) does not grant the right to every participant in the program to obtain a complete list of names and addresses of, and interests held by, all participants in the program, upon written request to the sponsor and payment of the cost of reproduction thereof, for any proper purpose; and,

(e) does not prevent the amendment of the partnership or other agreement establishing the program entity in any material respect affecting the rights or interests of the participants unless notice is previously given to all participants and, if 10 percent or more of the then outstanding unit interests object, by the affirmative vote of not less than a majority of the outstanding number of program interests.

Section 4 - Conflicts of Interest

(a) A member or person associated with a member shall not underwrite or participate in the distribution to the public of units of a direct participation program of which a member or an affiliate of a member is a sponsor which does not fully disclose all potential conflicts of interest in the prospectus and does not by its terms, in addition, conform to the following standards concerning conflicts of interest. Thus, if the program permits:

(1) the acquisition by the program of property owned by the sponsor or an affiliate of a sponsor, except as otherwise provided herein, such acquisition by the program shall be at the lesser of original cost to the sponsor or its affiliate or fair market value as determined by an appraisal made by a qualified independent appraiser; provided, however, such an acquisition may be at a

price greater than cost if all details in respect thereto, including the profit to the sponsor or its affiliate, are fully disclosed to program participants and to subsequent program subscribers, the acquisition is at no more than fair market value as determined by an appraisal made by a qualified independent appraiser and:

a. the property has been owned for at least a period of two years prior to the acquisition by the program; or,

b. a material change in the value of the property has occurred since the acquisition thereof by the sponsor or its affiliate in which case the change and the basis for the change are disclosed;

(2) the acquisition by an oil and gas program of non-producing acreage owned by the sponsor or an affiliate of the sponsor, such acquisition shall be at cost unless there is reason to believe that the cost is either materially in excess of, or materially lower than, fair market value. Where property is acquired at a price other than cost the price shall be based on the opinion of a qualified independent appraiser and all details shall be disclosed with respect to the acquisition, including the profit to the sponsor or its affiliates, to program participants and to subsequent program subscribers;

(3) the purchase of property owned by an oil and gas program by the sponsor or affiliates of the sponsor, such purchase shall be made at fair market value as determined by a qualified independent appraiser unless the sponsor has reasonable grounds to believe the cost is materially higher than fair market value, in which case the purchase shall be made for a price not less than cost;

(4) the sale of services, other than those provided for hereafter in Section 7, or the sale or lease of supplies, equipment, furnishings or other property of any kind except as otherwise provided herein to the program by its sponsor or an affiliate of the sponsor, the program must require that the fees and prices to be charged for such services, supplies, equipment, furnishings or other property shall not exceed those customarily charged for such in the same or in a comparable geographical location by persons dealing at arms'-length and having no affiliation with the recipient; provided, however, that if there exists no basis for

comparing such fees and prices or if the sponsor or its affiliate is not independently and as an ongoing business activity actively engaged in the business of rendering such services or selling such supplies, equipment, furnishings or other property, they shall not exceed cost;

(5) the sponsor or an affiliate of the sponsor of an oil and gas program to sell or transfer property to the program, the program must also provide that the sponsor shall not retain therein any interest or rights of any kind whatsoever except those rights created by virtue of the sponsor's status as sponsor of the program and that those rights are fully disclosed in the prospectus, unless the sponsor or its affiliate is required by the program to participate with the program in the development of the property on a cost basis proportionate to its retained interest in the property; or,

(6) the sponsor or an affiliate of the sponsor of a real estate program to provide development or construction of a property for the program in accordance with the terms of the program, the program shall require that:

a. such be done only on a firm contract basis at a price not to exceed the appraised value of the property when completed, including the total cost of the property as determined by a qualified independent real estate appraiser at the time of the commitment for such services; and,

b. if any development or construction contracting is to be supplied by the sponsor or its affiliates after formation of the program, such shall be done in accordance with those provisions set forth under paragraph (4) of this section.

Impermissible Conflicts of Interest

(b) The following situations are considered impermissible conflicts of interest; thus, a member or person associated with a member shall not underwrite or participate in the distribution of a direct participation program of which a member or an affiliate of a member is a sponsor which permits:

(1) in the case of a real estate program, a sponsor or an affiliate of a sponsor to be the principal or

prime tenant on property owned by the program. Such shall not apply to fully guaranteed leaseback arrangements where the terms of such are considered to be fair and reasonable and no more favorable to the sponsor or its affiliate than those offered other persons;

(2) the rendering by the sponsor or an affiliate of the sponsor of professional services, such as the certifying of financial statements or legal opinions in connection with the organization and registration of the program, or the payment of fees for such services to the sponsor or its affiliates, except for services which may be offered in connection with the day-to-day management of the program such as legal, accounting and record keeping services, leasing agreements and settlement arrangements, among others;

(3) sales or exchanges of properties or any interest therein between programs with the same sponsor, provided, however, that such sales or exchanges may be made in the case of oil and gas programs where the sales or exchanges are of nonproducing exploratory acreage, are at cost or, if there is reason to believe there has been a material change in value, at fair market value as determined by a qualified independent appraiser, and are between programs whose compensation arrangements with the sponsor are substantially comparable; provided, further, that this paragraph shall not apply to transactions among oil programs by which property is transferred from one to another in exchange for the transferee's obligation to conduct drilling activities on the property transferred or to joint ventures among such oil programs, provided that the compensation arrangement of the manager and each affiliated person in each such oil program is the same, or is reasonably calculated to be the same;

(4) the sponsor or an affiliate of the sponsor of a program, except as otherwise provided herein, to retain any interest or rights of any kind whatsoever in property sold or transferred to the program, or, in the case of an oil and gas program, in any adjacent acreage to property so sold or transferred, or, in the case of other programs, in the general area of such property, except such shall not be considered impermissible in the case of a real estate program if such is fully disclosed in the prospectus including the disclosure of any potential benefits to the sponsor

and its affiliates of any conflicts of interest which could result from any type of service or supplies rendered to such properties by the sponsor or its affiliates;

(5) the sale to the program by the sponsor or an affiliate of the sponsor of an unspecified property program of any services including development and construction contracting on any property owned by it unless any such property is specifically designated and detailed information concerning any such service and each specified property is disclosed in the prospectus;

(6) the sale to the sponsor or an affiliate of the sponsor by the program of any property except as provided in section 4(a)(3) hereof;

(7) directly or indirectly, a commission or fee to a sponsor or an affiliate of the sponsor in connection with the reinvestment of the proceeds of the resale, exchange, or refinancing of program property;

(8) a sponsor or an affiliate of a sponsor to have an exclusive right to sell or exclusive employment to sell property for the program; or,

(9) loans to be made by the program to the sponsor or an affiliate of the sponsor or the commingling of program funds with the funds of the sponsor or its affiliates.

Other Conflicts of Interest

(c) All conflicts of interest not conforming to the provisions of this Section 4 shall be considered impermissible conflicts of interest and members or persons associated with members shall not underwrite or participate in the distribution of units in a program of which a member or an affiliate of a member is a sponsor which contains such unless justification therefor, taking into consideration standards of fairness and reasonableness to participants, can be demonstrated to the Association and it accepts such provisions as being consistent therewith.

Section 5 - Suitability

(a) A member or person associated with a member shall not underwrite or participate in the distribution to the

public of units of a direct participation program unless standards of suitability have been established by the program for participants therein and such standards are fully disclosed in the prospectus and are not inconsistent with the provisions of subsection (b) of this section.

(b) In any sale, solicitation or recommendation of the purchase of a direct participation program to a customer, a member or persons associated with a member shall:

(1) inform the customer of all pertinent facts relating to the liquidity and marketability of the program, or lack thereof, the tax aspects of the program during the term of the investment and the tax consequences upon dissolution of the program;

(2) be assured on the basis of information obtained that the customer, after giving effect to all of his direct participation investments, is reasonably anticipated to be in a tax bracket appropriate to enable him to obtain the tax benefit described in the prospectus; provided, however, that in the case of an oil and gas program, other than a program formed to acquire producing properties, the customer shall be reasonably anticipated to be in at least a 50 percent tax bracket prior to giving effect to all of his direct participation investments;

(3) be assured that the customer has a fair market net worth sufficient to sustain the risk inherent in the program, including loss of investment and loss of liquidity of investment and that his subscription to all direct participation programs bears a reasonable relationship to his fair market net worth;

(4) have reasonable grounds for believing that the purchase of the program is suitable for the customer on the basis of information furnished by him concerning his investment objectives, financial situation and needs and any other information known by such member or person associated therewith; and,

(5) maintain in the files of the member the basis for and reasons upon which the determination of suitability was reached as to that customer.

(c) In any instance in which a determination of suitability is made without the provisions of subsection (a) or (b) hereof being entirely satisfied:

(1) the burden of proving justification for the determination shall be upon the member or person associated therewith making it; and,

(2) the member or person associated therewith who makes such a determination shall document in writing the basis therefor with particular references to its departure from the standards specified in subsections (a) and (b) hereof and retain such documentation in the files of the member.

(d) In any solicitation or recommendation of the resale, transfer or other disposition of a direct participation program to a customer, a member or persons associated with a member shall advise the seller of all details of program interest evaluations by the sponsor and the likely tax consequences of the proposed transaction.

(e) Notwithstanding the provisions of subsections (a) through (d) hereof, a member shall in no event execute a transaction involving a unit of a direct participation program without first receiving specific authority from the customer to do so.

Section 6 - Organization and Offering Expenses

(a) A member or a person associated with a member shall not underwrite or participate in the distribution to the public of units of a direct participation program if:

(1) organization and offering expenses are not fair and reasonable, taking into consideration all relevant factors;

(2) organization and offering expenses which are paid by the program of which a member or an affiliate of a member is a sponsor exceed 15 percent of the dollar amount of the cash receipts of the offering;

(3) sales commissions, wholesaling fees, finder's fees, consultant's fees or any other items of distributive compensation of any kind from whatever source are paid in advance of the breaking of escrow or are not fair and reasonable in relationship to the cash receipts of the offering;

(4) commissions or other compensation are to be paid or awarded either directly or indirectly to any

person engaged by a potential investor for investment advice as an inducement to such advisor to advise the purchaser of interests in a particular program, unless such person is a registered broker-dealer or is considered a properly licensed person for selling program interests; and,

(5) the program provides for compensation to be paid to members or persons associated with members for sales of program units, or for services of any kind rendered in connection with the distribution thereof, in a form other than cash if of an indeterminate nature, such as, but not necessarily limited to, the following: a percentage of the management fee, a profit sharing arrangement, brokerage commissions, an overriding royalty interest, a net profits interest, a percentage of revenues, a reversionary interest, a working interest, or other similar incentive items.

(b) Miscellaneous items of compensation to underwriters or dealers, or their affiliates, such as, but not necessarily limited to, underwriter's expenses, underwriter counsel's fees, rights of first refusal, consulting fees, brokerage commissions, investor relations fees and all other items of compensation for services of any kind or description, deemed to be in connection with the offering, paid by the program directly or indirectly shall be taken into consideration in computing the amount of sales commissions to determine compliance with the provisions of subsection (a)(3) hereof.

(c) The giving of warrants, options, stock or partnership interests in a sponsor or an affiliate of a sponsor in connection with an offering shall be prohibited. What is in connection with an offering shall be determined on the basis of such factors as the timing of the transaction, the consideration rendered, the investment risk, and the role of the member in the organization, management and direction of the enterprise in which the sponsor is involved. For purposes of determining the factors to be utilized in computing compensation derived from securities received prior to the filing of an offering with the Association, the guidelines set forth in the Interpretation of the Board of Governors With Respect to Review of Corporate Financing shall govern so far as applicable.

(d) The allowance of any sales incentive items by the sponsor, an affiliate of the sponsor or the program to any member or associated person in the form of travel bonuses, prizes or awards shall be disclosed in detail and any incentive

items in excess of $25 per person per program shall be prohibited. Any sales incentive item of $25 or less shall be taken into consideration in computing the amount of sales commissions to determine compliance with the provisions of Subsections (a)(2) and (a)(3) of this section.

Section 7 - Sponsor's Compensation

General

(a) A member or a person associated with a member shall not underwrite or participate in the distribution to the public of units of a direct participation program of which a member or an affiliate of a member is a sponsor:

(1) which provides for compensation to the sponsor or an affiliate of the sponsor which is unfair or unreasonable taking into consideration all relevant factors;

(2) which does not have in its prospectus a summary of all compensation, direct or indirect, to be paid to the sponsor or affiliates of the sponsor in one section so entitled with a clear reference to other locations in the prospectus where more detail with respect to the various items of compensation may be found;

(3) unless it prohibits the payment of a fee upon the dissolution of the program in any manner inconsistent with the sponsor's sharing arrangement;

(4) unless it requires that any interest and fees earned on funds held for the sole account of the program shall be payable only to it;

(5) unless it prohibits the payment of a real estate acquisition fee in an amount exceeding the lesser of:

a. the real estate commission customarily charged in arms'-length transactions by others rendering similar services as an ongoing business activity in the same geographical location and for comparable property; or,

b. an amount equal to 18 percent of the gross proceeds of the offering;

provided, however, that the total purchase price of the property, including all acquisition fees whether paid by the seller or the program, shall not exceed fair market value;

(6) which provides for payment of a real estate brokerage commission or similar fee to be paid to the sponsor or an affiliate of the sponsor on the resale of the property by the program if the commission or fee is in excess of 50 percent of the customary real estate commission and is not subordinated to a return of 100 percent of the capital contribution of the investor plus an amount equal to 6 percent of the capital contribution per annum on a cumulative basis, less the sum of prior distributions to the investor. If the sponsor or an affiliate of the sponsor participates with an independent broker on resale, then these limitations shall apply only to commissions paid by the program to that sponsor and its affiliates.

(7) unless it prohibits the payment of more than one real estate fee or other commission for the acquisition or sale of program properties in any transaction in which the sponsor or an affiliate of the sponsor is a participating broker;

(8) unless it prohibits the payment of real estate acquisition fees, brokerage fees, or other commissions or fees of a similar nature to the sponsor or an affiliate of the sponsor except for services actually rendered by a sponsor or an affiliate licensed as a real estate broker or agent and engaged in the ongoing business of offering similar services to others;

(9) unless it requires in the case of an unspecified property program that the management fee shall be drawn only from the operating income of the program's property investments; and

(10) unless it prohibits receipt or disbursement of rebates or give-ups, and the participation in reciprocal business arrangements by the sponsor which are considered inconsistent with Section 4(a)(4) above.

Oil and Gas Programs

(b) In addition to the provisions of subsection (a) hereof, a member or person associated with a member shall not underwrite or participate in the distribution to the public of units of an oil and gas program of which a member or an affiliate of a member is a sponsor:

(1) in which the sponsor or an affiliate of the sponsor has an overriding royalty interest or

any other interest free from the burden of operating expenses of the program unless otherwise specifically provided for herein;

(2) that provides for compensation inconsistent with the following standards which shall serve as a guide for the levels and methods of compensation to a sponsor or an affiliate of a sponsor that will not be considered unfair and unreasonable under Subsection (a)(1) hereof:

a. up to 33 1/3 percent working interest or net profits interest in a lease which becomes payable after receipt by the participants of net profits equal to their capital contribution to a property or program provided there is not overriding royalty interest reserved by the sponsor;

b. a 1/16 overriding royalty interest convertible after receipt by the participants of net profits equal to their capital contribution to a property or program into a working interest or a net profits interest not in excess of 25 percent;

c. a 1/16 overriding royalty interest in addition to a working interest or net profits interest which becomes payable after receipt by the participants of net profits equal to their capital contribution to a property or program not in excess of 20 percent;

d. under a cost sharing arrangement by which the participant bears all of the cost of exploration and the sponsor bears substantially all of the costs of development, a reversionary interest to the sponsor of not more than 40 percent which becomes payable after receipt by the participants of net profits equal to their capital contribution to a property or program and application of all revenue from development wells to accomplish payout of cost of development wells provided no interest on development funds advanced by the sponsor is charged to participants or to the program;

e. a pro rata interest in the revenue from each well or prospect which is proportional to the portion of prospect or well costs, including costs of lease acquisition, borne by the sponsor. In any program in which

the sponsor's interest is based upon an estimated percentage of prospect or well costs to be borne by the sponsor, and taking into account all relevant factors, an interest in program revenues not in excess of 50 percent; or,

f. an overriding royalty interest of a sponsor not in excess of 3/32 as long as royalty payments in any year for any lease do not exceed the net operating profits from the lease; and,

(3) which provides for the payment of general and administrative expenses by the program to the sponsor or an affiliate of the sponsor which:

a. are not chargeable to the program at cost and allocated in accordance with generally accepted accounting principles and auditing standards;

b. are in an amount in excess of 10 percent of the proceeds of the offering in the first year of operation; and,

c. are not, in each subsequent year of operation, fair and reasonable or are in excess of the general and administrative expenses in the first year of operation.

Real Estate Programs

(c) In addition to the provisions of Subsection (a) hereof, a member or person associated with a member shall not participate in the distribution to the public of units of a real estate program of which a member or an affiliate of a member is a sponsor unless:

(1) it prohibits leasing fees or similar types of compensation from being paid by the program to the sponsor or an affiliate of the sponsor on properties leased to the sponsor or its affiliates;

(2) it requires that mortgage placement fees to be paid to the sponsor or an affiliate of the sponsor for the arranging and financing of a property for the program be limited to no more than one fee for the financing of the same property during the property's life in the program provided, however, that fees received separately for the services of securing both a construction loan and a permanent mortgage on a property shall be deemed one fee;

(3) it requires that property management fees to be paid to the sponsor or an affiliate of the sponsor be for services actually rendered at a rate based on a percentage of the cash receipts during the period of operation and at a price no higher than those customarily charged for similar services in the same geographical location on a similar property by a nonaffiliated person who engages in the business of property management as an ongoing business activity;

(4) it limits general and administrative fees to be paid to a sponsor or an affiliate of the sponsor:

a. on a fixed fee basis to an amount not in excess of 1/2 of 1 percent of the gross assets of the program or 2 1/2 percent of the equity of the program per annum, whichever is the lesser; or,

b. on other than a fixed fee basis and where the general and administrative costs are charged directly to the program to an amount which is consistent with that normally charged for administration of a similar type program which charges must in any event be fair and reasonable taking into consideration all relevant circumstances; provided, however, that the total amount so computed shall not exceed the amount which is permitted by subparagraph a. hereof; and,

(5) it limits the amount of any sharing arrangement, promotional interest or similar type of compensation to be paid to the sponsor or an affiliate of the sponsor for promotional services to no more than the following:

a. an amount equal to 25 percent of the undistributed amount remaining after payment to the investors of an amount at least equal to 100 percent of their original capital contributions; or,

b. an interest equal to:

1. 10 percent of the cash available for distribution; and,

2. 15 percent of distributions to investors from the proceeds of the sale or refinancing of properties remaining after payment to investors of an amount at least equal to 100 percent of their original capital contributions, plus

an amount equal to 6 percent of the capital contribution per annum on a cumulative basis, less the sum of prior distributions to the investor.

(d) The burden of demonstrating justification for levels and methods of compensation for programs in which a member or an affiliate of a member is a sponsor other than those listed in subsections (a), (b) or (c) hereof shall be upon the person proposing such. In any event, such other levels or methods shall be comparable or equitably equivalent to those listed in subsections (a), (b) or (c) and shall not be unfair or unreasonable taking into account all relevant factors and shall not include levels or methods of compensation prohibited by those subsections.

(e) Income to a sponsor or an affiliate of the sponsor from any interest held as a participant in a program shall not be included in computing sponsor's compensation for purposes of this section.

Section 8 - Periodic Reports

A member or a person associated with a member shall not underwrite or participate in the distribution to the public of units in a direct participation program of which a member or an affiliate of a member is a sponsor unless:

(a) Quarterly operations reports are required by the terms of the program to be sent to all participants:

(1) in the case of an oil and gas program during the drilling phase of operations disclosing in reasonable detail the progress of drilling operations, the amount of production, if any, the receipt and disbursement of revenue and any other relevant information; and,

(2) in the case of all other programs commencing with the first full quarterly period after the activation of the program disclosing in detail the progress of the program, the receipt and disbursement of revenues and any other relevant information;

(b) The sponsor is required by the terms of the program to send to each participant within 75 days after the close of each fiscal year audited financial statements and tax information to the extent required for the proper preparation of his income tax return;

(c) In the case of an oil and gas program, the sponsor is required by the terms of the program to send to each participant within 90 days after the end of the second

year of the program, and at least annually thereafter, a report of projected cash flow by years from proven reserves as determined by an appraisal made by a qualified independent petroleum engineer; and,

(d) when a sponsor or an affiliate of the sponsor is permitted by the terms of the program to sell services, supplies, equipment, furnishings or other property to the program, or if a program contemplates transacting business with any person in a material amount, the terms of the program require the audited financial statements referred to in Subsection (b) above to detail the terms of such arrangements and state the gross expenditures by the program to each such person in connection with such activity, and the gross receipts by such persons from all prior programs are disclosed in the prospectus of the current program.

Section 9 - Sales Literature

General Requirements

(a) No member or person associated with a member shall use any sales literature or sales memoranda in connection with the offer or sale of a direct participation program which has not been filed with the Association's Advertising Department prior to use.

(b) No member or person associated with a member shall use any sales literature or sales memoranda in connection with the offer or sale of a direct participation program which is misleading, which contains an untrue statement of a material fact or which omits to state a material fact necessary in order to make a statement made, in light of the circumstances of its use, not misleading.

(c) No member or person associated with a member shall make any oral statement or presentation which, if made in writing, would not conform to the standards outlined herein.

Required Content

(d) If a sales kit or other integrated grouping of sales material is used collectively, such data may be contained in one or more pieces of sales literature except that the statement required by paragraph (7) shall be included in each separate piece of sales literature. Sales literature will be considered materially misleading if it fails to contain the data specified hereafter in paragraphs (1) through (8):

(1) A clear, concise statement outlining the general

nature of the program being offered including a clear and accurate statement describing the program's proposed activities, including estimates of the percentages of proceeds to be applied to each of the proposed activities;

(2) A statement of the relevant factors of suitability for purchase of a direct participation program as contained in Section 5 above;

(3) A clear and accurate statement fully disclosing the amount, method, form and percentage of sales charge to the investor, based on a percentage of the gross proceeds of the offering, the management fee and any revenue sharing arrangement contained in the program, or in the alternative, a clear reference to the location of such information in the prospectus;

(4) A statement fully describing the assessments, if any, required of participants in the program; the purpose of the assessment, if such is an optional assessment, and the penalty, if any, which the participant would incur if he did not meet the call, or in the alternative, a clear reference to the location of such information in the prospectus;

(5) A clear and accurate statement describing the liquidity and marketability of the program or the lack thereof;

(6) A clear and accurate statement of the tax aspects during the term of the investment and the tax consequences at dissolution or liquidation of the program or upon the sale of a material percentage of the assets of the program, or upon the sale of an interest in the program, or in the alternative, a clear reference to the location of such information in the prospectus;

(7) A statement that sales literature cannot be distributed to the public unless preceded or accompanied by a current prospectus; and,

(8) A clear and accurate statement describing the three or more years of expertise possessed by or available to the sponsor as required by Section 2(a), hereof, or in the alternative, a clear reference to the location of such information in the prospectus.

Prohibited Content

(e) Sales literature shall be considered materially misleading if such literature:

(1) Contains hypothetical projections of income or other benefits to be received from a program except as provided hereafter or represents or implies an assurance that the investor will receive a specific, stable, continuous, dependable, or liberal return, or rate of return, unless such is guaranteed and there is reasonable assurance that the guarantor will be able to meet the obligation of such guarantee;

(2) Represents or implies an assurance that an investor's capital will increase or will be preserved or protected against loss in value, unless such is guaranteed by the terms of the program and there is reasonable assurance that the guarantor will be able to meet the obligation of such guarantee;

(3) Discusses or portrays in any way the appreciation or profit potential of the investment without explaining the potential risks of such investment;

(4) Makes extravagant claims regarding management ability, experience or competency;

(5) Makes any reference to registration or regulation of the securities being offered, or of the issuer, underwriter or sponsor thereof, under federal or state securities laws which could, or in any way does, constitute or imply endorsement or approval by a regulatory body;

(6) Makes any reference to the National Association of Securities Dealers, Inc. which could, or in any way does, constitute or imply endorsement or approval of the securities, the issuer, the underwriter, or the sponsor by the Association;

(7) Contains any statistical statement, table, graph, chart, or illustration without disclosing the source of the information;

(8) Contains any statement or claim of tax benefits resulting from an investment in the program without a clear statement as to the basis for such;

(9) Contains any comparison or reference to the similarities of an investment in the program with an investment in another non-affiliated program, whether similar in nature or not, or a comparison of the performance of the program with performance of any industry or property

(e.g., real estate in general or the oil and gas industry), or a comparison with an investment in other securities, including investment company shares;

(10) Contains or refers to any statement of financial condition of an affiliate of a management or sponsoring organization unless such affiliate has direct financial responsibility for, or is the sponsor of, the program being offered.

(11) Contains any reference to or illustration of the possible effects of an exchange of program interests for the securities of any corporation whether based on a hypothetical projection or an assumed exchange utilizing past market performance of the security. The provisions of this paragraph shall not be construed to prohibit the presentation of factual data regarding prior exchanges if such data is presented as part of an analysis of the results of prior programs in a manner consistent with the provisions of Subsection (f)(2) hereof regarding Oil and Gas Programs and Subsection (h) regarding Real Estate Programs, even if the program currently being offered has no exchange provisions.

Oil and Gas Programs

(f) In addition to the provisions of Subsections (a) through (e) hereof, sales literature designed to promote the sale of oil and gas programs shall be considered materially misleading unless it conforms to the provisions of this subsection.

(1) If a hypothetical illustration of the tax benefits of an oil and gas program is used, it shall conform to the following standards:

a. Illustration of Effects of Intangible Drilling Costs Deduction - An illustration of the effects of the intangible drilling costs deduction on an investment in an oil and gas program must:

1. be based on an assumed investment of $10,000; provided, however, illustrations based upon the total value of the program or the minimum subscription commitment may also but shall not be required to be shown. The illustrations may give effect to future

assessments but they must, in any event, be structured so that the total investment illustrated is $10,000, or such other amount as is used in the additional illustrations. Programs with minimum investments higher than $10,000 must clearly state in the illustration based on $10,000 that that figure has been used for clarity of illustration only and that an investment below the program's minimum is not possible. Programs with minimum investments lower than $10,000 may, if any illustration based upon the lower amount is not also used, refer to their actual minimums but an illustration based upon $10,000 must still be used;

2. reflect in both percentage and dollar figures, the "estimated deductible expenses" (intangible drilling costs, costs of abandoned acreage and general and administrative expenses);

3. reflect the "tax savings" to the participant based on an assumed participant's federal income tax bracket of 50 percent which must be clearly stated in the illustration;

4. reflect the "net cost" to the investor (total investment minus "tax savings");

5. reflect the investor's "adjusted federal tax basis" (total investment less estimated deductible expenses);

6. illustrate the items listed in items 1. through 5. above in the same order, and using the same terminology, as they appear above;

7. contain an explanatory statement which:

   (i) states that the illustration is hypothetical;

   (ii) includes a description of the estimated deductible expenses;

   (iii) states the period over which the deduction would occur;

(iv) states the source from which the estimated percentage deduction was obtained, that the percentage may vary and is not guaranteed; and,

(v) refers to the location in the prospectus where more complete information regarding the estimated deductible expenses may be found;

(Schedule I hereto is provided as a guide to members in preparing an illustration which conforms to the above requirements.)

b. Illustration of Effects of Depletion Allowance - An illustration of the effects of the depletion allowance and/or depreciation on the taxability of income distributed to a participant from an oil and gas program must:

1. be based on one dollar ($1) of "gross income;"

2. reflect a reasonable level of "operating expenses;"

3. reflect the "net income;"

4. reflect any "depreciation" which would be passed on to participants;

5. reflect the "tax depletion allowance" in both percentage and dollar figures;

6. reflect the "taxable income" to the investor;

7. illustrate the items listed in items 1. through 6. above in the same order, and using the same terminology, as they appear above; and,

8. contain an explanatory statement which:

(i) states that the illustration is hypothetical;

(ii) includes descriptions of depreciation and depletion allowance

(specifically stating that the depletion allowance deduction is limited to 50 percent of net income);

(iii) includes a brief explanation of the calculation of the depletion allowance in the example; and

(iv) refers to the location in the prospectus where more complete information regarding depreciation allowance may be found;

(Schedule II hereto is provided as a guide to members in preparing an illustration which conforms to the above requirements.)

c. If an illustration of either the intangible drilling costs deduction or the depletion allowance is made, an illustration of both must be made.

(2) If an analysis of the results of previously offered programs is used, it shall conform to the following standards:

a. General - All such analyses must:

1. include the results of all programs offered within the previous ten-year period from registration date if the results of any program are included. The results of programs offered more than ten years prior to the date of the analysis may be included if the results of all such earlier programs are also included;

2. present the results in terms of cash liquidation value and distributable cash flow and include an analysis of the results on the basis of both cash liquidation value and distributable cash flow if an analysis on the basis of either is included, unless the program has no liquidation provision; provided that the computation of such results must take into consideration the value of any exchange of stock for program interests;

3. include only estimates of cash liquidation values and distributable cash flow which are based upon at least annual appraisals of oil and gas reserves made by a qualified independent petroleum engineer, whose identity is disclosed in the illustration;

4. include distributable cash flow estimates which must be based on proven reserves, whether producing or nonproducing, and actual cash liquidation values, as of the date of the illustration, calculated in accordance with a formula or terms contained in the prospectus;

5. be based on an assumed total investment of $10,000 which must give effect to and illustrate actual assessments made for each program, provided, however, illustrations based upon the total value of the program or the minimum subscription commitment may also but shall not be required to be shown. Programs with minimum investments higher than $10,000 must clearly state in the illustration based on $10,000 that that figure has been used for clarity of illustration only and that an investment below the program's minimum is not possible. Programs with minimum investments lower than $10,000 may, if any illustration based upon the lower amount is not also used, refer to their actual minimums but an illustration based upon $10,000 must still be used;

6. be updated at least annually based on the appraisals referred to in item 3. above. More frequent revisions are permitted if based upon interim evaluations by a qualified petroleum engineer whose identity is disclosed in the illustration;

7. contain a prominent legend stating that the analysis is related solely to the results of previously offered programs and that it should not be construed as a representation that similar results will be achieved by any future program;

8. include the following items presented in the same order and utilizing the same terminology as appears below:

   (i) "Initial Investment"

   (ii) "Assessments"

   (iii) "Total Investment"

   (iv) "Cumulative Deductible Expenses"

   (v) "Adjusted Federal Tax Basis"

   (vi) "Tax Savings"

   (vii) "Net Cost"

b. Analysis of Previously Offered Programs Based on Cash Liquidation Value - An analysis of the results of previously offered programs based on cash liquidation value must also include the following items presented in the same order and utilizing the same terminology as appears below:

   1. "Cash Liquidation Value"

   2. "Adjusted Federal Tax Basis"

   3. "Taxable Gain"

   4. "Capital Gains Tax"

   5. "Net Proceeds After Tax"

   6. "Net Cost" (Total Investment less Tax Savings)

   7. "After Tax Cash Gain (Loss)"

c. Analysis of Previously Offered Programs Based on Distributable Cash Flow - An analysis of the results of previously offered programs based on distributable cash flow must also include the following items presented in the same order and utilizing the same terminology as appears below:

   1. "Total Net Income Paid to Participant"

   2. "Depreciation"

3. "Depletion Allowance"

4. "Taxable Net Income Received"

5. "Federal Income Tax"

6. "Net Income After Taxes"

7. "After Tax Cash Flow"

8. "Latest Three Months' Net Income Paid to Participant"

9. "Estimated Net Future Income to be Paid to Participant Over Next Ten Years (or Remaining Life of the Program, Whichever is Less)"

10. "Estimated Net Future Income to be Paid to Participant Over Remaining Life of the Program"

(Schedule III hereto is provided as a guide to members in preparing an analysis which conforms to the above requirements.)

Real Estate Programs

(g) In addition to the provisions of Subsections (a) through (e) hereof, sales literature designed to promote the sale of real estate programs which makes or includes a presentation on predicted future results (projections) of operations shall be considered materially misleading unless it conforms to the provisions of this subsection.

(1) General Requirements for Projections

a. Projections shall be realistic and shall clearly identify the assumptions made with respect to all material features of the presentation.

b. Projections shall be prepared by qualified persons or firms. Those persons or firms who participate in the preparation of the projections should be identified, together with their respective roles in such preparation.

c. No projections shall be permitted in any sales literature or in any oral or other presentation whether formal or informal which do not appear in the prospectus or offering

circular. If any projections are included in the sales literature or oral or other presentations, all of the projections included in the prospectus or offering circular must be presented in total.

d. Projections shall be for a period equivalent to the anticipated holding period for the property or properties in the program.

e. Projections shall prominently display a statement to the effect that they represent a prediction of future events which may or may not occur; that they are based on assumptions which may or may not occur; and may not be relied upon to indicate the actual results which might be attained.

f. The assumptions underlying tabular and numerical presentations should be fully explained and disclosed and, where appropriate, cross-referenced to relevant sections of the prospectus.

(2) Non-Specified Property Programs. The use of projections in non-specified programs, whether contained in the offering circular, prospectus or any other advertising media, is prohibited.

(3) Material Information for Specified Property Programs. Projections for programs where any property is specified shall include as to each property specified, at least the following information:

a. Initial Application of Funds

Gross amount of capital raised by the program;	xxxx
Organizational expenses;	(xxxx)
Offering expenses;	(xxxx)
Net proceeds available for acquisitions and operations.	xxxx

b. Acquisition and Operations

Prepaid financial items;	xxxx
Prepaid operating expenses;	xxxx
Other fees and expenses;	xxxx
Initial principal payments;	xxxx
Net proceeds applied to acquisitions;	xxxx
Working capital and operating reserves;	xxxx
Net proceeds applied to acquisitions and operations.	xxxx

c. Other Financial Information

1. Mortgages and other financing separately stating as to each mortgage the material terms thereof (e.g., interest rate, maturity date, annual constant, balloon payments, lock-in period, prepayment penalties, acceleration provisions, assignability, subordination and participation);

2. Where the program develops a property, the predicted construction or development costs, including disclosures regarding contracts relating to such developments;

3. Allocation of the purchase price to the improvements, personal property and loan including information on the depreciation methods, useful lives and salvage values as appropriate.

d. Operations

A proposed operating statement shall be shown for each year in the following format (unless shown to be inappropriate):

1.

Scheduled gross revenues;	xxxx
Vacancy and collection loss;	xxxx
Effective gross revenues;	xxxx
Operating expenses;	xxxx
Cash flow for operations;	xxxx
Partnership administration;	xxxx
Sponsor's participation;	xxxx
Cash flow before debt service and reserves;	xxxx
Debt service;	xxxx
Reserves;	xxxx
Cash flow before income taxes	xxxx

2. Analysis of Cash Flow:

Cash flow before debt service and reserves;	xxxx
Interest;	xxxx
Depreciation (attach schedule);	xxxx
Taxable income (loss)	xxxx
Tax savings (cost) at various tax brackets;	xxxx

Cash flow before income taxes;	xxxx
Total	xxxx

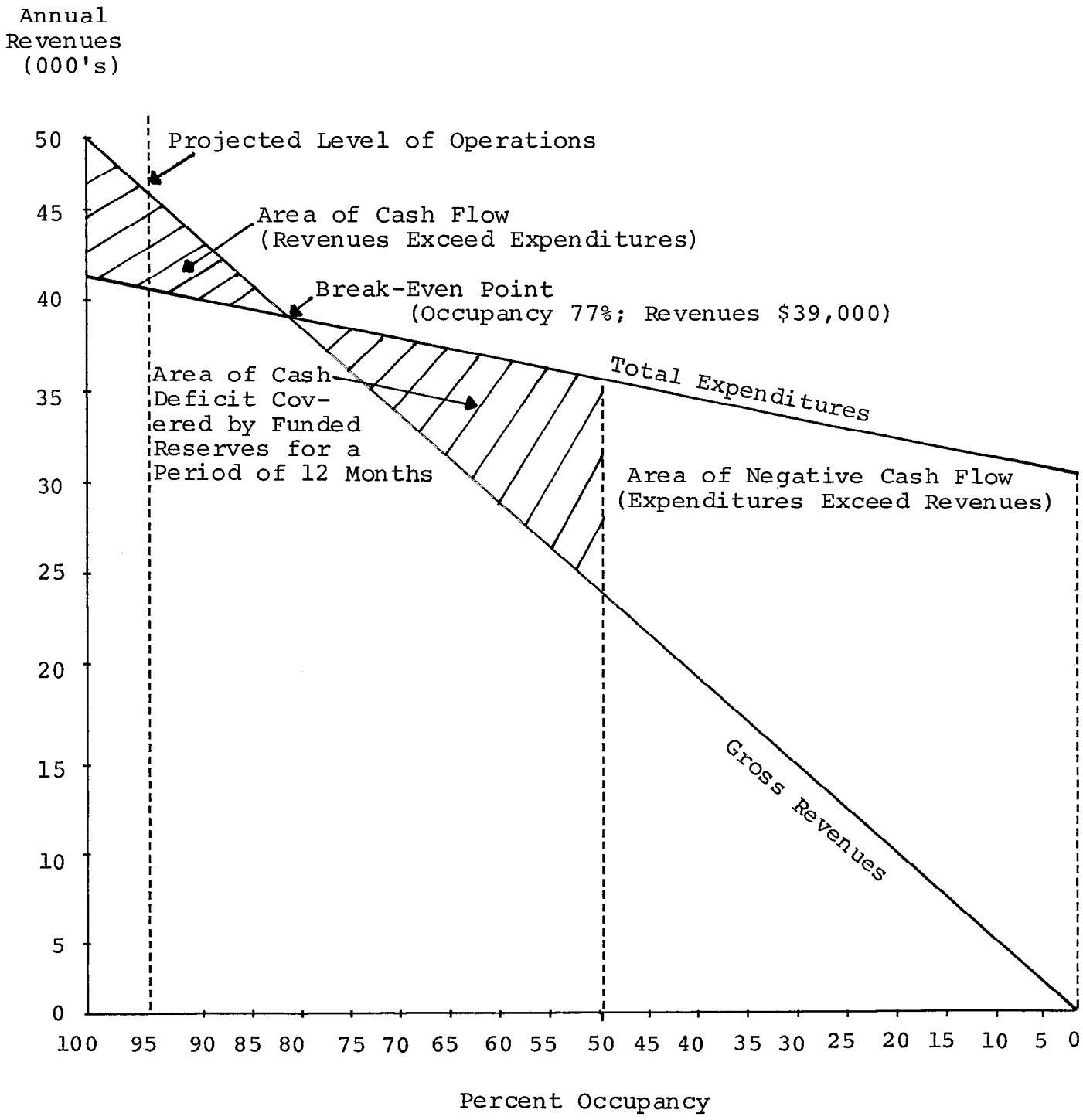
For purposes of the foregoing, the minimum tax bracket used shall correspond to the minimum suitability standards based on combined federal and state income tax brackets. In addition the sponsor shall include projections at the combined federal and state 50 percent tax bracket and may show such additional brackets as are appropriate to the offering.

3. As part of the projections the sponsor shall include a graphic presentation for each specified property based on the proposed operating statement entitled "Projected Revenues in Relation to Occupancy Levels and Expenditures," or otherwise appropriately headed, which presentation shall include:

Annual stabilized revenues expressed in appropriate dollar amounts at various occupancy levels in 5 percent increments from 0 percent to 100 percent;
The level of expenditures at all occupancy levels;
The projected revenue level;
The break-even point.

The graphic presentation shall be in the following form:

PROJECTED REVENUES IN RELATION TO OCCUPANCY LEVELS AND EXPENDITURES



e. Refinancing

Sponsor shall be required to project the effects of any anticipated refinancing. Such refinancing must be reasonable and supported by appropriate analysis.

f. Sale

1. The projections shall include a projection of the consequences of a sale of the property. The projected resale price must be reasonable. The total consideration paid for the properties shall be deemed a reasonable resale price except in special circumstances, e.g., some leasebacks, or subsidized housing. In such special circumstances, the sponsor must justify the proposed resale price by appropriate analysis of the projected financial characteristics of the property in the assumed year of sale. The presentation of the projected sale consequences shall be in the following form:

PROJECTED SALE CONSEQUENCES

	Tax Bracket #1	Tax Bracket #2	Etc.
Sale price;	xxxx	xxxx	
Costs of sale;	xxxx	xxxx	
Net selling price;	xxxx	xxxx	
Taxable gain (loss) on sale with ordinary income and capital gain on each sale separately stated;	xxxx	xxxx	

	Tax Bracket #1	Tax Bracket #2	Etc.
Net sales proceeds;	xxxx	xxxx	
Less sponsor's participation in net sales proceeds;	xxxx	xxxx	
Net sales proceeds distributable to investors;	xxxx	xxxx	
Income tax liability;	xxxx	xxxx	

Net after tax proceeds to investors;	xxxx	xxxx
Discounted rate of return (internal rate of return) or other comparable measure of performance	xxxx	xxxx

For purposes of the foregoing, the assumed tax brackets shall be the same as those tax brackets assumed for projection of operations. The discounted rate of return or other comparable measure of performance shall be disclosed for each assumed tax bracket. The discounted rate of return (internal rate of return) is defined as that interest rate which equates the present value of the after tax cash inflows to the present value of the investment.

2. The projections shall include a sensitivity table showing discounted rate of return or other comparable measure of performance under various operating and sale assumptions for the various combined federal and state income tax brackets which have previously been used in the projections. The table shall be in the following form:

SENSITIVITY TABLE

Discounted Rates of Return or Other Comparable Measure of Performance for the Performance Levels and Tax Brackets Shown

	Tax Brackets			
Performance Level	_____%	_____%	_____%	_____%

1. As Projected

2. No cash flow - sale at mortgage balance in the projected year of sale

3. No cash flow - sale at mortgage balance in the projected year of sale divided by 2

4. 50 percent of projected cash flow with the sale price determined by a capitaliza-

Performance Level	Tax Brackets _____%	_____%	_____%	_____%
tion rate[1] based on that level of operating income - sale in projected year of sale				
5. 150 percent of projected cash flow - sales price determined by a capitalization rate[1] based on that level of operating income-sale in projected year of sale				

3. Where the net sales proceeds resulting from any of the sales assumed on the foregoing chart are less than the tax liability resulting from such sales, that fact shall be so stated as to each such sale as a specific dollar figure per thousand dollar investment.

(4) Material Information for Unimproved Land. Projections for unimproved land programs shall include all of the following information:

a. Initial Application of Funds

Gross amount of capital raised by program;	xxxx
Organizational expenses;	(xxxx)
Offering expenses;	(xxxx)
Net proceeds available for acquisitions and operations.	xxxx

b. Acquisition Expenditures

Prepaid financial items;	xxxx
Prepaid operating expenses;	xxxx
Other fees and expenses;	xxxx
Initial principal payments;	xxxx
Net proceeds applied to acquisitions;	xxxx

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[1]The capitalization rate to be used is the rate computed by reference to the original total consideration (rather than contract price) for the property unless a lower capitalization rate can be justified.

Working capital and operating reserves;	xxxx
Net proceeds applied to acquisitions and working capital and reserves.	xxxx

c. Other Financial Information

Mortgages and other financing separately stating as to each mortgage, the material terms thereof (e.g., interest rate, maturity date, annual constant, balloon payments, lock-in period, prepayment penalties, acceleration provisions, assignability, subordination and participation).

d. Holding Costs

1. Operations:

Gross revenues;	xxxx
Taxes;	xxxx
Insurance;	xxxx
Maintenance and repairs;	xxxx
Debt service;	xxxx
Cash requirements (cash investment)	xxxx

2. Analysis of Cash Flow:

Cash investment;	xxxx
Add: equity build up;	xxxx
Less: depreciation (attach schedule);	xxxx
Taxable income (loss)	xxxx

Tax Savings (detriment):

Tax savings (liability) for various tax brackets;	xxxx
Cash investment before taxes;	xxxx
Net cash investment	xxxx

3. Sale

The projections shall include a projection of the consequences of a sale of the property. The minimum sales price shall be the total consideration paid for the property, plus the necessary increase to cover all holding costs and thereby achieve a sale of the property at a break-even price. All projections of sales shall

be based on a minimum holding rate of at least 5 years. The projections shall include information as to the timing of the sale as well as the sale price.

4. Rate of Return

The projections shall include a schedule of anticipated discounted rate of return or other comparable measure of performance over the life of the program.

(h) If an analysis of the results of previously offered programs is used, it shall include the results of all programs within the past ten (10) years from the registration date, be disclosed in both the prospectus or offering circular and the sales literature, be summarized in tabular form, be consistent with the requirements established by the Securities and Exchange Commission and/or the regulations of the state(s) under which the program has been qualified, and shall in addition conform with the provisions of subsection (b) of Section 9.