NOTICE TO MEMBERS: 78-30
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

August 8, 1978

MEMORANDUM

TO: All NASD Members

RE: SEC Rule 15c3-1; Extension of Temporary Amendments and Proposed Amendments Concerning Municipal Securities and Proposed Amendments Relative to Loans Secured By Fixed Assets

Extension of Temporary Amendments Affecting Transactions in Municipal Securities

On July 26, 1978, the Securities and Exchange Commission, in Release No. 34-14994, approved the extension of two temporary amendments to the uniform net capital rule concerning municipal securities. This action by the Commission:

- extends until January 1, 1979, the current net capital treatment of good faith deposits and syndicate or joint account receivables arising in connection with municipal underwritings (i. e., allowable asset treatment for up to 90 calendar days after settlement date of the underwriting with the issuer); and,

- extends to January 1, 1979, the temporary amendment excluding municipal securities from undue concentration haircuts.

It is expected that these changes will appear in the next monthly supplement to the NASD Manual.

Proposed Changes in Net Capital Treatment of Certain Receivables Relating to and Positions in Municipal Securities

Also on July 26, 1978, the Securities and Exchange Commission, in Release No. 34-14995, proposed permanent amendments to the uniform

net capital rule concerning municipal securities. The proposed amendments would:

- reduce the 90 calendar day period during which good faith deposits and syndicate or joint account receivables arising in connection with municipal underwritings are given allowable asset treatment to 60 calendar days; and,

- require that municipal securities be subject to an undue concentration haircut.

The first proposed change conforms the uniform net capital rule to Municipal Securities Rulemaking Board Rule G-12. Under that rule, final settlement of a syndicate or similar account formed for the purchase of securities is to be made within 60 days following the date all securities have been delivered by the syndicate or account manager to the syndicate or account members.

The second proposed change would require that an undue concentration haircut be applied to those municipal securities held long or short if the issue has the same security provisions, date of issue, interest rate and maturity date and such securities have a market value in excess of $500,000 in bonds ($5,000,000 in notes) or 10% of the firm's tentative net capital, whichever is greater, and have been held in inventory more than 20 business days.

The Commission has invited comments from all interested parties on the proposed amendments. Such must be received on or before October 1, 1978.

The text of the proposed amendments appears in SEC Release No. 34-14995, a copy of which is reprinted in this notice beginning on page 4.

Proposed Amendments Concerning Fixed Liabilities Secured By Non-Liquid Assets

Earlier, on July 11, 1978, the Commission proposed to amend the uniform net capital rule as it relates to loans secured by fixed assets. By way of background, the uniform net capital rule currently permits the following treatment to be given in those situations where fixed liabilities are adequately secured by assets of the broker-dealer:

- to the extent the liability is adequately secured by the asset, such liability is excluded from aggregate indebtedness; and,

- to the extent the asset which adequately secures the liability is equal to or less than the amount of the liability, the asset is an allowable asset.

The proposed amendments would require that all fixed liabilities payable within six months of the net capital computation date be included in aggregate indebtedness. Any loan agreement which contains a provision permitting the lender to accelerate the maturity date to a period of less than six months from the date of such acceleration would be regarded as payable within six months. Also, the proposed amendments would require that the asset securing such a liability be deducted from net worth in the computation of net capital.

A further amendment would require that no payment, either in full or in part, be made on a loan secured by any asset of the firm to a broker-dealer by a partner, stockholder, sole proprietor or employee of such firm unless certain conditions are met. In effect, such loans would be treated as proprietary capital until the circumstances prescribed in the amendment are met.

The Commission has also invited comments on these proposed amendments. They must be received by the Commission no later than September 11, 1978.

The text of the proposed amendments appears in SEC Release No. 34-14952, a copy of which is reprinted in this notice beginning at page 7.

* * *

Should you have any questions concerning this notice or the attached releases, please contact John J. Cox at (202) 833-7320.

Sincerely,

Gordon S. Macklin
President

Attachments

REPRINT OF PROPOSED CHANGES IN NET CAPITAL TREATMENT OF CERTAIN RECEIVABLES RELATING TO AND POSITIONS IN MUNICIPAL SECURITIES

Securities Exchange Act Release No. 14995/July 26, 1978

NET CAPITAL REQUIREMENTS FOR BROKERS AND DEALERS

AGENCY: Securities and Exchange Commission

ACTION: Proposed amendment to rule

SUMMARY: The Commission is proposing to amend its rule governing net capital requirements for brokers and dealers. If amended as proposed, the Rule would set forth the treatment to be accorded specific receivables and undue concentration deductions relating to transactions in municipal securities.

DATE: Comments must be received on or before October 1, 1978.

ADDRESS: All comments should be directed in triplicate to George A. Fitzsimmons, Secretary, Securities and Exchange Commission, 500 North Capitol Street, Washington, D.C. 20549.

FOR FURTHER INFORMATION CONTACT: Nelson S. Kibler, Assistant Director, Division of Market Regulation, Securities and Exchange Commission, Washington, D.C. 20549, (202) 376-8131.

SUPPLEMENTARY INFORMATION: In Securities Exchange Act Release No. 14513, February 28, 1978 [43 FR 45, March 7, 1978], the Commission extended until August 1, 1978 the temporary provisions of Rule 15c3-1 (17 CFR 240.15c3-1) under the Securities Exchange Act of 1934 dealing with the items summarized above. The Commission took such action to afford itself an opportunity to formulate the amendments proposed herein.

DISCUSSION

As originally written, Rule 15c3-1(c)(2)(iv)(C) required the deduction from net worth of good faith deposits arising in connection with an underwriting and outstanding longer than eleven business days. In addition, profits derived from participation in an underwriting syndicate were treated as "unsecured receivables" which pursuant to Rule 15c3-1(c)(2)(iv)(E) were deducted from net worth. In Securities Exchange Act Release No. 11854 the Commission adopted temporary amendments to Rule 15c3-1(c)(2)(iv)(C) permitting the inclusion in net worth, for ninety (90) days after settlement of the underwriting with the issuer, good faith deposits and receivables arising from participation in municipal securities underwritings. This release proposes to reduce the ninety (90) day period to sixty (60) days for inclusion of such receivables and good faith deposits in net worth. The reduced time period is consistent with the requirements of Rule G-12 of the Municipal Securities Rulemaking Board.

Rule 15c3-1(c)(2)(vi)(M) in general provides that a deduction from net worth equal to half the appropriate haircut shall be taken against long or short positions in the securities of an issuer of a single class or series, the market value of which positions exceed ten percent of tentative net capital. A similar provision, Rule 15c3-1(f)(3)(iii), applies to computations under the alternative net capital requirement. In Release No. 11854, the Commission exempted positions in municipal securities from the undue concentration provisions of Rule 15c3-1 on a temporary basis. In Release No. 14513 the Commission continued that exemption until August 1, 1978. This release proposes to amend Rules 15c3-1(c)(2)(iv)(M) and 15c3-1(f)(3)(iii) to require that the undue concentration haircut provisions shall apply to municipal securities only if the issue has the same security provisions, date, interest rate, day, month and year of maturity and such securities have a market value in excess of $500,000 in bonds ($5,000,000 in notes) or 10% of tentative net capital, whichever is greater, and are held in position longer than 20 business days.

The text of the proposed amendments appear later in this release.

STATUTORY BASIS AND COMPETITIVE CONSIDERATION

Pursuant to the Securities Exchange Act of 1934, and particularly Sections 15(c)(3) and 23(a) thereof, 15 USC Section 780(c)(3), and 78w(a), the Commission proposes to amend Section 240.15c3-1 in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations in the manner set forth below. The Commission believes that any burden imposed upon competition by the proposed amendments is necessary and appropriate in furtherance of the purposes of the Act, and particularly to implement the Commission's continuing mandate under Section 15(c)(3) thereof, 15 U.S.C. Section 780(c)(3), to provide minimum safeguards with respect to the financial responsibility of brokers and dealers.

REQUEST FOR COMMENTS

All interested persons are invited to submit, in triplicate, their views and comments concerning the amendments to Section 240.15c3-1 proposed herein. All communications should be addressed to George A. Fitzsimmons, Secretary, Securities and Exchange Commission, 500 North Capitol Street, Washington, D.C. 20549, no later than October 1, 1978, and should refer to File No. S7-748. All comments received will be available for public inspection.

TEXT OF PROPOSED AMENDMENTS

The proposed amendments to Section 240.15c3-1 are as follows:

Section 240.15c3-1 Net capital requirements for brokers or dealers.

* * * * * *

(c) * * *

(2) * * *

(iv) * * *

(C) Interest receivable, floor brokerage receivable from other brokers or dealers (other than syndicate profits which shall be treated as required in subparagraph (c)(2)(iv)(E) of this section), mutual fund concessions receivable and management fees receivable from registered investment companies, all of which receivables are outstanding longer than thirty (30) days from the date they arise; dividends receivable outstanding longer than thirty (30) days from the payable date; good faith deposits arising in connection with an underwriting, outstanding longer than eleven (11) business days from the settlement of the underwriting with the issuer; and receivables due from participation in municipal securities underwriting syndicates and municipal securities joint underwriting accounts, including secondary joint accounts, which are outstanding longer than sixty (60) days from settlement of the underwriting with the issuer and good faith deposits arising in connection with an underwriting of municipal securities, outstanding longer than sixty (60) days from settlement of the underwriting with the issuer.

* * * * * *

In Section 240.15c3-1, the last sentence of paragraphs (c)(2)(vi)(M) and (f)(3)(iii) would be amended to read as follows: Provided further, this provision will be applied to an issue of municipal securities having the same security provisions, date of issue, interest rate, day, month and year of maturity only if such securities have a market value in excess of $500,000 in bonds ($5,000,000 in notes) or 10% of tentative net capital, whichever is greater, and are held in position longer than twenty (20) business days.

By the Commission.

George A. Fitzsimmons
Secretary

REPRINT OF PROPOSED AMENDMENTS CONCERNING LOANS SECURED BY FIXED ASSETS

Securities Exchange Act Release No. 14952/July 11, 1978

NET CAPITAL REQUIREMENTS FOR BROKERS AND DEALERS

AGENCY: Securities and Exchange Commission

ACTION: Proposed amendment to rule

SUMMARY: The Commission is proposing to amend its net capital rule for brokers and dealers. Recently, it has come to the attention of the Commission staff that certain broker-dealers have borrowed money payable on demand and secured the loans with fixed assets of the broker-dealers. Loans secured by fixed assets of a broker-dealer are given special consideration under the net capital rule. Yet, loans payable on demand are contrary to the intent of the net capital rule's goal of liquidity since the calling of such loans could impair the liquidity of the debtor broker-dealers. If amended as proposed, the rule would limit the ability of brokers and dealers to deduct from aggregate indebtedness fixed liabilities secured by non-liquid assets of brokers or dealers which are payable on demand or within a period of less than six months. The rule would also limit payments on loans which could be made to certain persons.

DATE: Comments must be received by September 11, 1978.

ADDRESS: All comments should be directed in triplicate to George A. Fitzsimmons, Secretary, Securities and Exchange Commission, 500 North Capitol Street, Washington, D.C. 20549.

FOR FURTHER INFORMATION CONTACT: Nelson S. Kibler, Division of Market Regulation, Securities and Exchange Commission, Washington, D.C. 20549 (202) 376-8131.

SUPPLEMENTARY INFORMATION: The Securities and Exchange Commission today announced proposed amendments to its Rule 15c3-1 [17 CFR 240.15c3-1], the uniform net capital rule. The proposed amendments would in effect limit the amount of the fixed liabilities adequately secured by assets of a broker-dealer which could be deducted from that broker-dealer's aggregate indebtedness in determining its net capital requirements. This redefinition would also affect the determination of "net capital."

Net capital is computed by deducting from the net worth of a broker or dealer fixed assets and assets not readily convertible into cash. That deduction, however, is reduced by the amount of any indebtedness excluded from aggregate indebtedness by virtue of its being adequately secured by assets of the broker-dealer.

Finally, the amendments would preclude payment on certain loans of associated persons of the broker or dealer under certain circumstances, thus limiting the ability of an associated person to withdraw capital from the firm at an inappropriate time.

DISCUSSION

Rule 15c3-1, the net capital rule, in general requires a broker or dealer to maintain a certain "net capital" depending on its circumstances. 1/ The amount of the required net capital under certain circumstances depends on the amount of "aggregate indebtedness." Paragraph (c)(2) of the Rule defines "net capital" as the net worth of a broker or dealer adjusted by certain described items. Paragraph (c)(1) of the Rule defines "aggregate indebtedness" as the total money liabilities of a broker or dealer in connection with any transaction, whatsoever, but makes certain limited exclusions. Among those exclusions are fixed liabilities adequately secured by assets acquired for use in the ordinary course of the trade or business of a broker or dealer, and fixed liabilities secured by assets of the broker-dealer where the sole recourse of the creditor is the secured asset. 2/ Among the adjustments which must be made to net worth of a broker-dealer in the computation of "net capital" is the value of fixed assets and assets not readily convertible into cash. These values must be deducted from net worth. But, the amount of this deduction from net worth is reduced by the amount of any indebtedness excluded from aggregate indebtedness in accordance with the provisions described above. 3/

The Commission staff has become aware of a practice of some brokers and dealers which seems contrary to the spirit if not the letter of the net capital rule and which may have a result adverse to the interests of the customers of those brokers and dealers. Those brokers and dealers have borrowed money payable on demand and secured the loan with fixed assets of the broker or dealer. At times, the loan may be made by a person associated with the broker or dealer. This practice has been thought to allow the broker or dealer to take advantage of the provisions in the net capital rule allowing more lenient treatment (to net in effect) of assets not readily convertible into cash which secure loans and certain related liabilities secured by such assets. Yet, the practice could impair the broker's or dealer's liquidity since under those circumstances the borrowed money can be withdrawn from the broker or dealer at any time or the assets securing the loan can be seized, thereby putting the firm effectively out of business with little or no notice.

1/ Rule 15c3-1(a).

2/ Rule 15c3-1(c)(1)(viii).

3/ Rule 15c3-1(c)(2)(iv).

The rule amendments as proposed would require a broker or dealer to have greater net capital to the extent that his liabilities include those payable on demand secured by assets otherwise not considered readily convertible into cash under the rule.

The proposed amendments would consider all loans payable within less than six months of the date of net capital computation as in effect demand loans and would not permit a broker or dealer to obtain certain benefits for those loans under the rule. 4/ In selecting six months as a cut-off period, the Commission in effect is attempting to encourage loans which have a term of longer than six months. Such loans would provide a more solid foundation for the financial condition of a firm. For example, a loan having a duration of a year would give the broker-dealer six months in which to find additional sources of financing in order to comply with the net capital rule. Moreover, in such a case, if the broker-dealer failed to refinance the loan, the assets from the prior loan would remain in the firm at least six additional months, precluding the creditor from having the ability to benefit at the possible expense of customers. The rule would thus lock-in the capital for a period of time thought ample by other provisions of the net capital rule as a sufficient protection to customers in other situations. See Rule 15c3-1(e) and Rule 15c3-1d(10)(i).

Loan agreements which contain acceleration provisions allowing the creditor to accelerate the maturity date of the loan to a period of less than six months from the date of acceleration will be treated by the amendments as if the loans were payable on demand or within a period of less than six months. The Commission is aware that there customarily are accelerating conditions in long-term financing situations which should appropriately be excluded from this provision. The Commission solicits advice on this problem.

The amendments will do more than alter the computation of net capital, however. The amendment to paragraph (e) will, if adopted, effectively treat loans payable to certain persons associated with a broker or dealer as proprietary capital which could not be repaid under certain circumstances.

The reason for this change is basic to the net capital rule. The purpose of the net capital rule is to ensure that brokers and dealers are in a position to meet promptly customers' claims of their securities or funds. The rule does that by requiring the firm to have a certain amount of liquid capital. As noted above, the right of any creditor to withdraw funds from a broker-dealer on demand or within a short period of time could impair the firm's liquid capital. A fortiori, the insiders of a broker-dealer firm should surely not be in a position to withdraw assets from the firm when in a precarious financial position and in effect prefer themselves to the customers of the firm. The amendment to paragraph (e) of the net capital rule would prevent this.

4/ See Rule 15c3-1(c)(1)(iv) and (c)(2)(viii).

The Commission solicits comments on the following questions: (1) Should the Commission adopt any grandfather provision excluding from the amendments fixed liabilities which may have been entered into in reliance on an interpretation of the present rule? (2) Should the Commission make any changes at all in the provisions affected by this proposal? Are there any other solutions to the problems spelled out in the Commission's release?

The text of the proposed Section 240.15c3-1(c)(1)(viii) and (e) appears later in this release.

STATUTORY BASIS AND COMPETITIVE CONSIDERATIONS

Pursuant to the Securities Exchange Act of 1934, and particularly Sections 15(c)(3) and 23(a) thereof, 15 U.S.C. 780(c)(3) and 78w(a), the Commission proposes to amend Section 240.15c3-1 in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations in the manner set forth below. It appears to the Commission that any burden imposed upon competition by the proposed amendments is necessary and appropriate in furtherance of the purposes of the Act, and particularly to implement the Commission's continuing mandate under Section 15(c)(3) thereof, 15 U.S.C. 780(c)(3), to provide minimum safeguards with respect to the financial responsibility of brokers and dealers.

REQUEST FOR COMMENTS

All interested persons are invited to submit, in triplicate, their written views and comments concerning the amendments to Section 240. 15c3-1 proposed herein. All communications should be addressed to George A. Fitzsimmons, Secretary, Securities and Exchange Commission, 500 North Capitol Street, Washington, D.C. 20549, no later than September 11, 1978. Comments should refer to File No. S7-745 and will be available for public inspection.

TEXT OF PROPOSED AMENDMENTS

The proposed amendments to paragraphs (c)(1)(viii) and (e) of Section 240.15c3-1, Title 17 CFR, are as follows:

ATTENTION

In the text of the following proposed amendments, deleted material is lined out and new material is underscored.

Section 240.15c3-1 Net capital requirements for brokers or dealers.

* * * * * *

(c) * * *

(1) * * *

(viii) Fixed liabilities adequately secured by assets acquired for use in the ordinary course of the trade or business of a broker or dealer, ~~but no other fixed liabilities secured by assets of the broker or dealer shall be so excluded unless the sole recourse of the creditor for nonpayment of such liability is to such asset;~~ and fixed liabilities secured by assets of the broker or dealer where the sole recourse of the creditor for nonpayment of the liability is to the secured asset. No exclusion shall be made for any liability which is payable on demand or within a period of less than six months. Any liability which is subject to acceleration to a date less than six months from the date of acceleration shall be regarded as one payable within a period of less than six months.

* * * * * *

NET CAPITAL

(2) The term "net capital" shall be deemed to mean the net worth of a broker or dealer, adjusted by: * * *

(iv) Assets Not Readily Convertible Into Cash.

Deducting fixed assets and assets which cannot be readily converted into cash (less any indebtedness excluded in accordance with subdivision (c)(1)(viii) of this Section) including, among other things:

* * * * * *

(e) Limitation on Withdrawal of ~~Equity~~ Capital.

No ~~equity~~ capital of the broker or dealer or a subsidiary or affiliate consolidated pursuant to Appendix (C) (17 CFR 240.15c3-1c) whether in the form of capital contributions by partners (excluding securities in the securities accounts of partners and balances in limited partners' capital accounts in excess of their stated capital contributions), par or stated value of capital stock, paid-in capital in excess of par, retained earnings or other capital accounts, may be withdrawn by action of a stockholder or partner, or by redemption or repurchase of shares or stock by any of the consolidated entities or through the payment of dividends or any similar distribution, nor may any unsecured advance or loan be made to a stockholder, partner, sole proprietor or employee; nor may any payment in full or in part be made to such person on a loan which is secured by any asset

of the broker or dealer nor may any such person levy on, attach or otherwise enforce any lien on or any security interest in that asset, if, after giving effect thereto and to any other such withdrawals, advances ~~or~~, loans or payments and any Payments of Payment Obligations (as defined in Appendix (D) (17 CFR 240.15c3-1d) under satisfactory subordination agreements which are scheduled to occur within six months following such withdrawal, advance ~~or~~, loan or payment, either aggregate indebtedness of any of the consolidated entities exceeds 1000 per centum of its net capital or its net capital would fail to equal 120 per centum of the minimum dollar amount required thereby or would be less than 7 percent of aggregate debit items computed in accordance with 17 CFR 240.15c3-3a, or in the case of any broker or dealer included within such consolidation if the total outstanding principal amounts of satisfactory subordination agreements of the broker or dealer (other than such agreements which qualify as equity under paragraph (d) of this section) would exceed 70 percent of the debt-equity total as defined in paragraph (d). Provided, that this provision shall not preclude a broker or dealer from making required tax payments or preclude the payment to partners of reasonable compensation.

* * * * * *

By the Commission.

George A. Fitzsimmons
Secretary

'NOTICE TO MEMBERS: 78-31
Notices to Members should be
retained for future reference

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

August 8, 1978

TO: All NASD Members

RE: Douglas F. Brown Financial Services, Inc.
1414-16th, P.O. Box 697
Longview, Washington 98632

ATTN: Operations Officer, Cashier, Fail-Control Department

On Tuesday, July 18, 1978, a SIPC trustee was appointed for the above-captioned firm. Members may use the "immediate close-out" procedures as provided in Section 59(i) of the NASD's Uniform Practice Code to close-out open OTC contracts. Also, MSRB Rule G-12(h)(iv) provides that members may use the above procedures to close-out transactions in municipal securities.

Questions regarding the firm should be directed to:

SIPC Trustee
James E. Newton, Esquire
Davis, Wright, Todd, Riese & Jones
4200 Seattle - First National Bank Building
Seattle, Washington 98154
Telephone (206) 622-3150

Bradford M. Patterson
Financial Specialist

NOTICE TO MEMBERS: 78-32
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

August 8, 1978

TO: All NASD Members

RE: Arnold & Company
P.O. Box 6677
Bridgewater, New Jersey 08807

ATTN: Operations Officer, Cashier, Fail-Control Department

On Monday, July 31, 1978, a temporary receiver was appointed for the above captioned SECO firm. Since the firm is not a member of the Association or the National Securities Clearing Corporation, please direct any questions regarding this firm to the temporary receiver.

Temporary Receiver

Joseph Markowitz, Esquire
Markowitz & Zindler
3131 Princeton Pike
Lawrenceville, New Jersey 08648
Telephone: 609-896-2414

Bradford M. Patterson
Financial Specialist

NOTICE TO MEMBERS: 78-32
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

August 14, 1978

TO: All NASD Members

RE: New York State Stock Transfer Tax - Revisions Effective August 1, 1978.

The New York State Stock Transfer Tax Surcharge of 25% expired on July 31, 1978. Pursuant to legislation passed last year, the 25% surcharge on stock transfer tax rates does not apply to transactions executed on and after August 1, 1978.

The schedule below lists the tax rates for New York State residents and non-residents. The following information has been supplied by the Data Management Division of Wall Street.

NEW YORK STATE STOCK TRANSFER TAX*

EFFECTIVE 8/1/78 - 9/30/79

Resident Rates

Selling Price of Shares	Tax Per Share
Less than $5	.0125 cents
$5 but less than $10	.0250 cents
$10 but less than $20	.0375 cents
$20 or more	.0500 cents

Non-Resident Rates

Selling Price of Shares	Tax Rate Per Share
Less than $5	.007812
$5 but less than $10	.015625
$10 but less than $20	.023437
$20 or more	.031250

Note: There is a 37½% rebate for non-residents on the total amount of tax involved in each transaction.

Maximum Tax

Resident: $350.00

Non-Resident: $350.00 less 37½% - $218.75

Transfers Not Involving Sales

Resident: .0250 cents per share

Non-Resident: .0250 cents per share

Note: There is a 37½% rebate for non-residents on the total amount of tax involved in each security transferred.

TAX REBATE PROCEDURE

(Example: Sell 100 shares XYZ @ 20)

	Rebate Timetable	Tax Liability	Rebate	Total Tax Liability
	(8/1/78 to 10/1/81 and thereafter)			
I.	August 1, 1978 - September 30, 1978			
	a) Resident...	$5.00*	---	$5.00
	b) Non-Resident (37.5%)...	$5.00*	$1.87	$3.13
	c) Maximum Tax, Resident...	$350.00*	---	$350.00
	d) Maximum Tax, Non-Resident...	$350.00*	$131.25	$218.75
II.	October 1, 1979 - September 30, 1980			
	a) Resident (30%)...	$5.00	$1.50	$3.50
	b) Non-Resident (37.5%)...	$5.00	$1.87	$3.13
	c) Maximum Tax, Resident (30%)...	$350.00	$105.00	$245.00
	d) Maximum Tax, Non-Resident (37.5%)...	$350.00	$131.25	$218.75
III.	October 1, 1980 - September 30, 1981			
	a) Resident (60%)...	$5.00	$3.00	$2.00
	b) Non-Resident (60%)...	$5.00	$3.00	$2.00
	c) Maximum Tax, Resident (60%)...	$350.00	$210.00	$140.00
	d) Maximum Tax, Non-Resident (60%)...	$350.00	$210.00	$140.00
IV.	October 1, 1981 and thereafter			
	a) Resident (100%)...	$5.00	$5.00	-0-
	b) Non-Resident (100%)...	$5.00	$5.00	-0-
	c) Maximum Tax, Resident (100%)...	$350.00	$350.00	-0-
	d) Maximum Tax, Non-Resident (100%)...	$350.00	$350.00	-0-

(*) Reflecting expiration of 25% surcharge

NOTICE TO MEMBERS: 78-33
Notices to Members should be retained for future reference

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

August 17, 1978

IMPORTANT

TO: All NASD Members

RE: SEC Rule 17f-1; Lost and Stolen Securities Program

Introduction

On July 31, 1978, the Securities and Exchange Commission issued Release No. 34-15015 concerning the provisions and operation of its Lost and Stolen Securities Program under SEC Rule 17f-1 and on the redesignation of Securities Information Center, Inc., (SIC) as processor of reports and inquiries of securities losses. The purpose of the release is to solicit public comment on the implementation of the program to date and to assist the Commission in determining whether any changes to either the rule or the program would be appropriate. Attached to this notice is a reprint of that release as it appeared in the Federal Register on August 7, 1978. For additional background information on this subject, please refer to NASD Notice to Members Nos. 77-26 and 77-48, dated August 24, 1977, and December 21, 1977, respectively.

* * *

The Lost and Stolen Securities Program became effective on October 3, 1977. It is being operated on a pilot basis until December 31, 1978, at which time certain temporary exemptions to the reporting and inquiry requirements are scheduled to be eliminated. Questions concerning the appropriateness of these exemptions, the redesignation of SIC and the operation of the program generally are among the various issues on which the Commission is seeking comment so that it can make a determination as to whether rule changes will be proposed with respect to the operation of the program after the pilot period ends. Since all brokers, dealers and municipal securities dealers, among others, are "reporting institutions" for purposes of the Lost and Stolen Securities Program, every member

should carefully review and, to the extent appropriate, comment on the issues raised by the Commission in the attached release. The following is a brief synopsis of some of those areas discussed in the release which may be of interest or concern to you and warrant your further consideration.

- At the present time, there are no exemptions available to any broker, dealer or municipal securities dealer from having to register with SIC as a reporting institution except that each registrant has the option of electing to be either a direct or indirect inquirer. The Commission is requesting comments as to whether certain classes of institutions, by virtue of their product mix or method of operation, or some other relevant factors, should receive an exemption from having to participate in the program.

- During the pilot program, certain reports and inquiries do not have to be made which would otherwise be required. For example, transactions involving securities of $10,000 or less face value in the case of bonds, and $10,000 or less market value in the case of stocks are not subject to inquiry. Also, issues not assigned CUSIP numbers are similarly exempt. The Commission is interested in determining whether these temporary exemptions should be made permanent or eliminated after December 31, 1978.

- At the present time, there is no exemption from inquiry for bearer securities which a broker-dealer receives from a customer to whom he originally had sold the securities. At issue is the question of whether the program should be amended to permit a new exclusion from inquiry where the broker-dealer knows his customer and where he can verify, internally, the authenticity of the securities. Your views on this matter would be appreciated.

- Form X-17F-1A is used to make reports of losses and recoveries. The Commission is requesting comments as to whether the format and graphics of the form, as well as the information to be contained on the form, should be modified to encourage its use for other purposes such as a "stop-transfer order form," among other things.

- Comments are requested as to whether copies of Form X-17F-1A should be sent to other entities. It has been informally suggested to the SEC staff that the designated

examining authority of a broker-dealer should receive a copy of the form in order to better assist them in monitoring the activities of their members.

- As noted above, reporting institutions have the option of electing to participate as either a direct or indirect inquirer. At present, the pricing schedule of the program is structured around the universe of those reporting institutions which initially registered as a direct inquirer. The Commission is interested in knowing whether this method of categorizing reporting institutions and the attendant fee structure is just and workable and whether reasonable alternatives to this system exist.

- Presently, reporting institutions are not permitted to change their status from one of direct inquirer to indirect inquirer. Comments are solicited as to whether, and the procedures under which, such mobility could best be facilitated.

* * *

The above discussion briefly addresses some of the issues upon which the Commission is soliciting comment. Members are advised to carefully review the attached release in its entirety and to comment upon any and all areas where appropriate. In this regard, the Association would appreciate receiving copies of any such comment letters submitted to the SEC. Please direct any comments or questions you may have regarding this matter to Jack Rosenfield, Assistant Director, Department of Regulatory Policy and Procedures, (202) 833-4828, National Association of Securities Dealers, Inc., 1735 K Street, N. W., Washington, D. C. 20006.

Sincerely,

Gordon S. Macklin
President

Attachment

[8010-01]

SECURITIES AND EXCHANGE COMMISSION

[17 CFR Parts 240, 241, and 249]

[Release No. 34-15015; File No. S7-611]

LOST AND STOLEN SECURITIES

Advance Notice of Intent To Engage in Rulemaking

AGENCY: Securities and Exchange Commission.

ACTION: Advance notice of intent to engage in rulemaking.

SUMMARY: The Commission requests comment on the provisions and operation of the Lost and Stolen Securities Program and on the redesignation of the Securities Information Center, Inc. ("SIC") to maintain and operate the data base of reported missing, lost, counterfeit or stolen securities. In initially implementing the Lost and Stolen Securities Program, the Commission provided that its first year of operation would be conducted on a pilot basis and that the designation of SIC would terminate at the end of the pilot year. Comments are solicited in order that the Commission may assess whether modifications to the Lost and Stolen Securities Program may be appropriate and whether a redesignation of SIC should be made for an additional specified term.

DATE: Comments must be received on or before September 8, 1978.

ADDRESS: Persons wishing to submit written views, data, and comments should file three copies thereof with George A. Fitzsimmons, Secretary, Securities and Exchange Commission, Washington, D.C. 20549. All submissions should refer to File No. S7-611 and will be available for public inspection.

FOR FURTHER INFORMATION CONTACT:

Gregory C. Yadley, Division of Market Regulation, Securities and Exchange Commission, Washington, D.C. 20549, telephone 202-376-8129.

SUPPLEMENTARY INFORMATION: In order to facilitate conversion of the pilot phase of the Lost and Stolen Securities Program (the "Program") to a more permanent basis, the Commission has determined that it is appropriate at this time to solicit comments concerning the provisions and operation of the Program. Subsequent to the review and analysis of these comments by the staff of the Commission, the Commission may propose amendments to rule 17f-1 (17 CFR 240.17f-1) reflecting the views of interested persons submitted in response to this release.

BACKGROUND

Problems relating to missing, lost, counterfeit or stolen securities were outlined by the Commission, in 1970 [1] and were subsequently the subject of a series of Congressional hearings.[2] Implementation of a system to receive reports and inquiries concerning missing, lost, counterfeit and stolen securities was recommended by members of Congress, the industry, and law enforcement agencies. To accomplish this objective, the Securities Acts Amendments of 1975 [3] introduced new section 17(f)(1) into the Securities Exchange Act of 1934 (the "Act") and provided that certain financial institutions [4] shall make reports and inquiries with respect to missing, lost, counterfeit or stolen securities in accordance with rules promulgated by the Commission. The section also provides that reports and inquiries shall be made to the "Commission or other person designated by the Commission" and that reasonable fees may be charged for the processing of such data.

On December 6, 1976, the Commission adopted § 240.17f-1 establishing reporting and inquiry requirements with respect to missing, lost, counterfeit or stolen securities.[5] On August 5, 1977, the final, amended version of the section was published,[6] and on Janu-

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[1] Study of Unsafe and Unsound Practices of Brokers and Dealers, Report and Recommendations of the Securities and Exchange Commission (pursuant to section 11(h) of the Securities Investor Protection Act of 1970), December 1970.

[2] Organized Crime—Stolen Securities, hearings before the Permanent Subcommittee on Investigations, Senate Committee on Government Operations, 92d Cong., 1st Sess. (1971); 93d Cong., 1st Sess. (1973); 93d Cong. 2d Sess. (1974).

[3] Pub. L. 94-29 (June 4, 1975).

[4] The institutions subject to section 17(f)(1) are enumerated in the statute as follows: Every national securities exchange, member thereof, registered securities association, broker, dealer, municipal securities dealer, registered transfer agent, registered clearing agency, participant therein, member of the Federal Reserve System, and bank whose deposits are insured by the Federal Deposit Insurance Corporation.

[5] Securities Exchange Act Release No. 13053, 41 FR 54923 (December 6, 1976). Certain technical amendments to the section were made by the Commission in Securities Exchange Act Release No. 13280, 42 FR 11829 (March 1, 1977). Further amendments regarding the role of transfer agents in the program were proposed in Securities Exchange Act Release No. 13281, 42 FR 11844 (March 1, 1977) and incorporated into the rule in Securities Exchange Act Release No. 13832, 42 FR 41022 (August 12, 1977).

[6] Securities Exchange Act Release No. 13832, 42 FR 41022 (August 12, 1977).

ary 2, 1978, the computerized system for the processing of reports and inquiries became fully operational.

In order to monitor the effectiveness of § 240.17f-1 and the system designed to carry out its provisions, the Commission determined that the lost and stolen securities program should be instituted initially on a pilot basis, through December 31, 1978. Furthermore, the Commission determined that it would be appropriate to designate another person, as provided for in the statute, to receive and process the reports and inquiries for which the Commission is the appropriate instrumentality, as defined by the section [7] at least for purposes of the pilot program. Accordingly, the Commission solicited plans from persons interested in acting as the Commission's designee, and, after analysis of the submissions, designated the Securities Information Center, Inc. ("SIC") to act on its behalf [8] through the pilot year ending December 31, 1978.

SOLICITATION OF PUBLIC COMMENTS

Inasmuch as the pilot year and SIC's term of designation will expire on December 31, 1978, the Commission solicits its public comment at this time on the provisions of § 240.17f-1, the operation of the program to date, and on the question whether it would be appropriate for the Commission to redesignate SIC to receive and process reports and inquiries made pursuant to the section.

To focus the attention of public commentators, those aspects of the program which are of particular concern to the Commission are outlined below. Public comment relative to these issues will assist in the formulation of appropriate amendments to the section.

1. *Institutions subject to § 240.17f-1.* The financial institutions required to make reports and inquiries with respect to missing, lost, counterfeit, or stolen securities pursuant to § 240.17f-1 include nearly 20,000 institutions and a broad variety of securities and banking entites.[9] Preliminary research suggests that it may be appropriate to exempt from the operation of the section certain classes or subclasses of these institutions or to limit the application of the section with respect to such institutions. Similarly, it may be appropriate to broaden the scope of the section to include additional classes of financial institutions or to impose greater requirements on certain classes or subclasses of institutions. The Commission invites comments on these issues and seeks assistance in identifying appropriate criteria for making such determinations.

2. *Securities encompassed by § 240.17f-1.* Although section 17(f)(1) of the act applies to all securities, under § 240.17f-1, securities issues for which CUSIP numbers have not been assigned are exempted from the reporting and inquiry provisions of the program. Comments are requested concerning the appropriateness of this exemption, its permanent incorporation into the section, and whether other types of securities should be exempted.

3. *Appropriate Instrumentalities.* Section 240.17f-1 specifies that reports and inquiries shall be made to the "appropriate instrumentality." For securities issued by the U.S. Government, an agency or instrumentality of the U.S. Government, the International Bank for Reconstruction and Development, the Inter-American Bank, or the Asian Development Bank, the appropriate instrumentality is any Federal Reserve Bank or Branch.[10] For reports and inquiries regarding all other securities, the appropriate instrumentality is the Commission or its designee. This bifurcation of the responsibility for the processing of reports and inquiries resulted, in part, from the desire to take advantage of the information contained on the Federal Reserve Banks' "Checklist of Lost or Stolen Securities." At the time of the enactment of section 17(f) of the act, this manually accessed checklist had been used by member banks of the Federal Reserve System for nearly 6 years.[11]

Information is requested from interested members of the public as to whether the framework of dual appropriate instrumentalities provided by the section is appropriate or whether a unified central data base would be preferable. In addition, comments as to any difficulties experienced due to the concept or operation of the two appropriate instrumentalities are invited.

With respect to corporate and municipal securities, the Commission determined to exercise its authority to designate another entity to process reports and inquiries. As stated earlier, SIC's term as the Commission's designee expires on December 31, 1978. The Commission must, therefore, either designate SIC for another specified period of time or designate another entity to receive and process the reports and inquiries made pursuant to the section. While the staff's experience with SIC has been positive and unofficial comments from industry sources have been favorable, the Commission, in conformity with concepts of fairness, solicits submissions from other persons interested in serving as the Commission's designee.[12]

In formulating submissions to the Commissison; prospective designees should consider carefully the "Criteria for a Lost and Stolen Securities Reporting and Inquiry System" set forth in the Appendix, and should detail the manner in which their proposed system would operate, and include an estimate of the costs for establishment and operation of such a system and a plan for allocation of such costs.

Additionally, in order to assist the Commission in its evaluation of SIC and its processing system, and to aid in the formulation of system improvements, comments are invited from interested persons concerning their experience in working with SIC, their suggestions for modifications of the design and operation of its system, and the appropriate number of years for which a designation should be made.

4. *Reporting requirement.* Section 240.17f-1 provides that all institutions subject to its provisions shall report the discovery of the loss of any security to the appropriate instrumentality and to a registered transfer agent for the issue. A report to the appropriate law enforcement agency is also required in cases of suspected criminality. The section sets forth differing time requirements within which such reports shall be made, depending on the type of loss involved and the circumstances involved in the loss.[13] The attention of commentators is directed towards the appropriateness of these time requirements and the possibility that other circumstances exist that might make desirable the inclusion in the section of new time frames applicable to such circumstances.

All reports of loss are required to be made on Commission Form X-17F-1A. The Commission solicits suggestions regarding appropriate modifications in

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[7] Under § 240.17f-1, reports and inquiries are directed to the "appropriate instrumentality." In the case of U.S. Government securities, the appropriate instrumentality is any Federal Reserve Bank or branch thereof. The Commission is the appropriate instrumentality for all other securities, including State and municipal issues.

[8] Securities Exchange Act Release No. 13538, 42 FR 26495 (May 24, 1977). AutEx, Inc. was originally named as the designee. Subsequently, as a result of the acquisition of AutEx by ITEL Corp., SIC was created as a wholly owned subsidiary of ITEL Corp.

[9] *See* note 4, *supra.*

[10] Section 240.17f-1(a)(2)(i).

[11] During the drafting stages of rule 17f-1, the Federal Reserve Banks offered to serve as an appropriate instrumentality on a "temporary" basis in order to facilitate implementation of section 17(f). At that time, it was understood that the Federal Reserve Bank would not be held to a permanent commitment but would consider at a later date whether it was desirable to continue to play such an active role in the Commission's program.

[12] Section 17(f)(1)(A) of the act does not require that a designation be made but provides that reports and inquiries shall be made to the Commission or other person designated by the Commission.

[13] For example, if there is a substantial belief that criminality is involved in the loss, the report must be made one day after discovery. Section 240.17f-1(b)(1)(i).

the format and graphics of the form, as well as the information required to be submitted on the form, in order to facilitate its use, make it more informative, and encourage its use by the transfer agent community as a "uniform stop transfer order form." Comments are also requested as to whether copies of the reporting form, Form X-17F-1A, should be sent to other entities.[14]

5. *Inquiry requirements.* Section 240.17f-1 requires reporting institutions to make inquiry whenever securities come into their possession or keeping unless an exemption applies. The section does not specify the time at which such inquiries must be made. It is expected, however, that a reporting institution will make inquiry prior to giving value, particularly if the securities or circumstances appear to be suspicious, in order to verify that the securities have not been reported as missing, lost, counterfeit or stolen. Comments are welcome as to whether amendment of the section to require inquiry within certain specified time periods would be desirable and, if so, the appropriate lengths of such time periods.

Presently, the section provides that a reporting institution need not inquire if the security is received: (1) Directly from the issuer or issuing agent at issuance; (2) from another reporting institution or a Federal Reserve Bank in its capacity as fiscal agent; or (3) from a customer of the reporting institution and is registered in the name of such customer or its nominee.[15] In addition, for the purposes of the pilot program only, certain additional exemptions from inquiry are available: Corporate and municipal security issues not assigned CUSIP numbers [16] and receipts involving securities of $10,000 or less are exempt, as are inquiries by registered transfer agents.[17]

Specific comments are solicited as to the desirability of continuing or incorporating permanently into § 240.17f-1 these special exemptions. With respect to the $10,000 *de minimus* exemption from inquiry, comments are sought concerning whether the exemption amount should be lowered to bring a greater number of transactions into the scope of the inquiry provisions, or whether it should be raised, to focus on those transactions with the greatest potential losses. Comments are also invited as to whether the exemption amount should vary, depending on the nature of the security involved. Finally, comments regarding the appropriateness of additional exemptions from required inquiry, on either a provisional or a permanent basis, are solicited.[18]

F. *System design and fee structure.* The SIC processing system provides for two levels of user access with respect to inquiries. A reporting institution must choose to be either a "direct inquirer" or an "indirect inquirer" at the time of its registration in the Program. Direct inquiries have the ability to access the data base directly while indirect inquirers must process their inquiries through a direct inquirer.

This scheme of classification for participation was created with a view towards minimizing the monetary and administrative costs of the program. This interest also guided the Commission in its formulation of the pricing schedule for reporting institutions.[19] Usage fees are based on the aggregate volume of items processed by SIC and are apportioned among the direct inquirers according to classifications based on size.[20] This billing structure was deemed to be preferable to a "per item" or a "flat fee" system because it would avoid any disincentive to making permissive inquiries of the system and would allocate the costs of the program in a reasonable manner. Under this scheme, the smallest institutional classifications of direct inquirers have been charged $26.75 over the first two quarters of the pilot year without any limitation on the number of reports and inquiries submitted.

In formulating the pricing schedule, the Commission attempted to minimize the fees applicable to smaller institutions in the expectation that they would choose direct inquirer status. Such has not been the case; only one half of the originally estimated number of direct inquirers actually elected this status. Comments from interested persons are solicited as to whether the direct/indirect inquirer status option has achieved its purpose of making the benefits of the program available to all institutions subject to section 17(f)(1) of the act, while minimizing their costs and, in addition, whether this billing system, which is based on the size of the institution, has proven just and workable and, if not, what alternatives should be considered.

REQUEST FOR COMMENTS REGARDING STAFF INTERPRETATIONS OF [6] 240.17f-1

Since the implementation of the program, the staff of the Commission has issued several interpretations and no action letters concerning various provisions of § 240.17f-1. In this regard, the Commission solicits comment as to whether they should be provisionally or permanently incorporated into the section. Several of the specific areas addressed are summarized as follows:

REPORTING PROVISIONS

1. *Warrants.* The staff declined a request that warrant cards, representing rights, be exempted from the reporting provisions of § 240.17f-1. The rationale for this position is that although individual rights are generally of minimal value, the number of rights represented by a warrant card is correlated to the number of shares a stockholder owns and, thus aggregated, can have a considerable value.[21]

2. *Losses during completion of delivery, deposit or withdrawal.* With regard to subsections (b)(2)(ii)(B) and (b)(2)(iii)(C) of the section, regarding the time and party to report a loss when securities are delivered "over the window," the staff published an interpretation stating that copies of delivery bills, stamped by receiving institutions "Received Subject to Count and Examination" and returned to delivering institutions, are "receipts" under the section and thereby create an obligation on the part of the receiving institution to report any losses to the appropriate instrumentality.[22]

3. *Timely submission of report.* Due to the difficulties certain institutions have faced in researching the data required to be submitted in the report of loss, the staff has published interpretations of the reporting requirements of the section stating that in instances where no criminal activity is suspected a report must be made under subparagraph (b)(2) of the section as soon as the reporting institution has available to it the CUSIP and certificate

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[14] It has been informally suggested to the staff that the designated examining authority of a broker-dealer should receive a copy of the form in order to better assist them in their monitoring of the activities of their members.

[15] Section 240.17f-1(c)(1)(i)-(iii).

[16] Consequently, short term securities such as commercial paper are not subject to the requirements of § 240.17f-1 during the pilot program.

[17] *See* Securities Exchange Act Release No. 13832, 42 FR 41024 (Aug. 12, 1977).

[18] For example, it has been informally suggested to the staff that inquiry should not be required in the case of bearer securities where the institution taking such securities into its possession sold such securities to the person delivering them and proof of purchase is offered.

[19] Direct inquirers shoulder the costs of the system. Indirect inquirers are charged no fees by SIC but, rather, are subject to whatever fees they agree to pay their direct inquirer. One benefit of this approach is that it significantly alleviates problems relating to the frequent collection of small bills from large numbers of persons, a problem which the Securities Investors Protection Corp. has experienced to a great extent in its collection of assessment fees.

[20] Billing classifications are based on the amount of deposits for banks, annual revenue for securities organizations, and number of shares issued in the case of nonbank transfer agents.

[21] Letter to Morgan Guaranty Trust Co., dated Mar. 13, 1978 (public availability date Apr. 13, 1978).

[22] Letter to Northwestern Trust Co., dated Feb. 28, 1978 (public availability date Mar. 29, 1978).

number of the security, provided, however, that the institution acts in good faith in promptly researching this data. This extension of time is not available, however, where the circumstances surrounding the loss suggest possible criminal activity.[23]

4. *Report to Law Enforcement.* Subparagraph (b)(ii) of § 240.17f-1 provides that all reporting institutions shall promptly report to the appropriate law enforcement agency upon the discovery of the theft or loss of any security where there is a substantial basis for believing that criminal activity was involved. To clarify those instances where such reports should be submitted to law enforcement, the staff issued an interpretation stating that an institution does not necessarily have a "substantial basis" for such a belief in those instances where the institution's knowledge of the loss or theft is based on unsubstantiated information given to it by another party.[24]

INQUIRY PROVISIONS

1. *Exemption upon receipt from another reporting institution.* In an interpretative letter, the staff expressed the opinion that the exemption from inquiry available upon receipt of securities from another reporting institution is also available in those instances where the delivering institution is affiliated with and under the common control of a reporting institution and acts solely as a "certificate drop." [25]

2. *Exemption upon receipt from a Federal Reserve Bank.* Under § 240.17f-1(c)(i), inquiry is not required in instances where a reporting institution receives securities from a Federal Reserve Bank in its capacity as fiscal agent. This exemption is not available under the section, therefore, when securities are delivered by the Federal Reserve Bank from a safekeeping account. The staff has issued an interpretation providing that when securities are delivered to a reporting institution by the Federal Reserve Bank out of the safekeeping account of another reporting institution and such securities had been delivered to the Federal Reserve Bank by a reporting institution, inquiry is not required.[26]

3. *The $10,000 de minimus exemption.* In order to ease implementation of § 240.17f-1 during the pilot program, inquiry is not required in the case of transactions involving securities of less than $10,000 (face value in the case of bonds and market value in the case of stocks). The staff of the Commission, however, has interpreted this exemption to include securities up to and including $10,000 exactly, in recognition of the fact that most debt securities are issued in $5,000 face value denominations, and in the interest of reducing the burden imposed by the section on municipal securities brokers and dealers.[27] In addition, the staff has interpreted this exemption to apply not to the individual certificates involved in a transaction, but rather to the transactions as a whole.[28]

4. *Transfer agent exemption.* For the purposes of the pilot program, registered transfer agents are exempted from § 240.17f-1's requirements that reporting institutions inquire with respect to securities coming into their possession or keeping. The staff of the Commission has interpreted this exemption to be applicable to a transfer agent engaged as an exchange, conversion, or redemption agent or depository or tender agent (whether such transfer agent is acting as the issuer's transfer agent or as a depository or tender agent in connection with a so-called "unfriendly tender offer"), as long as such transfer agent maintains or is provided with current and accurate records of stop transfer instructions and inquiry of such records is made for each item received prior to issuing a new certificate, transferring record ownership, disbursing funds, or otherwise completing the transaction.[29]

REQUEST FOR COMMENTS REGARDING PROVISIONS AND OPERATION OF § 240.17F-1

Inasmuch as the pilot year and SIC's term of designation expire on December 31, 1978, the Commission solicits public comment at this time on the provisions and operation to date of § 240.17f-1, on the appropriateness of the continued applicability of the special pilot program exemptions, and the redesignation of SIC to receive and process reports and inquiries made pursuant to the section. In particular, the Commission solicits comments pertaining to the items enumerated below. In responding, all commentators should attempt to furnish the Commission with data supporting their views to the greatest extent possible.

1. Whether any classes or subclasses of institutions defined as "reporting institutions" under § 240.17f-1 should be exempted from the provisions of the section and whether any class or subclass of institution within the jurisdiction of the Commission not now subject to the section should be included in the program;

2. Whether the present exemption from the program of securities of an issue not assigned a CUSIP Number should continue and whether other types of securities should also be exempted;

3. Whether the present framework of dual appropriate instrumentalities is appropriate or whether a unified central data base would be preferable, and, particularly, whether the concept or operation of the two appropriate instrumentalities has resulted in any difficulties in complying with the section;

4. Whether the Commission should redesignate SIC or designate another entity for the purposes of receiving and processing reports and inquiries made pursuant to the section.[30]

5. Whether the time requirements within which reports must now be made are appropriate and whether other circumstances exist for which specific time requirements should be provided;

6. Whether the report form, Form X-17F-1A, should be modified in terms of its format and graphics and in terms of the information required, and whether the form has proven useful to identify and trace missing, lost, counterfeit and stolen securities;

7. Whether inquiries should be made within certain time periods and, if so, within what time periods;

8. Whether the exemptions from inquiry provided for the purposes of the pilot program should be continued, continued in a modified form, or allowed to lapse, and, particularly, whether the present de minimus exemption for transactions involving securities of $10,000 or less (face value in the case of bonds and market value in the case of stocks) should be increased, decreased, made a permanent part of the rule, or allowed to lapse;

9. Whether additional exemptions from inquiry should be permitted on either a provisional or permanent basis;

Whether the present program allowing for an election of participation status as either a direct or an indirect

[23] Letter to First Trust Co. of St. Paul, dated Mar. 20, 1978 (public availability date Apr. 20, 1978).

[24] Letter to Continental Stock Transfer & Trust Co., dated Jan. 12, 1978 (public availability date Feb. 12, 1978).

[25] Letter to First National Bank of Boston, dated Jan. 12, 1978 (public availability date Feb. 12, 1978).

[26] Letter to Bankers Trust Co., dated Mar. 21, 1978 (public availability date Apr. 21, 1978).

[27] Letter to Federal Reserve Bank of St. Louis, dated Jan. 12, 1978 (public availability date Feb. 12, 1978). Although the rationale was based on the situation presented by debt security transactions, in order to avoid confusion the interpretation was designed to apply to equity securities as well.

[28] For example, where four $5,000 bonds are used as collateral for a single loan, the total transaction exceeds $10,000, and the $10,000 de minimus exemption from inquiry may not be claimed. See letter to LaSalle National Bank, dated Dec. 7, 1977 (public availability date Jan. 7, 1978).

[29] Letter to the Stock Transfer Association, dated Mar. 8, 1978 (public availability date Apr. 8, 1978).

[30] Persons interested in acting as the Commission's designee should submit a plan for their program in accordance with the instructions outlined in Appendix A.

inquirer is appropriate, whether the present pricing structure is just and workable, and whether reasonable alternatives to this system exist;

11. Whether the staff interpretations of § 240.17f-1, described above, should be modified and/or incorporated into the section; and

12. Whether any other aspect of § 240.17f-1 and the Program not enumerated above should be modified in any way.

The Commission invites comments on any of the matters raised above. Comments should be addressed to George A. Fitzsimmons, Secretary, Securities and Exchange Commission, 500 North Capitol Street, Washington, D.C. 20549. All comments should refer to File No. S7-611 and will be available for public inspection.

By the Commission.

GEORGE A. FITZSIMMONS,
Secretary.

JULY 31, 1978.

APPENDIX

CRITERIA FOR A LOST AND STOLEN SECURITIES REPORTING AND INQUIRY SYSTEM

The Commission suggests that any person interested in serving as the Commission's designee for the processing of reports and inquiries under § 240.17f-1 consider the following criteria in developing plans for submission. While the Commission believes that this program may be best implemented by a system containing the following characteristics, the Commission encourages the submission of alternatives which would implement § 240.17f-1 in an efficient manner.

GENERAL CONSIDERATION

In formulating a system for the receipt and processing of reports and inquiries relative to lost and stolen securities, prospective designees should be mindful of the Commission's overriding interest in providing institutions subject to § 240.17f-1 a means for compliance therewith which is low in cost, flexible to meet varied and changing needs, and readily understandable from a user's standpoint. The designee will be subject to continuing direction and review by the Commission. It is contemplated that the designee will operate a manual, computer-assisted system. To guard against misuse of the system, proposed systems should provide adequate security procedures for their operational facility and files as well as a means by which the identity of the reporting or inquiring institution may be verified as an authorized subscriber.

The increased use of securities depositories and book-entry recordkeeping has the potential over a period of time to greatly reduce the lost and stolen securities problem, and consequently, the scope of the Commission's program. Accordingly, the start-up costs of any system to implement § 240.17f-1 should be as low as possible.

REPORTING AND INQUIRY CONSIDERATIONS

The "reporting institutions" subject to § 240.17f-1 will include entities of differing size, geographic location, and frequency of contact with the system. Consequently, proposed systems should have sufficient flexibility to deal with these institutions as their needs require. This flexibility should entail the capacity to receive reports submitted via the mails, telephone, and telex. Consideration should also be given to designing a system that would allow high volume entities the capability of computerized or online input.

Prospective designees should also provide for the prompt receipt and incorporation of reports into a computerized record file. Proposed systems should have the capacity to include within the data base reports of securities losses, counterfeits, and thefts occurring prior to the effective date of § 240.17f-1 as well as all reports made subsequent to the effective date of the section. The system should also include a procedure by which reports are removed from the computerized record upon notice of recovery by a reporting institution. Furthermore, the system should have the capacity to generate hard copy confirmations, and the designee should have procedures for the periodic transmittal of such confirmations to the reporting entities.

The system should have the flexibility to promptly respond to inquiries in a variety of ways, including by telephone, mail, and telex, as well as other electronic means. The system should initially verify that the person making inquiry is an authorized subscriber. The system should be able to provide an accurate response to the inquiry promptly and to provide the inquirer with a hard copy confirmation. In addition, it should have the capacity to store a record of inquiries. Such records should be able to be retrieved by the name of the subscriber as well as the name of the particular security.

COST AND FEES

All proposed systems should include estimates of the cost of implementation, the amount of time necessary to initiate the system, the cost of operation, the method of billing subscribers, and allocation of the costs of the system among subscribers. Prospective designees should include in their submissions a detailed schedule for the equitable allocation of the costs of the program. All fee schedules will be subject to the approval of the Commission and the designee will be responsible for the collection of fees.

SYSTEM CAPACITY

The system should be capable of handling fluctuations in volume without loss of efficiency. While it is contemplated that the designee will process approximately 10,000 items per day, proposed systems should be sufficiently flexible to operate smoothly at volume levels of at least 15,000 items per day.

RECORDKEEPING

The data base will be the property of the Commission, and the original tapes, as well as a hard-copy of the information contained therein, must be transmitted to the Commission at the termination of the period of designation or upon request. The Commission will periodically require reports by the selected designee detailing the information compiled in the system and the operation of the designee's plan. In addition, the designee shall keep a current and true record, available for inspection by the Commission, with respect to each report, inquiry, confirmation, correction or other information received pursuant to this designation, the time of and means by which such report, inquiry or other information was received, the time of response, the means by which a response was given, and the nature of the response. The designee shall also make available for the Commission's inspection all records and accounts of amounts billed to reporting institutions and account for all expenses incurred by the designee. Such records for any calendar year shall be kept for three years after the end of the term of designation.

OTHER CONSIDERATIONS

In making a designation, the Commission will consider the following factors, among others: The cost of implementing the system, the amount of time necessary to initiate the system, the costs of operation, the costs of compliance to reporting institutions, the compatibility of the system with existing securities information systems, the ability of the system to respond to fluctuations in reporting and inquiry volume in an efficient manner, the experience of the designee in managing similar programs, and the method of allocating costs and billing subscribers.

[FR Doc. 78-21808 Filed 8-4-78; 8:45 am]

NOTICE TO MEMBERS: 78-34

Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

August 17, 1978

TO: All NASD Members and Municipal Securities Dealers
Attention: All Operations Personnel

RE: Holiday Trade Date - Settlement Date Schedule

Securities markets and the NASDAQ System will be closed on Monday, September 4, 1978, in observance of Labor Day. "Regular-Way" transactions made on the business days immediately preceding that day will be subject to the following settlement date schedule.

Trade Date-Settlement Date Schedule
For "Regular-Way" Transactions

Trade Date	Settlement Date	*Regulation T Date
August 24	August 31	September 5
25	September 1	6
28	5	7
29	6	8
30	7	11
31	8	12
September 1	11	13
4	Labor Day	--
5	12	14

*Pursuant to Section 4(c)(2) of Regulation T of the Federal Reserve Board, a broker-dealer must promptly cancel or otherwise liquidate a customer purchase transaction in a cash account if full payment is not received within seven days of the date of purchase. The date upon which members must take such action for the trade dates indicated is shown in the column entitled "Regulation T Date."

The above settlement dates should be used by brokers, dealers and municipal securities dealers for purposes of clearing and settling transactions pursuant to the Association's Uniform Practice Code and Municipal Securities Rulemaking Board (MSRB) Rule G-12 on Uniform Practice.

Questions regarding this notice may be directed to the Uniform Practice Department at (212) 422-8841.

* * *

NOTICE TO MEMBERS: 78-35
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

August 22, 1978

TO: All NASD Members

RE: Fidelity Securities, Incorporated
1981 Union Avenue
Memphis, Tennessee 38104

ATTN: Operations Officer, Cashier, Fail-Control Department

On Wednesday, August 16, 1978 a court appointed receiver was named for the above-captioned firm. Members may use the "immediate close-out" procedures as provided in Section 59(i) of the NASD's Uniform Practice Code to close-out open OTC contracts. Also, MSRB Rule G-12(h)(iv) provides that members may use the above procedure to close-out transactions in municipal securities.

Questions regarding the firm should be directed to:

Receiver
Mr. William J. Chase
4192 Long Leaf Drive
Memphis, Tennessee 38117
Telephone: 901-365-4336

Thomas R. Cassella
Director
Financial Responsibility

NOTICE TO MEMBERS: 78-36
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

August 25, 1978

MEMORANDUM

TO: All NASD Members

RE: Amendments to Securities Investor Protection Act of 1970

On May 21, 1978, the Securities Investor Protection Act of 1970 (SIPA) was amended by the Securities Investor Protection Act Amendments of 1978. With the effectiveness of these amendments, a comprehensive codification of the practices and procedures affecting liquidations under SIPA has been made. Thus, the way in which the liquidation of a SIPC member may be handled has been expanded, the powers of SIPC to designate trustees and attorneys clarified and liquidation procedures made more flexible. Also, the coverage given by SIPA to customers has been expanded. The ability of a customer with a claim for securities to receive such securities in satisfaction of that claim has been greatly increased. The costs of SIPC membership have been reduced and considerable simplification has been made in the means of identifying customer property. As a result of these latter modifications, the SEC staff has advised that related changes in SEC Rule 15c3-3 will be made.

Some of the major changes brought about by the amendments to SIPA are summarized below:

Extent of Coverage

- The basic protection afforded a securities customer by SIPA has been doubled. That is, the ceiling on claims for securities has been raised from $50,000 to $100,000. Similarly, the ceiling on claims for cash has been doubled from $20,000 to $40,000. It should be noted that the $40,000 cash claim ceiling is part of and not separate from the $100,000 maximum.

- All costs and expenses connected with the administration of a liquidation of a broker-dealer will be

charged against the general estate of the debtor and not the customer fund. This will provide more funds for honoring customer claims.

- Broker-dealers whose principal business is conducted outside the United States or its territories and possessions are no longer required to be members of SIPC. SIPC itself will make all determinations as to whether a firm qualifies for such exemption. In making that determination, SIPC will take into account the business of affiliated entities of the broker-dealer. In addition, SIPC members having a foreign subsidiary will no longer be required to consolidate such foreign subsidiary's revenues in ascertaining the SIPC member's revenue base for SIPC assessment purposes.

- Broker-dealers excluded from SIPC membership due to the foreign nature of their business must make disclosure of this exclusion to their customers living in the United States or its territories and possessions. Such disclosure may have to contain other information if required by rules which may be formulated by the Securities and Exchange Commission in this regard.

- Foreign broker-dealers otherwise exempt from SIPC membership may be allowed to become SIPC members. Such determination will be made by SIPC premised on matters such as the availability of assets and SIPC's ability to conduct a liquidation of the firm should that prove necessary.

- Broker-dealers engaged exclusively in a mutual fund, variable annuity, insurance or investment advisory business will continue to be exempt from the requirement to become a SIPC member.

Assessments

- A new minimum SIPC assessment of $25 per year has been established. This minimum will become effective for the year ending December 31, 1979. SIPC may adjust or retain such minimum assessment thereafter. However, the minimum assessment may never exceed $150 per year. Completely inactive broker-dealers who are SIPC members must pay the minimum assessment.

- The gross revenues which form the base of SIPC assessments have been changed. To the already existing lines of assessable income, the amendments require a firm to include commissions earned from transactions in CD's, treasury bills, bankers acceptances and commercial paper (as this last term is defined in the net capital rule). The rate of assessment on those instruments is limited, however, to the loss percentage experienced by SIPC during, at least, the previous five years. For the time being, however, this change will have no real effect since assessments based upon gross income are being suspended due to the current level of the SIPC Fund.

- The collection agent for the SIPC assessment of a broker-dealer will normally be the firm's Designated Examining Authority (DEA). However, SIPC has the power to appoint a self-regulatory organization other than the DEA as collection agent.

Liquidation Procedures

- A liquidation may take place using one of the following methods. They are:

  a) Appointment of an independent trustee;

  b) Appointment of SIPC or one of its employees as trustee; or,

  c) Direct payment by SIPC.

  SIPC may designate itself trustee in certain situations where the liabilities of the debtor to unsecured general creditors and to subordinated lenders do not appear to aggregate more than $750,000. In addition, the debtor must also appear to have fewer than 500 customers. SIPC is not required to assume a trusteeship in such circumstances; rather, it may do so at its discretion.

  For the direct payment provision to become operative, certain conditions must be met, i.e., the claim of each customer must be within the limits established by SIPA ($100,000/$40,000) and the sum of all customer claims must be less than $250,000. However, SIPC,

in its sole discretion, may elect not to adopt the direct payment method even though the conditions are met.

- The courts are directed to appoint as trustee and attorneys for trustees such persons as SIPC in its sole discretion specifies.

- Bank loans collateralized by securities may, under certain circumstances, be paid or guaranteed by a SIPC trustee. The condition that must be met for the provision to be operative requires that it be no more expensive to retire the loan than it would be to acquire the securities in the open market. Since the amendments now require a trustee to satisfy, to the extent feasible, virtually all valid claims for securities with securities, this provision is of great import in reducing the costs of a SIPC liquidation.

- A trustee, with the prior approval of SIPC, may make a bulk transfer of customer accounts to another firm. To enable this provision to function, SIPC may indemnify the transferee if, in its opinion, the cost of such indemnification is no greater than the total cost of liquidation, vis-a-vis the accounts transferred. The trustee is authorized to selectively determine which accounts it wants to transfer. Not all accounts must be transferred.

- With the approval of the trustee, customers are permitted to pay any indebtedness they may owe, as of the filing date for appointment of a SIPC trustee. This provision should remove the complaint of margin customers under the old law, which had no such provision, and thus in many cases prevented them from obtaining the securities which they may have preferred to do instead of accepting a cash settlement.

Customer Property

- The new act recognizes only securities registered in the name of customers as the property of such customers. All other securities, including those in bearer form, are part of the general fund of customer property. Such is true even if the securities are tagged or in some other manner identified as the property of a particular customer.

- The concepts of "specifically identifiable property" and "single and separate fund" are no longer effective. It is these changes that will require modification of SEC Rule 15c3-3, the Customer Protection Rule. The staff of the SEC is currently working on such changes.

- SIPC trustees are now required to enter the market to purchase the securities needed to honor customer claims for securities. The only exception to that requirement involves instances in which securities cannot be purchased in a fair and orderly market. By the nature of this provision, a customer will have a more precise understanding of the manner in which his claim will be satisfied than that which was possible under the old law. Since the value of a customer's claim is fixed as of the date that SIPC makes application for a protective order, a customer may have his claim satisfied with securities which at the time of receipt have a current market value in excess of the SIPC guarantee figure. This would, of course, occur if the market value of the customer's position exceeded such limits following the filing date. The reverse of this situation is also true. The following examples illustrate this point.

Examples

Customer A

Customer A had a long position as of December 1, of 1,000 shares of GDR. GDR had a market value of $90 per share as of December 1. SIPC filed for a protective order on December 1. The trustee can find no shares of GDR among the debtor firm's assets. As of December 1, Customer A had a claim for securities valued at $90,000, within SIPA's guarantee limit of $100,000. When the trustee enters the market to purchase GDR, it has a market price of $115 per share. Even though the trustee would be required to expend $115,000 to acquire the 1,000 shares of GDR, he must do so. The $100,000 SIPA limit is measured as of the date SIPC files for a protective order. The fact that a trustee must expend more than the SIPA limit to acquire the securities needed to satisfy the claim is irrelevant.

Customer B

Customer B had a long position, as of December 1, of 1,000 shares of ONI. ONI had a market price of $90 per share as of December 1. SIPC filed for a protective order on December 1. The trustee can find no shares of ONI among the debtor firm's assets. As of December 1, Customer B had a claim for securities valued at $90,000, within SIPA's guarantee limit of $100,000. When the trustee enters the market to purchase ONI, it has a market price of $20 per share. Customer B would receive 1,000 shares of ONI in complete satisfaction of his claim. This is so, notwithstanding the fact that the market value of the claim was $90,000 as of the filing date and the market value of the securities when they were received by Customer B was only $20,000. The claim is for 1,000 shares of ONI, not for $90,000. Thus, when the trustee gives 1,000 shares of ONI to Customer B, the claim has been fully settled.

Customer C

Customer C had a long position, as of December 1, of 1,000 shares of NSC. NSC had a market value of $120 per share as of December 1. The trustee can find no shares of NSC among the debtor firm's assets. As of December 1, Customer C had a claim for securities valued at $120,000. This exceeds the SIPA guarantee by $20,000. Therefore, Customer C's claim that is payable from advances made by SIPC is for $100,000 worth of NSC as of December 1 or 830 shares. When the trustee enters the market to purchase NSC, it has a market price of $100 per share. The trustee would only purchase 830 shares in order to satisfy Customer C's claim. Such claim is measured as of the date SIPC fules for a protective order. Subsequent market price fluctuations have no effect on the share size of the claim. Of course, the customer may be able to secure additional reimbursement from the pool of customer property or the general estate of the debtor firm. This example merely describes the extent to which SIPC funds may be advanced.

Miscellaneous Provisions

- A self-regulatory organization that aids a broker-dealer in attempting to self-liquidate will be given immunity by SIPA. For such protection to be operable, however, the self-regulatory organization must have reported the firm to SIPC as being in or approaching financial difficulty.

- Where the total payment for a trustee's and attorney's fees in connection with a SIPC liquidation is or appears to be payable solely from SIPC funds, a court must award the amount of compensation which is being sought by such trustee and attorney if SIPC supports such request.

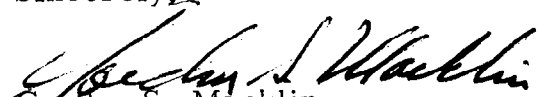
Proposed SIPC Rules

SIPC has proposed three series of rules, the Series 100, 200 and 300 Rules, to enable it to discharge certain of its obligations under amended SIPA. The Series 100 Rules deal with the determination of what constitutes a "separate" customer, as that term relates to eligibility for SIPC coverage. The Series 200 Rules are of the same genre as those in the 100 Series with accounts carried on a fully-disclosed basis. The Series 300 Rules cover the procedure for completion or closeout of open contractual commitments of a SIPC debtor firm.

* * * *

Should you have any questions regarding the amendments to the Securities Investor Protection Act, please contact John J. Cox at (202) 833-7320.

Sincerely,



Gordon S. Macklin
President

NOTICE TO MEMBERS: 78-37
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

September 11, 1978

TO: All NASD Members and Interested Persons

RE: New Qualification Requirements and Test Administration System for Principals

ATTENTION: TRAINING DIRECTORS AND REGISTRATION PERSONNEL

The purpose of this notice is to inform the membership of the following developments in the Association's qualification examination program for principals:

- Implementation of New Qualification Examinations for General Securities Principal, Investment Company Products/Variable Contracts Principal and Direct Participation Programs Principal
- Automation of Test Administration for the New Principal Examinations
- Invitation to Member Firms to Participate in a Pre-test of the New General Securities Principal Examination

Implementation of New Qualification Examinations for Principals

The Association is in the process of effecting changes to Schedule C of the By-Laws which, when declared effective by the Securities and Exchange Commission, will authorize three new categories of registration for principals. These categories, which will replace the existing requirements for the Registration of Principals in Part I of Schedule C, will include the following registrations:

General Securities Principal
Investment Company Products/Variable Contracts Principal
Direct Participation Programs Principal

Current plans call for the introduction of new examinations for the above categories of registration by the end of this year. A more specific implementation

schedule for the new examination programs and information regarding the availability of study outlines for the new tests will be subjects of future notices to members.

Automation of Test Administration for the New Principal Examinations

The Board of Governors has approved a pilot project to determine the feasibility of adapting the Association's qualification examination program to an automated test administration system. The Association has entered into an agreement with the Control Data Education Company for a one year pilot program involving the administration of the new General Securities Principal, Investment Company Products/Variable Contracts Principal and Direct Participation Programs Principal Examinations on the Plato system. Plato is a large, fully dedicated time-sharing system capable to delivering a wide variety of programs to remote visual display terminals located in learning centers owned and operated by Control Data Education Company. While Plato was developed as a medium for delivering educational programs, an integral part of such programs involves the testing of students using the system. With appropriate modifications, therefore, it will be possible to deliver the kinds of objective examinations utilized by the Association in its qualification program. Control Data Education Company Learning Centers are currently operating in cities where existing NASD test centers account for approximately 90% of the examinations administered each year.

The Board's approval of the pilot program was based on its consideration of a number of potential benefits the system will offer to the Association and the member firms in the administration of the qualification examination program. Since the system operates on a real time basis, its successful application to the Association's testing program will greatly reduce the turnaround time and related costs the members experience both in scheduling candidates to sit for examinations and in receiving grade reports on their performance. The automated capabilities of the Plato system will allow the Association to enter a bank of test questions into the System and to program the computer to generate a unique examination for each candidate. Since no two candidates are likely to receive the same questions on their tests, it will no longer be necessary to administer examinations on a fixed schedule. When enrolled on the system a candidate need only make an appointment at the nearest learning center to sit for an examination. Grade results will be computed automatically and displayed to the candidate on the terminal at the conclusion of an examination. Hard copy reports will be generated at the Association's Executive Office from where they will be forwarded to the member firm and to designated state securities commissions within one day of the testing date. The Board believes that the use of this system will put a person on a firm's production roles more quickly by eliminating many of the steps presently involved in the Association's existing manual test administrative system.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

Application to Participate
in
General Securities Principal Pre-Test Project

Firm Name: _____

Address: _____

City, State, Zip: _____

_____
(Name of Participant)

Seminar Location (check one)

☐ New York, Sept. 30, Oct. 1 and 2

☐ Los Angeles, Oct. 6, 7 and 8

Please enroll the above individual as a participant in the designated seminar for the pre-test of the new General Securities Principal Examination. It is understood that this individual will be qualified to register as a General Securities Principal at the time that registration category is effective, if such individual achieves a score of 70% or better on the pre-test examination. It is also understood that failure to achieve a score of 70% or better on the pre-test examination will have no effect on such person's ability to qualify as a principal under the existing qualification requirements of the Association. It is further understood that any travel, room accommodations and meal expenses incurred by this individual as a result of participating in the pre-test project will be borne by the individual or this firm and will not be the responsibility of the NASD.

_____
(Signature of Principal of Firm)

This application should be returned to the NASD for receipt no later than September 25, 1978, at the following address:

Qualifications and Examinations Dept.
National Association of Securities Dealers, Inc.
1735 "K" Street, N.W.
Washington, D. C. 20006
Attn: Sharon Hopkins

The introduction of test administration on the Plato system will occur simultaneously with the introduction of the new General Securities Principal, Investment Company Products/Variable Contracts Principal and Direct Participation Programs Principal Examinations. As mentioned above, the introduction of these examinations is scheduled for later this year. A more detailed description of test administration on the Plato system will be the subject of a special notice to members in October.

Pre-Test of the New General Securities Principal Examination and the Plato System

The Board of Governors has approved a project designed to pre-test the examination questions which have been developed for the new principal examinations as they will be administered on the Plato system. The specific purposes of the pre-test are as follows:

- To determine the measurement reliability of test questions developed for the new principal examination programs

- To field test the operating capabilities of the Plato system

The pre-test will focus on the General Securities Principal Examination since the material covered in this test is inclusive of material to be covered in the Investment Company Products/Variable Contracts Principal and the Direct Participation Programs Principal Examinations.

Inasmuch as most of the material in the General Securities Principal Examination is either new or covered in a more comprehensive manner than in the existing principal qualification program, the Board believes it is necessary for the Association to sponsor a short educational seminar for persons participating in the pre-test experiment in order to assure the validity of information to be derived from the pre-test. With the assistance of members of the Committee on Qualifications and instructors from the industry, the Association has made arrangements for two three day educational seminars to be held in New York City on September 30, October 1 and 2 and in Los Angeles on October 6, 7 and 8. The pre-test examination will be administered on the afternoon of the third day of each seminar and will be of three hours duration.

The Board of Governors strongly urges member firms engaged in a general securities business to participate in the pre-test project by requesting persons in the firms who will be assuming the responsibilities of General Securities Principals to attend the educational seminars and sit for the new examination. Persons who do participate will not only receive a valuable education in industry regulation, but will also greatly assist the Association in

devising a more valid and efficient qualification program. Participants in the pre-test project who achieve a score of 70% or better on the examination will be qualified to register as General Securities Principals when the new program is effective. A score of less than 70% will have no effect on a participant's ability to qualify as a principal under the existing principal qualification program of the Association.

Persons wishing to participate in the pre-test project should complete the enclosed application form (copies of which should be made for additional participants) and return it to the Association no later than September 25, 1978, to the following address:

Qualifications and Examinations Dept.
National Association of Securities Dealers, Inc.
1735 "K" Street, N. W.
Washington, D. C. 20006
Attn: Sharon Hopkins

Upon receipt of an application form, the Association will confirm the exact times and locations of the pre-test seminars to be held in New York on September 30, October 1 and 2 and in Los Angeles on October 6, 7 and 8. Member firms are urged to submit the names of participants as soon as possible following receipt of this notice since the size of each seminar is limited and all applications will be honored on a time priority basis. Travel expenses, room accommodations and meals will be the responsibility of each participant in the pre-test project.

Questions regarding this notice should be direct to Frank J. McAuliffe at (202) 833-7394, Carole Hartzog at (202) 833-7392 or David Uthe at (202) 833-7273.

Sincerely,

Gordon S. Macklin
President

Enclosure

NASD

NOTICE TO MEMBERS: 78-38
Notices to Members should be retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

September 11, 1978

TO: All NASD Members and Interested Persons

RE: New and Revised Study Outlines for Qualification Examinations

ATTENTION: TRAINING DIRECTORS AND REGISTRATION PERSONNEL

The Association has recently published the following new or revised study outlines for several of its qualification examination programs:

- Study Outline for the General Securities Registered Representative Examination (Test Series 7)
- General Securities Principal Qualification Examination Study Outline (Test Series 24)
- Financial and Operations Principal Qualification Examination Study Outline (Test Series 27)

Study Outline for the General Securities Registered Representative Examination (Test Series 7)

This is a revision of a study outline first published by the Association in 1975. The major changes in the revised edition are contained in Section 1.3, State and Municipal Securities and in new Section 18.0, Municipal Securities Regulation. These sections now reflect the qualification standards developed by the Municipal Securities Rulemaking Board (MSRB) for municipal securities representatives which are to be incorporated into the qualification standards for general securities representatives. Inclusion in the Series 7 examination of test questions based on this material will commence in November, 1978. Section 8.0, Options Markets has been restructured to incorporate all material on options, other than options margin and taxation, which heretofore has been dispersed in various sections of the outline. The bibliography and the list of training courses and schools have also been updated and revised.

General Securities Principal Qualification Examination Study Outline (Test Series 24)

This is an entirely new publication which outlines the material covered in the new General Securities Principal Examination to be introduced later this year. This examination will cover a broad range of Federal and NASD regulation applicable to the operation of a general securities broker/dealer. The outline covers this material in a detailed manner and is designed for use by course developers in the preparation of training material, for training directors in the development of lecture notes and seminar programs and for use by the candidates themselves, both to structure their study and as a final review checklist prior to sitting for the examination.

Financial and Operations Principal Qualification Examination Study Outline (Test Series 27)

This is a new and more detailed outline for an existing examination program to which new material and questions are being added. A new Financial and Operations Principal Examination based on the material in this outline will be introduced in December, 1978.

All of the above outlines, as well as other qualification related publications of the Association, are available for purchase from the NASD Executive Office in Washington, D. C. or any one of the thirteen NASD District Offices. A revised publication order form, which identifies the prices of these publications, is included with this notice.

Questions regarding this notice should be directed to David Uthe at (202) 833-7372.

Sincerely,

Gordon S. Macklin
President

Enclosure

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

PUBLICATIONS ORDER FORM
(QUALIFICATIONS & EXAMINATIONS)

ALL ORDERS MUST BE PREPAID.
TELEPHONE ORDERS ARE NOT ACCEPTED.

ALL ORDERS ARE SHIPPED UNITED PARCEL, BOOK RATE, PARCEL POST, OR BY TRUCK. ALLOW TWO TO THREE WEEKS FOR SHIPMENT.

PUBLICATIONS	QUANTITY	COST	PRICE INFORMATION 1-9 Copies	10-49	50 or more
1. NASD Manual Reprint			$2.50	$2.50	$2.50
2. NASD Training Guide			1.00	1.00	1.00
3. Study Outline for the General Securities Registered Representative Examination (7)			5.00	4.00	3.50
4. Study Outline for Qualification Examinations for Registered Representatives and Registered Principals (1&40)			.50	.50	.50
5. Study Guide for Investment Company Products/Contracts Examination*			2.00	1.75	1.50
6. Study Outline for Direct Participation Programs Examination*			2.00	1.75	1.50
7. Study Outline for Real Estate Securities Examination * **			2.00	1.75	1.50
8. Financial and Operations Principal Qualification Examination Study Outline (27)			5.00	4.00	3.50
9. General Securities Principal Qualification Examination Study Outline (24)			5.00	4.00	3.50
10. Registered Options Principal Qualification Examination Study Kit *** (4)			9.00	9.00	9.00
* ** *** See Reverse Side					
Subtotal					
Special Handling Charges Add 20%#					
Please enclose payment in this amount---Total					

MAKE CHECK OR MONEY ORDER PAYABLE TO: NASD, INC.

THERE IS AN ADDITIONAL CHARGE OF 20% OF THE COST IF THE PUBLICATIONS ARE SHIPPED BY OTHER THAN THE ABOVE METHODS.

SHIP TO:
NAME _____
FIRM _____
ADDRESS _____
(do not use P. O. Box)
CITY/STATE _____
ZIP CODE _____

PUBLICATION AND EXAMINATION REQUIREMENT DESCRIPTIONS

TEST SERIES	EXAMINATION DESCRIPTION	PUBLICATION NO.	REGULATORY AUTHORITY
Series 1	Limited representative status	1, 2, and 4	NASD
Series 1	Limited representative status (last 25 questions only)	1	NASD
Series 1	Non-Member General Securities Examination (first 100 questions only) required by certain State Commissions	2 and 4	NASD
Series 2,	Supervisory or associated persons	2 and 4	SEC
Series 4	Registered Options Principal Examination	1 and 10	NASD/CBOE/ASE/PHLX/ MSE/PSE
Series 7	General Securities Representative Examination (NASD full registration requirement)	1, 2, and 3	NASD/NYSE/ASE/PSE/ MSE/CBOE/MSRB
Series 18	Partial examination required (special examination)	1, 2, and 3	NASD
Series 24	General Securities Principal Examination (to be introduced in late 1978)	1, 2, and 9	NASD
Series 27	Financial and Operations Principal Examination (to be introduced in November, 1978)	1 and 8	NASD
Series 40	General Securities Principal (to be replaced by Series 24 in late 1978)	1, 2, 4, and 8	NASD

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* Outlines for proposed NASD R. R. Limited Examinations - not effective yet - do not purchase if required to pass the NASD Series 1 or the SEC Series 2 examinations

** Real Estate Securities Examination may be required by certain State Securities Commissions

*** Consists of CBOE/OCC Manual reprint, OCC prospectus, and "A Guide to Listed Options" (AMEX pub.)

Questions regarding Study Outlines should be directed to Carole Hartzog (202) 833-7392 or to David Uthe (202) 833-7273 at the NASD Qualifications and Examinations Department.

NOTICE TO MEMBERS: 78-39
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

September 15, 1978

TO: All NASD Members

RE: New York State Stock Transfer Tax.
Correction on Maximum State Tax for Non-Residents.

In Notice to Members 78-32 dated August 14, 1978, Members were advised of changes in the New York State Stock Transfer Tax which were effective on August 1, 1978.

Specific information contained therein should be corrected based on information received from the New York State Department of Taxation and Finance.

Maximum Tax applying to a single qualifying sale by a non-resident (Page 2 in Notice 78-32) should be $350.00. The maximum amount of tax, on a single sale, therefore, is the same for residents and non-residents and the reduced amount indicated in Notice 78-32 for non-residents is not allowable.

This correction should be reflected also in the Tax Rebate Procedure Schedule (Item I d) to read $350.00 under Total Tax Liability instead of $218.75. The period covered under Item I should also be August 1, 1978-September 30, 1979 instead of August 1, 1978-September 30, 1978. No rebate for non-residents is allowable during this period.

Questions regarding this Notice may be directed to the Uniform Practice Department (212) 422-8841.

* * *

NOTICE TO MEMBERS: 78-40
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

September 15, 1978

TO: All NASD Members

RE: Special Initial Margin Requirements

In response to the growing concern due to widespread speculation in gambling-related issues which has resulted in highly unusual market activity, the Association's Board of Governors, pursuant to its authority granted under Article III, Section 30 of the NASD's Rules of Fair Practice, has determined to prescribe special initial margin requirements for three NASDAQ issues.

Effective today, an initial margin requirement of 75 percent will apply to all transactions effected for the accounts of customers, including those executed through an omnibus account, in the following issues:

Company	NASDAQ Symbol
Florida Cypress Gardens	FCYP
Hyatt Corporation	HYAT
XCOR International, Inc. Class A	XCORA

The special margin requirements will be subject to on-going review by the Board and remain in effect until the Board determines that the extraordinary market conditions no longer warrant these higher requirements.

Questions related to this Notice to Members should be directed to A. Raymond Brummett, Assistant Director, Regulatory Policy and Procedures, at (202) 833-7358.

Sincerely,

Gordon S. Macklin
President

NOTICE TO MEMBERS: 78-41
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

September 26, 1978

TO: All NASD Members and Municipal Securities Dealers

RE: Settlement Schedule
Attention: All Operations Personnel

Securities markets and the NASDAQ System will be open on Monday, October 9, 1978, Columbus Day. Transactions made on that day and the days immediately preceding will be subject to the schedule of settlement dates below for "regular-way" transactions. The adjustments to the usual settlement date schedule have been made since the observance of this holiday by banks differs from state to state.

Trade Date-Settlement Date Schedule
For "Regular-Way" Transactions

Trade Date	Settlement Date	*Regulation T Date
October 2	October 10	October 11
3	11	12
4	12	13
5	13	16
6	16	17
9	16	18
10	17	19

Members should note that October 9, 1978, will be considered a business day for purposes of Regulation T. However, October 9 shall

*Pursuant to Section 4(c)(2) of Regulation T of the Federal Reserve Board, a broker-dealer must promptly cancel or otherwise liquidate a customer purchase transaction in a cash account if full payment is not received within (7) seven days of the date of purchase. The date upon which members must take such action for the trades indicated is shown in the column entitled "Regulation T Date."

not be considered a business day in determining the day for settlement of a transaction or in computing interest on bonds or as an ex-dividend or ex-rights date. Further, marks to the market, reclamations, buy-ins and sell-outs, as provided in the Uniform Practice Code, shall not be exercised on that day. Deliveries ordinarily due on October 9 shall be due on October 10.

The settlement dates should be used by brokers, dealers and municipal securities dealers for purposes of clearing and settling transactions pursuant to the Association's Uniform Practice Code and Municipal Securities Rulemaking Board Rule G-12 on Uniform Practice.

Questions regarding this notice may be directed to the Uniform Practice Department at (212) 422-8841.

Sincerely,

Gordon S. Macklin
President

NOTICE TO MEMBERS: 78-42
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

October 9, 1978

TO: All NASD Members

RE: Special Initial Margin Requirements

Effective today, the Association's Board of Governors, pursuant to its authority granted under Article III, Section 30 of the NASD's Rules of Fair Practice, has terminated the special initial margin requirement of 75 percent which it originally imposed on September 15, 1978, in the following three NASDAQ issues:

Company	NASDAQ Symbol
Florida Cypress Gardens	FCYP
Hyatt Corporation	HYAT
XCOR International, Inc. Class A	XCORA

Resumption of the 50 percent initial margin requirement pursuant to Regulation T of the Board of Governors of the Federal Reserve System for these securities shall again apply.

Sincerely,

Gordon S. Macklin
President

NOTICE TO MEMBERS: 78-43
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

October 18, 1978

TO: All NASD Members and Municipal Securities Dealers
Attention: All Operations Personnel

RE: Election Day-Veterans Day Settlement Schedule

Securities markets and the NASDAQ System will be open on Tuesday, November 7, 1978, Election Day. Adjustments to the usual settlement date schedule are being made since the observance of this holiday by banks differs from state to state. Transactions made on Election Day and the days immediately preceding will be subject to the schedule of settlement dates below for "regular-way" transactions. Since Veterans Day, November 11, 1978, falls on a Saturday, settlement dates will not be affected by that holiday.

Trade Date-Settlement Date Schedule
For "Regular-Way" Transactions

Trade Date	Settlement Date	*Regulation T Date
October 30	November 6	November 8
31	8	9
November 1	9	10
2	10	13
3	13	14
6	14	15
7	14	16
8	15	17

*Pursuant to Section 4(c)(2) of Regulation T of the Federal Reserve Board, a broker-dealer must promptly cancel or otherwise liquidate a customer purchase transaction in a cash account if full payment is not received within (7) seven days of the date of purchase. The date upon which members must take such action for the trades indicated is shown in the column entitled "Regulation T Date."

Members should note that November 7, 1978, will be considered a business day for purposes of Regulation T. However, November 7 shall not be considered a business day in determining the day for settlement of a transaction or in computing interest on bonds or as an ex-dividend or ex-rights date. Further, marks to the market, reclamations, buy-ins and sell-outs, as provided in the Uniform Practice Code, shall not be exercised on that day. Deliveries ordinarily due on November 7 shall be due on November 8.

These settlement dates should be used by all brokers, dealers and municipal securities dealers for purposes of clearing and settling transactions pursuant to the Association's Uniform Practice Code and Municipal Securities Rulemaking Board Rule G-12 on Uniform Practice.

Questions regarding this notice may be directed to the Uniform Practice Department at (212) 422-8841.

Sincerely,

Gordon S. Macklin
President