



NOTICE TO MEMBERS 81-31  
Notices to Members should be retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

August 7, 1981

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

TO: All NASD Members

RE: SEC Staff Issues New Interpretation Concerning the Treatment of "Free Shipments" of Investment Company Shares Under the Uniform Net Capital Rule; Prepayment of Subordination Agreements

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Recently, the staff of the SEC's Division of Market Regulation issued two no-action letters of significance concerning Rule 15c3-1 (the "net capital rule"). They involve the treatment of receivables arising out of mutual fund transactions and the conversion from debt to equity of capital obtained pursuant to satisfactory subordination agreements. Each of these no-action positions is briefly explained below.

Free Shipments of Mutual Fund Shares

As adopted in June, 1975, the net capital rule provided, in part, that so-called "free shipments" of mutual fund shares outstanding seven business days or less need not be deducted from net worth in a broker-dealer's computation of net capital. "Free shipments" of these securities normally arise from redemptions of investment company shares handled by a member as a service to its customers.

On the basis of a survey it conducted of selected regional dealers following the rule's adoption, the Association found that the seven-day time frame prescribed by the rule was impractical in terms of the normal time periods required to process this type of business. For this and other reasons, the NASD subsequently requested that the Commission provide relief from this provision of the rule by extending the time period during which such free shipments would be considered allowable assets. The Association informed the SEC that its Investment Companies Committee, Capital Standards Committee and Advisory Council jointly viewed this particular provision as being one which was unduly harsh and burdensome to the membership in terms of the penalty it imposed on a firm's net capital.

In a letter dated July 16, 1981, the SEC's staff responded favorably to the Association's request for relief. Effective July 16, 1981, receivables arising from "free shipments" of redeemable securities of investment companies registered under the Investment Company Act of 1940 need not be deducted from net worth, and are therefore considered "allowable assets," for a period not exceeding sixteen

(16) business days. A copy of the Division of Market Regulation's letter on this subject is reprinted as part of this Notice.

Conversions of Subordinated Debt to Equity

On the basis of inquiries received from broker-dealers seeking to convert subordinated debt into equity, the Division of Market Regulation has adopted guidelines which, if followed, will permit members to make such conversions, even in those instances in which the subordinated debt has been effective for less than one year. Those conditions are:

- The prepayment must be approved by a firm's designated examining authority;
- The prepayment must be for the purpose of converting subordinated debt to equity;
- The prepayment results in no significant lessening of a firm's net capital;
- The conversion to equity is simultaneous with the prepayment; and,
- The lender agrees, prior to the prepayment, that none of the prepaid funds will be withdrawn from the firm during the period that the relevant subordination agreement would have been in force.

A copy of the Division of Market Regulation's letter describing the above-described no-action position is reprinted as part of this Notice.


Miscellaneous

In a tangential matter, members are advised that the SEC has eliminated the requirement imposed on broker-dealers to file copies of proposed subordination agreements with the appropriate SEC regional office, as well as the requirement that applications for an extension of time to file audited reports be filed with the SEC's principal office in Washington, D.C. These changes are contained in Securities Exchange Act Release No. 17910, dated July 2, 1981.

\* \* \*

Questions concerning this notice may be directed to John J. Cox, Assistant Director, Department of Policy Research, at (202) 833-7320.

Sincerely,

  
Gordon S. Macklin  
President

Attachments

**Securities and Exchange Commission  
Division of Market Regulation  
Washington, D. C. 20549**

May 29, 1981

Mr. Douglas Parrillo  
National Association of  
Securities Dealers, Inc.  
1735 K Street, N. W.  
Washington, D. C. 20006

Dear Mr. Parrillo:

As you are aware, Appendix D to Rule 15c3-1 sets forth the minimum requirements for satisfactory subordination agreements. Among other things, Appendix D provides that a subordination agreement (other than certain temporary agreements) must have a minimum term of one year and no prepayment may be made before the expiration of one year from the date the subordination agreement becomes effective. In the past, the Division has advised brokers or dealers in appropriate cases that it would recommend no action to the Commission if all or part of an obligation under a subordinated loan agreement was prepaid before the expiration of one year.

The Division has received a number of letters from brokers or dealers desiring to convert capital obtained pursuant to satisfactory subordination agreements from debt to equity. These requests are necessary where the subordination agreement has been in effect for less than one year because the so-called conversion involves a prepayment of the payment obligation. Because these prepayments do not appear to raise the permanency of capital concerns which led to the prepayment restriction, the Division will recommend no action to the Commission if the designated examining authority for a broker or dealer approves

a prepayment by the broker or dealer within one year from the effective date of the agreement under the following conditions:

- (1) A prepayment must be approved by the designated examining authority for the broker or dealer seeking to prepay, under conditions consistent with the objectives of the rule.
- (2) The prepayment is for the purpose of converting debt to equity.
- (3) The prepayment results in no significant lessening of net capital.
- (4) The conversion to equity is simultaneous with the prepayment.
- (5) The subordinated lender agrees before the prepayment, that the prepaid funds (equity capital) will not be withdrawn from the firm for the entire period that the subordination agreement would have been in force. <sup>1/</sup>

Sincerely,

Nelson S. Kibler  
Assistant Director

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<sup>1/</sup> The provisions of paragraph (e) of Rule 15c3-1 will of course apply to this equity capital.

**Securities and Exchange Commission  
Division of Market Regulation  
Washington, D. C. 20549**

July 16, 1981

Mr. Douglas F. Parrillo  
National Association of  
Securities Dealers, Inc.  
1735 K Street, N. W.  
Washington, D. C. 20006

Dear Mr. Parrillo:

This is in response to your letters of August 29, 1980, and March 4, 1981, requesting the Division's concurrence with respect to the NASD's views regarding the treatment of receivables arising out of mutual fund transactions for purposes of Rule 15c3-1 of the Securities Exchange Act of 1934 (17 CFR 240.15c3-1).

Specifically, you refer to a letter from Gordon S. Macklin to the Commission, dated May 16, 1977, where the NASD asked the Commission not to consider receivables arising from liquidation of redeemable securities of investment companies registered under the Investment Company Act of 1940 as "free shipments" under the net capital rule which are deducted after they have been outstanding more than 7 business days and to extend the time period during which such receivables are considered to be good assets in computing net capital.

Pending amendment of Rule 15c3-1 (c)(2)-(iv)(B), the staff of the Division of Market Regulation will not recommend any enforcement action to the Commission where such receivables are not deducted by broker-dealers until they have been outstanding more than 16 business days.

I hope these answers are responsive to your questions. Please contact us if we can be of further assistance.

Sincerely,

Nelson S. Kibler  
Assistant Director



NOTICE TO MEMBERS 81-32  
Notice to Members should be  
retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

August 10, 1981

TO: All NASD Members and Other Interested Persons

RE: Special Report: Due Diligence Seminars

As a service to members, the Association last year sponsored a series of seminars on various aspects of due diligence investigations. The purpose of the seminars was to bring together nationally known securities lawyers and industry leaders to share their views on due diligence with Association members. We were fortunate to have the following persons participate as speakers at the seminars:

Peter A. Bernard  
Bache Halsey Stuart Shields, Inc.  
New York, New York

Peter J. Eichler  
Bateman Eichler, Hill Richards, Inc.  
Los Angeles, California

Ronald Fein  
Jones, Day, Reavis & Pogue  
Los Angeles, California

Arthur Fleischer, Jr.  
Fried, Frank, Harris, Shriver & Jacobson  
New York, New York

William R. Harman  
Morgan, Stanley and Company, Inc.  
New York, New York

Craig L. Johnson  
Dean Witter Reynolds Inc.  
San Francisco, California

Arnold H. Kroll  
L. F. Rothschild, Unterberg,  
Towbin Company  
New York, New York

Richard Landau  
E. F. Hutton & Company, Inc.  
New York, New York

James H. Levi  
Oppenheimer Properties Inc.  
New York, New York

Bruce A. Mann  
Pillsbury, Madison & Sutro  
San Francisco, California

John T. McGuire  
The Dallas Financial Corporation  
Dallas, Texas

J. Stephen Putnam  
F. L. Putnam & Company, Inc.  
Boston, Massachusetts

Robert A. Shive  
A. G. Edwards & Sons, Inc.  
St. Louis, Missouri

A. A. Sommer, Jr.  
Morgan Lewis & Bockius  
Washington, D. C.

Linda A. Wertheimer  
Jackson, Walker, Winstead,  
Cantwell & Miller  
Dallas, Texas

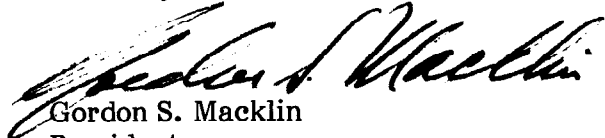
Lewis M. Weston  
Goldman, Sachs & Company  
New York, New York

The Association has received many requests for information on the remarks delivered at the seminars and those remarks have now been compiled and published in book form. A copy of that book is enclosed. It is important to note, however, that the book contains only a compilation of discussions at the seminars and does not constitute any statement of Association requirements or policy on due diligence.

With the publication of this book, we wish to reiterate our appreciation to the seminar speakers listed above for their valuable contributions to the success of this project. Their cooperation and support has been very helpful in responding to the desire of many members for guidance in the area of due diligence.

The Association's Board of Governors welcomes your comments on the enclosed book. Any comments, questions or requests for additional copies may be directed to Dennis C. Hensley, Vice President, Corporate Financing Department, at (202) 833-7240.

Sincerely,



Gordon S. Macklin  
President

Enclosure

# **NASD**

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

August 17, 1981

TO: All NASD Members

RE: Muir (John) & Co.  
61 Broadway  
New York, New York 10006

ATTN: Operations Officer, Cashier, Fail-Control Department

On August 16, 1981, the United States District Court for the Southern District of New York appointed a SIPC trustee 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

Harvey R. Miller, Esquire  
Weil, Gotshal & Manges  
767 Fifth Avenue  
New York, New York 10022  
Telephone: (212) 310-8000

NOTICE TO MEMBERS: 81-34  
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be retained for future  
reference.

# **NASD**

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

August 25, 1981

## M E M O R A N D U M

TO: All NASD Members and Other Interested Persons

RE: Filing of Appendix F on Direct Participation Programs

On August 7, 1981, the National Association of Securities Dealers, Inc. ("Association") filed with the Securities and Exchange Commission ("SEC") proposed Appendix F to Article III, Section 34 of the Rules of Fair Practice (File No. SR-NASD-81-19). Appendix F would establish certain requirements relating to suitability, disclosure, and organization and offering expenses in connection with public offerings of direct participation programs. "Direct participation program" is defined to include most limited partnership interests.

Appendix F would, among other things, require members recommending the purchase of direct participation programs to have reasonable grounds to believe that a prospective purchaser meets certain suitability criteria. Appendix F would also require that a member have reasonable grounds to believe that all material facts concerning a public offering of a direct participation program are "adequately and accurately disclosed and provide a basis for evaluating the economic merits of the program." In reaching such a determination, members would be required to give consideration to seven specified factors. Appendix F would codify existing policies regarding offering compensation for direct participation programs and clarify other policies regarding organization and offering expenses. Lastly, the Appendix would define certain terms not defined in Section 34.



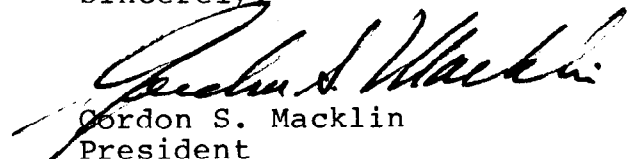
When last published for comment (Notice to Members 78-12 (March 10, 1978)), Appendix F contained several provisions relating to sponsor compensation, conflicts of interest, rights of participants, periodic reports, and certain other provisions relating generally to sponsor activities. After a study of current practices in those areas, the Association's Direct Participation Programs Committee and Board of Governors concluded that it was not necessary for the Association to proceed at this time to implement those earlier proposals.

The earlier version of Appendix F also included certain restrictions on sales literature used in connection with the distribution of direct participation programs. Those provisions are not contained in Appendix F as filed with the SEC, but are currently being reviewed and may be filed in the future.

A copy of the text of Appendix F as filed with the SEC is attached. The Commission will solicit comments on Appendix F via publication in the Federal Register. The Appendix will not become effective until approved by the SEC.

Questions concerning Appendix F may be directed to Dennis C. Hensley, Vice President, Corporate Financing at (202) 833-7240.

Sincerely,



Gordon S. Macklin  
President

NOTICE TO MEMBERS: 81-35  
Notices to Members should be  
retained for future reference.

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

August 24, 1981

TO: NASD Members, Issuers of NASDAQ Securities and  
Other Interested Persons

RE: Amendments to Schedule D Revising Qualification  
Standards for Companies Quoted in the NASDAQ System

The Board of Governors of the Association announces the effectiveness of amendments to Schedule D under the By-Laws which increase the qualification standards for securities included in the NASDAQ System. A copy of the amendments is attached to this Notice. The amendments increase the requirements for initial inclusion in the NASDAQ System from \$1 million in assets and \$500,000 in capital and surplus to \$2 million in assets and \$1 million in capital and surplus. The amendments also increase the maintenance requirements for securities already quoted in the NASDAQ System from \$500,000 in assets and \$250,000 in capital and surplus to \$750,000 in assets and \$375,000 in capital and surplus. The increases are being made to account for inflation since the previous requirements were instituted in 1971.

The new initial inclusion standards are effective immediately. However, issuers with fully completed applications (including those awaiting Commission approval of registration under the Securities Act of 1933) will be considered under the previous requirements. The increase in the maintenance standards does not become effective until August 24, 1982.

Questions concerning this notice should be directed to Gary Guinn, Assistant Director, NASDAQ Operations, at (202) 833-7269.

Sincerely,

  
Gordon S. Macklin  
President

AMENDMENTS TO SCHEDULE D UNDER ARTICLE XVIII OF THE BY-LAWS

II

QUALIFICATIONS FOR AUTHORIZED SECURITIES

B. Rules for Authorized Domestic Securities

\* \* \*

3. An eligible security shall not be authorized, and an authorized security shall be subject to suspension of authorization, if:

\* \* \*

- j. The issuer's total assets shall be less than ~~\$1,000,000~~ \$2,000,000 in the case of an eligible security not yet authorized or ~~\$500,000~~ \$750,000 in the case of an authorized security.<sup>1/</sup>
- k. The issuer's total capital and surplus shall be less than ~~\$500,000~~ \$1,000,000 in the case of an eligible security not yet authorized or ~~\$250,000~~ \$375,000 in the case of an authorized security.<sup>1/</sup>

C. Rules for Authorized Foreign Securities and American Depositary Receipts

\* \* \*

2. An eligible security shall not be authorized, and an authorized security shall be subject to suspension or termination of authorization, if:

\* \* \*

- h. The issuer's total assets shall be less than ~~\$1,000,000~~ \$2,000,000 in the case of an eligible security not yet authorized or ~~\$500,000~~ \$750,000 in the case of an authorized security.<sup>1/</sup>
- i. The issuer's total capital and surplus shall be less than ~~\$500,000~~ \$1,000,000 in the case of an eligible security not yet authorized or ~~\$250,000~~ \$375,000 in the case of an authorized security.<sup>1/</sup>

\* \* \*

1/ Until August 24, 1982, the minimum amounts for authorized securities shall be \$500,000 total assets and \$250,000 total capital and surplus.

# NASD

NOTICE TO MEMBERS: 81-36  
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NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

August 24, 1981

TO: All NASD Members and Municipal Securities Bank Dealers  
ATTN: All Operations Personnel  
RE: Labor Day Trade Date - Settlement Date Schedule

Securities markets and the NASDAQ System will be closed on Monday, September 7, 1981, 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

<u>Trade Date</u>		<u>Settlement Date</u>		<u>*Regulation T Date</u>	
August	31	September	8	September	10
September	1		9		11
	2		10		14
	3		11		15
	4		14		16
	7	Labor Day			—
	8		15		17


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 Rule G-12 on Uniform Practice.

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\* Pursuant to Section 4(c)(2) of Regulation T of the Federal Reserve Board, a broker-dealer must promptly cancel or otherwise liquidate a purchase transaction in a cash account if full payment is not received within seven (7) business days of the date of purchase or, pursuant to Section 4(c)(6), make application to extend the time period specified. The date by which members must take such action for the trade dates indicated is shown in the column entitled "Regulation T Date."

Questions regarding the application of these settlement dates to a particular situation may be directed to the Uniform Practice Department of the NASD at (212) 938-1177.

Sincerely,



Gordon S. Macklin  
President

# **NASD**

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NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

September 11, 1981

TO: All NASD Members

RE: M. S. Wien & Co., Inc.  
30 Montgomery Street  
Jersey City, New Jersey 07302

ATTN: Operations Officer, Cashier, Fail-Control Department

On September 10, 1981, the United States District Court for the District of New Jersey appointed a SIPC trustee 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

Michael R. Griffinger, Esquire  
Crummy, Del Deo, Dolan & Purcell  
Gateway I  
Newark, New Jersey 07102  
Telephone: (201) 622-2235

NOTICE TO MEMBERS: 81- 38 .  
Notices to Members should be  
retained for future reference.

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

September 22, 1981

*Shank  
Diacchetto  
Jawyer & C*

TO: All NASD Members and Other Interested Persons

*833 N @ Wd*

RE: Clarification of Policy on Compensation Received  
by Members In Connection with the Exercise of  
Publicly-Held Warrants

*Shank 1107*

As a result of certain practices which have evolved whereby members receive compensation when public customers exercise recently distributed warrants, the Board of Governors believes that it is necessary to clarify the Association's policy with respect to such compensation. As explained below, the Association has concluded that members' receipt of compensation under certain circumstances constitutes an unfair and unreasonable underwriting arrangement pursuant to the Interpretation of the Board of Governors--Review of Corporate Financing ("Corporate Financing Interpretation" or "Interpretation") under Article III, Section 1 of the Rules of Fair Practice. (NASD Manual (CCH) ¶2151.)

The Corporate Financing Interpretation provides that all elements of compensation shall be taken into consideration in determining the fairness of underwriting arrangements and repeatedly notes that any compensation "received or to be received" by an underwriter or related person in connection with an offering must be considered in determining the fairness of the proposed arrangements. Because it has never been a common practice for an underwriter to contract with an issuer at the time of an offering to receive additional compensation upon the

subsequent exercise of warrants, the Interpretation does not cite specific examples of such arrangements. The Association believes, however, that compensation received for the exercise of warrants distributed by the underwriter generally constitutes compensation received in connection with the original offering, which must be considered in determining the fairness of the overall underwriting arrangements.

With the increased use of unit offerings containing warrants, a few members have sought agreements with issuers which permit the members to receive additional compensation in the future when public customers exercise warrants purchased in the offering. Virtually all proposals of this nature have involved offerings in which the underwriter was receiving the maximum compensation permissible at the time of the offering. In some instances, the warrants were exercisable immediately upon completion of the offering, providing the underwriter with continuing compensation in connection with the offering. The Association believes such arrangements constitute a circumvention of long-standing standards of reasonable compensation.

The Association also believes that serious regulatory questions are raised by the payment of compensation for the exercise of warrants. The economic benefit to be derived by a customer should be the primary determinant in any decision to exercise a warrant. A broker/dealer who stands to benefit by encouraging exercise irrespective of the customer's economic results may face an inherent conflict of interest.

There is also a serious question as to whether the underwriter performs any service for the additional compensation received upon the exercise of warrants. For example, under some arrangements, compensation could be paid to the underwriter even if a person purchased a warrant in the open market and contacted the issuer directly to exercise the warrant.

On the other hand, the Association recognizes that there may be situations in which it is in the best interests of the issuer and warrant holders for a broker/dealer to solicit the exercise of warrants and receive a reasonable fee for that service. Arrangements in those circumstances, however, are normally negotiated as a separate transaction quite some time after the initial distribution of the warrants.

The Association's Corporate Financing Committee has reviewed the issues involved here in order to clarify the applicability of the Corporate Financing Interpretation. That clarification follows.



In determining whether compensation for the exercise of warrants is in connection with an offering (and therefore subject to compensation guidelines), any compensation which may be received within 12 months following the effective date of the offering will be presumed to be received in connection with the offering. This presumption may be rebutted upon a showing of a material change in circumstances of the issuer or the market for the issuer's securities necessitating the negotiation of compensation arrangements subsequent to completion of the original offering. Where compensation for the exercise of warrants is determined to be in connection with the original offering, the aggregated compensation will be considered fair and reasonable only if it falls within the Association's general compensation guidelines for offerings of the size and type of the original offering, without giving effect to any additional proceeds raised through the exercise of warrants.

In those instances where compensation is to be paid to the underwriter for the exercise of warrants more than 12 months after the effective date of the offering, the compensation will be presumed to be for a separate offering with the determination of fairness and reasonableness made pursuant to the Interpretation on the basis of relevant facts and circumstances.

Irrespective of the time at which compensation is to be received, the Association believes that there are certain arrangements relating to the exercise of warrants which are inherently unfair and unreasonable within the meaning of the Corporate Financing Interpretation. The Interpretation states that

[i]t shall be deemed conduct inconsistent with high standards of commercial honor and just and equitable principles of trade and a violation of Article III, Section 1 of the Rules of Fair Practice:

for a member to participate in any way in the public distribution of an issue of securities in which the underwriting or other arrangements in connection with or related to the distribution, or the terms or conditions relating thereto, when taking into consideration all elements of compensation and all of the surrounding circumstances and relevant factors, are unfair or unreasonable ....

(NASD Manual (CCH) ¶2151 at page 2023.)

The Association has concluded that it is inherently unfair and unreasonable, and therefore contrary to the Corporate Financing Interpretation, for a member to receive or arrange to

receive compensation as a result of any of the following transactions:

- (1) the exercise of warrants where the market price of the underlying security is lower than the exercise price;
- (2) the exercise of warrants held in any discretionary account;
- (3) the exercise of warrants where disclosure of compensation arrangements has not been made in documents provided to customers both as part of the original offering and at the time of exercise; and
- (4) the exercise of warrants in unsolicited transactions.

Transactions will be presumed to be unsolicited pursuant to item (4) above unless the customer has indicated in writing that the transaction was not unsolicited and has designated the broker/dealer which is to receive compensation for the exercise.

While these arrangements are believed to be the most common attempted to date, this list should not be viewed as all-inclusive. Any other arrangement which permits a member or related person to receive compensation in connection with the exercise of warrants or other securities under circumstances which are unfair to an investor or issuer will also be considered to be contrary to the Interpretation.

This notice has been filed with the Securities and Exchange Commission as a clarification of the Association's policy under the Corporate Financing Interpretation. That clarification of policy became effective upon filing with the Commission.

Any questions regarding this notice may be directed to Dennis C. Hensley or Harry E. Tutwiler of the Association's staff at telephone number (202) 833-7240.

Sincerely,

  
Gordon S. Macklin  
President



NOTICE TO MEMBERS: 81-39  
Notices to Members should be retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

September 30, 1981

MEMORANDUM

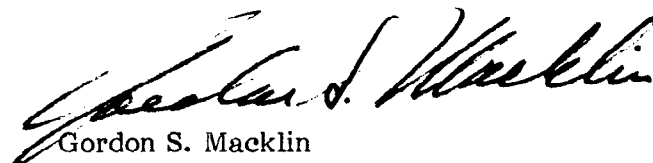
TO: All NASD Members  
RE: Compliance Check List

As you are well aware, the activities of broker-dealers are governed by a tremendous number of very detailed and precise federal and state securities laws, the rules and regulations thereunder, and the rules and regulations of each of the self-regulatory organizations to which a firm belongs. These requirements, in turn, confer upon a member the responsibility to establish appropriate practices and procedures to insure that it, and those associated with it, conduct their activities in conformance with the regulatory framework prescribed by those requirements.

To assist the membership in its task of establishing appropriate compliance procedures and practices, the Association has prepared the enclosed brochure. It provides some basic guidelines to assist members in designing their compliance programs for both main and branch offices. Used in partnership with a firm's internally developed audit guides and supervisory procedures, this Compliance Check List should aid members in avoiding unintentional violations of applicable rules and regulations, as well as assist their supervisory personnel in the performance of their duties.

Questions concerning the brochure or any portion of its contents should be directed to your local District Office or to the appropriate person or persons listed in the NASD Guide to Information and Services. A list of the Association's District Offices can be found at the end of the brochure. Copies of the NASD Guide to Information and Services can be obtained from any NASD office.

Sincerely,



Gordon S. Macklin  
President

Attachment

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

September 28, 1981

TO: All NASD Members

RE: New York State Stock Transfer Tax Rebates -  
Change Effective October 1, 1981

A change in the New York State Stock Transfer Tax Rebate Program will take effect on October 1, 1981 so that the transfer tax will be 100 percent rebatable for trades executed on trade date October 1, 1981 and thereafter.

The New York State Department of Taxation and Finance has revised the procedures now followed by broker-dealers in connection with the transfer tax law and rebate program. Broker-dealers which pay the transfer tax directly to New York State will receive procedural instructions from the Department of Taxation and Finance, while those using tax stamps will be able to pick up instructions, when available, at the bank at which tax stamps are purchased. Further, on September 4, 1981, National Securities Clearing Corporation forwarded a discription of the program to all participants. NSCC Members should refer to Important Notice to Participants #A641 for this information.

The schedule below will be effective on October 1, 1981 and reflects that each tax liability amount is 100 percent rebatable, i.e. tax liability amount is equalled by the allowable rebate amount.

<u>Selling Price</u>	<u>Tax Rate Per 100</u>	<u>Allowable Rebate</u>
\$20 and over	\$ 5.00	\$ 5.00
\$10 - \$19.99	3.75	3.75
\$5 - \$9.99	2.50	2.50
* Under \$5	1.25	1.25
Maximum Tax	350.00	350.00
No Sale Transaction	2.50	2.50

With regard to bookkeeping requirements, members are reminded that the amount of stock transfer tax liability must be recorded for each taxable transaction on the purchase and sale blotter, even though the tax

liability may not be part of the settlement calculation. Further, the daily tax liability must also be recorded in a separate account in the general ledger. Because of the 100 percent rebate, the amount of the tax need not be reflected on customer confirmations.

Questions regarding details of the above amendments to the Rebate Program should be directed to Mr. Donald J. Diekmann at the New York State Tax Commission (518) 457-4265. Questions regarding member compliance with applicable rules and regulations can be directed to James Yore at (212) 938-1177.

# **NASD**

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

September 29, 1981

TO: All NASD Members

RE: Langheinrich & Fender, Inc.  
450 South Fourth East  
Salt Lake City, Utah

ATTN: Operations Officer, Cashier, Fail-Control Department

On Tuesday, September 22, 1981, the United States District Court for the District of Utah appointed a SIPC trustee for the above captioned firm, which is not a member of the NASD. Previously, a temporary receiver had been appointed for the firm on September 14, 1981.

Association members are advised to direct any questions regarding this firm to the SIPC trustee.

SIPC Trustee

Herschel Saperstein, Esquire  
Watkiss & Campbell  
Suite 1200, 310 South Main Street  
Salt Lake City, Utah 84101  
Telephone: (801) 363-3300



NOTICE TO MEMBERS: 81-42  
 Notices to Members should be  
 retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
 1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

September 30, 1981

TO: All NASD Members and Municipal Securities Bank Dealers  
 ATTN: All Operations Personnel  
 RE: Trade Date - Settlement Date Schedule for October  
 and Early November

Transactions made on Monday, October 12, Columbus Day; Tuesday, November 3, Election Day; and, Wednesday, November 11, Veterans Day, and the days immediately preceding these days, will be subject to the schedule below. The purpose of this schedule is to provide uniformity since, while the NASDAQ System and other securities markets will be open on these days, many banking institutions will be closed.

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

<u>Trade Date</u>		<u>Settlement Date</u>		<u>Regulation T Date</u>	
October	5	October	13	October	14
	6		14		15
	7		15		16
	8		16		19
	9		19		20
	12		19		21
	27	November	4	November	5
	28		5		6
	29		6		9
	30		9		10
November	2		10		11
	3		10		12
	4		12		13
	5		13		16
	6		16		17
	9		17		18
	10		18		19
	11		18		20

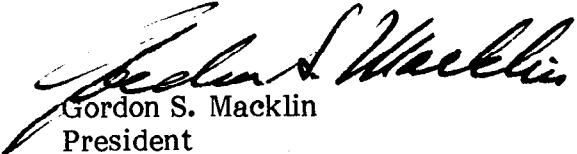
October 12, November 3, and November 11 will not be considered business days for determining the day for settlement of a trade, the day on which stock shall be quoted ex-dividend or ex-rights, or in computing interest on bond trades. Marks to the market, reclamations, and close-outs should not be made on those days.

For the purposes of Regulation T of the Federal Reserve Board, October 12, November 3, and November 11 shall be counted as business days for receiving customers' payments.\*

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 the application of these settlement dates to a particular situation may be directed to the Uniform Practice Department of the NASD at (212) 938-1177.

Sincerely,



Gordon S. Macklin  
President

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\* 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 (7) business days of the date of purchase or, pursuant to Section 4(c)(6), make application to extend the time period specified. The date by which members must take such action for the trade dates indicated is shown in the column entitled "Regulation T Date."



NOTICE TO MEMBERS: 81-43  
Notices to Members should  
be retained for future  
reference.

# **NASD**

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

October 5, 1981

TO: All NASD Members

RE: New Deadline for Reporting Transactions to the Consolidated Tape

ATT: Trading Department Heads and Compliance Officers

Due to the new closing time of the Consolidated Tape, effective September 14, 1981, the deadline for reporting trades in eligible securities on a real time basis to the Consolidated Tape has been changed from 5:30 p.m., ET to 4:30 p.m. ET.

Transactions in eligible securities executed outside the trading hours of the Consolidated Tape shall continue to be reported weekly on Form T to the NASDAQ Department in New York City.

For procedures in reporting transactions to the Consolidated Tape refer to Schedule G, Section 2(a) of the Association's By-laws.

Any questions regarding this notice may be directed to Ernest Comite of the Association's staff at telephone (212) 938-1055.



NOTICE TO MEMBERS: 81-44  
Notices to Members should be retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

### CENTRAL REGISTRATION DEPOSITORY

TO: NASD Members  
ATTN: Compliance and Registration Personnel  
DATE: October 14, 1981  
RE: CRD Seminar

On October 26, 1981, the NASD will hold a one-day seminar on the operation of the Central Registration Depository System at its Executive Offices located at 1735 K Street, N.W., Washington, D.C. The session will be held in the third floor conference room and will run from 10:00 a.m. until 4:00 p.m.

The purpose of this seminar is to explain the latest developments involving the Central Registration Depository and to answer any questions persons involved in the registration process may have regarding the functioning of the system.

Among other things, the agenda for the seminar will include the following:

- a general overview of the CRD System;
- Forms U-4 and U-5;
- the step-by-step procedures for completing and filing all CRD forms;
- CRD and its impact on members, self-regulatory organizations and state securities commissions; and,
- a question and answer period.

We believe this will be a very worthwhile session for anyone wishing to improve his understanding of the CRD System and who is interested in learning what he can do to make the System more efficient in terms of turnaround notifications.

Seating is limited and participation will be on a first-come, first-served basis. You may request a reservation by telephoning Ms. Dianne Woody at (202) 833-7397.

\* \* \* \*

# **NASD**

NOTICE TO MEMBERS: 81-45  
Notices to Members should be  
retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

TO: NASD Members

ATTN: Compliance and Registration Personnel

DATE: October 23, 1981

RE: **Central Registration Depository Seminars**  
**New York City**            **November 2, 1981**  
Washington, D.C.        November 4, 1981  
New York City            November 20, 1981

On November 2, 1981, the NASD will hold a second one-day seminar on the operation of the Central Registration Depository System. This seminar will be held in the East River Room of the Vista International Hotel located at 3 World Trade Center, New York, New York, and will run from 10:00 a.m. until 4:00 p.m. It will provide individuals, who are unable to attend the first seminar on October 26, in Washington, D.C. (see Notice to Members No. 81-44) an opportunity to learn more about the CRD.

The purpose of these seminars is to explain the latest developments involving the Central Registration Depository and to answer any questions persons involved in the registration process may have regarding the functioning of the System.

Among other things, the agenda for the seminar will include the following:

- o a general overview of the CRD System;
- o Forms U-4 and U-5;
- o the step-by-step procedures for completing and filing all CRD forms; and,
- o a question and answer period.

We believe these sessions will be very worthwhile for anyone wishing to improve his understanding of the CRD System and who is interested in learning what he can do to make the System more efficient in terms of turnaround notifications.

Seating is limited and participation will be on a first-come, first-served basis. You may request a reservation for either the Washington, D.C. or New York City sessions by telephoning Ms. Dianne Woody at (202) 833-7397.

\* \* \* \*

# NASD

NOTICE TO MEMBERS: 81-46  
Notices to Members should be  
retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

TO: NASD Members  
ATTN: Compliance and Registration Personnel  
DATE: November 2, 1981  
RE: **Central Registration Depository Seminars**

The NASD will be holding the following one-day seminars on the operation of the Central Registration Depository:

Location:	Robert Dollar Building 311 California Street - 11th Floor San Francisco, California
Date/Time:	<b>November 9, 1981; 10 a.m. - 4 p.m.</b>
Contact Person:	Ms. Eleanor Baker (415) 983-7844
	* * *
Location:	A. G. Becker Incorporated First National Bank Building - 29th Floor Chicago, Illinois
Date/Time:	<b>November 13, 1981; 10 a.m. - 4 p.m.</b>
Contact Person:	Ms. Ramona Larson (414) 347-3409
	* * *
Location:	Hilton Inn South 7801 East Orchard Road Englewood, Colorado
Date/Time:	<b>November 16, 1981; 10 a.m. - 4 p.m.</b>
Contact Person:	Paulette Konruff (303) 773-8200, Ext. 23

MORE

We believe these seminars will be very valuable and informative for persons wishing to gain an understanding of the CRD System, and in learning what steps members may take to improve the efficiency of the System in terms of, for example, turnaround notifications. Seating is limited in each session so that participation is on a first-come, first-served basis. Reservations for these seminars may be made by telephoning the respective contact persons, above.

\* \* \* \*

# **NASD**

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

November 10, 1981

TO: All NASD Members

RE: Stix & Co., Inc.  
319 North Fourth Street  
St. Louis, Missouri

ATTN: Operations Officer, Cashier, Fail-Control Department

On Monday, November 9, 1981, the United States District Court for the Eastern District of Missouri appointed a SIPC trustee for the above captioned firm. Previously, a temporary receiver had been appointed for the firm on November 5, 1981.

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

Harry O. Moline, Jr., Esquire  
Moline, Tegethoff, Ottsen,  
Mauze & Leggat  
St. Louis County Bank Bldg.  
Suite 1010  
11 South Meramec  
St. Louis, Missouri 63105  
Telephone: (314) 725-3200

# NASD

NOTICE TO MEMBERS: 81-48  
Notices to Members should be retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

November 10, 1981

TO: All NASD Members and Municipal Securities Bank Dealers  
ATTN: All Operations Personnel  
RE: Thanksgiving Day Holiday Schedule

Securities markets and the NASDAQ System will be closed on Thanksgiving Day, Thursday, November 26, 1981. "Regular-way" transactions made on the business days preceding that day will be subject to the schedule below.

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

<u>Trade Date</u>	<u>Settlement Date</u>	<u>Regulation T Date*</u>
November 18	November 25	November 30
19	27	December 1
20	30	2
23	December 1	3
24	2	4
25	3	7
26	Thanksgiving Day	—
27	4	8

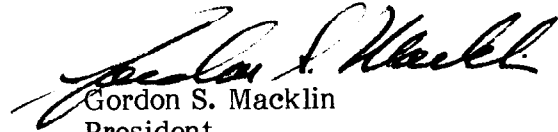
The settlement dates above should be used by brokers, dealers, and municipal securities dealers for purposes of clearing and settling transactions pursuant to the Association's Uniform Practice Code and Municipal Securities Rulemaking Board Rule G-12 on Uniform Practice.

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\* 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 (7) business days of the date of purchase or, pursuant to Section 4(c)(6), make application to extend the time period specified. The date by which members must take such action for the trade dates indicated is shown in the column entitled "Regulation T Date."

Questions regarding the application of this notice may be directed to the Uniform Practice Department of the NASD at (212) 938-1177.

Sincerely,



Gordon S. Macklin  
President



NOTICE TO MEMBERS 81-49  
Notices to Members should be  
retained for future reference.

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

November 24, 1981

TO: All NASD Members and Interested Persons

RE: Special Administration of the Interest Rate Options  
Examination (Test Series 5)

ATTENTION: REGISTRATION, TRAINING AND COMPLIANCE PERSONNEL, REGISTERED  
OPTIONS PRINCIPALS AND BRANCH OFFICE MANAGERS

On Saturday, December 12, 1981, the NASD will conduct a special, one time administration of the Interest Rate Options Examination (Test Series 5) in the thirty-three cities listed at the end of this notice. Unless otherwise noted, four testing sessions will be offered in each city at 8:00 A.M., 10:00 A.M., 1:00 P.M. and 3:00 P.M. local time. A complete listing of the locations at which the sessions will be held will be forwarded to all members and branch offices prior to December 4, 1981.

Candidates will be admitted to the sessions on a FIFO basis upon presentation of proper identification. It will NOT be necessary for firms to file examination request forms in advance of this special administration. The sponsoring firms will be billed for testing fees at the time grade notifications are sent to firms by the NASD. Candidate scores will be posted to the Association's registration records and will be forwarded to the American Stock Exchange, the Chicago Board Options Exchange and the New York Stock Exchange.

These sessions will be entirely devoted to administration of the Series 5 examination. No educational seminars will be offered by the NASD to coincide with the administration of the examination. Training material is available from the Chicago Board Options Exchange.

## Background Information on the Interest Rate Options Examination (Test Series 5)

The Chicago Board Options Exchange (CBOE) will initiate trading in options contracts on GNMA securities in the very near future. Under CBOE rules, registered persons who intend to sell or supervise the sale of GNMA options must first pass the new Interest Rate Options Examination (Test Series 5). Successful completion of the Series 5 examination will enable registered persons to effect transactions in GNMA options contracts and will also qualify such persons to effect transactions in options contracts on U. S. Government securities when these contracts are approved by the Securities and Exchange Commission in 1982. The Series 5 examination comprises fifty (50) multiple-choice questions, for which ninety (90) minutes of testing time is provided. The passing score is 70%.

The Series 5 examination was administered initially by the CBOE at the conclusion of its Interest Rate Options Education and Qualification Seminars held at various locations during September, October and November. Tests administered at these seminars have since been sent to the NASD for scoring, reporting to firms

and posting to the Association's registration records. In addition, on October 19, 1981, the NASD began administering the Series 5 examination on a permanent basis on the PLATO System. Candidates who wish to use this method of taking the Series 5 examination may do so by filing Form U-67 and a \$40 testing fee with the NASD. Form U-67 is available from the Association's Executive and District Offices.

The special administration of the Series 5 examination on December 12, 1981, is designed to efficiently absorb a large number of registered persons who intend to sell interest rate options. As mentioned above, the sessions will be open to all registered persons without the need to pre-file application forms or to schedule testing appointments.

#### Admission Procedure

In order to gain admission to a special Series 5 testing session on December 12, 1981, a candidate must present two forms of personal identification. No admission tickets will be necessary for these sessions. Both ID's must contain the candidate's signature and one document must contain either a picture or a physical description of the candidate. If a candidate's ID's do not meet these requirements, the firm should contact the Examination Department of the NASD at (202) 833-7180 prior to December 12th so that special arrangements can be made with the session proctor.

#### Testing Procedure

The Series 5 examination will be administered as a closed book test and only test related material issued by proctors will be permitted at the sessions. Candidates may use pocket electronic calculators provided they operate silently, have an independent power source and contain no print devices.

#### Scoring Procedure

All answer sheets will be returned to the NASD for scoring following the December 12th special administration. To the extent possible, these tests will be scored during the week of December 14th. It is expected, however, that grading of the Series 5 tests will be interrupted during the week of December 21st due to the administration and scoring of the Series 7 examination. Scoring of the Series 5 examination will resume in late December and continue into January. Candidate scores will be reported to their firms, to AMEX, CBOE and NYSE and will be posted to the Association's registration records.

#### Testing Fees

Firms will be billed by the NASD for all Series 5 examinations taken on December 12th by their respective representatives. The fee for this test will be \$40.

\* \* \*

Questions regarding this notice should be directed to Anne Pittman at (202) 833-4850.

- C. Depreciation Recapture - Under the new laws, there is no recapture on the disposition of property if straight line depreciation is used. The major changes are:

Residential Property - Gain on disposition is treated as ordinary income to the extent depreciation in excess of straight line is taken.

Non-Residential Property - Gain on disposition is treated as ordinary income to the extent of all depreciation taken if an accelerated method is used.

- D. Investment Tax Credit - For eligible recovery property placed in service after 1980, the investment tax credit is based on the recovery period of the property used in determining the deduction for depreciation. The ITC for eligible 3-year property is 6%, and for eligible 5, 10 and 15-year properties the credit is 10%. Each full year the property is held before disposition reduces the ITC subject to recapture by 2%. Thus a 3-year property need only be held 3 years and the 5, 10 or 15-year properties for 5 years in order to avoid any ITC recapture. Finally the used property limitation under the ITC rules is raised to \$125,000 beginning in 1981.

#### IV

##### Small Business

- A. Subchapter S Corporations - The number of eligible shareholders is raised to 25.

#### V

##### Oil and Gas

- A. Windfall Profit Tax - The tax rate will be reduced to 27½% for newly discovered oil removed from the premises after 1981.
- B. Royalty Owners - The new laws provide an exemption from the windfall profits tax of two barrels a day to royalty owners.

#### VI

##### Miscellaneous

- A. Tax Credit Carry Forwards - The new tax laws extend the investment, energy and rehabilitation credit carryovers to 15 years.

\* \* \*

Questions regarding this notice should be directed to Carole Hartzog at (202) 833-7392.

Sincerely,

  
Frank J. McAuliffe, Director

Qualifications and Examinations Dept.

Examinations Affected by the Economic Recovery Tax Act of 1981  
(Numerical References Within Test Series Identify  
Study Outline Sections Affected by the "Act")

Areas Changed	Test Series Affected						
	2	6	7	8	22	24	26
I. Individual Income Tax Rates							
A. Investment Income					3.3.4		
B. Maximum Tax Repeal					3.3.4		
C. Alternative Minimum Tax					3.3.4		
D. Capital Gains Rate Reduction	7.6.3		14.3				
E. Dividend and Interest Exclusion	7.6.2	2.1.14	14.2.4				
F. Annual Gift Tax Exclusion		2.1.13	14.16.2				
II. Retirement Plans							
A. Individual Retirement Account (IRA)	5.7.3	3.3.1	3.3	2.3.2		3.1.6	2.3.2
B. Keogh Plan	5.7.3	3.3.2	3.2	2.3.2		3.1.5	2.3.2
III. Depreciation and Tax Credits							
A. Accelerated Cost Recovery System (ACRS)					3.2.2		
B. Real Estate					3.2.2		
C. Recapture					3.2.6		
D. Investment Tax Credit Used Property Recapture					3.2.5		
					3.2.5		
					3.2.6		
IV. Small Business							
A. Subchapter S Corporations					1.2.1		
V. Oil and Gas							
A. Windfall Tax on Newly Discovered Oil					2.3.2		
B. Royalty Owners					2.3.1		
VI. Miscellaneous							
A. Tax Credit Carry Forwards					3.2.5		

Test Series Key

Series Number

Examination Title

2	SECO/NASD Non-Member General Securities Examination
6	Investment Company Products/Variable Contracts Representative Examination
7	General Securities Representative Examination
8	General Securities Sales Supervisor Examination
22	Direct Participation Programs Representative Examination
24	General Securities Principal Examination
26	Investment Company Products/Variable Contracts Principal Examination

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

November 24, 1981

TO: All NASD Members and Interested Persons

RE: Effect of Tax Law Changes on NASD Qualification Examinations

ATTENTION: REGISTRATION AND TRAINING PERSONNEL

The passage of the Economic Recovery Tax Act of 1981 (the "Act") has brought about changes in the tax laws which will have an impact on the subject matter of the qualification examinations administered by the NASD. The chart at the end of this notice lists the areas affected by the "Act" and identifies by study outline section the examinations affected by the new tax laws. In addition, a brief explanation of these changes is included below.

All test questions in the item banks affected by the "Act" will be reviewed by the appropriate industry oversight group and updated to reflect the new provisions beginning January 1, 1982. New questions based on the new provisions in the "Act" have also been developed and will be added to the item banks at that time. The examinations will be updated to reflect other tax changes that will be phased-in at future dates. Notices to members will announce these changes prior to their inclusion in the examination banks.

SUBJECT MATTER AREAS AFFECTED BY TAX CHANGES

I

Individual Income Tax Rates

- A. Investment Income - The maximum marginal rate on investment income will be reduced from 70% to 50%.
- B. Maximum Tax - Because the highest marginal tax rate on all income will be reduced to 50%, the 50% maximum tax on earned income is repealed.
- C. Alternative Minimum Tax - The alternative minimum tax is reduced to 20% for sales and exchanges after June 9, 1981. The rate is 10% for amounts from \$20,000 to \$60,000 and 20% for amounts over \$60,000.
- D. Capital Gains Tax - The maximum rate on long-term capital gains is reduced to 20%. The holding period for determining long-term capital gains remains one year and one day.

- E. Dividend and Interest Exclusion - The current dividend and interest exclusion is repealed. In 1982, a \$100 dividend exclusion only (\$200 on a joint return no matter which spouse earns the dividend) becomes effective.
- F. Annual Gift Tax Exclusion - The annual gift tax exclusion is increased to \$10,000 for gifts to one person in a single year (\$20,000 on a joint return).

II  
Retirement Plans

- A. Individual Retirement Account (IRA) - Up to \$2,000 of earned income may be contributed annually per individual, regardless of the contributor's participation in a company retirement plan. The dollar limit for a spousal IRA has been increased to \$2,250 and the couple may divide the contribution in any fashion, as long as neither receives more than \$2,000.
- B. Keogh Plan - Owner-employees may contribute 15% of earned income up to \$15,000 annually. The amount of earned income to be considered in any computations has been raised to \$200,000.

III  
Depreciation and Tax Credits

- A. Accelerated Cost Recovery System - The ACRS replaces the class life system for property placed in service after December 31, 1980. The new rules apply to most tangible (real and personal) depreciable property used in a trade or business or held for the production of income. There are now four predetermined cost recovery periods based on the nature of the assets.

<u>General Cost Recovery Class</u>	<u>Assets</u>
3-years	cars, light duty trucks, etc.
5-years	personal property
10-years	mobile homes, RR tank cars
15-years	real property

- B. Real Estate Depreciation Methods - The following depreciation methods are allowed on real estate under the new tax laws. The "Act" does not consider the "first user" criteria in selecting a method of depreciation. Salvage value and component depreciation are excluded under the new laws.

Residential and Non-Residential Property

Straight Line  
175% Declining Balance

Low Income Housing

Straight Line  
200% Declining Balance

Cities In Which The Special Administration  
of the  
Interest Rate Options Examination  
Will Be Offered  
December 12, 1981

8 A.M., 10 A.M., 1 P.M. & 3 P.M.

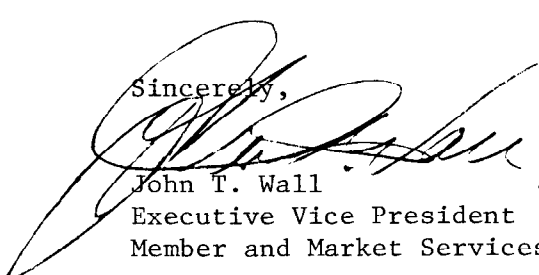
Anchorage, Alaska	New Orleans, Louisiana
Phoenix, Arizona	Boston, Massachusetts
Los Angeles, California	Detroit, Michigan
San Diego, California	Minneapolis, Minnesota
San Francisco, California	Kansas City, Missouri
Denver, Colorado	St. Louis, Missouri
Washington, D. C.	Lincoln, Nebraska
Jacksonville, Florida	New York, New York
Miami, Florida	Rochester, New York
Orlando, Florida	Cleveland, Ohio
Tampa, Florida	Portland, Oregon
Atlanta, Georgia	Philadelphia, Pennsylvania
Honolulu, Hawaii	Dallas, Texas
Chicago, Illinois	Houston, Texas
Indianapolis, Indiana	Salt Lake City, Utah
Des Moines, Iowa	Seattle, Washington

\*Milwaukee, Wisconsin

A COMPLETE LISTING OF THE LOCATIONS AT WHICH THE SESSIONS WILL BE HELD IN THE ABOVE CITIES WILL BE FORWARDED TO ALL MEMBERS AND BRANCH OFFICES PRIOR TO DECEMBER 4, 1981.

\*Sessions in Milwaukee will be held at 8:00 A.M., 10:00 A.M. and 1:00 P.M. only.

Sincerely,



John T. Wall  
Executive Vice President  
Member and Market Services

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

November 24, 1981

TO: All NASD Members and Interested Persons

RE: New Registration Category and Examination Requirements for  
General Securities Sales Supervisors

ATTENTION: TRAINING DIRECTORS AND REGISTRATION PERSONNEL

Effective December 1, 1981, the Association will implement a new limited principal registration category and qualification examination (Test Series 8) for General Securities Sales Supervisors in member firms. Included herewith is a new Section 2(f) of Part I of Schedule C of the NASD By-Laws, which establishes this new registration category. Also included are certain amendments to Schedule C and Appendix E of the Rules of Fair Practice, which serve to accommodate this new category in the current framework of the Association's registration requirements.

Purpose of the New Examination Requirement

The Limited Principal General Securities Sales Supervisor Qualification Examination (Test Series 8) is being implemented by the Association, in conjunction with the options exchanges, the Municipal Securities Rulemaking Board and the New York Stock Exchange, to be an industry wide standard for sales supervisory personnel in member firms doing a general securities business. The need for this examination became evident following the implementation of a number of new qualification examination requirements by various self-regulatory organizations in recent years. Depending on the applicability of these requirements, new sales supervisory personnel in general securities firms have been required to pass up to four separate tests. These included the following:

- General Securities Principal Examination of the National Association of Securities Dealers (Test Series 24)
- Municipal Securities Principal Examination of the Municipal Securities Rulemaking Board (Test Series 53)
- Branch Office Managers Examination of the New York Stock Exchange (Test Series 12)
- Registered Options Principal Examination of the options exchanges, the NASD and the NYSE (Test Series 4)

The Association's Board of Governors and the governing bodies of the other self-regulatory organizations became concerned about the number of examinations which new sales supervisory personnel were required to pass, as well as with the



coverage in the separate principal examinations of areas of regulation which are not directly relevant to the functions of sales supervisors. Accordingly, the Series 8 examination was developed through the combined efforts of the above mentioned self-regulatory organizations and industry representatives to serve as a uniform examination.

Persons to Whom the Examination is Applicable. Under NASD rules, the General Securities Sales Supervisor Examination is the minimum qualification requirement for persons who are required to register as principals and whose responsibilities are limited to sales supervision in member firms doing a general securities business. It is expected that the majority of candidates taking the Series 8 examination will be new branch office managers in general securities firms. The Series 8 examination is, however, appropriate for other supervisory personnel, such as regional and national sales managers, as long as their supervisory responsibilities do not extend beyond the sales activities of their respective member firms. In order to take the Series 8 examination a candidate must be registered under NASD rules as a General Securities Representative. Persons who pass the Series 8 examination may supervise sales activities in corporate, municipal and options securities, investment company products, variable contracts and direct participation programs.

Persons to Whom the Examination is Not Applicable. Under NASD rules, persons who are required to register as principals and whose supervisory responsibilities extend to certain specified activities will not be properly qualified solely on the basis of passing the General Securities Sales Supervisor Examination. Such activities include the supervision of the origination and structuring of underwritings, the supervision of market making commitments, final approval of advertisements, supervision of the custody of firm or customer funds and/or securities for purposes of SEC Rule 15c3-3 and supervision of overall compliance with financial responsibility rules for broker/dealers. Performance of one or more of these activities by a principal will entail additional qualification requirements pursuant to Part I of Schedule "C".

Relationships to Other Registration Categories. A person registered as a principal solely on the basis of passing the General Securities Sales Supervisor Examination will not be qualified to be registered in any other category of principal registration contained in Part I of Schedule "C". For example, while a person qualified as a General Securities Sales Supervisor may supervise options sales, such person is not qualified to function as a firm's Senior Registered Options Principal or Compliance Registered Options Principal. In addition, a person so qualified may not be included for purposes of the principal numerical requirements of Part I, Section 1(e)(i) of Schedule "C".

Optional Methods of Qualification. The General Securities Sales Supervisor Examination was designed to be a single, uniform qualifying examination for newly appointed sales supervisors in member firms. However, the Series 8 examination does not supplant the other principal examinations of the Association, nor does it preclude alternate methods of qualifying persons to supervise sales activities in member firms. Thus, those persons who have already passed one or more of the separate principal examinations listed above may elect to take the Series 8

examination to complete their qualification requirements for sales supervisory purposes or they may elect to take the other principal examinations. Successful completion of the latter would qualify such persons for sales supervision and for other supervisory responsibilities in their firms. Reference is made to the appropriate sections of Schedule "C" and to the qualification examination rules of the other self-regulatory organizations for specifics on the supervisory responsibilities such persons could assume.

### Structure of the Examination

The General Securities Sales Supervisor Examination consists of 200 multiple-choice questions covering the following subject matter areas:

<u>Area Description</u>	<u>Number of Questions</u>	<u>Percent of Test</u>
1.0 Sales Supervision	32	16.0%
2.0 Account Supervision	34	17.0%
3.0 Compliance, Recordkeeping and Financial Responsibility	25	12.5%
4.0 Securities Markets	9	4.5%
5.0 Securities Options	55	27.5%
6.0 Municipal Securities	45	22.5%
Totals	200	100%

The Series 8 examination will be divided into two parts of 100 questions each. Each part will have an allowed testing time of three hours. Part I is divided into two sections: the first section deals solely with options; the second, only with municipal securities. Part II will cover all the remaining material in the examination. A detailed study outline for the Series 8 examination is available from the NASD Treasurer and NASD District Offices at a cost of \$5.00 per outline.

### Application Procedure

Application for registration as a General Securities Sales Supervisor should be made using Form U-4 in accordance with standard NASD registration procedures. Question #10 of Form U-4 - Type of Approval Requested - should be answered by entering on the line marked "OTHER": General Securities Sales Supervisor (Series 8).

### Test Administration

The Series 8 examination will be administered on the PLATO System at Control Data Learning Centers. Parts I and II may be taken in any order on the same day or on any two days during the 90-day period that a candidate's Series 8 PLATO enrollment is valid. A candidate who wishes to sit for both parts on the same day must schedule a separate appointment for each part. A candidate who wishes to take the two parts on separate days must sit for both parts at the same learning center. In extraordinary circumstances arrangements can be made to take

the parts at different learning centers, but this must first be cleared through the NASD. Grading of the examination will NOT occur until both parts are completed. If a candidate's enrollment period expires before either part is completed, the candidate must initiate anew the usual application procedures, including payment of another testing fee, in order to be reenrolled on PLATO to sit for the Series 8 examination. If a candidate's enrollment period expires after one of the two parts has been completed, the examination will be graded as a failed test and the candidate will be required to reapply for the examination in accordance with standard application procedures.

### Grading Procedure

In order to pass the Series 8 examination, each candidate must satisfy a dual scoring requirement. A minimum score of 70% must be achieved on the 55 options questions AND a minimum score of 70% must be achieved on the remaining 145 questions in the examination. If either or both of these criteria are not met, a candidate will fail the examination. Under this grading scheme, a candidate's overall score will have no bearing on whether the candidate passes the examination.

This procedure is being implemented in response to the SEC staff's insistence that the options portion of the examination be graded separately and to a subsequent determination by the Municipal Securities Rulemaking Board that a separate score be computed for the non-option portion of the examination. As a matter of principle the Association favors a single passing grade computed on the overall score, but is acquiescing in the positions of the SEC staff and the MSRB in order to implement the Series 8 examination in a timely manner. The Association intends to review this dual grading procedure in 1982 and is hopeful that candidate performance statistics on the examination will support a return to a single passing grade computed on the overall score.

### Reexamination Procedure

Candidates who fail both the options questions and the balance of the examination can reapply for the entire Series 8 examination by filing the first page of Form U-4. Question #10 of Form U-4 - Type of Approval Requested - should be answered by entering on the line marked "OTHER": General Securities Sales Supervisor (Series 8).

Candidates who fail one of the two groups of scored questions will fail the examination, but will only be required to retake and pass the failed group in order to qualify. Special reexamination instructions for these situations will be issued at the time the initial written score report is provided to sponsoring firms.

### Testing Fees

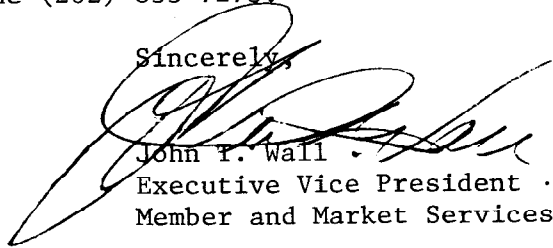
The testing fee for the entire Series 8 examination is \$80. This fee applies to initial applications, re-applications occasioned by expired PLATO enrollments and re-examination applications for candidates who have failed both groups of scored questions.

The testing fee for candidates requesting re-examination in one of the two scored groups of questions is \$40. As mentioned above, special re-examination instructions will be provided in these situations at the time the initial written score reports are provided to sponsoring firms.

\* \* \*

Questions regarding this notice should be referred to Frank J. McAuliffe at (202) 833-7394 or David Uthe (202) 833-7273.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "John T. Wall". The signature is written over the typed name and title.

John T. Wall  
Executive Vice President  
Member and Market Services

Text of Rule Changes Establishing the  
General Securities Sales Supervisor  
Limited Principal Registration Category

Schedule C, Part I

New Section 2(a)(v)

(v) A person qualified solely as a General Securities Principal shall not be qualified to be registered as a Limited Principal - General Securities Sales Supervisor unless he is also qualified and registered as such pursuant to the provisions of Part I, Section 2(f)(i) hereof.

\* \* \*

Schedule C, Part I

New Section 2(f)

(f) Limited Principal - General Securities Sales Supervisor

(i) Each person associated with a member who is included in the definition of principal in Part I, Section (1) hereof, may register with the Corporation as a Limited Principal - General Securities Sales Supervisor if:

a. his supervisory responsibilities in the investment banking and securities business are limited to the securities sales activities of a member, including the training of sales and sales supervisory personnel and the maintenance of records of original entry and/or ledger accounts of the member required to be maintained in branch offices by SEC record-keeping rules; and

b. he is registered, pursuant to Part II hereof as a General Securities Representative; and

c. he is qualified to be so registered by passing an appropriate examination.

ii. A person registered in this category solely on the basis of having passed the Qualification Examination for Limited Principal - General Securities Sales Supervisor shall NOT be qualified to:

a. be registered in any other category of principal registration contained in this Schedule "C"; or

b. be included for purposes of the principal numerical requirements of Part I, Section (1)(e)(i) hereof; or

c. perform for a member any or all of the following activities:

1. supervision of the origination and structuring of underwritings

2. supervision of market making commitments

3. final approval of advertisements as these are defined in Article III, Section 35 of the Rules of Fair Practice

4. supervision of the custody of firm or customer funds and/or securities for purposes of SEC Rule 15c3-3

5. supervision of overall compliance with financial responsibility rules for broker/dealers promulgated pursuant to the provisions of the Securities Exchange Act of 1934.

\* \* \*

Appendix E of the  
Rules of Fair Practice  
Amended Section 20(c)  
(New language underlined)

(c) Branch Offices. No branch office of a member shall transact an options business unless the principal supervisor of such branch office accepting options transactions has been qualified as either a Registered Options Principal or a Limited Principal - General Securities Sales Supervisor; provided that this requirement shall not apply to branch offices in which no more than three registered representatives are located, so long as the options activities of such branch offices are appropriately supervised by either a Registered Options Principal or a Limited Principal - General Securities Sales Supervisor.

# second notice

NOTICE TO MEMBERS 81-52  
Notices to Members should be  
retained for future reference.

## **NASD**

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

December 3, 1981

TO: All NASD Members and Interested Persons

RE: Special Administration of the Interest Rate Options  
Examination (Test Series 5)

ATTENTION: REGISTRATION, TRAINING AND COMPLIANCE PERSONNEL, REGISTERED  
OPTIONS PRINCIPALS AND BRANCH OFFICE MANAGERS

On Saturday, December 12, 1981, the NASD will conduct a special, one time administration of the Interest Rate Options Examination (Test Series 5) in the thirty-three cities listed at the end of this notice. Unless otherwise noted, four testing sessions will be offered in each city at 8:00 A.M., 10:00 A.M., 1:00 P.M. and 3:00 P.M. local time. Firms which expect to have a substantial number of representatives sit for the Series 5 examination at a particular center are asked to stage these arrivals throughout the day in order to avoid delays at any one session.

Candidates will be admitted to the sessions on a FIFO basis upon presentation of proper identification. It will NOT be necessary for firms to file examination request forms in advance of this special administration. The sponsoring firms will be billed for testing fees at the time grade notifications are sent to firms by the NASD. Candidate scores will be posted to the Association's registration records and will be forwarded to the American Stock Exchange, the Chicago Board Options Exchange and the New York Stock Exchange.

These sessions will be entirely devoted to administration of the Series 5 examination. No educational seminars will be offered by the NASD to coincide with the administration of the examination. Training material is available from the Chicago Board Options Exchange.

### Background Information on the Interest Rate Options Examination (Test Series 5)

The Chicago Board Options Exchange (CBOE) will initiate trading in options contracts on GNMA securities in the very near future. Under CBOE rules, registered persons who intend to sell or supervise the sale of GNMA options must first pass the new Interest Rate Options Examination (Test Series 5). Successful completion of the Series 5 examination will enable registered persons to effect transactions in GNMA options contracts and will also qualify such persons to effect transactions in options contracts on U. S. Government securities when these contracts are approved by the Securities and Exchange Commission in 1982. The Series 5 examination comprises fifty (50) multiple-choice questions, for which ninety (90) minutes of testing time is provided. The passing score is 70%.

The Series 5 examination was administered initially by the CBOE at the conclusion of its Interest Rate Options Education and Qualification Seminars held at various locations during September, October and November. Tests administered at these seminars have since been sent to the NASD for scoring, reporting to firms



and posting to the Association's registration records. In addition, on October 19, 1981, the NASD began administering the Series 5 examination on a permanent basis on the PLATO System. Candidates who wish to use this method of taking the Series 5 examination may do so by filing Form U-67 and a \$40 testing fee with the NASD. Form U-67 is available from the Association's Executive and District Offices.

The special administration of the Series 5 examination on December 12, 1981, is designed to efficiently absorb a large number of registered persons who intend to sell interest rate options. As mentioned above, the sessions will be open to all registered persons without the need to pre-file application forms or to schedule testing appointments.

#### Admission Procedure

In order to gain admission to a special Series 5 testing session on December 12, 1981, a candidate must present two forms of personal identification. No admission tickets will be necessary for these sessions. Both ID's must contain the candidate's signature and one document must contain either a picture or a physical description of the candidate. If a candidate's ID's do not meet these requirements, the firm should contact the Examination Department of the NASD at (202) 833-7180 prior to December 12th so that special arrangements can be made with the session proctor.

#### Testing Procedure

The Series 5 examination will be administered as a closed book test and only test related material issued by proctors will be permitted at the sessions. Candidates may use pocket electronic calculators provided they operate silently, have an independent power source and contain no print devices.

#### Scoring Procedure

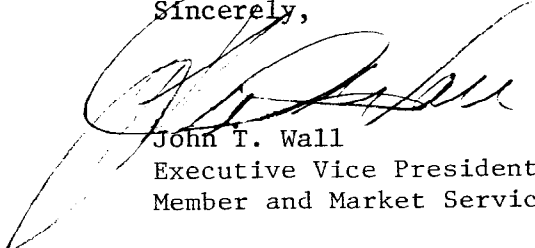
All answer sheets will be returned to the NASD for scoring following the December 12th special administration. To the extent possible, these tests will be scored during the week of December 14th. It is expected, however, that grading of the Series 5 tests will be interrupted during the week of December 21st due to the administration and scoring of the Series 7 examination. Scoring of the Series 5 examination will resume in late December and continue into January. Candidate scores will be reported to their firms, to AMEX, CBOE and NYSE and will be posted to the Association's registration records.

#### Testing Fees

Firms will be billed by the NASD for all Series 5 examinations taken on December 12th by their respective representatives. The fee for this test will be \$40.

Questions regarding this notice should be directed to Anne Pittman at (202) 833-4850.

Sincerely,

  
John T. Wall  
Executive Vice President  
Member and Market Services

Cities In Which The Special Administration  
of the  
Interest Rate Options Examination  
Will Be Offered  
December 12, 1981

8 A.M., 10 A.M., 1 P.M. & 3 P.M.

ALASKA

Anchorage  
121 West Fireweed, Suite 285

ARIZONA

Phoenix  
Quality Inn, 2420 West Thomas  
Road, Vincent Room

CALIFORNIA

Los Angeles  
Hyatt Regency, 711 South Hope  
Street

San Diego

Holiday Inn - Mission Valley  
595 Hotel Circle South, Ballroom

San Francisco

Serramonte Del Rey, South Mall,  
699 Serramonte Blvd., Rooms 107 &  
108

COLORADO

Denver  
University of Colorado at Denver  
1100 14th Street, Lobby - East  
Classroom Bldg.

DISTRICT OF COLUMBIA

Washington, D. C.  
George Washington University,  
21st & G Streets, N.W., Government  
Bldg., Room B-04

FLORIDA

Jacksonville  
Holiday Inn, I-295 & Commonwealth

Miami

Miami Christian School, 200 N.W.  
109th Ave., Classroom next to  
gym.

FLORIDA

Orlando  
Holiday Inn, Orlando South  
4049 S. Orange Blossom Trail

Tampa

Marriott Hotel, 1001 N. West  
Shore Blvd., Grand Ballroom

GEORGIA

Atlanta  
Emory University, Clifton & N.  
Decatur Rds., Gambrell Hall, Room 107

HAWAII

Honolulu  
YMCA Central Branch, 401 Atkinson  
Drive, Room No. posted

ILLINOIS

Chicago  
Northwestern University, Division  
of Continuing Education, 339 East  
Chicago Avenue, Wieboldt Hall,  
report to lobby

INDIANA

Indianapolis  
Indiana University School of Liberal  
Arts - IUPUI, School of Nursing,  
Bldg. #112, 1100 West Michigan St.  
(corner of Barnhill & Middle Dr.)

IOWA

Des Moines  
Drake University, 28th & Carpenter  
(Parking lot -- 29th and University)  
Meredith Hall, Room 235.

LOUISIANA

New Orleans  
Loyola University, St. Charles Ave.,  
and Calhoun St., Elizabeth Seton  
Bldg., Room 206

MASSACHUSETTS

Boston

Northeastern University,  
Huntington Avenue and  
Forsyth Street, Forsyth Hall,  
Room 201

MICHIGAN

Detroit

Detroit College of Business,  
Oakman Boulevard at Michigan  
Avenue, Room 208

MINNESOTA

Minneapolis

The Radisson South Hotel,  
7800 Normandale Blvd.,  
Minneapolis, MN

MISSOURI

Kansas City

Rockhurst College, 5225 Troost,  
Sedgwick Hall, Room 207

St. Louis

Washington University, Forsythe  
Street, Eads Hall, Room 102 & 201

NEBRASKA

Lincoln

University of Nebraska, 33rd and  
Holdredge Streets, Nebraska Center,  
2nd Floor Lobby

NEVADA

Las Vegas

University of Nevada at Las Vegas,  
Wright Hall, Room 116

NEW YORK

New York City

New York University, 100 Trinity  
Place, C. Walter Nichols Hall,  
Report to lobby for room assignment

Rochester

University of Rochester, Testing  
Services, Gavett Hall, Room 306

NORTH CAROLINA

Charlotte

Central Piedmont Community College,  
Terrell Administration Bldg., Room 500

OHIO

Cleveland

Cleveland State University, Main  
Classroom, #104, 2121 Euclid Avenue

OREGON

Portland

University of Portland, 5000 N.  
Williamette Blvd., Columbia Hall,  
Rooms 101 & 102

PENNSYLVANIA

Philadelphia

Drexel University, Creese Hall,  
33rd & Chestnut, Room 4016

Pittsburgh

Duquesne University, 600 Forbes  
Ave., Rockwell Hall, Rooms 502 & 503

TEXAS

Dallas

Southern Methodist University,  
Clements Hall, Room 102

Houston

University of Houston, Downtown  
Campus, One Main Street, M & M  
Bldg., Room 601

UTAH

Salt Lake City

University of Utah, Business Lecture  
Building, South Campus Drive, Room  
No. posted at entrance.

WASHINGTON

Seattle

University of Washington, Smith Hall,  
Room 205. Parking entrance at 15th  
Avenue, Northeast & N.E. 40th

WISCONSIN

\*Milwaukee

Marriott Inn, 375 South Moorland  
Road, Brookfield, Wisconsin

\*Sessions in Milwaukee will be held at 8:00 A.M., 10:00 A.M. and 1:00 P.M. only.

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

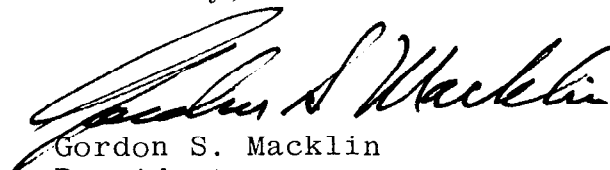
December 14, 1981

TO: ALL NASD Members  
RE: 1982 Schedule of Holidays

Listed below is the NASD 1982 Schedule of Holidays.

January 1, Friday	New Year's Day
February 15, Monday	Washington's Birthday Observed
April 9, Friday	Good Friday
May 31, Monday	Memorial Day Observed
July 5, Monday	Independence Day Observed
September 6, Monday	Labor Day
November 25, Thursday	Thanksgiving Day
December 24, Friday	Christmas Day Observed

Sincerely,

  
Gordon S. Macklin  
President

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

December 14, 1981

TO: All NASD Members and Municipal Securities Bank Dealers  
ATTN: All Operations Personnel  
RE: Holiday Settlement Schedule

Securities markets and the NASDAQ System will be closed on Christmas Day, Friday, December 25, 1981, and New Year's Day, Friday, January 1, 1982. "Regular-way" transactions made on the business days immediately preceding these days will be subject to the schedule below.

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

<u>Trade Date</u>	<u>Settlement Date</u>	<u>*Regulation T Date</u>
December 18, 1981	December 28, 1981	December 30, 1981
21	29	31
22	30	January 4, 1982
23	31	5
24	January 4, 1982	6
25	Securities Markets Closed	-
28	5	7
29	6	8
30	7	11
31	8	12
January 1, 1982	Securities Markets Closed	-
4	11	13

\* 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 (7) business days of the date of purchase or, pursuant to Section 4(c)(6), make application to extend the time period specified. The date by which members must take such action for the trade dates indicated is shown in the column entitled "Regulation T Date."

The foregoing 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 concerning the application of this Notice may be directed to the Uniform Practice Department of the NASD at (212) 938-1177.

\* \* \* \* \*

NOTICE TO MEMBERS 81-55  
Notice to Members should be  
retained for future reference.

# **NASD**

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

December 14, 1981

TO: All NASD Members and Interested Persons

RE: CRD State Renewals

ATTENTION: REGISTRATION AND COMPLIANCE PERSONNEL

REMINDER: Renewal fees and certification forms must be received on or before December 21, 1981. Do not adjust your renewal fee. You must pay the exact amount of the invoice.

Failure to submit the check and certification forms (if any) by December 21, 1981, will result in the expiration of State Licenses for a member's Agents on December 31, 1981.

NOTICE TO MEMBERS 81-56  
Notices to Members should be  
retained for future reference.

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

December 14, 1981

TO: All NASD Members, NASDAQ Issuers and Other Interested Parties

RE: Proposed Reporting Procedures for Transactions  
in NASDAQ National Market System Securities

The Association's Board of Governors is publishing for comment a proposed new Part XIV of Schedule D under Article XVI of the By-Laws which contains transaction reporting procedures for transactions in securities designated as NASDAQ/National Market System Securities pursuant to SEC Rule 11Aa2-1. After the comment period has expired, the Board of Governors will again review the proposals, taking into consideration the comments received, and will thereafter submit the proposal, as may be amended in response to comments received, to the Securities and Exchange Commission for approval.

The Securities and Exchange Commission has mandated real time transaction reporting for certain NASDAQ securities designated as national market system securities under SEC Rule 11Aa2-1. Transaction reporting is expected to commence on March 1, 1982 with approximately 50 securities designated under the Rule as "Tier I securities". The number of securities designated, and thus subject to transaction reporting, will subsequently be expanded to include securities designated as "Tier II securities" upon application of the issuer. The Board of Governors is in the process of developing a phasing schedule for the implementation of Tier II NASDAQ/NMS securities so that all NASDAQ/NMS Tier II securities will not immediately become subject to transaction reporting on the scheduled effective date of August 1, 1982. Upon approval by the Board of Governors, this phasing schedule will be filed with the SEC for approval.

The attached transaction reporting procedures will be applicable to NASDAQ/National Market System securities. The proposed procedures are substantially similar to those applicable to reporting of transactions in listed securities to the Consolidated Tape contained in Schedule G of the Association's By-Laws. Section 1 contains definitions of terms. Section 2 (Transaction Reporting) contains the procedures for reporting. Paragraph (a) of Section 2 details the timing and mechanics of reporting transactions; paragraph (b) specifies which party reports the transaction; paragraph (c) lists the information to be included in each report; and paragraph (d) describes the method of determining the price and volume to be reported in various types of transactions, with examples provided for illustration.



Primary responsibility for transaction reporting in a particular NASDAQ/NMS security will rest with the registered market makers in that security who will report all transactions between themselves and non-market makers. In transactions between two registered market makers the "sell" side of the transaction shall report. A summary chart of reporting requirements is also attached. It is important to note that the proposed procedures will be applicable to all NASD members regardless of whether they are registered market makers in NASDAQ/NMS securities.

The proposed procedures also include an exception from the real-time reporting requirement for certain non-market makers. If a non-market maker's total transactions in NASDAQ/NMS designated securities does not exceed 1,000 shares and \$25,000 in a trading day, he will be permitted to report his transactions weekly to the NASDAQ Department in New York City. The exception was established by the Board in recognition of the fact that some members execute only occasional reportable transactions.

Transaction reporting may be accomplished through NASDAQ terminals, by telephone, Telex or TWX and must be done within 90 seconds of the transaction or be designated as "late". Transactions executed through the Computer Assisted Execution System ("CAES") will be reported by the system and will require no additional action by the member. NASDAQ/NMS designated securities will be eligible for inclusion in CAES with the commencement of transaction reporting.

It should be noted that reports of NASDAQ/NMS securities transactions will not appear on either Tape A or Tape B of the Consolidated Tape; rather, they will be disseminated by vendors of securities information and will be available on a real time basis on desk top retrieval devices available to members upon subscribing for such service with the vendors. Subscriptions for such service will also require the execution of a contract with the NASD.

Comments regarding the proposed reporting procedures should be submitted no later than January 14, 1982 and should be directed to:

S. William Broka, Secretary  
National Association of Securities  
Dealers, Inc.  
1735 K Street, N.W.  
Washington, D.C. 20006

Questions regarding this Notice should be directed to Donald Heizer or Ralph Peregoy at (202) 833-7169.

Sincerely,



Gordon S. Macklin  
President

Text of New Part XIV of  
Schedule D under Article XVI  
of The By-Laws

SCHEDULE D  
XIV  
Reporting Transactions in NASDAQ National Market  
System Designated Securities

This Part has been adopted pursuant to Article XVI of the Corporation's By-Laws and applies to the reporting by all members of transactions in NASDAQ/National Market System securities ("designated securities") through the Transaction Reporting System. These securities have been designated pursuant to the "National Market System Securities Designation Plan With Respect to NASDAQ Securities" ("Plan") which has been approved by the Securities and Exchange Commission pursuant to Rule 11Aa2-1.

Section 1 -- Definitions

(a) Terms used in this Part shall have the meaning as defined in the Association's By-Laws and Rules of Fair Practice, Rule 11Aa2-1 and the Plan, unless otherwise defined herein.

(b) "Transaction Reporting System" means the transaction reporting system for the reporting and dissemination of last sale reports in designated securities.

(c) "Registered Reporting Market Maker" means a member of the Association which is registered as a NASDAQ market maker in a particular designated security. A member is a Registered Reporting Market Maker in only those designated securities for which it is registered as a NASDAQ market maker. A member shall cease being a Registered Reporting Market Maker in a designated security when it has withdrawn or voluntarily terminated its quotations in that security or when its quotations have been suspended or terminated by action of the Corporation.

(d) "Non-Registered Reporting Member" means a member of the Association which is not a Registered Reporting Market Maker.

Section 2 -- Transaction Reporting

(a) When and How Transaction Reported

(1) Registered Reporting Market Makers shall transmit through the Transaction Reporting System, within 90 seconds after execution, last sale reports of transactions in designated securities executed during the hours of the Transaction Reporting System. Transactions not reported within 90 seconds after execution shall be designated as late.

(2) Non-Registered Reporting Members shall transmit through the Transaction Reporting System, or if such System is unavailable, via Telex, TWX or telephone to the NASDAQ Department in New York City, within 90 seconds after execution, last sale reports of transactions in designated securities executed during the trading hours of the Transaction Reporting System unless all of the following criteria are met:

(A) The aggregate number of shares of designated securities which the member executed and is required to report during the trading day does not exceed 1,000 shares; and

(B) The total dollar amount of shares of designated securities which the member executed and is required to report during the trading day does not exceed \$25,000; and

(C) The member's transactions in designated securities have not exceeded the limits of (A) or (B) above on five or more of the previous ten trading days.

Transactions not reported within 90 seconds after execution shall be designated as late. If the member has reason to believe its transactions in a given day will exceed the above limits, it shall report all transactions in designated securities within 90 seconds after execution; in addition, if the member exceeds the above limits at any time during the trading day, it shall immediately report and designate as late any unreported transactions in designated securities executed earlier that day.

(3) Non-Registered Reporting Members shall report weekly to the NASDAQ Department in New York City, on a form designated by the Board of Governors, last sale reports of transactions in designated securities which are not required by paragraph (2) to be reported within 90 seconds after execution.

(4) All Members shall report weekly to the NASDAQ Department in New York City, on a form designated by the Board of Governors, last sale reports of transactions in designated securities executed outside the trading hours of the Transaction Reporting System.

(5) All trade tickets for transactions in designated securities shall be time-stamped at the time of execution.

(b) Which Party Reports Transaction

(1) In transactions between two Registered Reporting Market Makers, only the member representing the sell side shall report.

(2) In transactions between a Registered Reporting Market Maker and a Non-Registered Reporting Member, only the Registered Reporting Market Maker shall report.

(3) In transactions between two Non-Registered Reporting Members, only the Member representing the sell side shall report.

(4) In transactions between a member and a customer, the member shall report.

(c) Information To Be Reported

Each last sale report shall contain the following information:

- (1) NASDAQ symbol of the designated security;
- (2) Number of shares (odd lots shall not be reported);
- (3) Price of the transaction as required by paragraph (d) below.

(d) Procedures for Reporting Price and Volume

Members which are required to report pursuant to paragraph (b) above shall transmit last sale reports for all purchases and sales in designated securities in the following manner:

- (1) For agency transactions, report the number of shares and the price excluding the commission charged.

Example: SELL as agent 100 shares at 40  
plus a commission of \$12.50;  
REPORT 100 shares at 40.

- (2) For dual agency transactions, report the number of shares only once, and report the price excluding the commission charged.

Example: SELL as agent 100 shares at 40  
plus a commission of \$12.50;  
BUY as agent 100 shares at 40 less  
a commission of \$12.50;  
REPORT 100 shares at 40.

- (3) For principal transactions, except as provided below, report each purchase and sale transaction separately and report the number of shares and the price. For principal transactions which are executed at a price which includes a mark-up, mark-down or service charge, the price reported shall exclude the mark-up, mark-down or service charge. Such reported price shall be reasonably related to the prevailing market, taking into consideration all relevant circumstances including, but not limited to, market conditions with respect to the security, the number of shares involved in the transaction, the published bids and offers with size at the time of the execution (including the reporting firm's own quotation), the cost of execution and the expenses involved in clearing the transaction.

Example: BUY as principal 100 shares from another member at 40 (no mark-down included).  
REPORT 100 shares at 40.

Example: BUY as principal 100 shares from a customer at 39 7/8, which includes a 1/8 mark-down from prevailing market of 40;  
REPORT 100 shares at 40.

Example: SELL as principal 100 shares to a customer at 40 1/8, which includes a 1/8 mark-up from the prevailing market of 40;  
REPORT 100 shares at 40.

Example: BUY as principal 10,000 shares from a customer at 39 3/4, which includes a 1/4 mark-down or service charge from the prevailing market of 40;  
REPORT 10,000 shares at 40.

Exception:

A "riskless" principal transaction in which a member that is not a market maker in the security after having received from a customer an order to buy, purchases the security as principal from another member or customer to satisfy the order to buy or, after having received from a customer an order to sell, sells the security as principal to another member or customer to satisfy the order to sell, shall be reported as one transaction in the same manner as an agency transaction, excluding the mark-up or mark-down.

Example: SELL as principal 100 shares to another member at 40 to fill an existing order;  
BUY as principal 100 shares from a customer at 40 minus a mark-down of \$12.50;  
REPORT 100 shares at 40.

(e) Transactions Not Required To Be Reported

The following types of transactions shall not be reported:

- (1) transactions executed through the Computer Assisted Execution System ("CAES");
- (2) odd-lot transactions;
- (3) transactions which are part of a primary distribution by an issuer or of a registered secondary distribution (other than "shelf distributions") or of an unregistered secondary distribution;
- (4) transactions made in reliance on Section 4(2) of the Securities Act of 1933;

(5) transactions where the buyer and seller have agreed to trade at a price substantially unrelated to the current market for the security, e.g., to enable the seller to make a gift;

(6) purchases or sales of securities effected upon the exercise of an option pursuant to the terms thereof or the exercise of any other right to acquire securities at a pre-established consideration unrelated to the current market.

SUMMARY OF PROVISIONS GOVERNING MEMBERS' REQUIREMENT TO REPORT

TRANSACTIONS IN NASDAQ/NMS DESIGNATED SECURITIES

Chart I - General Reporting Requirements  
Under Section 2(b)

Member	Transaction	Member Reports When Contra-Party Is		
		<u>Registered Reporting Market Maker</u>	<u>Non-Registered Reporting Member</u>	<u>Customer</u>
Registered Reporting Market Maker	buys from:	No	Yes	Yes
	sells to:	Yes	Yes	Yes
Non-Registered Reporting Member	buys from:	No	No	Yes
	sells to:	No	Yes	Yes

Chart II - Reporting Requirements for "Riskless" Transactions by Non-Registered  
Reporting Members as Defined in Section 2(d)(3)

Member	Transaction	Member Reports When Contra-Party Is		
		<u>Registered Reporting Market Maker</u>	<u>Non-Registered Reporting Member</u>	<u>Customer</u>
Non-Registered Reporting Member	buys from customer and sells to:	No	Yes	Yes
	sells to customer and buys from:	No	No	Yes