

NOTICE TO MEMBERS: 82-43  
Notices to Members should  
be retained for future  
reference.

**NASD**

National Association of  
Securities Dealers, Inc.  
1735 K Street, N.W.  
Washington, D.C. 20006  
(202) 728-8000

July 28, 1982

TO: All NASD Members, Trading Departments and Branch Offices

RE: Additional NASDAQ/NMS Securities Subject to Real Time Transaction  
Reporting Effective August 9, 1982

Real time transaction reporting began on April 1, 1982 for NASDAQ securities designated as NASDAQ/NMS Tier 1 securities, pursuant to SEC Rule 11Aa2-1. This Rule also requires that the NASD perform a review of all NASDAQ securities at the end of each calendar quarter to determine whether additional securities shall be mandated as NASDAQ/NMS securities.

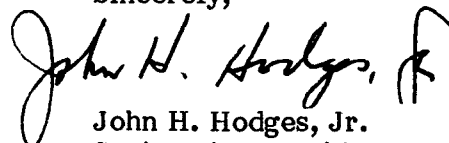
Thirteen additional securities qualified for designation as NASDAQ/NMS securities as a result of the analysis conducted as of June 30, 1982. Accordingly, real time transaction reporting will commence for the following issues effective August 9, 1982:

Betz Laboratories, Inc.  
Central Louisiana Electric Company, Inc.  
Chart House, Inc.  
Chi Chi's, Inc.  
Comprehensive Care Corporation  
Convergent Technologies, Inc.  
Digital Switch Corporation  
I.M.S. International, Inc.  
Pioneer Hi-Bred International, Inc.  
Pizza Time Theatre, Inc.  
Tony Lama Company, Inc.  
U.S. Bancorp  
Yellow Freight System, Inc.

A complete list of the Tier 1 issues is attached.

Questions regarding the Tier 1 criteria should be directed to Gary W. Guinn, Assistant Director, NASDAQ Operations, at (202) 728-8052. Questions pertaining to the trade reporting rules should be directed to Don Heizer at (202) 728-8201 or (202) 728-8204.

Sincerely,



John H. Hodges, Jr.  
Senior Vice President  
NASD Market Services, Inc.

**TIER 1 LIST OF THE  
NASDAQ NATIONAL MARKET SYSTEM**

Academy Insurance Group, Inc.  
Amarex, Inc.  
American Greetings Corporation  
American International Group  
Apple Computer, Inc.  
Avantek, Inc.  
\* Betz Laboratories, Inc.  
CPT Corporation  
\* Central Louisiana Electric Company, Inc.  
Cetus Corporation  
\* Chart House, Inc.  
\* Chi Chi's, Inc.  
Chubb Corp. (The)  
Color Tile, Inc.  
\* Comprehensive Care Corp.  
\* Convergent Technologies, Inc.  
Cross and Trecker Corp.  
\* Digital Switch Corporation  
Economics Laboratory, Inc.  
El Paso Electric Company  
Farmers Group, Inc.  
Flagship Banks, Inc.  
Graphic Scanning Corporation  
Hadson Petroleum Corporation  
\* I.M.S. International, Inc.  
ISC Systems Corporation  
Intel Corporation  
Intergraph, Inc.  
Intermedics, Inc.  
Jerrico, Inc.  
Life Investors, Inc.  
MCI Communications Corporation

- May Petroleum Inc.
  - McRae Consolidated Oil & Gas, Inc.
  - Millipore Corporation
  - National Data Corporation
  - Network Systems Corporaton
  - Nicklos Oil & Gas Company
  - Nike, Inc.
  - Oceaneering International, Inc.
  - Pabst Brewing Company
  - Pay 'N Save Corp.
  - \* Pioneer Hi-Bred International, Inc.
  - \* Pizza Time Theatre, Inc.
  - Reeves Communications Corp.
  - Roadway Express, Inc.
  - Seagate Technology
  - Service Merchandise Company, Inc.
  - St. Paul Companies, Inc.
  - Sykes Datatronics, Inc.
  - Tampax, Inc.
  - Tandem Computers, Inc.
  - Tandon Corporation
  - Tipperary Corporation
  - Tom Brown, Inc.
  - \* Tony Lama Company, Inc.
  - Trans-Western Exploration, Inc.
  - Triad Systems Corp.
  - \* U.S. Bancorp
  - United States Surgical Corp.
  - \* Yellow Freight System, Inc.
- \* Effective August 9, 1982

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# NASD MARKET SERVICES, INC.

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1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

TO: All NASD Members

ATTN: Operations Principals/P & S Department  
Managers/NASDAQ Subscribers

DATE: July 29, 1982

RE: Trade Acceptance and Reconciliation Service (TARS)

The Board of NASD Market Services, Inc. is pleased to announce that the Trade Acceptance and Reconciliation Service (TARS), a new system which will improve substantially the reconciliation processing of uncomparated trades, will soon be available to NASD members.

In its initial Phase I stage, TARS will assist the industry in resolving uncomparated trades processed through the OTC Comparison Services of participating clearing corporations by use of the on-line facilities of NASDAQ terminals and printers.

The Board believes that the TARS System will be of interest to virtually all members active in the Over-the-Counter market since it provides a fast and effective method for reducing the risks attendant to uncomparated trades and reduces the cost and effort that must be expended to correct trade differences.

In its later stage, Phase II, TARS will be expanded to accommodate the reporting of original trade data to the clearing corporations for comparison so that firms not now reporting trades will have a reporting mechanism. A detailed description of the TARS Service is enclosed and should be reviewed carefully.

Start-up of TARS is scheduled for the fourth (4th) quarter of 1982 and may be requested now by NASD members meeting all of the following requirements:

- execute and/or clear over-the-counter trades;
- have an existing NASDAQ terminal(s) and at least one (1) associated line printer or order such equipment for the purpose of using TARS;
- are members of, or plan to join, a clearing corporation which participates in the TARS Service.

Because of the extensive lead time required for manufacturing and installing the equipment and procuring communications lines, together with the time that will be needed to train TARS subscribers, the Board has determined that preference in the allocation of available equipment and in the training of personnel will be given to firms that complete and return the enclosed "TARS Service Request Form" by August 20, 1982. Equipment needs should be based on your firm's systems' requirements and whether any existing (or previously ordered) terminals and printers used for CAE, NASDAQ, or CQS services will be available and appropriately located in your offices for receiving TARS. The same equipment used for these other NASDAQ services can be utilized for TARS. Also please note that if additional terminals are ordered, a selection must be made on the Form between the NASDAQ terminal keyboard and a standard typewriter keyboard.

#### TARS SERVICE AND EQUIPMENT CHARGES

The cost of TARS to firms that will use an existing NASDAQ terminal(s) and printer(s) and do not order additional equipment is as follows:

TARS Service Charge: \$25/month per terminal

Transaction Charges:

Query/response - \$.05 per message  
Trade correction - \$.10 per message

In the event a terminal and/or printer must be installed for receiving TARS, the equipment charges, which are in addition to the Service and Transaction Charges, are as follows:

Terminal - \$180/month for first terminal at a location

\$125/month for second and subsequent  
terminals at a location

Printer - \$125/month (a single printer may support  
several terminals)

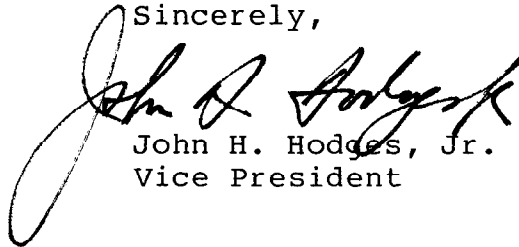
There is a one-time charge for installation of terminals and printers.

Please have the enclosed "TARS Service Request Form" completed by an officer of your firm whether or not TARS is desired and forwarded to John Abbott, Controller, NASD Market Services, Inc., 1735 K Street, N.W., Washington, D.C. 20006.

Questions pertaining to the TARS Service and the Description accompanying this Notice may be directed to James Yore at (212) 839-6257.

\* \* \*

Sincerely,

A handwritten signature in black ink, appearing to read "John H. Hodges, Jr.", written in a cursive style.

John H. Hodges, Jr.  
Vice President

Enclosures

TARS SERVICE REQUEST FORM

(Please check appropriate boxes)

TO: John T. Abbott, Controller  
NASD Market Services, Inc.  
1735 K Street, N.W.  
Washington, D.C. 20006

YES we request TARS Service.

We understand and agree to the charges set forth for the TARS Service of \$25 per month per terminal and \$.05 per query request and \$.10 per update and that we are responsible for obtaining any additional supplies relating to the equipment such as paper, ribbon, printer, or terminal stands, etc.

We do not require additional equipment.

We request TARS Service on one or more of our existing terminal(s) and/or printer(s).

Number of existing terminals to receive TARS \_\_\_\_\_, located as follows (Please indicate exact locations, floor, etc. including contact name at each location.):

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Number of existing printers to receive TARS \_\_\_\_\_, located as follows (Please indicate exact locations, floor, etc. including contact name at each location.):

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We hereby order the equipment indicated on the reverse side of this form for our participation in TARS.

We understand that there is a one-year commitment on the equipment we are ordering as follows: \$180 per month for the terminal if it is the first terminal at the location; \$125 per month per terminal if it is a second or additional terminal at the location; and \$125 per month for each printer ordered. There will be a one time charge for installing the requested equipment.

Number of new terminals requested \_\_\_\_\_, to be located as follows  
(Please indicate exact location, floors, etc. including contact name  
at each location.):

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Number of Regular NASDAQ Keyboards \_\_\_\_\_  
Number of Standard Typewriter Keyboards \_\_\_\_\_

Number of new printers requested \_\_\_\_\_, located as follows (Please  
indicate exact locations, floor, etc. including contact name at each  
location.):

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Please indicate below:

Estimated number of OTC trades:

minimum \_\_\_\_\_ maximum \_\_\_\_\_

Estimated number of OTC advisories/supplementals:

minimum \_\_\_\_\_ maximum \_\_\_\_\_

NO we do not desire to participate in TARS at this time.

ON BEHALF OF:

\_\_\_\_\_  
Firm Name (Please Type)

\_\_\_\_\_  
Officer in Charge of Operations

\_\_\_\_\_  
Street Address

\_\_\_\_\_  
Signature

\_\_\_\_\_  
City/State

\_\_\_\_\_  
Telephone Number



July 29, 1982

## Background and Description

### Trade Acceptance and Reconciliation Service

(TARS)

#### Background

OTC clearing has been automated for over a decade with numerous improvements made during the intervening years. Notwithstanding these major improvements in trade clearance and settlement, uncompare rates of 10 to 12% as of Trade date exist during normal volume and significantly higher percentages occur during periods of peak volume.

Another factor which complicates the clearing of OTC trades is the group of trades which must be settled outside of a clearing corporation, either because one or both sides are not members of a clearing corporation or because the trade is not eligible for processing through the clearing corporation. Trades settled outside a clearing corporation must be settled on a trade-for-trade basis directly between the firms involved in the transactions either through the mail or by making deliveries and payments over the window. This is an expensive, time consuming process which results in significant problems in reconciling uncomparing trades.

In light of these factors, the NASD Board requested that NASD Market Services, Inc. develop facilities to improve trade comparison of OTC securities. Consequently, a Trade Acceptance and Reconciliation Service (TARS) is being developed as an on-line facility which will assist the industry in reconciling and resolving uncomparing trades. The service is for the use of members of all clearing corporations which offer OTC comparison services. All transactions cleared through these clearing corporations will be eligible for reconciliation through TARS.

General Description - TARS Phase I

The TARS Phase I System will operate as follows:

1. All original trade information will continue to be reported to the clearing corporations on T + 1. The clearing corporations will continue to perform trade comparison and generate hard copy output to their respective members.
2. The clearing corporations, however, will also transmit the results of the comparison process to TARS.
3. TARS will build a database containing all the information on the contract sheets from the comparison records received from the clearing corporations.
4. TARS subscribers using NASDAQ terminals and associated printers will then be provided with the following on-line access to the TARS database on T + 2.
  - a. Ability to query, on a selective or complete basis, trades which are within the settlement period. Example queries:
    1. Reconciliation Query
    2. Outstanding Securities Summary
    3. Regular Contract Totals
    4. When-Issued Contract Totals
    5. Rejected Trades
    6. Activity File
    7. On-Line Totals
  - b. Ability to act on (update) any advisory trade record issued as a result of the last clearing comparison processing cycle by:
    1. Accepting Advisories
    2. Accepting, Rejecting, Partially Accepting or DKing Demand Advisories
  - c. Ability to add supplementary trade records to be processed in the next clearing comparison cycle such as:
    1. As-Of's
    2. Withholds
    3. Demand As-Of's
    4. Delete Demand As-Of's

5. As a result of actions taken by subscribers, the TARS System will:
  - a. Immediately notify all the TARS subscribers involved in a trade that a trade record has been acted on through TARS by generating a print out of the updates and additions on the firms' printers. The database is updated immediately so that the entry is reflected on any additional queries during that day.
  - b. Maintain totals of all actions taken by the subscriber and by contra-parties on trade records during the day.
  - c. Maintain totals of all outstanding unresolved, uncomparred and advisory trade records. These totals are also adjusted by any contra-party actions.
  - d. Automatically transmit all updates and adds to the clearing corporations at the appropriate time each day for inclusion in the next comparison processing cycle, thus eliminating the need for subscribers to make a separate submission of these actions directly to the clearing corporations.
  
6. In addition to the above, the following features will be available in TARS:
  - a. Ability to set a subscriber defined "memo flag" to any unresolved, uncomparred or advisory trade record.
  - b. Ability to identify Executing Brokers that clear through more than one Clearing Broker.
  - c. Ability to identify Clearing Brokers that do processing work only for other Clearing Brokers.
  - d. On-line validation of most data fields by TARS, to make information being transmitted to the clearing corporations as error free as possible.

In brief, TARS Phase I provides a facility for on-line trade reconciliation which allows both sides of an unresolved trade to view the uncomparing and advisory results through their terminals and to enter corrections directly through these terminals. All updates and corrections are automatically transmitted each day to the clearing corporations, thereby eliminating the need to prepare and submit trade correction tickets separately to the clearing corporations. Actions taken by the contra-party on unresolved trade records are made known to the subscriber on-line, via the printers, thus reducing the amount of telephone interaction.

TARS service is expected to be in operation each business day from 8:00 a.m. to 6:00 p.m. during which time all queries, updates and additions will be permitted. This substantially expands the time allowed to take action on unresolved trades as compared to the deadlines currently established by the clearing corporations.

#### General Description - TARS Phase II

During Phase II, which is expected to be available during 1983, TARS will provide subscribers with the ability to enter original trade data for comparison by the clearing corporations. In addition, TARS Phase II will:

1. Print contract sheets and receive and deliver tickets on subscribers' printers.
2. Connect TARS with the CAE System so that all CAE trades will be automatically transmitted to a clearing corporation.
3. Connect TARS to the trade reporting systems so that non-CAE trades may be automatically transmitted to a clearing corporation.
4. Expand TARS capabilities so that trades may be entered for transmission to a clearing corporation through a variety of devices, e.g., IBM 3270 compatible terminals, Telex, TWX, teletype and computer to computer interfaces.

In sum, it is anticipated that the TARS System will become basic to the operations of all firms effecting transactions in the NASDAQ and Over-the-Counter securities markets.

**NASD**

**National Association of  
Securities Dealers, Inc.**  
1735 K Street, N.W.  
Washington, D.C. 20006  
(202) 728-8000

August 12, 1982

**I M P O R T A N T**

**MAIL VOTE**

Officers \* Partners \* Proprietors

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

**RE: Proposed Amendments to Article III, Section 28 of the Rules of Fair Practice**

**Proposed Technical Amendments to Article III, Section 10 of the Rules of  
Fair Practice**

**Proposed Deletion of Article I, Section 13 of the By-Laws**

**LAST VOTING DATE IS SEPTEMBER 13, 1982**

Enclosed herewith are proposed amendments to Article III, Sections 10 and 28 of the Rules of Fair Practice, and a proposed deletion of Article I, Section 13 of the By-Laws. With the exception of the proposed amendments to Section 28, the proposed changes are technical in nature. These proposals have been approved by the Association's Board of Governors and therefore now require approval by the membership. If approved, they must be filed with and approved by the Securities and Exchange Commission pursuant to Section 19(b) of the Securities Exchange Act of 1934, as amended. As outlined below, the proposed amendments to Section 28 were published for member comment on April 1, 1982 (Notice to Members 82-21).

The authority for these proposals is contained in Section 15A of the Securities Exchange Act of 1934, as amended, (15 U.S.C. §78o-3) and Article VII and IX of the Association's By-Laws.

Background and Explanation of Proposals

Article III, Section 28, Rules of Fair Practice

Article III, Section 28 of the Rules of Fair Practice addresses the responsibilities of members to avoid adversely effecting the interests of other members when executing transactions for persons associated with the other members (employer members). It requires written notice to "employer members" as well as the provision of duplicate confirmations and/or statements, if requested.

The proposed amendments are intended to accomplish several distinct results. First, the Rule would be amended to apply to transactions or accounts over which associated persons exercise discretion, as well as accounts in which such associated persons have a financial interest. For example, an account for a relative of a registered representative of another member would be subject to the reporting requirements if the registered representative placed the orders for the account.

Secondly, the Rule would specify an affirmative obligation on persons associated with another member to notify the "executing member" of such association. This would facilitate compliance by the executing members with the notification requirements of Section 28, as well as the "Free-Riding and Withholding" Interpretation as well as the requirement, in Article III, Section 21(b) of the Rules of Fair Practice, that such association or employment be recorded on customer accounts. The amended Rule would specify that this notification requirement applies even if the associated person has another occupation or affiliation. The amended Rule would also make clear that the notification requirement applies to accounts which exist at the time the person becomes associated with a member, as well as to new accounts.

Third, the Rule would be amended to provide an exemption from the notification requirements for transactions in variable contracts or redeemable securities of registered investment companies (e.g. mutual funds and unit investment trusts). It does not appear that such transactions present the same potential for adverse impact on an employer member as might exist with respect to other transactions and the notification requirement appears to be unnecessarily burdensome with respect to such transactions.

Finally, in accordance with the Association's continuing project of updating rules and codifying interpretations, the proposed amendments would incorporate the basic provisions of the Board of Governors' existing Interpretation of Section 28, which Interpretation would be repealed.

Comments Received

Three comment letters were received from members on the proposed amendments, one of which was subsequently withdrawn. One member suggested that representatives of firms specializing in certain areas, such as mutual funds and direct participation programs, be exempted from the reporting requirements of Section 28. The Board had previously considered the possibility of such an exemption and had decided against it since all representatives are subject to prohibitions against "Free-Riding" and other practices and it is very difficult to carve out a limited group of such representatives.

Another member questioned whether the reporting requirements of the Board's Private Securities Transaction Interpretation need be applied to transactions in variable contracts or investment company securities. Since the current exemption for such transactions from the Private Securities Transaction Interpretation is directly tied to reporting under Section 28, elimination of the Section 28 requirement as proposed would negate the current exemption in the Interpretation. The Board believes this comment to have merit and has therefore decided to amend the Private Securities Transaction Interpretation to add a specific exemption for transactions in variable contracts or redeemable investment company securities. This amendment will take effect coincident with the effectiveness of the amendments to Section 28. The adoption of such an exemption does not, of course, prohibit a member from having its own internal policy requiring its representatives to report any transaction executed outside the firm.

#### Article III, Section 10, Rules of Fair Practice

Article III, Section 10 of the Rules of Fair Practice provides that no member or associated person shall give or permit to be given anything of value in excess of \$25 per person per year to another person when the payment or gratuity is in relation to the business of the employer of the recipient of the payment or gratuity. The proposed amendment would raise the limit from \$25 to \$50 per person per year. This limit has not been changed since 1969, and it was believed that because of inflation it was appropriate to raise the limit. The amendment would further conform the limit to current exchange requirements, thus avoiding inconsistent limitations for dual members.

#### Article I, Section 13, By-Laws

On March 12, 1981, a revised Code of Procedure was published for comment. This revised Code was designed to conform the language to certain statutory changes and to reflect more accurately current policies. It would also codify into one Code of Procedure all procedural provisions governing disciplinary matters, NASDAQ matters and qualification deficiencies which are now found in various sections of the NASD Manual in the Association's By-Laws, Rules of Fair Practice and Code of Procedure for Handling Trade Practice Complaints. The Board of Governors subsequently approved the Code of Procedure which was filed with the Securities and Exchange Commission for approval in March 1982. The only provision in the Code of Procedure incorporated directly from the By-Laws is Article I, Section 13 entitled "Membership Continuance Proceeding." Thus, when the Code of Procedure is declared effective by the Commission Article I, Section 13 becomes redundant. The Commission staff believes a membership vote should be held to delete Article I, Section 13 before the Code of Procedure is presented to the Commission. Assuming approval, a filing deleting this By-Law provision would then be made with the Commission. It is expected that at the same time the Commission approves the Code of Procedure it will also approve the deletion of the By-Law, thus avoiding the redundancy and any possible confusion.

The proposed amendments and the deletion of Article I, Section 13 of the By-Laws merit your immediate attention. Please mark the ballot according to your convictions and return it in the enclosed stamped envelope to "The Corporation Trust Company." Ballots must be postmarked no later than September 13, 1982.

The Board of Governors believes these proposals to be necessary and appropriate and recommends that members vote their approval.

Very truly yours,

S. William Broka  
Secretary



Text of Proposals

(New Material underlined; deleted material scored through)

Proposed Amendment to Article III, Section 28  
of the Rules of Fair Practice

Determine Adverse Interest

(a) A member (~~herein called an "executing member"~~) who knowingly executes a transaction for the purchase or sale of a security for the account of a partner, officer, registered representative or employee of person associated with another member (herein called an "employer member"), or for any account over which such associated person has discretionary authority, shall use reasonable diligence to determine that the execution of such transaction will not adversely affect the interests of the employer member.

Obligations of Executing Member

The obligations implicit in the preceding paragraph may be fulfilled by an ~~executing member requesting instruction from an employer member at any time prior to the execution of such a transaction with respect to~~

- (1) ~~the giving of notice, or~~
- (2) ~~the mailing or delivery of duplicate confirmations or statements to such employer member relating to~~
  - (a) ~~such transaction individually, or~~
  - (b) ~~to such transactions generally~~

~~which instructions shall be followed.~~

Notice to employer member

An ~~executing member shall, prior to the execution of any such transactions, advise the person requesting such execution of the executing member's intent to give notice or information relating to such transaction to the employer member.~~

(b) Where an executing member knows that a person associated with an employer member has or will have a financial interest in, or discretionary authority over, any existing or proposed account carried by the executing member, the executing member shall:

- (1) notify the employer member in writing, prior to the execution of a transaction for such account, of the executing member's intention to open or maintain such an account;
- (2) upon written request by the employer member, transmit duplicate copies of confirmations, statements, or other information with respect to such account; and

- (3) notify the person associated with an employer member of the executing member's intention to transmit the information required by paragraphs (1) and (2) of this subsection (b).

#### Exemption for Transactions in Investment Company Shares

(c) The provisions of subsection (b) of this section shall not be applicable to transactions in variable contracts or redeemable securities of companies registered under the Investment Company Act of 1940, as amended, or to accounts which are limited to transactions in such securities.

#### Obligations of Person Associated with a Member

(d) A person associated with a member who opens an account or places an order for the purchase or sale of securities with any other member, shall, where such associated person has a financial interest in such transaction and/or any discretionary authority over such account, notify the executing member of his or her association with an employer member, regardless of any other function, capacity, employment or affiliation of such associated person. If the account is established prior to the association of such person with an employer member, the associated person shall notify the executing member promptly after becoming so associated.

#### **Interpretation of the Board of Governors**

##### **Transactions Effected for Personnel of Other Members**

The exercise of reasonable diligence by the executing member to determine that the execution of a transaction will not adversely affect the interest of the employer member is deemed to require that the executing member send notice promptly in writing to the employer member that the executing member proposes to open an account in the name of a partner, officer, registered representative or an employee of the employer member, or, where such an account is open on the date of this interpretation and notice has not been given to the employer member to this effect, the executing member shall send notice in writing, prior to executing a transaction, that it carries such an account for a partner, officer, registered representative, or employee of such employer member.

The above is not intended to limit in any way the obligation of the executing member under the rule to comply with the instructions of the employer member to send such member copies of confirmations of individual transactions, or of monthly statements, or of both or neither, depending on the instructions given.

#### Proposed Amendment to Article III, Section 10 Rules of Fair Practice

##### **Influencing or Rewarding Employees of Others**

Sec. 10 (a) No member or person associated with a member shall, directly or indirectly, give or permit to be given anything of value, including gratuities, in excess of ~~twenty-five (25)~~ fifty (50) dollars per individual per year to any person, principal, proprietor, employee, agent or representative of another person where such payment or gratuity is in relation to the business of the employer of the recipient of the payment of gratuity. A gift of any kind is considered a gratuity.

(b) This section shall not apply to contracts of employment with or be compensation for services rendered by persons enumerated in subsection (a) provided that there is in existence prior to the time of employment or before the services are rendered, a written agreement between the member and the person who is to be employed to perform such services. Such agreement shall include the nature of the proposed employment, the amount of the proposed compensation and the written consent of such person's employer or principal.

(c) A separate record of all payments or gratuities in any amount known to the member, the employment agreement referred to in subsection (b) and any employment compensation paid as a result thereof shall be retained by the member for the period specified by Rule 17a-4 of the General Rules and Regulations under the Securities Exchange Act of 1934.

Proposed Deletion of Article I, Section 13 of the By-Laws

**Membership Continuance Proceeding**

~~Sec. 13. (a) A member shall retain its membership in the Corporation only so long as the Board of Governors deems that it possesses all of the qualifications for membership, and a broker or dealer seeking membership may, if the Board of Governors deems it appropriate, be denied admission therein if it is subject to any of the disqualifications provided in this Article.~~

~~(b) If the Corporation has reason to believe there is a disqualification, the member or broker or dealer shall be promptly notified in writing of the specific grounds of such disqualification from or denial of membership. If it deems it appropriate, the Board of Governors may summarily cancel the membership of a member if it becomes subject to any of the disqualifications provided in this Article or if it continues to associate with a person who is subject to any of the same disqualifications.~~

~~(c) Any member or broker or dealer may make an application to the Corporation requesting continuance in or admission to membership notwithstanding the disqualification. If an application is filed with the Corporation, the applicant and any person whose association with the applicant gives or would give rise to the disqualification shall be given an opportunity to be heard with respect to the application and shall demonstrate why the application should be granted. If requested, or if directed by the Corporation, a hearing shall be held before a committee comprised of at least one member of the appropriate District Committee and at least one member of the Board of Governors, and a record shall be kept. Such committee shall make a recommendation as to the application which shall be forwarded to the Board of Governors together with the record.~~

~~(d) The Board of Governors shall make a written determination upon the record before it, setting forth therein the specific grounds upon which such determination is based and the conditions, if any, as to the continuance in or admission to membership it considers appropriate.~~

~~(e) The Board of Governors shall promptly notify the applicant of any action taken. When appropriate, an application shall be promptly filed with the Commission pursuant to Section 15A of the Act. Any applicant or person who is aggrieved by the action of the Board of Governors may make application for review of such action to the Commission pursuant to Section 15A of the Act.~~

**NASD**

**National Association of  
Securities Dealers, Inc.**  
1735 K Street, N.W.  
Washington, D.C. 20006  
(202) 728-8000

August 19, 1982

MEMORANDUM

To: All NASD Members

Re: Proposed New Rule of Fair Practice to Regulate the Activities  
of Members Experiencing Financial and/or Operational Difficulties

The Association's Board of Governors is publishing for comment a proposed new rule of fair practice as a means of regulating the activities of members experiencing financial and/or operational difficulties. Interested persons are advised that comments must be in writing and be received by the Association by September 20, 1982 in order to receive consideration. After the comment period has closed, the proposal will again be reviewed by the Board of Governors. Thereafter, the proposed rule will be submitted to the membership for vote. Upon the completion of such, if approved, the proposal will be submitted to the Securities and Exchange Commission for approval.

The Association also proposes to file an amendment to its revised Code of Procedure currently pending before the Securities and Exchange Commission to include notice and hearing procedures for the implementation of the rule proposed herein. The Board's intent is that the revised Code will consolidate all procedural provisions of the By-Laws and Rules of Fair Practice in one section of the NASD Manual. When the Code is approved, the procedural provisions in the By-Laws and Rules of Fair Practice, such as this procedure, will be eliminated.

## BACKGROUND OF PROPOSED RULE

At the suggestion of the Securities and Exchange Commission, the Association has developed a proposed new rule of fair practice which, in instances in which a member is experiencing financial and/or operational difficulties, would give the Association the authority to prescribe certain remedial courses of action which the member must follow. Conversations between the SEC and the Association on this subject were initiated some months ago by the SEC and were related to the Commission's announced intentions at that time to lower the minimum net capital requirement for alternate rule calculations under Rule 15c3-1 (the "net capital rule") from 4% to 2% of aggregate debit items from the Reserve Formula as computed in accordance with Rule 15c3-3 (the "customer protection rule"). The SEC reasoned that if it were to reduce the required level of net capital (as it has since done), there should be a corresponding increase, and not a decrease, in the ability of the Association and other SROs to respond in a timely manner to a deteriorating operational capability or financial condition of a member. The Association was therefore strongly encouraged by the SEC to develop a rule which would permit it to mandate action on the part of a member separate and apart from that required by the net capital rule. Also, the proposed rule is patterned after certain similar provisions in the rules of some of the stock exchanges. Those long-established rules are utilized by the exchanges as the vehicles for responding to financial and operational problems experienced by members.

In sum, the purpose of the proposal is to provide the Association with a more substantive regulatory framework from which it can implement a program of restrictions on the business activities of members who are in or approaching financial or operational difficulties which, if allowed to persist, would endanger the firm, the public or other members of the Association.

## DISCUSSION OF THE PROPOSAL

It has been the Association's experience that there are a number of reasons why firms experience financial and operational difficulties. Because of this and the fact that business practices may vary significantly from firm to firm, the number of possible remedial actions appropriate under the circumstances can vary widely. Therefore, the Association determined it would be impractical to identify all of the situations or practices for which it might choose to impose remedial actions or what those actions might be. However, to provide some measure of understanding in terms of the intent of the Board in developing the rule, the Association is simultaneously publishing an Explanation of the Board of Governors, entitled "Restrictions on a Member's Activity." This Explanation has been designed as a companion piece to the proposed rule. The Explanation includes both examples of the conditions that might cause the Association to determine a member is in or approaching financial and/or operational difficulties and the types of remedial actions it might choose to direct.

The proposed rule consists of three main parts as set forth in subsections (a), (b), and (c). Subsection (a) would restrict a member from expanding its business whenever certain early warning financial criteria relating to minimum net capital, ratio requirements and/or scheduled capital withdrawals are exceeded. Subsection (b), would require a member to reduce its business whenever a second set of early warning criteria — with lower tolerances than those prescribed in subsection (a) of the rule — are exceeded. The concept behind these two provisions is that should a member's financial condition deteriorate to the point that it exceeds one or more preset parameters established by the rule, it would be prohibited from expanding. If that deterioration continues, and one or more of the second tier of early warning criteria are exceeded, the

member would be compelled to begin reducing or eliminating certain facets of its business. The areas of business activity to be reduced or eliminated would be determined by the Association in consultation with the affected member.

In addition to the specified criteria, subsections (a) and (b) would empower the NASD to restrict a member's activities so as to preclude expansion or to require reduction or elimination for any other financial or operational reason. These broadly framed provisions result from the Board's determination that it would be impractical to attempt to identify and list all of the practices and situations for which it might choose to direct corrective programs.

The third part of the rule, subsection (c), is the procedural section of the rule. It describes, step-by-step, the manner in which limitations would be implemented. As a general proposition, the Association, through its District staff, would attempt to implement this portion of the rule via voluntary agreements with members. However, in those instances in which a member is unwilling to observe the limitations prescribed or refuses to undertake the remedial action recommended by the Association, the Association would resort to the formal process prescribed in subsection (c) of the proposed rule. More specifically, if the Association staff were unable to reach an agreement on a plan of action with a member experiencing financial or operational difficulties, the matter would be presented to a District Surveillance Committee for its review and disposition. Each District of the Association would create an Ad Hoc District Surveillance Committee as needed composed of two current or former members of the District Business Conduct Committee appointed by the District Chairman; two members selected from a standing Surveillance Committee to be established by the Board who are not from the District in which the subject firm is located; and, one former member of the Board appointed by the Chairman of the Board. The Board's Special Surveillance Committee would be composed of individuals having expertise in financial and operational problems of members.

In those instances in which the District Surveillance Committee determines that a member is approaching financial and/or operational difficulty, it would be empowered by the proposed rule to issue a notice to the member directing it to limit its business.

In its notice, the District Surveillance Committee would describe the basis for the action it is taking and the limitations it is prescribing to correct the problems identified. If the member did not request an opportunity to be heard, the proposed order would become final, with no further notice issued, within three days following issuance of the proposed order. If an opportunity to be heard is requested, it would be provided by the District Surveillance Committee within five business days of issuance of the proposed order. In requesting an opportunity to be heard, the member would be obliged to detail its reasons as to why the proposed order should either be withdrawn or modified in some way. A record would be made of all hearings. In those instances in which a hearing is held, the District Surveillance Committee would render its decision in the form of an order within five business days following the date of the hearing. The decision would describe the limitations, if any, which the member would be directed to observe and, further, what sanctions would be imposed should that member fail to comply with the limitations specified in the decision.

Should the member be dissatisfied with the determination reached by the District Surveillance Committee, it would have a right to appeal its decision to the Board of Governors within five business days following issuance of that decision. If two members of the District Surveillance Committee disagree with the Committee's

determination it will automatically be reviewed by the Board of Governors. Whenever an appeal is made to the Board, the decision of the District Surveillance Committee would be stayed unless otherwise directed by the Board. Also, all District Surveillance Committee decisions which are not appealed would be subject to review by the Board within 30 calendar days of the decision. In making application for review of a District Surveillance Committee decision by the Board, a member would be entitled to an opportunity for a hearing. If the District Surveillance Committee's decision were to be appealed, an opportunity for a hearing would be provided within 10 days following issuance of that decision. If the matter were called for review, it would be decided by the Board within 30 days of its decision to review such matter.

Hearings at the Board level would be provided before a three-man subcommittee consisting of two members of the Board Surveillance Committee different than those who served on the District Surveillance Committee, and one current member of the Board of Governors. Each of these individuals would be selected jointly by the Chairman of the Board and the Chairman of the National Business Conduct Committee.

Whenever an opportunity for a hearing is provided, the Board would issue a written decision within five business days from that date. This decision would constitute final action by the Board. If no hearing were held, the Board would issue its written decision as promptly as possible upon consideration of the record. By means of this appeal and review process, the Board would exercise its authority under the rule to affirm, modify, reverse or dismiss a District Surveillance Committee decision or, in appropriate instances, to remand the matter to the District Surveillance Committee for further proceedings consistent with its instructions.

In any case in which a member is aggrieved by the determination reached by the Board, it would have the right to appeal such action to the Securities and Exchange Commission pursuant to Section 19 of the Securities Exchange Act of 1934.

This procedural section of the proposed rule would also permit a District Surveillance Committee to issue additional or supplemental notices to members already operating pursuant to Association imposed limitations whenever the Committee finds that the financial and/or operational problems which gave rise to the limitations previously imposed were continuing or were becoming more pronounced. The proposed rule would also specify that action taken by the Association pursuant to the proposed rule would not preclude complaint action by the Association pursuant to the Code of Procedure.

As noted previously, the proposed rule would also be accompanied by an Explanation of the Board of Governors, entitled "Restrictions on a Member's Business Activity." The purpose of this Explanation is to further explain the types of problems the Board intends to address under the rule as well as the corrective actions it may direct to address such problems. In view of the broadly framed nature of the rule being proposed, the Board believes that this Explanation should serve to facilitate members' understanding of how the proposed rule would be administered and implemented. It should be understood, however, that the list of possible problem situations and possible remedial actions contained in the Explanation is not intended to be, and is not, all inclusive primarily because the type of problems that can arise and the possible solutions to those problems are myriad and cannot be totally identified or specified with any degree of precision.

All comments pertaining to this proposal should be in writing and sent to S. William Broka, Secretary, National Association of Securities Dealers, Inc., 1735 K Street, N. W., Washington, D. C. 20006, and be received on or before September 20, 1982, in order to receive consideration. Questions concerning the proposal may be directed to Andrew McR. Barnes, Associate General Counsel, at (202) 728-8292 or James M. Cangiano, Assistant Director, Policy Research, at (202) 728-8273.

Sincerely,

A handwritten signature in cursive script, appearing to read "Frank J. Wilson".

Frank J. Wilson  
Executive Vice President  
Legal and Compliance



PROPOSED RULE OF FAIR PRACTICE

ARTICLE III, Section \_\_\_\_\_  
Limitations on a Member's Activities

- (a) A member shall not expand its business during any period in which:
  - (1) Any of the following conditions continue to exist, or have existed, for more than 15 consecutive business days:
    - (A) A firm's net capital is less than 150 percent of its net capital minimum dollar amount requirement or such greater percentage thereof as may from time to time be prescribed by the Association; or,
    - (B) If subject to the aggregate indebtedness requirement under SEC Rule 15c3-1, a firm's aggregate indebtedness is more than 1,000 per centum of its net capital; or
    - (C) If in lieu of (B) above, the specified percentage of the aggregate debit items in the Formula for Determination of Reserve Requirements for Brokers and Dealers under SEC Rule 15c3-3 (the alternative net capital requirement) is applicable, a firm's net capital is less than 5 percent of the aggregate debit items thereunder; or,
    - (D) The deduction of capital withdrawals including maturities of subordinated debt scheduled during the next six months would result in any one of the conditions described in (A), (B) or (C) of this paragraph (1); or,
  - (2) The Association restricts the member for any other financial or operational reason.
- (b) A member shall forthwith reduce its business;
  - (1) To a point enabling its available capital to meet the standards set forth in subsection (a)(1)(A)(B) or (C) of this rule if any of the following conditions continue to exist, or have existed, for more than fifteen (15) consecutive business days:
    - (A) A firm's net capital is less than 125 percent of its net capital minimum requirement or such greater percentage thereof as may from time to time be prescribed by the Association; or,
    - (B) If subject to the aggregate indebtedness requirement under SEC Rule 15c3-1, a firm's aggregate indebtedness is more than 1,200 per centum of its net capital; or,

- (C) If in lieu of (B) above, the specified percentage of the aggregate debit items in the Formula for Determination of Reserve Requirements for Brokers and Dealers, under SEC Rule 15c3-3 (the alternative net capital requirement) is applicable, a firm's net capital is less than 4 percent of the aggregate debit items thereunder; or,
  - (D) If the deduction of capital withdrawals including maturities of subordinated debt scheduled during the next six months would result in any one of the conditions described in b(1)(A), (B) or (C) of this rule.
- (2) As required by the Association when it restricts a member for any other financial or operational reason.
- (c) Limitation Procedures
- (1) As required to implement the provisions of this rule, each District Committee would create a District Surveillance Committee composed of two current or former District Business Conduct Committee members; two members of the Board of Governors' Surveillance Committee; and one former member of the Board of Governors appointed by the Chairman of the Board of Governors.

Written Notification

- (2) If the District Surveillance Committee has reason to believe that a member is approaching financial or operational difficulty, it may exercise the authority conferred by this Rule by issuing a notice directing the member to limit its business. Such notice shall contain a statement of the specific grounds on which such action is being taken, shall specify in reasonable detail the nature of the limitations being imposed and shall provide that the member will be given an opportunity to be heard if requested within three days of the notice.

Hearing

- (3) If an opportunity to be heard is requested, it shall be provided by the District Surveillance Committee within five business days of the issuance of the notice. A member requesting to be heard shall present its reasons why the notice should be withdrawn or modified. A record shall be kept of the proceeding before the District Surveillance Committee.

Decision and Effective Date

- (4) (A) The District Surveillance Committee shall within five business days of a hearing issue a written decision approving or modifying the limitations specified in the notice. The decision shall also provide for an appropriate sanction to be imposed for failure to

comply with the limitations contained in the notice.

- (B) When an opportunity to be heard is not requested, the limitations contained in the notice shall become effective three days following issuance of the notice without any written decision unless the District Surveillance Committee decides upon a later effective date or unless the matter is on review by the Board of Governors.

Review by Board

- (5) The written decision issued pursuant to subsection (4) shall be subject to review by the Board of Governors upon application by the member aggrieved thereby filed within five business days of the date of the decision. The decision, or the notice where no opportunity to be heard was requested, shall also be subject to review by the Board of Governors on its own motion within 30 calendar days of the decision or notice. Where two members of the District Surveillance Committee disagree with the determination of the Committee, the matter will automatically be reviewed by the Board of Governors. In the case of an appeal, the member shall be given an opportunity to be heard before a subcommittee of the Board within 10 business days of the written decision. If called for review, the matter shall be heard within 30 days of such action. The institution of review, whether by application or on the initiative of the Board, shall operate as a stay of the action by the District Surveillance Committee unless otherwise ordered by the Board.

Decision

- (6) Upon consideration of the record, the Board of Governors shall in writing affirm, modify, reverse or dismiss the decision of the District Surveillance Committee or remand the matter for further proceedings consistent with its instruction. The Board shall set forth specific grounds upon which its determination is based. If a hearing is held, a decision shall issue within five business days of the hearing and the decision shall be the final action of the Board. If no hearing is requested the matter shall be considered on the record and a decision shall be issued promptly.

Application to Commission for Review

- (7) In any case where a member feels aggrieved by any action taken or approved by the Board of Governors, such member may make application for review to the Securities and Exchange Commission in accordance with Section 19 of the Securities Exchange Act of 1934, as amended.

Successive Notices

- (8) If it appears at any time to the District Surveillance Committee that, notwithstanding an effective notice or decision under subsections (2), (4) and (6) hereof, that the member is still approaching financial or operational difficulty the District Surveillance Committee may issue additional notices directing further limitations of a member's business pursuant to the procedure set forth in Section 1 hereof.

Complaint by District Committee

- (9) Action by the Corporation under this Article, is not intended to foreclose complaint action by the District Business Conduct Committee under the Code of Procedure for Handling Trade Practice Complaints where a violation of the Rules of Fair Practice may be involved.

\* \* \* \* \*

EXPLANATION OF THE BOARD OF GOVERNORS

Restrictions On A Member's Activity

This explanation will outline and discuss some of the financial and operational deficiencies that could initiate action under the rule. Subsections (a)(2) and (b)(2) of the Rule provide that there are various unstated financial and operational reasons for which the Corporation may impose restrictions on a member so as to prohibit its expansion or require a reduction in overall level of business. These provisions are deemed necessary in order to provide for the variety of situations and practices which do arise and, which if allowed to persist, could result in increased exposure to customers and to broker-dealers.

In the opinion of the Board of Governors, it would be impractical and unwise to attempt to identify and list all of the situations and practices which might lead to the imposition of restrictions or, the types of remedial actions the Corporation may direct be taken because they are myriad and cannot be totally identified or specified with any degree of precision. The Board believes, however, that it would be helpful to members' understanding to list some of the other bases upon which the Corporation may conclude that a member is in or approaching financial difficulty.

Explanation

- (a) For purposes of subsection (a)(2) and (b)(2) of the Rule, a member may be considered to be in or approaching financial or operational difficulty in conducting its operations and therefore subject to restrictions if it is determined by the Corporation that any of the parameters specified therein are exceeded or one or more of the following conditions exist:
- (1) The member has experienced a reduction in excess net capital of 25% in the preceding two months or 30% or excess in the three-month period immediately preceding such computation.

- (2) The member has experienced a substantial change in the manner in which it processes its business which, in view of the Corporation, increases the potential risk of loss to customers and members.
  - (3) The member's books and records are not maintained in accordance with the provisions of SEC Rule 17a-3 and 17a-4.
  - (4) The member is unable to demonstrate compliance with applicable net capital requirements and/or the member is unable to clear and settle transactions promptly.
  - (5) The member is not in compliance, or is unable to demonstrate compliance, with SEC Rule 15c3-3 (Customer Protection Reserves and Custody of Securities).
  - (6) The member's overall business operations are in such a condition, given the nature and kind of its business, that notwithstanding the absence of any of the conditions enumerated in paragraphs (1) through (5), a determination of financial or operational difficulty should be made.
- (b) If the Corporation determines that any of the parameters or conditions contained in subsection (a) of this explanation have been exceeded or exist, it may require that the member take appropriate action by effecting one or more of the following, or other steps deemed appropriate, until such time as the Corporation determines that they are no longer required:
- (1) Promptly pay all free credit balances to customers.
  - (2) Promptly effect delivery to customers of all fully-paid securities in the member's possession or control.
  - (3) Introduce all or a portion of its business to another member on a fully-disclosed basis.
  - (4) Reduce the size or modify the composition of its inventory.
  - (5) Postpone the opening of new branch offices or require the closing of one or more existing branch offices.
  - (6) Promptly cease making unsecured loans, advances or other similar receivables, and, as necessary, collect all such loans, advances or receivables where practicable.
  - (7) Accept no new customer accounts.
  - (8) Undertake an immediate audit by an independent public accountant at the member's expense.
  - (9) Restrict the payment of salaries or other sums to partners, officers, directors, shareholders, or associated persons of the member.

- (10) Effect liquidating transactions only.
  - (11) Accept unsolicited orders only.
  - (12) File special financial and operating reports.
  - (13) Impose such other restrictions, or take such other action as the Corporation deems appropriate under the circumstances in the public interest and for the protection of members.
- (c) In all cases, the member shall be bound by the directives of the Corporation unless and until a Committee of the Board of Governors determines that the facts do not warrant all or any part of the action ordered by the Corporation.

#### Procedure

The Board of Governors also recognizes the importance to members of action taken under this Rule of Fair Practice and believes a fair balance has been struck between the need for local knowledge and familiarity of District Committees by utilization of a District Surveillance Committee together with the expertise in financial and operational problems by the Board's Special Surveillance Committee, a committee established by the Board of Governors composed of individuals having an expertise in financial and operational problems of members.

Subsection (c)(1) provides for a District Surveillance Committee to issue a notice concerning proposed limitations on a member's business activities. Normally, such committees shall be composed of two current or former District Business Conduct Committee members appointed by the current chairman of the District Business Conduct Committee; two members of the Board's Surveillance Committee not from the District in which the matter is under consideration; and one former member of the Board of Governors the last three members appointed by the Chairman of the Board. If two members of the District Surveillance Committee disagree with the terms of the proposed order or of the decision, the proposed order or decision shall be reviewed by the Board of Governors.

If there is an appeal of the District Surveillance Committee decision, it will be held before a Board subcommittee consisting of two members of the Board's Surveillance Committee who did not serve on the District Surveillance Committee and one current member of the Board of Governors, all to be selected by the Chairman of the Board and the Chairman of the National Business Conduct Committee.



**National Association of  
Securities Dealers, Inc.**  
1735 K Street, N.W.  
Washington, D.C. 20006  
(202) 728-8000

August 25, 1982

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 6, 1982, in observance of Labor Day. "Regular-Way" transactions made on the business days immediately preceding that day will be subject to the following schedule.

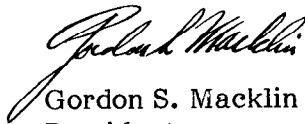
Trade Date-Settlement Date Schedule  
For "Regular-Way" Transactions

<u>Trade Date</u>	<u>Settlement Date</u>	<u>*Regulation T Date</u>
August 30	September 7	September 9
31	8	10
September 1	9	13
2	10	14
3	13	15
7	14	16

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.

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) 839-6257.

Sincerely,

  
Gordon S. Macklin  
President

\* 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 members must take such action is shown in the column entitled "Regulation T Date".



**National Association of  
Securities Dealers, Inc.**  
1735 K Street, N.W.  
Washington, D.C. 20006  
(202) 728-8000

September 30, 1982

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 11, Columbus Day; Tuesday, November 2, Election Day; and Thursday, 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 4	October 12	October 13
5	13	14
6	14	15
7	15	18
8	18	19
11	18	20
October 26	November 3	November 4
27	4	5
28	5	8
29	8	9
November 1	9	10
2	9	11
3	10	12
4	12	15
5	15	16
8	16	17
9	17	18
10	18	19
11	18	22



October 11, November 2, 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 11, November 2, 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.

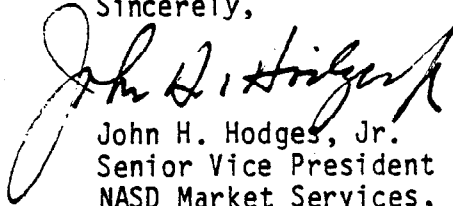
Questions regarding the application of these settlement dates to a particular situation may be directed to the Uniform Practice Department of the NASD at (212) 839-6255.

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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 Tier 1 criteria should be directed to Gary W. Guinn, Assistant Director, NASDAQ Operations, at (202) 728-8052. Questions pertaining to the trade reporting rules should be directed to Don Heizer at (202) 728-8201 or (202) 728-8204.

Sincerely,

A handwritten signature in black ink, appearing to read "John H. Hodges, Jr.", written in a cursive style.

John H. Hodges, Jr.  
Senior Vice President  
NASD Market Services, Inc.