NASD NOTICE TO MEMBERS 96-39

Request For Comments On Proposed Changes To Regulations G, T, And U

Suggested Routing

- ■ Senior Management
- ☐ Advertising
- ☐ Corporate Finance
- ☐ Government Securities
- ☐ Institutional
- ■ Internal Audit
- ■ Legal & Compliance
- ☐ Municipal
- ☐ Mutual Fund
- ■ Operations
- ■ Options
- ☐ Registration
- ☐ Research
- ☐ Syndicate
- ☐ Systems
- ☐ Trading
- ☐ Training

Executive Summary

In conjunction with the amendments to Regulation T (Reg. T) which are described in *Notice to Members 96-37*, the Board of Governors of the Federal Reserve System (Fed) is also requesting comments on proposed changes to Regulations G, T, and U. Reg. T covers extensions of credit by and to broker/dealers; Reg. U covers extensions of credit by banks; and Reg. G covers extensions of credit by all other U.S. lenders.

The Fed is proposing to allow a broker/dealer to extend "good faith" credit on any non-equity security rather than only those currently permitted by Fed rules; allow lending on non-equity securities to occur in a new "non-equity" account, absent the restrictions currently imposed in the margin account; remove restrictions on the ability of broker/dealers to calculate required margin for non-equity securities on a "portfolio" basis; ease or eliminate the Fed's collateral requirements for the borrowing and lending of securities; exempt lending to foreign persons on foreign securities by foreign branches of U.S. broker/dealers; remove a Fed interpretation that prevents options from serving as cover in lieu of margin for a short sale; and allow banks to lend against exchange-traded options to the extent permitted by the exchange listing the option. The Fed also is seeking comment on whether it should expand the number of equity securities eligible for loan value under Reg. T, and on whether it should amend Regs. G and U to modify their method for determining which equity securities are eligible for loan value. **Comments are due on or before July 1, 1996.**

Questions concerning this Notice may be directed to Anne Harpster, Compliance Department, at (202) 728-8092.

Explanation Of Proposed Changes

The following is a topical summary of the changes the Fed has proposed. A more detailed discussion of these changes is found in the May 6, 1996 *Federal Register*, which follows this Notice.

Good Faith Loan Value For All Non-Equity Securities

Reg. T currently permits the broker/dealer to extend "good faith" loan value (as defined in the regulation) to some debt securities, while other debt securities have a margin requirement of 100 percent. Foreign broker/dealers and non-broker/dealer lenders (such as banks) that are governed by Regs. G and U generally do not face such margin restrictions. The Fed proposes to amend Reg. T to allow good faith loan value on all non-equity securities. The Fed also seeks comment on whether it should modify the definition of non-equity security to exclude equity-linked securities and, if so, what securities should be excluded.

Establishment Of Non-Equity Account

The Fed proposes creation of a non-equity account in which all transactions would be subject to good faith margin. Any transaction or withdrawal that would cause the non-equity account to liquidate to a deficit would be prohibited. The account would be otherwise unregulated. Examples of trades that could be effected in this account are (1) purchases of non-equity securities on credit; (2) repurchase and reverse repurchase agreements with broker/dealers on non-equity securities; and (3) the purchase or sale of options on non-equity securities. Comment is also requested on whether this account could be combined with the government securities account or the nonsecurities credit account, or both.

Portfolio Margining

The Fed proposes to revise the definition of *good faith margin* to remove restrictive language that currently limits the use of "portfolio margining" (determining collateral requirements based on changes in the value of a group of securities). The Fed also seeks comment on whether this change should apply to all accounts or only to the proposed non-equity account; on whether changing the definition is consistent with section 7(b) of the Securities Exchange Act of 1934; on the potential benefits and burdens of adopting a portfolio margining system in addition to the existing position-based system; and on any implementation problems that may arise.

As proposed, section 220.18 (prior to July 1, 1996, section 220.19) would be revised to remove the requirement that margin be held "for each security."

Under the proposed rule, commodities and foreign exchange positions in the nonsecurities account could be considered in calculating margin for any securities transaction in the margin account or in the proposed non-equity account. Comment is further requested as to whether the general provisions on separation of accounts in section 220.3(b) should be modified to allow any excess margin in one account to be used to meet a margin deficiency in another account, and as to whether the Special Memorandum Account would be needed if such modification were made.

Borrowing And Lending Of Securities By Broker/Dealers

Currently a borrowing and lending of securities by broker/dealers outside of the normal margin requirements must meet both a "purpose test" (that the transaction relate to a short sale or fail) and a "collateral test" (that the transaction be secured by collateral permissible under the rule that is equal to 100 percent of the value of the securities lent).

If expanded as proposed by the Fed, section 220.16 either would permit any security that qualifies for loan value to serve as collateral, valued at its regulatory loan value, or would require a bona fide posting of collateral equal to 100 percent of the value of the securities borrowed without requiring any specific type of collateral. Comment is also requested on whether the collateral requirement of that section could be entirely eliminated.

Extensions Of Credit By Foreign Branches Of U.S. Broker/Dealers

The proposal would exclude member firms' foreign branches from Reg. T when they extend credit for foreign persons on foreign securities.

Option As Cover For A Short Sale Of An Equity Security

Currently on a short sale of a security, the margin requirement of section 220.19 (220.18 as of July 1, 1996) consists of the proceeds of the short sale plus either an additional 50 percent of the sale price or a "security exchangeable or convertible within 90 calendar days without restriction other than the payment of money into the security sold short." Convertible bonds and stock warrants are permitted to serve in lieu of the additional 50-percent margin. The Fed is requesting comment on whether to also permit a call option to be used in lieu of the additional 50-percent margin; and whether doing so would bias the market in favor of short selling. The release notes that a customer wishing to purchase 100 shares of XYZ would be required to pay 50 percent of the purchase price, but a customer wishing to sell short 100 shares of XYZ would only be required to pay the premium necessary to purchase a call option for 100 shares of XYZ.

Eligibility Of Equity Securities For Credit Under Regs. G, T, And U

Foreign Margin Stocks

Under the amendments to Reg. T which will be effective on July 1, 1996, foreign stocks listed on the *Financial Times* Actuaries—World Indices will be added to the Fed's *List of Foreign Margin Stocks*, based on the understanding that the SEC considers such stocks to have a "ready market" for net capital purposes. In this proposal, the Fed requests comment on whether it should phase out the other tests provided in Reg. T for inclusion on the *List of Foreign Margin Stocks* and instead rely exclusively on the ready market test.

Domestic Margin Stocks

Further, the Fed is considering expanding the criteria for OTC margin stock to allow credit to be extended on any stocks that have a "ready market" for net capital purposes, including all Nasdaq stocks, and those stocks where (1) three or more market makers quote their prices through the so-called "pink sheets," and (2) the broker/dealer can show the existence of bona fide interdealer trades (within five business days before or after the date of valuation) that are of sufficient volume to justify a reasonable belief that the price used would support the liquidation of the entire position at or near that price.

Comments are requested regarding whether to allow such stocks to be marginable, and also whether the change should be made only for purposes of Reg. T, or for purposes of Regs. G and U, also. Currently, all three regulations have a common

definition of "OTC margin stock," but while broker/dealers are restricted by Reg. T from lending on a domestic stock that does not qualify as an OTC margin stock, Regs. G and U permit banks and other lenders to lend on such stock without regulation. A change in the definition therefore reduces the burden on some lenders but increases it on other lenders. Comments regarding possible solutions to this situation are requested.

Options Under Reg. U

The Fed is proposing to amend Reg. U so that its treatment of exchange-traded options will mirror the treatment provided by Reg. T as recently amended.

Technical Amendments

The Fed proposes to add a definition of "margin equity security" to Reg. T, and would like comments on amending the definition of "covered option transaction."

NASD members are urged to review the Fed's proposal in its entirety. **Members that wish to comment on this proposal must do so by July 1, 1996.** Comment letters should refer to Docket No. R-0923 and be sent to:

William W. Wiles
Secretary
Board of Governors of the Federal Reserve System
20th St. and Constitution Ave., NW
Washington, DC 20551

Members are asked to send copies of their comment letters to:

Joan Conley
Corporate Secretary
National Association of Securities Dealers, Inc.
1735 K Street, NW
Washington, DC 20006-1500.

FEDERAL RESERVE SYSTEM

12 CFR Parts 207, 220, and 221

[Regulations G, T, and U; Docket No. R-0923]

Securities Credit Transactions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rule.

SUMMARY: In conjunction with a final rule printed elsewhere in today's Federal Register, the Board is considering further amendments to its margin regulations, Regulations G, T, and U. Regulation T covers extensions of credit by and to brokers and dealers; Regulation U covers extensions of credit by banks; and Regulation G covers extensions of credit by all other U.S. lenders.

The Board is proposing to: allow a broker-dealer to extend "good faith" credit on any non-equity security rather than only those currently permitted by Board rules; allow lending on non-equity securities to occur in a new "non-equity" account, absent the restrictions currently imposed in the margin account; remove restrictions on the ability of broker-dealers to calculate required margin for non-equity securities on a "portfolio" basis; ease or eliminate the Board's collateral requirements for the borrowing and lending of securities; exempt lending to foreign persons on foreign securities by foreign branches of U.S. broker dealers; remove a Board interpretation that prevents options from serving as cover in lieu of margin for a short sale; and allow banks to lend against exchange-traded options to the extent permitted by the exchange listing the option.

The Board is also seeking comment on whether it should expand the number of equity securities eligible for loan value under Regulation T, and on whether it should amend Regulations G and U to modify their method for determining which equity securities are eligible for loan value.

DATES: Comments should be received on or before July 1, 1996.

ADDRESSES: Comments should refer to Docket No. R-0923, and may be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW., Washington, DC 20551. Comments also may be delivered to Room B-222 of the Eccles Building between 8:45 a.m. and 5:15 p.m. weekdays, or to the guard station in the Eccles Building courtyard on 20th Street NW. (between Constitution Avenue and C Street NW.) at any time. Comments received will be available for inspection in Room MP-500 of the Martin Building between 9:00 a.m. and 5:00 p.m. weekdays, except as provided in 12 CFR 261.8 of the Board's rules regarding availability of information.

FOR FURTHER INFORMATION CONTACT: Scott Holz, Senior Attorney, or Angela Desmond, Senior Counsel, Division of Banking Supervision and Regulation (202) 452-2781; Oliver Ireland, Associate General Counsel (202) 452-3625 or Gregory Baer, Managing Senior Counsel (202) 452-3236, Legal Division; for the hearing impaired only, Telecommunications Device for the Deaf (TDD), Dorothea Thompson (202) 452-3544.

SUPPLEMENTARY INFORMATION: Regulation T implements the Board's authority over securities credit extended by broker-dealers under section 7 of the Securities Exchange Act of 1934, 15 U.S.C. 78g (the Act). Section 7 requires the Board to regulate the amount of credit that may be extended on securities by a broker-dealer, requires that collateral for securities purchases consist of "exempted securities" (U.S. government and municipal securities) or securities assigned loan value by the Board, and prohibits a broker-dealer from extending unsecured credit for the purpose of purchasing securities. Regulation T establishes the margin that a customer of a broker-dealer must post when engaging in a securities transaction on credit. The "margin" for a security is the converse of the security's "loan value;" by definition, the two always add up to 100 percent.

Section 7 also authorizes the Board to regulate credit extended by banks and all other U.S. lenders. Regulation U limits credit extended by banks to finance the purchase or carrying by customers of margin equity securities when the credit is collateralized by such securities. 12 CFR Part 221. Regulation G limits credit extended by lenders other than broker-dealers and banks to finance the purchase or carrying of margin equity securities when the credit is collateralized by such securities. 12 CFR Part 207.[1]

In 1995, the Board published for comment a series of amendments to Regulation T that were intended to remove constraints that were hampering developing trends in the securities markets. 60 FR 33763, June 29, 1995. These trends included the erosion of barriers between broker-dealers and other lenders, the globalization of securities markets, the increasing overlap in the businesses of various lenders, and the constant development of new mechanisms for extending securities credit. The Board also solicited comment on broader changes that could be made to Regulation T. The recent effort to modernize Regulation T predated but is now encompassed within the Board's regulatory review under section 303 of the Riegle Community Development and Regulatory Improvement Act of 1994, Pub. L. 103-325.

Extensive comment was received on the Board's 1995 proposal, including voluminous responses from the major securities trade groups. Commenters generally supported the proposed amendments to Regulation T, but also emphasized the need for more wholesale reform.

Today, the Board is elsewhere adopting as a final rule many of the amendments it proposed in 1995. However, the Board is also proposing additional amendments to Regulation T, and seeking comment on provisions of Regulations G and U as well.[2] In addition, the Board seeks comment on any other steps it can take to reduce the burden imposed by Regulation T, including any steps to reduce the accounting and recordkeeping burdens of the regulation, that would be consistent with the purposes and requirements of the Act.

1. Good Faith Loan Value for all Non-Equity Securities

Regulation T gives "good faith" loan value to many but not all debt securities. Good faith loan value means that a broker-dealer may extend credit on a particular security in any amount consistent with sound credit judgment. 12 CFR 220.2. Those debt securities not eligible for good faith loan value receive no loan value and therefore have a margin requirement of 100 percent.

With the adoption of today's final rule, the Board currently assigns a debt security good faith loan value if it is: (1) listed on a U.S. securities exchange, (2) a government or municipal security, (3) an investment grade security; or (4) a less-than-investment grade security that is registered with the Securities and Exchange Commission (SEC) and has an original principal amount of not less than $25,000,000. 12 CFR 220.18(b).

[1] Regulation X covers U.S. borrowers obtaining credit outside the United States. Because Regulation X incorporates the requirements of Regulation T, U, or G (depending on the lender), any amendments to those regulations automatically pass through to Regulation X. Therefore, no amendments to Regulation X are being proposed.

[2] The Board is also continuing to review Regulations G and U as part of its ongoing effort to reduce regulatory burden, as mandated by section 303 of the Riegle Community Development and Regulatory Improvement Act of 1994.

Non-equity securities that are not registered, are not government or municipal securities, and are not investment grade generally will continue to receive no loan value under Regulation T.

In contrast, the Board's Regulations G and U do not impose any margin restrictions on non-broker-dealer lenders (such as banks) when they lend against non-equity securities, even securities that receive no loan value under Regulation T.[3] Foreign broker-dealers and other foreign lenders, with whom U.S. broker dealers increasingly compete worldwide, are generally also unconstrained. Thus, customers who wish to borrow against non-equity securities that receive no loan value under Regulation T, and investors who wish to engage in repo or forward transactions in such securities, may go to these other lenders.

The Board proposes to grant good faith loan value to all non-equity securities. To effectuate this change, the Board is proposing to amend revised section 220.13, discussed below, and section 220.18 (b), (c), and (d) to include all non-equity securities among those securities subject to good faith margin. A new definition of "non-equity security" would be added to section 220.2 to include any security that is not an "equity security" for purposes of section 3(a)(11) of the Act. This definition of non-equity security may include certain equity-linked securities. The Board seeks comment on whether it should modify the definition of non-equity security to exclude equity-linked securities and, if so, what securities should be excluded.

In a conforming change, the definition of "OTC margin bond" in section 220.2 would be deleted; since all non-equity securities would receive loan value, this definition would no longer be required. In another conforming change, the definition of "margin security" in section 220.2 would be revised to include any "non-equity security" instead of any "OTC margin bond."

Expanding the types of non-equity securities eligible for good faith loan value should expand broker-dealers' ability to lend and put them on a more equal footing with other lenders under Regulations G and U. Broker-dealers should be no less competent to determine the loan value of non-investment grade debt securities than a bank or other lender would be. Finally, any remaining regulatory concerns could be addressed by the self-regulatory organizations (SROs), which include the exchanges and the National Association of Securities Dealers, who still would be able to set their own margin requirements for these transactions.

2. Establishment of Non-Equity Account

Other restrictions beyond margin requirements are also currently placed on transactions involving non-equity securities. Currently, any credit extended by a broker-dealer on a non-equity security (other than a security eligible for the government securities account) must be recorded in the margin account. 12 CFR 220.4. These transactions are thus subject to the same restrictions as equity securities with respect to when payments must be made and when positions must be liquidated. On the other hand, because Regulations U and G restrict lending only on equity securities, banks and other lenders may lend on non-equity securities without such Board-imposed restrictions. 12 CFR 221.3(a); 12 CFR 207.3(b).

The Board proposes to allow any transaction involving a non-equity security to be effected in a new "non-equity" account. For example, a customer could effect in this account: (1) purchases of non-equity securities on credit; (2) repurchase and reverse repurchase agreements with broker-dealers on non-equity securities; and (3) the purchase or sale of options on non-equity securities. All transactions in the account would be subject to good faith margin. In order to ensure that unsecured credit would not be extended under the rubric of good faith margin, the proposed rule would prohibit any transaction or withdrawal that would cause the non-equity account to liquidate to a deficit—that is, cause the marked-to-market value of the securities held in the account to be less than the credit outstanding.

This account would be otherwise unregulated. The absence of restrictions on the terms of credit for non-equity securities would promote equality of treatment between broker-dealers and banks and other lenders, who face no Federal Reserve regulation when they lend on non-equity securities.

The Board seeks comment on whether the creation of a non-equity account would be beneficial and whether the account could be better named. The Board also seeks comment on whether this account could be merged with the government securities account (12 CFR 220.6) or the nonsecurities credit account (220.9) or both.

3. Portfolio Margining

A. Amendment to definition of good faith margin

As noted above, Regulation T currently allows good faith margin on some non-equity securities, and the Board is proposing to extend this treatment to all non-equity securities. "Good faith margin" is defined in Regulation T to mean "the amount of margin which a creditor, exercising sound credit judgment, would customarily require for a *specified security position* and which is *established without regard to the customer's other assets or securities positions held in connection with unrelated transactions*" (emphasis added). 12 CFR 220.2.

This definition limits so-called "portfolio margining"—allowing positions to be evaluated as a group and determining collateral requirements based upon estimated changes in the value of that portfolio. (It would continue to do so even if the proposed non-equity account were adopted, as the definition of good faith applies regardless of where the transaction is booked.) Regulation T has defined limited positions that can serve as offsets for each other, but any combination of positions not specifically permitted by the regulation may not offset one another. Commenters have for some time requested greater flexibility to engage in cross-margining (allowing positions in financial futures to offset the margin required for a given securities credit) and more broadly in "portfolio" or "risk-based" margining.

In order to remove an impediment to portfolio margining, the Board would amend the definition of "good faith margin" to eliminate the requirement that such margin be calculated "for a specified security position * * * without regard to the customer's other assets or securities positions held in connection with unrelated transactions." Instead, "good faith margin" would be defined to mean "the amount of margin the creditor would require in exercising sound credit judgment."

The Board is seeking comment on whether this definition should: (1) apply only in the proposed non-equity account, thereby continuing to limit portfolio margining of securities eligible for good faith margin in the margin account or market functions account; or (2) apply regardless of the account—margin, non-equity, or market functions—in which the transactions are booked. In addition, the Board seeks comment on the extent to which this change would allow SROs and broker-

[3] Section 7(d) of the Act prohibits the Board from establishing margin requirements on non-equity securities at banks. 15 U.S.C. 78g(d). When Regulation G was adopted in 1968, it was modeled on Regulation U.

dealers greater flexibility to develop portfolio margining systems. The Board also seeks comment from SROs and others on the potential benefits and burdens of adopting a portfolio margining system in addition to the existing position-based system, and whether changing the definition of good faith margin for any or all accounts is consistent with section 7(b) of the Act.

B. Separation of Accounts

Section 7 of the Act prohibits a broker-dealer from extending securities credit on any collateral other than a security. Accordingly, Regulation T requires that futures contracts and non-securities be accounted for in their own account, and section 220.3(b) of Regulation T generally prohibits using items in one account (including the nonsecurities account) from being used to meet the margin requirements for items in another account (including the margin account). However, with adoption of today's final rule, Regulation T will allow financial futures to serve in lieu of margin for securities options consistent with SRO rules. This treatment is consistent with Section 7 because the broker-dealer is not extending credit on the futures contract when it considers a futures contract in determining the amount of credit it can extend in good faith on a security.

The proposed rule would amend section 220.3(b) to allow explicitly commodities and foreign exchange positions in the nonsecurities account to be considered in calculating margin for *any* securities transaction in the proposed non-equity account or the margin account. The Board would expect that these positions would be valued in accordance with SRO rules, where applicable, or in any event not in excess of their marked-to market value. The proposed rule would also amend section 220.18 to remove a requirement that margin be held for "each security position."

The Board also seeks comment on whether further amendments to sections 220.3(b) should be adopted to facilitate portfolio margining—in particular, whether the Board should modify the general prohibition on separation of accounts in section 220.3(b). Doing so could allow any excess margin in one account to be used to meet a margin deficiency in another account. To the extent that such a change were adopted, the Board seeks comment on the continuing need for a Special Memorandum Account. As noted above, the Board is also seeking comment on whether the government securities account, nonsecurities account, and proposed non-equity account should be combined.

C. Implementation

The Board also seeks comment on any implementation problems that might arise with a partial or complete move to portfolio margining, including the need for delaying the effective date of any final rule in order to allow the SROs time to amend their rules.

4. Borrowing and Lending of Securities by Brokers-dealers

In order to facilitate short sales and the curing of failures to deliver a security (fails), Regulation T allows broker-dealers to borrow and lend securities outside of the normal margin requirements for securities purchases. To qualify for this treatment, borrowing and lending transactions must not only relate to a short sale or fail but also be secured by cash or similarly liquid collateral equal to 100 percent of the value of the securities lent.[4] Any borrowing and lending of securities that does not meet both the "purpose test" and the "collateral test" is usually a financing, is not considered a borrowing and lending of securities for Regulation T purposes, and therefore is conducted in a margin account, subject to the appropriate margin requirement for the underlying security.

Requiring 100 percent collateral (marked to market daily) to secure any stock loan reflects industry practice and is, the Board believes, consistent with prudent securities lending. The SEC imposes similar requirements on the types and amount of collateral a broker-dealer must post when it borrows securities from a customer, and the Department of Labor applies similar requirements to an ERISA pension plan when it lends securities.

Nonetheless, the Board is seeking comment on whether the Board's existing collateral requirements are necessary for Regulation T purposes. Commenters have sought an expansion of eligible collateral to include all securities marginable under Regulation T. Although the Board has expressed concern that Regulation T could be evaded by structuring a financing transaction as a borrowing and lending,[5] the purpose test may be adequate to prevent such an evasion. The purpose test limits the exception to transactions that have a clear market purpose that is verifiable (as any evasion becomes evident within a few days, when no short sale is consummated or the fail proves illusory). The collateral test addresses the evasion issue only indirectly by imposing collateral arrangements that conform to industry practice.

Accordingly, the Board is proposing to amend section 220.16 either to allow any security that qualifies for loan value to serve as collateral, valued at its regulatory loan value,[6] or to require a *bona fide* posting of collateral equal to 100 percent of the value of the securities borrowed, without requiring any specific type of collateral. The Board also seeks comment on whether the collateral requirement of section 220.16 could be eliminated altogether. The Board notes that even if the collateral/requirements were eliminated, other concerns might merit continued or further regulation by the SROs or the SEC.

5. Extensions of Credit by Foreign Branches of U.S. Broker-Dealers

Most U.S. broker-dealers conduct their overseas operations through separately incorporated subsidiaries of their holding companies. These subsidiaries are not subject to Regulation T or SEC regulations. However, a few firms maintain foreign branches that are subject to Regulation T. The Board is proposing to exclude these foreign branches from Regulation T when they extend credit to foreign persons on foreign securities. This would be analogous to the exclusion from Regulation U of foreign branches of U.S. banks when they extend securities credit.

6. Option as Cover for a Short Sale of an Equity Security

In a short sale, a customer generally sells securities it does not own and borrows those securities from a broker-dealer in order to meet its delivery obligation. The customer is then obligated to redeliver such securities to the broker-dealer at some time in the future, but hopes to obtain those securities for less than the sale price less financing costs. Regulation T currently

[4] With the adoption of today's final rule, permissible types of collateral include cash, securities issued or guaranteed by the United States or its agencies, certain negotiable bank certificates of deposit and bankers acceptances, and certain irrevocable letters of credit issued by banks, marginable foreign sovereign debt securities, and any collateral acceptable to the SEC when a broker-dealer borrows securities from a customer.

[5] For example, a broker-dealer prohibited by Regulation T from extending a customer 100 percent credit on a security could instead borrow the security from the customer and post 100 percent cash collateral; the customer could then withdraw the cash, evading the 50 percent initial or good faith margin requirement.

[6] If this option were adopted, "loan value" would be defined in Regulation T to mean an amount equal to "1 minus the margin requirement for the security under this part."

requires margin of 150 percent for a short sale of an equity security.[7] For example, if a customer sells short 100 shares of XYZ Corp, the broker-dealer retains 100 percent of the proceeds from the sale in the customer's account, and the customer is required to post an additional 50 percent of the sale price. (This parallels the 50 percent margin requirement for a purchase of the stock; in each case, the customer's stake in the transaction must be 50 percent of its price.) However, Regulation T requires margin of only 100 percent—in other words, allows retaining of the proceeds of the sale to suffice—if a "security exchangeable or convertible * * * into the security sold short" is held in the customer's account. The most common example of such a security is a convertible bond.

Although it can be argued that both stock warrants and call options qualify as a "security exchangeable or convertible into another security," the Board has only permitted the former to serve in lieu of the additional 50 percent margin for short sales in Regulation T. *See* Board Interpretation 12 CFR 220.126, reprinted in the *Federal Reserve Regulatory Service* at 5–488. Some commenters have criticized this inequality of treatment, and some have asked that a call option—in the above example, a call option for 100 shares of XYZ stock—be allowed to serve in lieu of the additional 50 percent margin requirement.

The Board is seeking comment on whether to allow the use of a call option to offset the short sale of a security and whether doing so would bias the market in favor of short selling. The Board has historically sought to ensure that traders on the short side of the market should not be in a position, with a given amount of funds, to exert greater influence on the market than they could with the same amount of funds if they were trading on the long side. However, under this proposal, a customer wishing to purchase 100 shares of XYZ would be required to come up with 50 percent of the purchase price, but a customer wishing to sell 100 shares of XYZ short would only be required to come up with the premium necessary to purchase a call option for 100 shares of XYZ, a far smaller amount. The Board seeks comment on whether this fact argues against adoption of the proposed change.

[7] If a marginable debt security is sold short, the margin required is 100 percent of the current market value of the security plus the margin required by the creditor in good faith.

7. Eligibility of Equity Securities for Credit Under Regulations G, T, and U

In order to qualify for credit under Regulation T, an equity security must be a mutual fund, a bond convertible into a qualifying equity security, or registered on a national securities exchange, trade in NASDAQ's National Market System, or appear on the Board's quarterly lists of "marginable OTC stocks" or "foreign margin stocks." Stocks qualify for inclusion on the Board's lists if they meet Regulation T's definition of "OTC margin stock" or "foreign margin stock."

A. Foreign Margin Stocks Under Regulation T

The Board is adopting as a final rule an amendment to Regulation T that includes as a foreign margin stock any foreign stock that has a "ready market" for purposes of the SEC's net capital rule. 17 CFR 240.15c3–1(c)(11)(i). SEC staff has stated that they will take no action against broker-dealers that treat any foreign stock listed on the Financial Times-Actuaries World Indices as having a ready market for purposes of computing a broker-dealer's net capital. Thus, these stocks will be added to the Board's foreign list.

Although there is considerable overlap between the stocks on the Financial Times Indices and the Board's list of foreign margin stocks, the Financial Times list contains substantially more foreign stocks than the Board's list, and there are also a significant number of foreign stocks that appear on the Board's list but not the Financial Times list. The Board did not receive comment on whether its current list of, and test for, foreign margin stocks would continue to be necessary if this new test were adopted. Accordingly, the Board seeks comment on whether it should rely on the ready market test exclusively and phase out the Board's own test and list.

B. Domestic Margin Stocks

The Board is also seeking comment on whether it should supplement or replace the current criteria for qualification as an OTC margin stock in section 220.17 of Regulation T by allowing a broker-dealer to extend credit on any stock traded on a national securities exchange, quoted on NASDAQ, or otherwise having a "ready market" for purposes of the SEC's net capital rule. In the domestic area, SEC staff has taken the position that a stock has a "ready market" if: (1) three or more market makers quote its prices through the so-called "pink sheets," and (2) the broker-dealer can show the existence of bona fide inter-dealer trades within five business days before or after the date of valuation that are of sufficient volume to justify a reasonable belief that the price used would support the liquidation of the entire position at or near that price.

This proposal would make 1700 NASDAQ stocks, as many as 5400 stocks quoted on the NASD's electronic bulletin board, and an unknown number of additional "pink sheet" stocks eligible for broker-dealer credit for the first time. Some of these stocks are thinly traded when compared to currently marginable stocks, including those that qualify as OTC margin stocks. The Board seeks comment on whether such stocks should be eligible to serve as collateral for securities credit.

The Board particularly seeks comment on whether an expansion in the number of OTC margin stocks should be made only for purposes of Regulation T, or for purposes of Regulations G and U as well. Although all the Board's margin regulations currently contain a common definition of "OTC margin stock," this common definition does *not* result in common treatment of all lenders. Under Regulation T, a broker-dealer is *prohibited* from lending on any domestic stock that does not qualify as an OTC margin stock; conversely, a bank or other lender is *unregulated* by Regulations U and G when it lends on any stock that does not qualify as an OTC margin stock. Thus, qualification of a stock as an OTC margin stock *increases* its loan value under Regulation T from zero to 50 percent, but subjects it for the first time to coverage by Regulations G and U and thereby *decreases* its loan value to the extent that banks and other lenders had previously been willing to give the stock loan value of greater than 50 percent. Conversely, disqualification of a stock as an OTC margin stock eliminates its loan value under Regulation T and thereby prevents broker-dealers from lending on it, but eliminates its coverage by Regulations G and U and allows banks and other lenders to lend as much as they deem appropriate.

Thus, using the ready market definition for purposes of Regulations G and U would impose burdens on banks and other lenders. Use of the definition would limit the amount of credit that banks could extend on thousands of additional stocks and would also require banks to obtain a "purpose statement" (FR U–1) whenever they lend more than $100,000 on those stocks. In addition, it would no longer be possible for the Board to publish a complete "List of Marginable OTC

Stocks" (OTC List), as the stocks that met the SEC's ready market test would be ever changing and outside the Board's control. Banks therefore would be responsible for determining on their own whether a given OTC equity security was subject to Regulation U. The burden imposed on Regulation G lenders would be similar.[8] In addition, the number of lenders potentially covered by Regulation G would expand to include as many as 6600 additional companies to the extent that those companies extended credit to their employees secured with company stock.[9] Although the Board currently alerts companies with OTC margin stock to the possibility of registration under Regulation G, elimination of the OTC list would prevent the Board from continuing this practice.

Accordingly, the Board is seeking comment on possible solutions to the disparate treatment of broker-dealers and other lenders, and the resulting increase in burden for one group whenever burden is reduced for the other. The Board seeks comment on whether it should establish separate regimes for determining coverage by Regulation T on the one hand, and Regulations G and U on the other; for example, any domestic stock that has a ready market for purposes of the SEC's net capital rule might receive loan value under Regulation T, while only domestic stocks that are listed on an exchange might be subject to Regulations G and U.

8. Options Under Regulation U

On December 12, 1995, the Board published proposed amendments to Regulation U, including one that concerned the treatment of exchange-traded options. The proposal mirrored the treatment proposed by the Board for broker-dealers under Regulation T. Specifically, the Board proposed to allow the same 50 percent loan value for long positions in exchange-traded options currently permitted for other exchange-traded equity securities. Because the final rule under Regulation T ties the loan value of these securities to the rules of the exchange authorized to trade the option, the Board is proposing, as a matter of parity between Regulations T and U, to amend Regulation U so that banks can lend against exchange-traded options to the extent permitted by the rules of the options exchanges. The Board seeks comment on the practicality of requiring banks to comply with rules of SROs of which they are not members.

9. Technical Amendments

The Board is also prescribing technical amendments to Regulation T that are intended to streamline and rationalize the regulation without altering its substance. The Board is proposing to add a definition of "margin equity security," a term currently used but not defined in the regulation. The Board is seeking comment on whether the definition of "covered option transaction" can be shortened to include "any transaction eligible for the cash account under the rules of the registered national securities exchange authorized to trade the option or warrant or the creditor's examining authority in the case of an unregistered option provided that all such rules have been approved or amended by the SEC." This change could not take effect until the provision in the final rule delegating authority over options to the SROs became effective.

Regulatory Flexibility Act

The Board has concluded after reviewing the proposed regulation that, if adopted, it would not impose a significant economic hardship on small institutions. The proposal does not necessitate the development of sophisticated recordkeeping or reporting systems by small institutions; nor will small institutions need to seek out the expertise of specialized accountants, lawyers, or managers in order to comply with the regulation. The proposal is designed to reduce the complexity and burden of Regulation T. The Board therefore certifies pursuant to section 605b of the Regulatory Flexibility Act (5 U.S.C. 605b) that the proposal, if adopted, will not have a significantly adverse economic impact on a substantial number of small entities within the meaning of the Regulatory Flexibility Act (5 U.S.C. 601 *et. seq.*).

Paperwork Reduction Act

In accordance with section 3506 of the Paperwork Reduction Act of 1995 (44 U.S.C. Ch. 35; 5 CFR 1320 Appendix A.1), the Board reviewed the proposed rule under the authority delegated to the Board by the Office of Management and Budget. Comments on the collections of information should be sent to the Office of Management and Budget, Paperwork Reduction Projects 7100–0001 (or 7100–0004), Washington, DC 20503, with copies of such comments to be sent to Mary M. McLaughlin, Federal Reserve Board Clearance Officer, Division of Research and Statistics, Mail Stop 97, Board of Governors of the Federal Reserve System, Washington, DC 20551.

The collection of information implications of the proposal to amend this regulation are found in 12 CFR part 220. This information is required to evidence compliance with the requirements of the Securities Exchange Act of 1934 (15 U.S.C. 78g). The respondents are for-profit financial institutions (7100–0001) and public corporations (7100–0004).

Implications for Reporting

The proposal to change the definition of "OTC margin stock by allowing a broker-dealer to extend credit on any stock traded on a national securities exchange, quoted on NASDAQ, or otherwise having a 'ready market' * * *" could lead to an increase in the number of respondents for the OTC Margin Stock Report (FR 2048; OMB No. 7100–0004) because of the increase in the number of firms whose stock would be marginable. The burden per response of 0.25 hours would not change. However, if it is decided that the stock of any firm listed on the NASD SmallCap market is automatically marginable, as currently is the case for the stocks of firms listed on the NASD National Market System, the FR 2048 could be eliminated. Currently, the FR 2048 is filed by approximately 75 respondents each quarter. The current annual burden of the FR 2048 is estimated to be 75 hours. Based on an hourly cost of $20, the annual cost to the public is estimated to be $1,500.

The Federal Reserve may not conduct or sponsor, and an organization is not required to respond to, an information collection unless it displays a currently valid OMB control number.

Comments are invited on: (a) whether the proposed amendments to this collection of information are necessary for the proper performance of the Federal Reserve's functions; including whether the information has practical utility; (b) the accuracy of the Federal Reserve's estimate of the burden of the proposed information collection, including the cost of compliance; (c) ways to enhance the quality, utility, and clarity of the information to be collected; and (d) ways to minimize the burden of information collection on respondents, including through the use of automated collection techniques or other forms of information technology.

[8] Regulation G does not contain a paperwork exemption for loans of $100,000 or less, so all loans secured by these new OTC margin stocks would require a "purpose statement" (Form FR G–3).

[9] Companies that extend credit to employers in connection with an employee benefit plan adopted by the company and approved by its stockholders are not subject to the 50 percent requirement normally imposed on loans secured by margin stock. 12 CFR 207.5. However, these companies must register with the Federal Reserve and provide annual reports of their securities credit activities.

List of Subjects

12 CFR Part 207

Banks, banking, Credit, Federal Reserve System, Reporting and recordkeeping requirements, Securities.

12 CFR Parts 220 and 221

Banks, banking, Bonds, Brokers, Credit, Federal Reserve System, Margin, Margin requirements, Investment companies, Investments, Reporting and recordkeeping requirements, Securities.

For the reasons set out in the preamble, the Board proposes to amend 12 CFR Part 220 as follows:

PART 220—CREDIT BY BROKERS AND DEALERS (REGULATION T)

1. The authority citation for Part 220 continues to read as follows:

Authority: 15 U.S.C. 78c, 78g, 78h, 78q, and 78w.

2. Section 220.2 is amended as follows:

a. By adding a new definition of *Margin equity security* in alphabetical order;

b. By revising paragraph (3) in the definition of *Margin security*;

c. By adding a new definition of *Non-equity security* in alphabetical order;

d. By removing the definition of *OTC margin bond.*

The additions and revisions read as follows:

§ 220.2 Definitions.

* * * * *

Margin equity security means a margin security that is an equity security (as defined in section 3(a)(11) of the Act.).

* * * * *

Margin security * * *

(3) Any non-equity security;

* * * * *

Non-equity security means a security that is not an equity security (as defined in section 3(a)(11) of the Act).

* * * * *

3. Section 220.3(b) is revised to read as follows:

§ 220.3 General provisions.

* * * * *

(b) *Separation of accounts*—(1) *In general.* The requirements of one account may not be met by considering items in another account. If withdrawals of cash or securities are permitted under the regulation, written entries shall be made when cash or securities are used for purposes of meeting requirements in another account.

(2) *Exceptions.* Notwithstanding paragraph (b) (1) of this section—

(i) For purposes of calculating the required margin for a security in the non-equity account or margin account, assets described in § 220.9(a) (1) or (2) may serve in lieu of margin;

(ii) Transfers may be effected between the margin account and the special memorandum account pursuant to §§ 220.4 and 220.5.

* * * * *

4. Section 220.4(b)(1) is revised to read as follows:

§ 220.4 Margin account.

* * * * *

(b) *Required margin*—(1) *Applicability.* The required margin for long or short positions in securities is set forth in § 220.18 (the Supplement) and is subject to the following exceptions and special provisions.

* * * * *

5. The text of § 220.13 is redesignated as paragraph (j) of § 220.3, the section heading of § 220.13 is redesignated as the heading of newly designated paragraph (j) of § 220.3, and § 220.13 is removed.

6. New section 220.13 is added to read as follows:

§ 220.13 Non-equity account.

(a) *Permissible transactions.* In a non-equity account, a creditor may effect and finance any transaction involving any non-equity security. No transaction or withdrawal shall be allowed if it would cause the account to liquidate to a deficit.

(b) *Required margin.* The required margin for transactions effected in the non-equity account is set forth in § 220.18 (the Supplement).

7. Section 220.16 is amended by revising the second sentence of paragraph (a) and the last sentence of paragraph (b) to read as follows:

§ 220.16 Borrowing and lending securities.

Option 1 for Paragraph (a)

(a) * * * Each borrowing shall be secured by a deposit of one or more of the following: cash, cash equivalents, foreign sovereign nonconvertible debt securities that are margin securities, collateral acceptable for borrowings of securities pursuant to SEC Rule 15c3-3 (17 CFR 240.15c3-3), irrevocable letters of credit issued by a bank insured by the Federal Deposit Insurance Corporation or a foreign bank that has filed an agreement with the Board on Form FR T-1, T-2, or any margin security, valued at its loan value.* * *

Option 2 for Paragraph (a)

(a) * * * Each borrowing shall be secured by a *bona fide* deposit of collateral equal to at least 100 percent of the market value of the securities borrowed.* * *

(b) * * * Each borrowing shall be secured by a *bona fide* deposit of collateral equal to at least 100 percent of the market value of the securities borrowed.

8. Section 220.18 is amended by revising the introductory text and paragraphs (b) through (d) to read as follows:

§ 220.18 Supplement: Margin requirements.

The required margin for positions held in a margin account shall be as follows:

* * * * *

(b) Exempted security, non-equity security, money market mutual fund, or exempted securities mutual fund: the margin required by the creditor in good faith or the percentage set by the regulatory authority where the trade occurs, whichever is greater.

(c) Short sale of a nonexempted security, except for a non-equity security: 150 percent of the current market value of the security, or 100 percent of the current market value if a security exchangeable or convertible within 90 calendar days without restriction other than the payment of money into the security sold short is held in the account.

(d) Short sale of an exempted security or non-equity security: 100 percent of the current market value of the security plus the margin required by the creditor in good faith.

* * * * *

By order of the Board of Governors of the Federal Reserve System, April 24, 1996.

William W. Wiles,

Secretary of the Board.

[FR Doc. 96-10608 Filed 5-3-96; 8:45 am]

BILLING CODE 6210-01-P

NASD NOTICE TO MEMBERS 96-40

SOES Tier Levels Set To Change July 1, 1996

Suggested Routing

- ☐ Senior Management
- ☐ Advertising
- ☐ Corporate Finance
- ☐ Government Securities
- ☐ Institutional
- ☐ Internal Audit
- ■ Legal & Compliance
- ☐ Municipal
- ☐ Mutual Fund
- ■ Operations
- ☐ Options
- ☐ Registration
- ☐ Research
- ☐ Syndicate
- ■ Systems
- ■ Trading
- ☐ Training

Executive Summary

Effective July 1, 1996, tier sizes for 728 Nasdaq National Market® securities will be revised in accordance with NASD Rule 4710(g) (formerly ¶2451a7 of the Rules of Practice) and Procedure for the Small Order Execution System.

For more information, please contact Nasdaq Market Operations at (203) 378-0284.

Description

Under the NASD Rule 4710, the maximum SOES order size for a Nasdaq National Market security is 1,000, 500, or 200 shares depending on the trading characteristics of the security. The maximum SOES order size for a Nasdaq National Market security also corresponds to the minimum quote size requirement for Nasdaq® market makers in that security [NASD Rule 4613(a)(2)(formerly Schedule D to the NASD® By-Laws, ¶1819, Part V, Section 2a)]. The Nasdaq Workstation II℠ indicates the minimum quote size requirement for each Nasdaq National Market security in its bid/offer quotation display. The indicator "NM10," "NM5," or "NM2" is displayed to the right of the security name, corresponding to a minimum-size display of 1,000, 500, or 200 shares, respectively.

The criteria for establishing SOES tier sizes are as follows:

- A 1,000-share tier size was applied to those Nasdaq National Market securities that had an average daily non-block volume of 3,000 shares or more a day, a bid price that was less than or equal to $100, and three or more market makers.

- A 500-share tier size was applied to those Nasdaq National Market securities that had an average daily non-block volume of 1,000 shares or more a day, a bid price that was less than or equal to $150, and two or more market makers.

- A 200-share tier size was applied to those Nasdaq National Market securities that had an average daily non-block volume of less than 1,000 shares a day, a bid price that was less than or equal to $250, and less than two market makers.

In accordance with the NASD Rule 4710, Nasdaq periodically reviews the SOES tier size applicable to each Nasdaq National Market security to determine if the trading characteristics of the issue have changed so as to warrant a tier-size adjustment. Such a review was conducted using data as of March 29, 1996, pursuant to the aforementioned standards. The SOES tier-size changes called for by this review are being implemented with two exceptions.

First, issues were not permitted to move more than one tier-size level. For example, if an issue was previously categorized in the 1,000-share tier, it would not be permitted to move to the 200-share tier, even if the formula calculated that such a move was warranted. The issue could move only one level to the 500-share tier as a result of any single review. In adopting this policy, the NASD was attempting to maintain adequate public investor access to the market for issues in which the tier-size level decreased and to help ensure the ongoing participation of market makers in SOES for issues in which the tier-size level increased.

Second, for securities priced below $1 where the reranking called for a reduction in tier size, the tier size was not reduced.

In addition, with respect to initial

public offerings (IPOs), the SOES tier-size reranking procedures provide that a security must first be traded on Nasdaq for at least 45 days before it is eligible to be reclassified. Thus, IPOs listed on Nasdaq within the 45 days prior to March 29, 1996, were not subjected to the SOES tier-size review.

Following is a listing of the 728 Nasdaq National Market issues that will require a SOES tier-level change on July 1, 1996.

Nasdaq National Market SOES Tier-Size Changes

All Issues In Alphabetical Order By Security Name
(Effective July 1, 1996)

Symbol	Company Name	Old Tier Level	New Tier Level
SRCE	1ST SOURCE CP	1000	500
TDGO	3-D GEOPHYSICAL INC	200	500
A			
ABCB	A B C BANCORP	500	1000
AMCRY	A M C O R LTD ADR	500	1000
AMLJ	A M L COMMUN INC	200	500
AMTL	A M T R O L INC	1000	500
AMXX	A M X CP	200	500
ATCEL	A T C ENVIR WTS C 96	1000	500
ASHEW	AASCHE TRANS SVC WTS	200	500
AATT	AAVID THERMAL TECH	200	500
ABACF	ABACAN RESOURCE CP	200	500
ABBK	ABINGTON SAVINGS BK	1000	500
ACMM	ACCOM INC	500	1000
ACCUF	ACCUGRAPH CP CL A	500	1000
ADCO	ADCO TECH INC	500	1000
ADTK	ADEPT TECH INC	200	500
ADLT	ADVANCED LIGHTING	200	500
ANMRW	ADVANCED NMR SYS WTS	500	1000
ADVS	ADVENT SOFTWARE INC	200	500
ACAR	AEGIS CONSUMER FD GP	500	1000
AGCH	AG-CHEM EQUIP CO INC	500	1000
AHIS	AHI HEALTHCARE SYS	500	1000
ACNAF	AIR CANADA CP A	200	500
MASK	ALIGN-RITE INTL INC	500	1000
AACIB	ALL AMER COMMUN B	500	1000
AORGB	ALLEN ORGAN CO B	200	500
ALRIZ	ALLERGAN LIGAND UTS	500	1000
ABGA	ALLIED BANKSHARES	500	1000
ALLA	ALLIED CAP ADVISERS	500	1000
RNCO	ALRENCO INC	200	500
AHCI	AMBANC HOLDING CO	200	500
AMIE	AMBASSADORS INTL INC	500	1000
AMBC	AMER BNCP OHIO	200	500
AFIL	AMER FILTRONA CP	500	200
AHEPZ	AMER HEALTH DEP SHRS	500	1000
ALGI	AMER LOCKER GROUP	200	500
ANBK	AMER NATL BNCP INC	500	1000
AMGD	AMER VANGUARD CP	500	1000
ABAN	AMERICAN BCSHS	200	500
AMCN	AMERICAN COIN MER	1000	500
ECGOF	AMERICAN ECO CP	500	1000
AMRN	AMERIN CP	200	500
ASHC	AMERISOURCE HEALTH A	500	1000
AMCS	AMISYS MANAGED CARE	200	500
PACE	AMPACE CORP	500	1000
ANAD	ANADIGICS INC	500	1000
NSTA	ANESTA CP	500	1000
APMC	APPLIED MICROSYS CP	500	1000
ARLWF	AREL COMMUN WTS A	500	1000
ADSP	ARIEL CORP	500	1000
ADSPW	ARIEL CORP WTS	500	1000
RELEF	ARIELY ADVERTISING	500	1000
ARTW	ART S WAY MFG CO INC	500	200
ARTC	ARTHROCARE CP	200	500
ARVI	ARV ASSISTED LIVING	500	1000
GOAL	ASCENT ENTER GROUP	200	500
ASBK	ASPEN BANCSHARES INC	500	1000
ATPC	ATHEY PRODUCTS CP	1000	500
ATLS	ATLAS AIR INC	500	1000
AIII	AUTOLOGIC INFO	200	500
B			
BESIF	B E SEMICON ORD SHRS	200	500
BFEN	B F ENTERPRISES INC	500	200
BGSS	B G S SYSTEMS INC	500	200
BHIKF	B H I CORP	500	1000
BKCS	B K C SEMICONDUCTORS	500	200
BTBTY	B T SHIP SPONSOR ADR	1000	500
BAANF	BAAN CO N.V.	500	1000
PAPA	BACK BAY RESTAURANT	1000	500
BLDPF	BALLARD POWER SYSTEM	500	1000
BFIT	BALLY TOTAL FITNESS	200	500

Symbol	Company Name	Old Tier Level	New Tier Level
BTEK	BALTEK CP	200	500
BMCCP	BANDO MCGLOC PFD A	200	500
BCOM	BANK OF COMMERCE (CA)	500	1000
BWFC	BANK WEST FIN CORP	500	1000
BKUNO	BANKUNITED FIN PFD	200	500
BPOPP	BANPONCE CP PFD A	1000	500
BBNK	BAYBANKS INC	1000	500
BMRQ	BENCHMARQ MICROEL	200	500
BNHN	BENIHANA INC	500	1000
BGAS	BERKSHIRE GAS CO	500	1000
BNCC	BNCCORP INC	1000	500
BOATZ	BOATMEN'S DEP SHS	200	500
BORAY	BORAL LTD ADS	200	500
BRCOA	BRADY W H CO CL A	500	1000
BBIOY	BRITISH BIO-TECH ADR	500	1000
BWAY	BROCKWAY STND HLD CP	500	1000
BMTC	BRYN MAWR BK CP	200	500
C			
CBBI	C B BANCSHARES INC	200	500
CBTC	C B T CP	500	1000
CBHI	C BREWER HOMES	1000	500
CFBN	C F B BANCORP INC	500	200
CKSG	C K S GROUP INC	200	500
CNET	C O M N E T CP	500	200
CPBI	C P B INC	200	500
CATX	C*ATS SOFTWARE INC	500	1000
CAMD	CAL MICRO DEVICES CP	500	1000
CALVF	CALEDONIA MINING CP	500	1000
CSTB	CALIFORNIA STATE BK	500	1000
CLNPP	CALLON PETRO PFD A	200	500
CMDA	CAM DESIGNS INC A	500	1000
CMDAW	CAM DESIGNS INC WTS	500	1000
CLZRW	CANDELA LASER CP WTS	200	500
CANX	CANNON EXPRES INC A	500	200
CNTL	CANTEL INDS INC	500	1000
CCBT	CAPE COD BK TR CO	200	500
CCOW	CAPITAL CP OF WEST	200	500
CSWC	CAPITAL SOUTHWEST CP	200	500
CRSI	CARDINAL REALTY SVCS	500	1000
CFLO	CARDIOMETRICS INC	500	1000
CVDI	CARDIOVASCULAR DIAG	200	500
CTND	CARETENDERS HEALTH	500	1000
CBNJ	CARNEGIE BANCORP	500	1000
CGIX	CARNEGIE GROUP INC	200	500
CSTL	CASTELLE	200	500
CLYS	CATALYST INTL INC	200	500
CWCOF	CAYMAN WATER ORD SHS	200	500
CLTK	CELERITEK INC	200	500
CVUS	CELLULARVSN USA	200	500
CVBK	CENTRAL VA BKSHS INC	500	200
CBCA	CHANCELLOR CP	200	500
CHANF	CHANDLER INS CO LTD	500	1000
CBSB	CHARTER FIN INC	500	1000
CWLR	CHARTWELL RE CP	500	1000
CHEM	CHEMPOWER INC	1000	500
CHERB	CHERRY CP CL B	1000	500
AAHS	CHILDREN'S BRDCSTG	500	1000
CTIM	CHILDTIME LEARN	200	500
CHIR	CHIRON CP	500	1000
CINRF	CINAR FILMS VTG B	1000	500
CNRMF	CINRAM LIMITED	200	500
CINS	CIRCLE INCOME SHARES	1000	500
CICS	CITIZENS BKSH INC	200	500
CTXS	CITRIX SYS INC	200	500
CHCO	CITY HOLDING CO	200	500
CTYS	CITYSCAPE FIN CP	200	500
CTRIS	CLEVETRUST RLTY SBI	500	200
CGAS	CLINTON GAS SYS	500	1000
CBSAP	COASTAL BANC PFD A	500	200
CBVI	COIN BILL VALID INC	500	1000
CDTX	COLONIAL DATA TECH	200	500
CBMD	COLUMBIA BANCORP MD	500	1000
CFBXZ	COMM FIRST DEP SH	200	500
CLCX	COMPUTER LEARNING	500	1000
CMSX	COMPUTER MGMT SCI	500	1000
CTRN	COMPUTRON SFTWR INC	500	1000
CTRA	CONCENTRA CP	500	1000
CPTS	CONCEPTUS INC	200	500
CNCT	CONNECTIVE THERA	200	500
CDLI	CONSOLIDATED DEL	500	1000
CMETS	CONTL MORTGAGE EQUIT	200	500
COSCB	COSMETIC CENTER CL-B	1000	500
COTL	COTELLIGENT GROUP	200	500
CAFEP	COUNTRY STAR PFD A	500	1000
CAFE	COUNTRY STAR REST	500	1000
MALL	CREATIVE COMPUTERS	500	1000
CRNSF	CRONOS GROUP (THE)	200	500
CVAN	CROWN VANTAGE INC	500	1000
CUNB	CUPERTINO NATL BNCP	1000	500
CYAN	CYANOTECH CP	500	1000
CYPR	CYPROS PHARM CORP	500	1000
CYPRZ	CYPROS PHARM WTS B	500	1000
CYTOW	CYTOGEN CP WTS	500	1000
D			
DMCVB	DAIRY MART STORES B	1000	500
DDII	DATA DOCUMENTS INC	500	1000

Symbol	Company Name	Old Tier Level	New Tier Level
DMAR	DATAMARINE INTL INC	1000	500
DANB	DAVE & BUSTERS INC	500	1000
DOCP	DELAWARE OTSEGO CP	200	500
DENRF	DENBURY RESOURCES	500	1000
DRTE	DENDRITE INTL INC	500	1000
DPAC	DENSE PAC MICRO SYS	500	1000
DEPO	DEPOTECH CORP	500	1000
DTOP	DESKTOP DATA INC	500	1000
DSWLF	DESWELL INDS INC	500	1000
DSWWF	DESWELL INDS INC WTS	500	1000
DTRX	DETREX CP	1000	500
DCRNZ	DIACRIN INC UTS	200	500
DHSM	DIAGNOSTIC HLTH SERV	500	1000
DHSMW	DIAGNOSTIC HLTH WTS	500	1000
DCPI	DICK CLARK PROD INC	500	1000
DGIT	DIGITAL GENERATION	200	500
DPNR	DIGNITY PARTNERS INC	200	500
DCTM	DOCUMENTUM INC	200	500
DOMZ	DOMINGUEZ SVCS CP	500	200
DSTR	DUALSTAR TECH CP	500	1000
DSTRW	DUALSTAR TECH WTS A	500	1000
E			
EMCG	E M C O R GROUP INC	200	500
ERLY	E R L Y INDS INC	500	1000
ESST	E S S TECHNOLOGY INC	500	1000
EBSI	EAGLE BANCSHARES	500	1000
EGPT	EAGLE POINT SFTWR CP	500	1000
EUSA	EAGLE USA AIRFRT	200	500
EDCO	EDISON CONTROL CP	500	200
EDIN	EDUCATIONAL INSGT	1000	500
EMSIW	EFFECT MGMT SYS WTS	500	200
EMSI	EFFECTIVE MGMT SYS	1000	500
ELCO	ELCOM INTL INC	200	500
ECTL	ELCOTEL INC	500	1000
ETCIA	ELECTRONIC TELECOM A	500	200
ESTR	ELECTROSTAR INC	200	500
ELEX	ELEXSYS INTL INC	200	500
ELRWF	ELRON ELEC IND WT	200	500
ECIN	EMCEE BROADCAST PROD	200	500
ESOL	EMPLOYEE SOLUTION	500	1000
EVTI	ENDOVASCULAR TECH	200	500
ENER	ENERGY CONV DEVICES	500	1000
ESIX	ENTERPRISE SYS INC	500	1000
EQMD	EQUIMED INC (DE)	500	1000
EQSB	EQUITABLE FED SAV BK	500	200
ESCMF	ESC MEDICAL SYS ORD	200	500
ESCA	ESCALADE INC	500	1000
ETEC	ETEC SYSTEMS INC	500	1000
EVGMP	EVERGRN MEDIA CP PFD	200	500
EXGN	EXOGEN INC	500	1000
EXTR	EXSTAR FINANCIAL CP	1000	500
STAY	EXTENDED STAY AMER	200	500
F			
FMBK	F & M BNCP INC	500	1000
FCBF	F C B FINANCIAL CP	500	1000
FCNB	F C N B CP	500	1000
FDPC	F D P CP	500	1000
FPBN	F P BANCORP INC	500	200
FYII	F Y I INC	200	500
FLCN	FALCON DRILLING CO	500	1000
FSBI	FIDELITY BANCORP INC	200	500
FFED	FIDELITY FED BNCP	500	1000
FFRV	FIDELITY FIN BKSH CP	1000	500
FNSC	FINANCIAL SEC CP	500	1000
FITC	FINANCIAL TRUST CP	1000	500
FFOX	FIREFOX COMMUN INC	500	1000
FBNC	FIRST BANCP TROY NC	500	200
FBSI	FIRST BANCSHARES INC	200	500
FBCG	FIRST BKG CO SE GA	200	500
FCTR	FIRST CHARTER CP	200	500
FCNCA	FIRST CITIZENS CL A	500	1000
FCFC	FIRST CITY FIN CP	500	1000
FCFCP	FIRST CITY FINL PFD	500	1000
FCWI	FIRST CMNWLTH INC	200	500
FDYMF	FIRST DYNASTY MINES	500	1000
THFF	FIRST FIN CP (IN)	200	500
FFBC	FIRST FINL BNCP (OH)	1000	500
CASH	FIRST MIDWST FIN INC	500	200
FMOR	FIRST MTGE CP	500	200
FPBK	FIRST PATRIOT BK	500	1000
FWWB	FIRST SAV BK OF WASH	500	1000
SOPN	FIRST SAVINGS BNCP	1000	500
UNTD	FIRST UNITED BCSHS	200	500
FWSH	FIRST WASH REALTY TR	500	1000
KIDD	FIRST YEARS INC THE	500	1000
FKBC	FIRST-KNOX BANC CP	200	500
FAME	FLAMEMASTER CP THE	500	200
FFPC	FLORIDA FIRST FED	500	1000
FFIC	FLUSHING FIN CP	200	500
FOOT	FOOTHILL INDEPENDENT	500	1000
FGAS	FORCENERGY GAS EXPL	500	1000
FFGI	FOREFRONT GRP INC	200	500
FBHC	FORT BEND HLDG CORP	200	500
GUSH	FOUNTAIN OIL INC	500	1000
FRAC	FRACTAL DESIGN CP	500	1000
FRAG	FRENCH FRAGRANCES	200	500

Symbol	Company Name	Old Tier Level	New Tier Level
FUSE	FUISZ TECH LTD	200	500
G			
GCREF	G C R HOLDINGS LTD	200	500
GTBX	G T BICYCLES INC	500	1000
GZEA	G Z A GEOENVIRONMENT	500	1000
GFIN	GAME FINANCIAL CP	500	1000
GLCCF	GAMING LOTTERY CP	500	1000
LTUS	GARDEN FRESH REST CP	500	1000
GRDG	GARDEN RIDGE CP	500	1000
GELX	GELTEX PHARM INC	500	1000
GMGC	GENERAL MAGIC INC	500	1000
GSCN	GENERAL SCANNING INC	500	1000
GNSAR	GENSIA INC RTS WI	500	200
GFCO	GLENWAY FIN CP	500	200
GLIA	GLIATECH INC	500	1000
GLBE	GLOBE BUSINESS RES	200	500
GTPS	GREAT AMER BNCP INC	500	1000
GSBC	GREAT SOUTHERN BNCP	200	500
GTIS	GT INTERACT SOFTWARE	200	500
GUAR	GUARANTEE LIFE CO	200	500
H			
HEMT	H F BANCORP INC	500	1000
HFNC	H F N C FINANCIAL CP	200	500
HPRI	H P R INC	500	1000
HPSC	H P S C INC	1000	500
HALL	HALLMARK CAP CP	200	500
HRBC	HARBINGER CP	500	1000
HOPS	HART BREWING INC	200	500
HVFD	HAVERFIELD CP	500	1000
HWKN	HAWKINS CHEMICAL INC	500	1000
HDSX	HDS NETWORK SYS INC	500	1000
HDSXW	HDS NETWORK SYS WTS	500	1000
HTST	HEARTSTREAM INC	200	500
HCCO	HECTOR COMMUN CP	500	1000
HELO	HELLO DIRECT INC	500	1000
HAHI	HELP AT HOME INC	200	500
HAHIW	HELP AT HOME INC WTS	200	500
HSIC	HENRY SCHEIN INC	500	1000
HBCI	HERITAGE BANCORP INC	200	500
HBNK	HIGHLAND FEDERAL BK	500	1000
HNFC	HINSDALE FINL CP	500	1000
HLGRF	HOLLINGER INC	500	1000
HPRKZ	HOLLYWOOD PK DEP SHS	1000	500
HOLO	HOLOPAK TECHS INC	1000	500
HOMEF	HOME CTRS (DIY) LTD	500	1000
HHCA	HOME HEALTH CP AMER	500	1000
HLND	HOMELAND BKSHS CP	500	1000
HHRD	HORSEHEAD RES DEV	1000	500
HCBK	HUDSON CHARTER BNCP	200	500
I			
ICGN	I C C TECHS INC	500	1000
IKOS	I K O S SYSTEMS INC	500	1000
IPSCF	I P S C O INC	200	500
IBISW	IBIS TECH CP WTS	500	1000
IBIS	IBIS TECHNOLOGY CP	500	1000
IDXC	IDX SYSTEMS CP	500	1000
ITLA	IMPERIAL THRIFT & LN	500	1000
INCY	INCYTE PHARM INC	200	500
ISCX	INDUSTRIAL SCI CORP	200	500
INFR	INFERENCE CP A	500	1000
INSGY	INSIGNIA SOLUT ADR	500	1000
TIPIF	INSTANT PUBLISHER	500	1000
IART	INTEGRA LIFESCIENCES	500	1000
IMSC	INTEGRATED MEASR SYS	500	1000
ISSI	INTEGRATED SILICON	500	1000
ICOMF	INTELECT COMM SYS	500	1000
INTE	INTERACTIVE GRP INC	500	1000
ITRC	INTERCARDIA INC	200	500
INTG	INTERGROUP CP THE	500	200
LINKW	INTERLINK ELEC WT 96	500	1000
LINK	INTERLINK ELECTRONIC	500	1000
INTRW	INTERSCIENCE COMP WT	500	1000
IVBK	INTERVISUAL BOOKS	1000	500
IVAC	INTEVAC INC	200	500
INDQB	INTL DAIRY QUEEN B	200	500
POST	INTL POST LIMITED	1000	500
IVIAF	INTL VERIFACT INC	500	1000
ITIC	INVESTORS TITLE CO	500	1000
IAAPF	IONA APPLIANCES INC	200	500
IPSW	IPSWICH SAV BK	200	500
IMTN	IRON MOUNTAIN INC	200	500
ILDCY	ISRAEL DEVEL LTD ADR	200	500
OVEN	ITALIAN OVEN INC	200	500
J			
JXVL	JACKSONVILLE SAVINGS	500	200
JCOR	JACOR COMMUN INC	500	1000
JCORW	JACOR COMMUN INC WTS	200	500
JANNF	JANNOCK LIMITED	500	200
DELI	JERRY'S FAMOUS DELI	500	1000

Symbol	Company Name	Old Tier Level	New Tier Level
K			
MENS	K & G MEN'S CTR	200	500
KLLM	K L L M TRANSPORT SV	1000	500
KTIE	K T I INC	500	1000
KTII	K TRON INTL INC	1000	500
KASH	KASH N KARRY FOOD ST	200	500
KAYE	KAYE GROUP INC	500	200
KTCO	KENAN TRANSPORT CO	200	500
KWIC	KENNEDY-WILSON	1000	500
KNSY	KENSEY NASH CP	200	500
KFBI	KLAMATH FIRST BNCP	500	1000
KKRO	KOO KOO ROO INC	500	1000
KRUGW	KRUG INTL CP WTS	200	500
L			
LATS	L A T SPORTSWEAR INC	1000	500
KNIC	L L KNICKBKR CO INC	500	1000
KNICW	L L KNICKBKR CO WTS	500	200
LXBK	L S B BANCSHARES NC	200	500
BOOT	LACROSSE FOOTWEAR	1000	500
LARK	LANDMARK BSCHS INC	500	1000
LSREF	LASALLE RE HLDGS LTD	500	1000
LTRE	LEARNING TREE INTL	200	500
LCRY	LECROY CP	500	1000
LFED	LEEDS FED SAV BK	500	200
LHSPF	LERNOUT & HAUSPIE	200	500
LGAM	LEXINGTON GLBL ASSET	200	500
LECOA	LINCOLN EL A NON VTG	500	1000
LECO	LINCOLN ELECTRIC CP	500	1000
LFBI	LITTLE FALLS BNCP	200	500
LVNTF	LIVENT INC	200	500
LGWX	LOGIC WORKS INC	500	1000
LONDY	LONDON INTL PLC ADR	200	500
LPGLY	LONDON PAC GRP ADR	500	1000
LEIX	LOWRANCE ELECTRONICS	1000	500
LUMI	LUMISYS INC	500	1000
M			
MAIDY	M A I D PLC ADR	200	500
MBLF	M B L A FINL CORP	200	500
METG	M E T A GROUP INC	200	500
MROC	M O N R O C INC	1000	500
MACC	MACC PRIVATE EQU INC	500	200
MKIE	MACKIE DESIGNS INC	500	1000
MARN	MARION CAP HLDGS INC	500	1000
MFCX	MARSHALLTOWN FIN	500	200
MSDX	MASON-DIXON BCSHS	1000	500
MXSBP	MAXUS ENERGY CP PFD	500	1000
MFLR	MAYFLOWER CO OP BK	200	500
MOIL	MAYNARD OIL CO	500	1000
MVCO	MEADOW VALLEY CORP	500	1000
MVCOW	MEADOW VALLEY CP WTS	500	1000
MECK	MECKLERMEDIA CP	500	1000
MECN	MECON INC	200	500
MCTH	MEDCATH INC	1000	500
MDCLW	MEDICALCONTL INC WTS	500	1000
MEDP	MEDPLUS INC	500	1000
MBVT	MERCHANTS BANCSHARES	500	1000
MRET	MERIT HOLDING CP	200	500
MLAB	MESA LABS INC	200	500
MTLS	METATOOLS INC	200	500
MTRA	METRA BIOSYSTEMS	500	1000
MLOG	MICROLOG CP	500	1000
MTMC	MICROS TO MAINFRAME	500	1000
MSFT	MICROSOFT CP	1000	500
MTMI	MICROTEK MEDICAL INC	500	1000
MPDI	MICROWAVE POWER DEVC	500	1000
MIAMP	MID AM CUM CNV PFD A	200	500
MCCI	MIDCOM COMMUN INC	500	1000
MIDC	MIDCONN BANK	500	1000
MIDD	MIDDLEBY CORP (THE)	200	500
MGRY	MILGRAY ELECTRONICS	500	1000
MNMD	MINIMED INC	500	1000
MMAN	MINUTEMAN INTL INC	200	500
MVBI	MISSISSIPPI VALLEY	200	500
MIZR	MIZAR INC	1000	500
MINI	MOBILE MINI INC	500	1000
MDCC	MOLECULAR DEVICES CP	200	500
MAHI	MONARCH AVALON INC	500	200
MORP	MOORE PRODUCTS CO	200	500
MRRW	MORROW SNOWBOARDS	200	500
MTBN	MOUNTBATTEN INC	500	1000
MOYC	MOYCO TECH INC	200	500
LABL	MULTI COLOR CP	1000	500
MYGN	MYRIAD GENETICS INC	500	1000
MYSW	MYSOFTWARE COMPANY	500	1000
N			
NALF	N A L FIN GRP INC	500	1000
NANO	NANOMETRICS INC	500	1000
NBAK	NATL BNCP OF ALASKA	500	200
NCMC	NATL CAPITAL MGMT CP	500	200
NCBE	NATL CITY BANCSHARES	500	1000
NEGX	NATL ENERGY GROUP A	500	1000
NMFS	NATL MED FIN SVCS CP	200	500
MBLA	NATL MERCANTILE BNCP	1000	500
NCSS	NCS HEALTHCARE INC A	200	500

Symbol	Company Name	Old Tier Level	New Tier Level
NIIUF	NEOZYME II UTS	500	1000
NSCP	NETSCAPE COMMUN CP	500	1000
NTAP	NETWORK APPLIANCE	1000	500
NETK	NETWORK EXPRESS INC	500	1000
IMGXW	NETWORK IMAGING WTS	1000	500
NECB	NEW ENGLAND COMM A	500	1000
NHTB	NEW HAMPSHIRE THRIFT	1000	500
NFSL	NEWNAN SAV BK FSB	500	200
NMBS	NIMBUS CD INTL INC	500	1000
NKID	NOODLE KIDOODLE INC	200	500
ALES	NOR'WESTER BREWING	200	500
NORPY	NORD PACIFIC LTD ADR	500	1000
NSYS	NORTECH SYSTEMS INC	500	1000
NEIB	NORTHEAST IND BNC	500	1000
NRIM	NORTHRIM BANK	500	1000
NWPX	NORTHWEST PIPE CO	200	500
NOVI	NOVITRON INTL INC	1000	500
NWSLF	NOWSCO WELL SRVC LTD	200	500
NUCM	NUCLEAR METALS INC	200	500
NUCO	NUCO2 INC	200	500
NURTF	NUR ADVANCED TEC ORD	500	1000
NFLIW	NUTRITION FOR LFE WT	500	1000
NFLI	NUTRITION FOR LIFE	500	1000
O			
OSBF	O S B FINANCIAL CP	200	500
OTRX	O T R EXPRESS INC	1000	500
OAKT	OAK TECHNOLOGY INC	500	1000
OSII	OBJECTIVE SYS INT	200	500
ODETB	ODETICS INC CL B	500	200
OGLE	OGLEBAY NORTON CO	200	500
OLSAY	OLS ASIA HLDG ADR	500	1000
OLSWF	OLS ASIA HLDGS WTS	500	1000
OMEF	OMEGA FINL CP	500	1000
OMPT	OMNIPOINT CP	200	500
OPAL	OPAL INC	500	1000
OPEN	OPEN ENVIRONMENT CP	500	1000
OTEXF	OPEN TEXT CP	200	500
OPSI	OPTICAL SENSORS INC	200	500
ORVX	ORAVAX INC	500	1000
ORBT	ORBIT INTL CP	200	500
ORPH	ORPHAN MEDICAL INC	500	1000
P			
PCIS	P C I SVCS INC	1000	500
PDTI	P D T INC	500	1000
PFINA	P F INDS INC A	1000	500
PICM	P I C O M INS CO	500	1000
PSTV	P S T VANS INC	500	1000
PBBSF	PACIFIC BASIN BULK	500	1000
PHHM	PALM HARBOR HOMES	500	1000
PNDA	PANDA PROJECT INC	500	1000
PRDM	PARADIGM TECH INC	500	1000
PRXL	PAREXEL INTL CP	500	1000
PVSA	PARKVALE FINL CP	500	1000
PKWY	PARKWAY CO	200	500
PARL	PARLUX FRAGRANCES	500	1000
PGNS	PATHOGENESIS CP	200	500
PTLX	PATLEX CP	500	1000
PBIX	PATRIOT BANK CP	200	500
PEEK	PEEKSKILL FIN CP	200	500
PMFG	PEERLESS MFG CO	1000	500
PENC	PEN INTERCONNECT INC	500	1000
PENCW	PEN INTERCONNECT WTS	500	1000
PPLS	PEOPLES BK CP OF IND	1000	500
PBNB	PEOPLES SAV FINL CP	500	1000
PTIX	PERFORMANCE TECH INC	200	500
PERI	PERIPHONICS CP	500	1000
PMFI	PERPETUAL MIDWEST	500	1000
WIKD	PETE'S BREWING CO	500	1000
PMOR	PHAR-MOR INC	200	500
PMORW	PHAR-MOR INC WTS	200	500
PPDI	PHARM PROD DEV INC	200	500
PCOP	PHARMACOPEIA INC	200	500
PCYC	PHARMACYCLICS INC	500	1000
PGLD	PHOENIX GOLD INTL	500	1000
PHNXY	PHOENIX SHANNON ADS	500	1000
PHOC	PHOTO CONTROL CP	500	200
PHMX	PHYMATRIX CP	200	500
PHSS	PHYSICIAN SUPPORT SY	200	500
PHYS	PHYSIO-CONTROL	200	500
PKVL	PIKEVILLE NATL CP	500	1000
PNFI	PINNACLE FINL SVCS	500	1000
PIONA	PIONEER COS INC A	500	1000
PIXR	PIXAR	200	500
PMAT	PLASMA & MATERIAL	500	1000
SIGN	PLASTI LINE INC	1000	500
PBYP	PLAY BY PLAY TOYS	500	1000
PPTV	PPT VISION INC	500	1000
PRMO	PREMENOS TECH CP	500	1000
PREM	PREMIER FIN SVCS	500	1000
PRNIA	PREMIERE RADIO NET A	200	500
PENG	PRIMA ENERGY CP	1000	500
PETE	PRIMARY BANK	500	1000
PRNS	PRINS RECYCLING CP	500	1000
PWRR	PROVIDENCE WORCES RR	500	200
PURS	PURUS INC	1000	500

Symbol	Company Name	Old Tier Level	New Tier Level
Q			
QZARF	Q-ZAR INC	200	500
QTEL	QUINTEL ENTER INC	200	500
QUIP	QUIPP INC	500	1000
R			
RTWI	R T W INC	500	1000
RACF	RAC FIN GRP INC	200	500
RAPT	RAPTOR SYSTEMS INC	200	500
RARB	RARITAN BANCORP INC	200	500
RTEL	RAYTEL MEDICAL CP SE	200	500
RDIC	READICARE INC	500	1000
RLCO	REALCO INC	200	500
RLCOW	REALCO INC WTS	200	500
REDB	RED BRICK SYS INC	200	500
REED	REEDS JEWELERS INC	200	500
RGNT	REGENT ASSISTED	200	500
REMC	REMEC INC	200	500
RNREF	RENAISSANCERE HLDG	500	1000
RCGI	RENAL CARE GROUP INC	500	1000
RWAY	RENT-WAY INC	500	1000
REPB	REPUBLIC BCSHS INC	500	1000
RESI	REPUBLIC ENVIRON SYS	500	1000
RESR	RESEARCH INC	200	500
REXI	RESOURCE AMERICA INC	200	500
RMRPP	RESOURCE MORT PFD A	500	1000
ROIX	RESPONSE ONCOLOGY	500	1000
RHEM	RHEOMETRICS INC	500	200
RCHY	RICHEY ELCTS INC	500	1000
RSGI	RIVERSIDE GP INC	500	200
RNRC	RIVERSIDE NATL BANK	500	200
ROAD	ROADWAY EXPR WI	200	500
ROBN	ROBBINS AND MYERS	500	1000
ROCF	ROCKFORD INDS INC	500	1000
RMCF	ROCKY MT CHOCOLATE	500	1000
ROMC	ROMAC INTL INC	1000	500
RSTO	ROSE'S STORES INC	500	1000
RSTOW	ROSE'S STORES INC WTS	500	1000
RTEC	ROSS TECHNOLOGY INC	500	1000
RBPAA	ROYAL BANK PENN A	500	1000
RCCC	RURAL CELLULAR CP A	200	500
S			
SDLI	S D L INC	500	1000
SDNB	S D N B FINANCIAL CP	500	1000
SGVB	S G V BANCORP INC	500	1000
SMCC	S M C CP	500	1000
SOSS	S O S STAFFING SVCS	500	1000
SQAX	S Q A INC	200	500
SSET	S S E TELECOM INC	500	1000
SFGD	SAFEGUARD HEALTH ENT	500	1000
SLAB	SAGE LABS INC	200	500
SAGE	SAGEBRUSH INC	200	500
SHCID	SALICK HLTH NEW SPL	1000	500
SWMCF	SANCTUARY WOODS MULT	500	1000
SNDK	SANDISK CP	500	1000
SANO	SANO CP	500	1000
SPNSF	SAPIENS INTL CP ORD	500	1000
SAVLY	SAVILLE SYSTEMS PLC	500	1000
SCSC	SCANSOURCE INC	500	1000
SVECF	SCANVEC CO 1990 LTD	500	1000
BUNZ	SCHLOTZSKY'S INC	200	500
SCOP	SCOPUS TECH INC	200	500
USLM	SCOTTISH HERITABLE	500	1000
SEAM	SEAMAN FURNITURE CO	500	1000
SEWY	SEAWAY FOOD TOWN INC	200	500
SCUR	SECURE COMPUTING CP	500	1000
SMTL	SEMITOOL INC	500	1000
SENEB	SENECA FOODS CP B	500	200
SERO	SEROLOGICALS CP	500	1000
SHCR	SHERIDAN HEALTHCARE	500	1000
SLFC	SHORELINE FIN CP	200	500
SSTI	SILICON STORAGE TECH	200	500
SVRI	SILICON VALLEY RSRCH	500	1000
SFNCA	SIMMONS FIRST NATL A	500	1000
SIMN	SIMON TRANS SVCS	200	500
SMCO	SIMPSON MFG CO	1000	500
SIMWF	SIMWARE INC	500	1000
SESIZ	SMALL'S OIL WT B	200	500
SMOD	SMART MODULAR TEC	200	500
SMSI	SMITH MICRO SOFTWARE	500	1000
SFFB	SO FIN FED SAV BK	200	500
SWEBF	SOFTQUAD INTL INC	200	500
SWRT	SOFTWARE ARTISTRY	500	1000
SNSTA	SONESTA INTL A	500	200
SNUS	SONUS PHARM INC	500	1000
SRCM	SOURCE MEDIA INC	200	500
SMBC	SOUTHERN MO BNCP INC	1000	500
SLCM	SOUTHLAND CP	500	1000
OKSB	SOUTHWEST BNCP INC	500	1000
SVRNP	SOVEREIGN BNCP PFD B	500	1000
SPAB	SPACEHAB INC	200	500
SIMC	SPACETEC IMC CP	200	500
DIAGF	SPECTRAL DIAGNOSTICS	1000	500
SPIR	SPIRE CP	500	200
SPCH	SPORT CHALET INC	1000	500
SISB	SPRINGFIELD INST SAV	500	1000
SPYG	SPYGLASS INC	500	1000

Symbol	Company Name	Old Tier Level	New Tier Level
STLY	STANLEY FURNITURE	500	1000
SMCS	STAR MULTI CARE SVCS	500	1000
SFSW	STATE FINL SVCS CL A	500	1000
STER	STERLING HLTHCRE GRP	500	1000
ISEE	STERLING VISION INC	500	1000
SWBC	STERLING WEST BNCP	500	1000
STLBY	STOLT-NIELSEN SA ADR	200	500
SUMIZ	SUMITOMO DEP SH	1000	500
SUMX	SUMMA INDUSTRIES INC	200	500
SUMT	SUMMIT MED SYS	500	1000
ASIA	SUNBASE ASIA INC	200	500
SRBC	SUNRISE BNCP CALIF	500	1000
SPPR	SUPERTEL HOSPITALITY	500	1000
SYMT	SYMETRICS INDS INC	500	1000
SNAP	SYNAPTIC PHARM CP	200	500
SYNX	SYNC RESEARCH INC	500	1000
T			
TPNZ	TAPPAN ZEE FIN INC	500	1000
TAGS	TARRANT APPAREL GRP	500	1000
TCICP	TCI COMMUN PFD A	200	500
TFRC	TECHFORCE CP	200	500
TENWF	TEE-COM ELECT WTS	200	500
TGAL	TEGAL CP	500	1000
LBTYA	TELE COMM A LBY MEDA	500	1000
TCOMB	TELE COMMUN INC CL B	500	1000
TINTA	TELE-COMMUN INTL A	500	1000
TLMD	TELEMUNDO GRP INC A	500	1000
TLTN	TELTREND INC	500	1000
TSMAF	TESMA INTL INC A	500	200
TRBS	TEXAS REGIONAL CL A	500	1000
THIR	THIRD FINL CORP	200	500
TMSTA	THOMASTON MILLS A	1000	500
TMSR	THRUSTMASTER INC	500	1000
TBDI	TMBR/SHARP DRILL INC	1000	500
TODDA	TODD A O CP CL A	500	1000
TKIOY	TOKIO MARINE ADR	1000	500
TLGD	TOLLGRADE COMMUN	200	500
TCTC	TOMPKINS COUNTY TRCO	500	200
TSSW	TOUCHSTONE SFTWR CP	500	1000
TRNI	TRANS INDS INC	500	1000
TLII	TRANS LEASING INTL	1000	500
TSAI	TRANSACTION SYSTEM A	500	1000
TRCW	TRANSCOR WASTE SERV	500	1000
TLIC	TRANSPORT HLDGS A	500	1000
TRES	TRESCOM INTL INC	200	500
TPPPF	TRIPLE P NV	200	500
TSTI	TST/IMPRESO INC	500	1000
TFCO	TUFCO TECHS INC	1000	500
TYGN	TYLAN GENERAL INC	500	1000
U			
USBR	U S BRIDGE OF NY INC	500	1000
USBRW	U S BRIDGE OF NY WTS	500	1000
USCM	U S C I INC	200	500
CHDX	U S CHINA IND EXCH	500	1000
USRX	U S ROBOTICS CORP	1000	500
USSB	U S SATELLITE A	200	500
ULTR	ULTRADATA SYS INC	500	1000
ULTRW	ULTRADATA SYS WTS A	500	1000
UCMP	UNICOMP INC	500	1000
UNDG	UNIDIGITAL INC	200	500
UNMG	UNIMARK GROUP INC	500	1000
UACA	UNION ACCEPTANCE A	500	1000
UPCPO	UNION PLANTERS PFD E	500	1000
UNHC	UNISON HEALTHCARE CP	200	500
UCFCP	UNITED COS FIN PFD	500	1000
UFCS	UNITED FIRE CASUALTY	500	1000
UNBJ	UNITED NATL BNCP	200	500
USBN	UNITED SECURITY BNCP	500	1000
USAP	UNIVERSAL STAINLESS	500	1000
UPEN	UPPER PENINSULA ERGY	1000	500
USDC	USDATA CORP	500	1000
V			
VARL	VARI-L CO INC	500	1000
VSEIF	VENTURE SEISMIC LTD	500	1000
VSEWF	VENTURE SEISMIC WTS	500	1000
VRTY	VERITY INC	500	1000
VIAS	VIASOFT INC	500	1000
VIDA	VIDAMED INC	500	1000
VUPDA	VIDEO UPDATE INC A	500	1000
VUPDZ	VIDEO UPDATE WTS B	500	1000
VLGEA	VILLAGE SUPER MKT A	500	200
VSIO	VISIO CORP	500	1000
VSNR	VISIONEER INC	200	500
VISTE	VISTA 2000 INC	500	1000
VISWE	VISTA 2000 INC WTS	500	1000
VCOM	VITALCOM INC	200	500
VOCLF	VOCALTEC LTD ORD SHS	200	500
VTEK	VODAVI TECHNOLOGY	500	1000
VCSI	VOICE CONTROL SYS	200	500
W			
WFSI	W F S FINANCIAL INC	500	1000
WSMP	W S M P INC	500	1000

Symbol	Company Name	Old Tier Level	New Tier Level
WVFC	W V S FINANCIAL CP	200	500
WNUT	WALNUT FIN SVCS INC	500	1000
WLTR	WALTER INDS INC	500	1000
WSTL	WESTELL TECH A	200	500
WPAC	WESTERN PACIFIC AIR	200	500
WPEC	WESTERN PWR & EQUIP	500	1000
WBPR	WESTERNBANK P R	500	1000
WEYS	WEYCO GP INC	200	500
WHRC	WHITE RIVER CP	1000	500
WLMR	WILMAR INDS INC	200	500
WIRL	WIRELESS ONE INC	500	1000
WCHI	WORKINGMENS CAP HLDG	200	500
X			
XATA	XATA CORP	200	500
XNVAY	XENOVA GRP PLC ADS	500	1000
XETA	XETA CP	500	1000
XTEL	XETEL CP	200	500
Y			
YANB	YARDVILLE NATL BNCP	500	1000
YFED	YORK FINANCIAL CP	1000	500
Z			
ZSEV	Z SEVEN FUND INC THE	500	1000
ZRAN	ZORAN CP	500	1000
ZCON	ZYCON CP	500	1000

NASD NOTICE TO MEMBERS 96-41

Independence Day: Trade Date-Settlement Date Schedule

Suggested Routing

- ☐ Senior Management
- ☐ Advertising
- ☐ Corporate Finance
- ☐ Government Securities
- ☐ Institutional
- ■ Internal Audit
- ■ Legal & Compliance
- ■ Municipal
- ☐ Mutual Fund
- ■ Operations
- ☐ Options
- ☐ Registration
- ☐ Research
- ■ Syndicate
- ■ Systems
- ■ Trading
- ☐ Training

Independence Day: Trade Date-Settlement Date Schedule

The Nasdaq Stock Market℠ and the securities exchanges will be closed on Thursday, July 4, 1996, in observance of Independence Day. "Regular way" transactions made on the business days noted below will be subject to the following schedule:

Trade Date	Settlement Date	Reg. T Date*
June 28	July 3	July 8
July 1	5	9
2	8	10
3	9	11
4	Markets Closed	—
5	10	12

*Pursuant to Sections 220.8(b)(1) and (4) 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 five business days of the date of purchase or, pursuant to Section 220.8(d)(1), make application to extend the time period specified. The date by which members must take such action is shown in the column entitled "Reg. T Date."

Brokers, dealers, and municipal securities dealers should use these settlement dates for purposes of clearing and settling transactions pursuant to NASD Rule 11000 (formerly NASD 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 NASD Uniform Practice Department at (203) 375-9609.

NASD NOTICE TO MEMBERS 96-42

Fixed Income Pricing System Additions, Changes, And Deletions As Of May 30, 1996

Suggested Routing

- ■ Senior Management
- ☐ Advertising
- ■ Corporate Finance
- ☐ Government Securities
- ■ Institutional
- ☐ Internal Audit
- ■ Legal & Compliance
- ☐ Municipal
- ☐ Mutual Fund
- ■ Operations
- ☐ Options
- ☐ Registration
- ☐ Research
- ☐ Syndicate
- ■ Systems
- ■ Trading
- ☐ Training

As of May 30, 1996, the following bonds were added to the Fixed Income Pricing System (FIPS℠).

Symbol	Name	Coupon	Maturity
FDB.GA	Foodbrands American Inc	10.750	5/15/06
LOEH.GA	Loehmanns Inc New	11.875	5/15/03
CRBR.GB	Chancellor Radio Broadcasting Co	12.500	10/1/04
CVC.GF	Cablevision Systems Corp	10.500	5/15/16
CVC.GG	Cablevision Systems Corp	9.875	5/15/06
FD.GC	Federated Dept Stores Inc Del	8.500	6/15/03
RGRO.GD	Ralphs Grocery Company New	11.000	6/15/05
RGRO.GE	Ralphs Grocery Company New	13.750	6/15/05
CYAP.GA	Conn Yankee Atomic Pwr Co	12.000	6/1/00
GBFE.GA	Golden Books Family Entmt Inc	7.650	9/15/02
NU.GA	Northeast Utilities	8.500	12/1/06
OMI.GA	Owens & Minor Inc New	10.875	6/1/06

As of May 30, 1996, the following bonds were deleted from FIPS.

Symbol	Name	Coupon	Maturity
WEBC.GA	Webcraft Technologies Inc	9.375	2/15/02
PLX.GA	Plains Resources Inc	12.000	10/8/92
AUR.GA	Aurora Electronics Inc	9.250	11/15/96
AUR.GB	Aurora Electronics Inc	9.250	11/15/96
DAL.GA	Delta Airlines Inc Del	8.250	5/15/96
ORX.GD	Oryx Energy Company	9.300	5/1/96
PNH.GA	Public Service Company N.H.	8.875	5/15/96
WPGI.GA	Western Publishing Group Inc	7.650	9/15/02

All bonds listed above are subject to trade-reporting requirements. Questions pertaining to trade-reporting rules should be directed to James C. Dolan, NASD Market Surveillance, at (301) 590-6460.

DISCIPLINARY ACTIONS

Disciplinary Actions Reported For June

The NASD® has taken disciplinary actions against the following firms and individuals for violations of the NASD Rules of Fair Practice; securities laws, rules, and regulations; and the rules of the Municipal Securities Rulemaking Board. Unless otherwise indicated, suspensions will begin with the opening of business on Monday, June 17, 1996. The information relating to matters contained in this Notice is current as of the fifth of this month. Information received subsequent to the fifth is not reflected in this edition.

Firm Fined, Individual Sanctioned

Litwin Securities, Inc. (Miami Beach, Florida) and **Harold A. Litwin (Registered Principal, Miami Beach, Florida)** were fined $25,000, jointly and severally, and Litwin was barred from association with any NASD member as a financial and operations principal. The National Business Conduct Committee (NBCC) affirmed the sanctions following appeal of an Atlanta District Business Conduct Committee (DBCC) decision. The sanctions were based on findings that the firm, acting through Litwin, filed inaccurate FOCUS Part I and IIA reports and submitted false and misleading financial documents to the NASD. The firm, acting through Litwin, also failed to maintain current and accurate books and records and conducted a securities business while failing to maintain its minimum required net capital. The firm, acting through Litwin, failed to give notice of the capital deficiency to the Securities and Exchange Commission (SEC) and the NASD.

This action has been appealed to the SEC and the sanctions, other than the bar, are not in effect pending consideration of the appeal.

Firm Fined

Schneider Securities Inc. (Denver, Colorado) submitted an Offer of Settlement pursuant to which the firm was fined $12,500, jointly and severally with two individuals. Without admitting or denying the allegations, the firm consented to the described sanction and to the entry of findings that it engaged in an offering of securities in which investor funds were released from escrow before the receipt of the minimum subscription amount described in the offering circular. The findings also stated that the firm failed to supervise the conduct of the contingency offering in a manner reasonably designed to achieve compliance with NASD Rules and to supervise properly the office from which the offering was conducted. The NASD also found that the firm failed to establish, maintain, and enforce procedures to achieve compliance with SEC and NASD Rules pertaining to sales literature and advertising.

Individuals Barred Or Suspended

Roland Acevedo (Registered Representative, New York, New York) submitted an Offer of Settlement pursuant to which he was fined $75,000, suspended from association with any NASD member in any capacity for 60 days, and required to requalify by exam. Without admitting or denying the allegations, Acevedo consented to the described sanctions and to the entry of findings that he functioned as a general securities representative without being registered with the NASD. According to the findings, Acevedo failed to pass the required exam, solicited and opened new accounts, executed securities transactions for public customers, and generated about $35,000 in commissions.

Roy Ageloff (Registered Representative, Staten Island, New York) submitted an Offer of Settlement pursuant to which he was fined $7,500

and suspended from association with any NASD member in any capacity for five business days. Without admitting or denying the allegations, Ageloff consented to the described sanctions and to the entry of findings that, in contravention of the NASD Board of Governors Free-Riding and Withholding Interpretation, Ageloff failed to make a bona fide public distribution of common stock in that he effected the sale of units to a restricted account.

Louis A. Beckerman (Registered Representative, Newton, Massachusetts) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined $25,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Beckerman consented to the described sanctions and to the entry of findings that he converted for his own use and benefit funds totaling $39,183 that were intended for investment in certificates of deposit.

Jesse M. Chase, Jr. (Registered Representative, Jackson, Mississippi) was fined $13,000 and suspended from association with any NASD member in any capacity for one week. The sanctions were based on findings that Chase engaged in a pattern of trading in a public customer's account, without having reasonable grounds for believing that the trading was suitable, given the customer's financial situation, investment objectives, and needs. Chase also exercised discretion in a public customer's account without having obtained prior written authorization from the customer and prior written acceptance of the account as discretionary by his member firm. In addition, Chase provided documentation to a public customer that omitted or misstated material facts, in that the document failed to disclose the risks inherent with the trading strategy of the program, failed to disclose the increased trading costs and tax liabilities, and made unwarranted forecasts concerning future results.

Leontina M. Cieply (Associated Person, Westland, Michigan) submitted an Offer of Settlement pursuant to which she was fined $50,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Cieply consented to the described sanctions and to the entry of findings that she participated in the offer and sale of securities to public customers on a private basis and failed to give prior written notice of and obtain prior written authorization from her member firm to engage in such activities.

Sheldon Clifton (Registered Representative, Battle Creek, Michigan) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined $15,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Clifton consented to the described sanctions and to the entry of findings that he participated in the offer and sale of securities to public customers on a private basis and failed to give prior written notice of and obtain prior written authorization from his member firm to engage in such activities.

William R. Daniels (Registered Representative, Ridgeland, Mississippi) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined $100,000, barred from association with any NASD member in any capacity, and required to pay $62,696 in restitution. Without admitting or denying the allegations, Daniels consented to the described sanctions and to the entry of findings that he obtained eight checks from a public customer totaling $62,696, endorsed the checks, and deposited them into his personal bank account, thereby converting the funds for his own use and benefit.

Keith L. DeSanto (Registered Representative, New York, New York) was fined $15,000, suspended from association with any NASD member in any capacity for five days, and required to requalify by examination in all capacities. The United States Court of Appeals for the Second Circuit affirmed the sanctions following appeal of a June 1995 SEC decision. The sanctions were based on findings that DeSanto caused securities transactions to be effected in the accounts of two public customers without their knowledge, authorization, or consent.

Michael Dzurko (Registered Representative, Howard Beach, New York), Peter David Ragofsky (Registered Principal, Brooklyn, New York), and **Jay Nance (Registered Principal, Las Vegas, Nevada)** submitted Offers of Settlement pursuant to which Dzurko was fined $5,668.40 and suspended from recommending any penny stock transactions for two years. Ragofsky was fined $3,125.71 and suspended from recommending any penny stock transactions for two years. Nance was fined $5,000 and suspended from association with any NASD member as a general securities principal for 15 days. Without admitting or denying the allegations, the respondents consented to the described sanctions and to the entry of findings that Dzurko and Ragofsky effected $50,982 in penny stock transactions for public customers in contravention of SEC Rule 15g. The findings also stated that Nance failed to supervise two sales representatives to prevent ongoing penny stock violations and failed to respond adequately to red flag warning signals indicating that the sales representatives were continuing to violate the penny stock rules by improperly relying on the non-recommended trans-

action exemption. The NASD found that Dzurko solicited investors to purchase penny stocks and that Dzurko accepted orders from customers without being registered with the NASD.

Jonathan G. Fink, (Registered Representative, Los Angeles, California) and **Graham A. Rowe (Registered Principal, Los Angeles, California)** submitted Offers of Settlement pursuant to which Fink was suspended from association with any NASD member in any capacity for 60 days and ordered to requalify by exam as a general securities representative. Rowe was fined $5,000, jointly and severally with a member firm, suspended from association with any NASD member as a general securities principal for 15 days, and required to requalify by exam as a general securities principal. Without admitting or denying the allegations, the respondents consented to the described sanctions and to the entry of findings that Fink engaged in numerous purchase and sales transactions in various securities for the account of a public customer that were excessive in size or frequency in view of the financial resources and character of the account. The NASD found that Rowe failed to establish or follow adequate procedures reasonably designed to carry out the supervision of Fink to ensure compliance with applicable rules and failed to respond when confronted with various situations that indicated that the recommendations by Fink were unsuitable. The findings also stated that Rowe failed to approve promptly in writing each discretionary order entered in the discretionary account or to review such account at frequent intervals to detect and prevent the transactions.

John James Garahan (Registered Representative, Toms River, New Jersey) submitted an Offer of Settlement pursuant to which he was fined $5,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Garahan consented to the described sanctions and to the entry of findings that, by using his position at the securities operations division of a bank, he caused checks totaling $14,927.89 to be issued to his brother-in-law and caused an entry to made in the bank's accounts receivable to offset the checks. The findings also stated that Garahan failed to respond to NASD requests for information.

Carl W. Goings (Registered Representative, Springfield, Vermont) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined $5,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Goings consented to the described sanctions and to the entry of findings that he misappropriated for his own use and benefit insurance customer funds totaling $720.30.

Joseph G. Hartshorne (Registered Representative, Loudonville, New York) submitted an Offer of Settlement pursuant to which he was fined $30,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Hartshorne consented to the described sanctions and to the entry of findings that he improperly used customer funds totaling $2,465.56 for his own use and benefit. The findings also stated that Hartshorne failed to respond to NASD requests for information.

Richard Francis Norris (Registered Principal, Los Angeles, California) submitted an Offer of Settlement pursuant to which he was fined $10,000, suspended from association with any NASD member as a general securities principal for 15 days, and ordered to requalify by exam as a general securities principal. Without admitting or denying the allegations, Norris consented to the described sanctions and to the entry of findings that he failed to supervise the activities of an individual to assure compliance with the rules and failed to respond adequately to red flags when reviewing order tickets and monthly account statements that revealed unsuitable trading activity.

Joseph K. Norton (Registered Representative, Wrentham, Massachusetts) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined $7,500 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Norton consented to the described sanctions and to the entry of findings that he forged an insurance agent's signature on five life insurance commission checks made payable to the agent, co-signed each, and deposited them into his account wherein he withheld and misappropriated for his own use and benefit proceeds totaling $1,409.69.

Bernard Pace (Registered Representative, Staten Island, New York) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined $31,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Pace consented to the described sanctions and to the entry of findings that he prepared and submitted to his member firm falsified life insurance applications.

Glenn P. Pellegrin (Registered Representative, Bourg, Louisiana) submitted an Offer of Settlement pursuant to which he was fined $175,000, barred from association with any NASD member in any capacity, and required to pay $317,585.12 in restitution to customers. Without admitting or denying the allegations, Pellegrin

consented to the described sanctions and to the entry of findings that he received from four individuals $317,585.12 for investment purposes, failed to invest the funds on the individuals' behalf, and, instead, converted the funds for his own use and benefit without their knowledge or consent. The findings also stated that Pellegrin prepared and sent false account statements to customers regarding their investments and made material misstatements regarding risk and return to customers so that the customers would liquidate their funds for these various investments. The NASD also determined that Pellegrin engaged in outside business activities and that he failed to disclose his ownership and operation of an entity to his member firms.

John C. Peterson, Jr. (Registered Principal, North Little Rock, Arkansas) and **William S. Loye (Registered Principal, Hot Springs, Arkansas)** submitted an Offer of Settlement pursuant to which Peterson was barred from association with any NASD member in any capacity and Loye was fined $25,000 and suspended from association with any NASD member in any capacity for three years. The fine will be reduced by any amount that Loye can demonstrate that he pays in satisfaction of an arbitration award. Without admitting or denying the allegations, the respondents consented to the described sanctions and to the entry of findings that in connection with a scheme involving the sale of a $4 million debenture be collateralized by an unencumbered bond, Peterson and Loye made, or caused to be made, untrue statements concerning material facts and/or omitted material facts. The findings also stated that Peterson and Loye failed to pay a $400,000 joint and several NASD arbitration award.

Robert L. Prescott (Registered Principal, Montgomery, Alabama) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined $10,000 and suspended from association with any NASD member in any capacity for two months. Without admitting or denying the allegations, Prescott consented to the described sanctions and to the entry of findings that he engaged in private securities transactions without prior written notice to and approval from his member firms. The NASD also found that Prescott failed to inform his member firm in writing of certain outside business activities.

John N. Salerno (Registered Representative, Chicago, Illinois) submitted an Offer of Settlement pursuant to which he was fined $10,000 and suspended from association with any NASD member in any capacity for five business days. Without admitting or denying the allegations, Salerno consented to the described sanctions and to the entry of findings that he sold and purchased securities for customer accounts without their knowledge or consent and without written or oral authorization to exercise discretion in the accounts.

Mark S. Shaner (Registered Principal, Fairfield, Iowa) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined $100,000, barred from association with any NASD member in any capacity, and required to pay $621,805 in restitution. Without admitting or denying the allegations, Shaner consented to the described sanctions and to the entry of findings that he withdrew funds from a limited partnership offering, used $675,000 of the funds to purchase a certificate of deposit that he used as collateral on a home construction loan, and withdrew $621,805 from the certificate of deposit to pay off the construction loan and various personal and business obligations without the knowledge or consent of the limited partners.

Sergio Silver (Registered Representative, Culver City, California) was fined $120,000, barred from association with any NASD member in any capacity, and ordered to pay $32,000 in restitution to a customer. The sanctions were based on findings that Silver received from a public customer five checks totaling $32,000 for investment purposes, cashed the checks, and converted the funds. Silver also failed to respond to NASD requests for information.

Gerald James Stoiber (Registered Representative, Mokena, Illinois) was fined $450,000, suspended from association with any NASD member in any capacity for six months, and required to pay $450,000 in restitution to public customers. However, the fine may be reduced by any amounts Stoiber pays in restitution to public customers. The NBCC imposed the sanctions following appeal of a Chicago DBCC decision. The sanctions were based on findings that Stoiber engaged in private securities transactions while failing to give prior written notice to and obtain prior written approval from his member firm to engage in such activities.

Stoiber has appealed this action to the SEC; the sanctions are not in effect pending consideration of the appeal.

Paul R. Tautvaisas (Registered Representative, Indian Head Park, Illinois) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined $20,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Tautvaisas consented to the described sanctions and to the entry of findings that he exercised discretion in the account of a public customer and failed to obtain written authorization from the customer and written acceptance of the discre-

tionary authority by his member firm.

Bryan A. Thomas (Associated Person, New Orleans, Louisiana) submitted an Offer of Settlement pursuant to which he was fined $150,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Thomas consented to the described sanctions and to the entry of findings that he submitted to the NASD false and inaccurate FOCUS Part I and IIA reports that falsely indicated that his member firm was not conducting business and falsely represented the status of his member firm's annual audit. The findings also stated that Thomas failed to respond to NASD requests for information.

Inga Marie Werlitz (Registered Principal, Westbury, New York) submitted a Letter of Acceptance, Waiver and Consent pursuant to which she was fined $100,000, barred from association with any NASD member in any capacity, and required to pay restitution. Without admitting or denying the allegations, Werlitz consented to the described sanctions and to the entry of findings that she wrote two checks totaling $18,100 that were drawn against the accounts of public customers and thereafter credited the accounts by debiting funds from another customer's account. The findings also stated that Werlitz executed unauthorized transactions in a public customer's accounts.

Individuals Fined

Phillip R. Cox (Registered Representative, Lebanon, Ohio) submitted an Offer of Settlement pursuant to which he was fined $15,000. Without admitting or denying the allegations, Cox consented to the described sanction and to the entry of findings that he offered and sold to investors shares of stock and failed to provide prior written notice to or receive authorization from his member firm to participate in these transactions.

Walter Durchhalter (Registered Principal, Middle Village, New York) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined $10,000 and required to qualify for Series 24 registration. Without admitting or denying the allegations, Durchhalter consented to the described sanctions and to the entry of findings that he served in a capacity which required a Series 24 registration, but failed to qualify for Series 24 registration by examination.

Salvatore Lauria (Registered Representative, New York, New York) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined $10,000 and required to qualify for Series 24 registration. Without admitting or denying the allegations, Lauria consented to the described sanctions and to the entry of findings that he failed to qualify for Series 24 registration by examination.

Steven J. Sogard (Registered Principal, Phoenix, Arizona) submitted an Offer of Settlement pursuant to which he was fined $15,000 and ordered to be subject to the requirement that should he wish to offer to sell any qualifying security, such offer to sell or sale must be made on the condition that all investor funds are deposited into and remain in an escrow account established and maintained in conformity with SEC Rule 15c2-4 until the earlier of the effective date of the issuer's registration as a broker/dealer or the date upon which the offering documents provide for the return of investor funds if broker/dealer registration has not occurred. Without admitting or denying the allegations, Sogard consented to the described sanctions and to the entry of findings that he offered and sold securities pursuant to three offering memoranda that contained material misrepresentations and omissions.

Firm Expelled For Failure To Pay Fines, Costs, And/Or Provide Proof Of Restitution In Connection With Violations

American Trading & Investments, Inc., Oklahoma City, Oklahoma

Firms Suspended

The following firms were suspended from membership in the NASD for failure to comply with formal written requests to submit financial information to the NASD. The actions were based on the provisions of NASD Rule 8210 (formerly Article IV, Section 5 of the NASD Rules of Fair Practice) and Article VII, Section 2 of the NASD By-Laws. The date the suspension commenced is listed after each entry. If the firm has complied with the requests for information, the listing also includes the date the suspension concluded.

Donnellan Haylett & Co., Inc., Sarasota, Florida (May 6, 1996)

Greystone Capital Group, Inc., Columbus, Ohio (May 6, 1996)

Intervest Capital Corporation, Jackson, Mississippi (May 6, 1996)

Metro Equities Corporation, Chicago, Illinois (May 6, 1996)

Taylor, Pruitt & Sylvester, Inc., Houston, Texas (May 6, 1996)

Suspensions Lifted

The NASD has lifted suspensions from membership on the dates shown for the following firms because they have complied with formal written requests to submit financial information.

James Harold Goode, Jr., San Clemente, California (April 23, 1996)

Land Mark, Inc., Brewer, Maine (April 22, 1996)

RBG Investments, Inc., Chicago, Illinios (April 30, 1996)

Individuals Whose Registrations Were Revoked For Failure To Pay Fines, Costs, And/Or Provide Proof Of Restitution In Connection With Violations

Timothy L. Burkes, Pleasanton, California

John D. Peckskamp, Jr., Cincinnati, Ohio

Bruce R. Rubin, Staten Island, New York

Ronald L. Wigington, Oklahoma City, Oklahoma

NASD Fines Reynolds Kendrick Stratton, Inc. And Eight Brokers A Total Of $415,000

The NASD announced that Reynolds Kendrick Stratton, Inc. (RKS), and eight brokers from the firm's San Francisco office, have been fined a total of $415,000 and censured. The eight brokers were also suspended for up to four months.

The announcement closes a formal disciplinary action filed by the NASD against the firm and the eight individuals in connection with their failure to disclose crucial negative information about Worldwide Collections Fund, Inc. (Worldwide) to investors. In 1992, RKS's San Francisco office sold more than one million shares of Worldwide in 500 separate transactions.

RKS has already paid its $50,000 fine under the settlement agreement. The fines against all eight brokers total $365,000. The eight brokers are: **Robert W. Kendrick**, **Jeffrey A. Kahn**, **Ruth E. Sutherland**, **Sione Tangen**, **Karen Mae Brantseg**, **Howard J. Levy**, **Dan Patrick Dougherty**, and **William John Drake**. RKS was based in Beverly Hills, California, although the brokers in today's action worked in the firm's San Francisco office. The firm ceased operations in 1994.

"Every broker's first responsibility is to his or her clients and to give them the information they need to make a sound investment," said Mary L. Schapiro, President of NASD Regulation, Inc., the independent operating subsidiary that regulates the nation's broker/dealers. "When that doesn't happen, it's the investor who suffers."

John Pinto, Executive Vice President Member Regulation added: "These were egregious sales practice violations. While there was material negative news about the issuer in public filings, this was not disclosed by the respondents when recommending the stock. This reflects total disregard for the interests of the public customers who were solicited to buy these shares."

These sanctions are the result of a lengthy investigation by NASD Regulation Enforcement Department. The disciplinary action was taken by the San Francisco DBCC.

Kendrick was censured, suspended from association with any NASD member in any principal capacity for three months, suspended from association with any NASD member in any capacity for 30 calendar days, and fined $150,000. To requalify as a General Securities Principal, Kendrick must pass the NASD Series 24 exam. Kendrick was Executive Vice President of retail sales.

Kahn and Sutherland were each censured, suspended from association with any NASD member in any capacity for four months, fined $75,000, and each must requalify as a general securities principal by taking the NASD exam. Kahn was the branch manager at RKS's San Francisco office until August 1992. Sutherland was the assistant branch manager until August 1992, when she became the branch manager.

Tangen and Dougherty were each censured, suspended from association with any NASD member in any capacity for 30 calendar days, fined $20,000, and each must requalify as a general securities representative by taking the NASD exam.

Brantseg was censured, suspended from association with any NASD member in any capacity for 30 calendar days, and must requalify as a general securities representative by taking the NASD exam.

Levy was censured, suspended from association with any NASD member in any capacity for 20 calendar days, fined $15,000, and must requalify as a general securities representative by taking the NASD exam.

Drake was censured, suspended from association with any NASD member in any capacity for 10 business days, fined $10,000, and ordered to requalify by examination as a general securities representative.

The NASD found, and RKS and the eight brokers consented to findings, that investors were not told about serious problems at Worldwide, including several adverse legal decisions against the company and the bankruptcy of Worldwide's major subsidiary.

Worldwide, whose founder and chief executive officer had a disciplinary history with the SEC, specialized in

the purchase and collection of defaulted consumer debt. To collect on this debt, Worldwide filed property liens against consumers, many of them in Florida. In January 1992, a Dade County Court invalidated all of Worldwide's existing property liens in Dade County. In March 1992, Worldwide was fined $1.8 million and found in contempt of court for refusing to remove the liens. This precipitated a bankruptcy filing in April 1992 by Worldwide's major subsidiary.

Kendrick, Kahn, and Sutherland also consented to findings that, as managers in the RKS San Francisco office, they made material misrepresentations and omissions concerning Worldwide to the brokers they supervised, who in turn recommended the security to customers based on those misrepresentations and omissions. RKS, Kendrick, Kahn, and Sutherland consented to findings that they inadequately supervised the RKS San Francisco office.

NASD Orders Fines And Restitution Of Nearly $600,000 Against Josephthal, Lyon & Ross, Inc; Imposes Additional Sanctions

The NASD fined Josephthal, Lyon & Ross, Inc., nearly $350,000 and ordered the firm to pay more than $225,000 in restitution to customers who were victimized by the firm's excessive mark-ups.

Josephthal's Chairman and Chief Executive Officer, Dan David Purjes, was censured in connection with these violations and its head trader, Frank Garriton, was suspended for 15 business days and fined $10,000.

The settlement between NASD Regulation, Inc., and Josephthal requires the firm to return $152,853 in excessive mark-ups, plus $72,364 in accrued interest, to customers in connection with the sale of the common stock of ACTV, Inc.

This disciplinary action results from three separate investigations conducted by NASD District Offices in New York and Boston.

"Protecting the nation's investing public means guaranteeing that every broker/dealer treat their customers fairly," said NASD Regulation President Mary L. Schapiro, "and not profiting by willfully overcharging investors is a key element of that protection. I am especially pleased that we were able to develop and implement a program to help investors recover their losses along with the interest due them."

Based in New York, Josephthal was also charged with other significant violations in addition to the mark-ups in ACTV stock. As part of the settlement agreement, Josephthal must conduct a comprehensive review of its supervisory procedures under the guidance of an independent consultant acceptable to NASD Regulation. The review will focus on areas cited in this action, and will make recommendations (which the firm must accept or propose a reasonable alternative) designed to remedy deficiencies in Josephthal's supervisory and compliance system.

Executive Vice President Member Regulation John Pinto said, "I view the protection of investors as our primary enforcement mission. The restitution portion of this settlement ensures that harmed investors are not only reimbursed for amounts that they were overcharged, but that they also receive over four years of interest for their lost opportunity costs. And the retention of an outside consultant ensures that the review conducted of the firm's compliance and supervisory structure is not only comprehensive, but an objective assessment of the firm's procedures."

Without admitting or denying the alleged violations, Josephthal, Purjes, and Garriton consented to NASD Regulation findings that the firm, acting through Purjes and Garriton, dominated and controlled the common stock of ACTV between July 23, 1991, and August 21, 1991. As a result, Josephthal was able to charge its customers excessive markups of between 5.26 percent and 41.7 percent over the firm's contemporaneous cost in 387 separate transactions.

As part of the settlement, the affected customers will be reimbursed more than $225,000, representing the amount that the customers were overcharged ($152,853.48) plus prejudgment interest dating back to the violative conduct ($72,364.15). Mark-ups in excess of 10 percent are deemed fraudulent, and therefore violate NASD Rule 2120 (formerly Article III, Section 18 of the NASD Rules of Fair Practice). Rule 2120, the NASD counterpart to SEC Rule 10b-5, prohibits the use of manipulative, deceptive, or other fraudulent devices in connection with the purchase or sale of any security.

Josephthal, acting through Purjes and Garriton, also distributed ACTV while bidding for and/or purchasing the same securities for the firm's account, and induced others to purchase the securities, before completing the distribution. This conduct violates SEC Rule 10b-6 which prohibits anyone engaged in the distribution of a particular security or securities from selling or purchasing (for any account in which they have a beneficial interest) any security which is part of that distribution, or attempting to induce others to purchase the particular security or securities in question, until they have completed their participation in the distribution.

Josephthal also consented to NASD Regulation findings that in two separate public offerings it failed to comply with the NASD Board of

Governors' Free-Riding and Withholding Interpretation. This policy requires that a bona fide distribution be made to public investors of any new issue that immediately trades at a premium over the public offering price. In this matter, Josephthal placed shares of two new issues (Medsonic, Inc., and Sciclone Pharmaceuticals), which traded at higher prices in the immediate after-market, in the firm's error accounts and later in the firm's trading account. As a result, the firm garnered improper profits and concessions of more than $33,000.

Josephthal also consented to findings that for nearly two years (between November 11, 1992, and August 31, 1994) it failed to register its branch office in Providence, Rhode Island, and did not designate it as a supervisory office, as required by the NASD. During the two-year period, Josephthal also improperly paid compensation belonging to certain registered representatives to a nonmember for investment banking activities conducted at the branch office, a practice which violates NASD Rule 2420 (formerly Article III, Section 25 of the NASD Rules of Fair Practice).

Purjes also consented to NASD Regulation findings that as the former president and current CEO of the firm, he was responsible for the Josephthal's failure to establish and maintain a system to supervise the activities of its employees. Josephthal and Purjes also agreed to NASD Regulation findings that the firm failed to establish, maintain, and enforce adequate supervisory procedures designed to prevent and detect violations described in this settlement.

FOR YOUR INFORMATION

NASD Reminds Members Of The Application Of The Primary Market-Maker Standards To IPOs

The NASD® is issuing this FYI to help ensure that members are fully aware of the ramifications under the Primary Market Maker (PMM) Standards Rule of an unexcused market maker withdrawal or failure to meet the "80-percent test." Under the PMM Standards Rule, NASD Rule 4612 (formerly Section 49 of the Rules of Fair Practice), if a member firm has obtained PMM status in 80 percent or more of the stocks in which it has registered, the firm may immediately become a PMM in an initial public offering (IPO) by registering and entering quotations in the issue (80-percent test). **However, if the market maker withdraws from the IPO on an unexcused basis any time during the calendar month in which the IPO commenced trading on Nasdaq®, or fails to meet the PMM standards for the month in which the IPO commenced trading on Nasdaq, then the entire firm is precluded from becoming a PMM in any other IPO for 10 business days following the unexcused withdrawal or failure to meet the PMM standards (10-day penalty rule).**

If a market maker were to register in an IPO as a non-PMM despite the fact that its firm met the 80-percent test, then the 10-day penalty rule would not be activated if the market maker were to withdraw from the IPO on an unexcused basis or were to fail to meet the PMM standards for the issue. **Since the system automatically appends a PMM designation to an "80-percent firm" when it registers in an IPO, it is incumbent upon the firm to notify Nasdaq Market Operations when it wishes to trade as a non-PMM before it begins quoting the issue.**

The following examples illustrate how the PMM Rule applies to IPOs. For these examples, XYZ is an IPO that commenced trading on Nasdaq on May 10 and MM is a market maker whose firm meets the 80-percent test.

Example 1 MM registers in XYZ on May 12 and immediately becomes a PMM. If MM withdraws from XYZ on May 21, MM's firm would be subject to the 10-day penalty rule for the 10 business days after May 21. Alternatively, if MM fails to meet the PMM standards for XYZ in May, MM's firm would be subject to the 10-day penalty rule for the first 10 business days of June, even if it remains registered in the stock.

Example 2 MM registers in XYZ on May 28 and immediately becomes a PMM in the issue. On May 29, MM withdraws from the stock on an unexcused basis. Because XYZ is deemed to be an IPO security until the end of May, MM's firm would be subject to the 10-day penalty rule for the 10 business days after May 29.

Example 3 MM chooses to register in XYZ as a non-PMM on May 15 by notifying Nasdaq Market Operations. If MM withdraws from XYZ on an unexcused basis during May or fails to meet the PMM standards for XYZ in May, it will not activate the 10-day penalty rule for MM's firm.

The NASD cautions member firms that they would lose the ability to be a PMM in an IPO for which they are the lead underwriter or a member of the underwriting syndicate if they are subject to the 10-day penalty.

Questions concerning this information should be forwarded to Glen Shipway, Senior Vice President, Nasdaq Market Operations, at (203) 385-6250; or Tom Gira, Associate General Counsel, at (202) 728-8957.