

INFORMATIONAL

Bond Mutual Fund Volatility Ratings

Rules Relating To Bond Mutual Fund Volatility Ratings Extended Two Years

SUGGESTED ROUTING

The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.

- Advertising/Investment Companies
- Executive Representatives
- Legal & Compliance
- Mutual Fund
- Registered Representatives
- Senior Management

KEY TOPICS

- Bond Mutual Fund Volatility Ratings
- NASD IM-2210-5
- NASD Rule 2210

Executive Summary

On August 10, 2001, the effectiveness of the National Association of Securities Dealers, Inc. (NASD®) rules that govern the use of bond mutual fund volatility ratings in member sales material was extended until August 31, 2003. NASD IM-2210-5 permits members and associated persons to include bond mutual fund volatility ratings in supplemental sales literature, subject to certain conditions. NASD Rule 2210(c)(3) requires supplemental sales literature containing bond mutual fund volatility ratings to be filed with the Advertising Regulation Department (the Department) for review and approval at least 10 days prior to use.

The Securities and Exchange Commission (SEC) originally approved IM-2210-5 and 2210(c)(3) on an interim 18-month pilot basis, which period was to expire on August 31, 2001. NASD Regulation, Inc. (NASD RegulationSM) proposed that the pilot period be extended an additional two years, until August 31, 2003. Pursuant to SEC rules, the proposal was effective immediately upon filing.

Included with this *Notice* is Attachment A (text of rule amendments).

Questions/Further Information

Questions or comments concerning this *Notice* may be directed to Thomas M. Selman, Senior Vice President, Investment Companies/Corporate Financing, NASD Regulation, at (240) 386-4533; Joseph P. Savage, Counsel, Investment Companies Regulation, NASD Regulation, at (240) 386-4534; or Sarah J. Williams, Assistant General

Counsel, NASD Regulation, at (202) 728-8083.

Background

On February 29, 2000, the SEC approved the adoption of NASD Interpretive Material 2210-5, which permits members and their associated persons to include bond mutual fund volatility ratings in supplemental sales literature (mutual fund sales material that is accompanied or preceded by a fund prospectus). The SEC also approved at that time new NASD Rule 2210(c)(3), which sets forth the filing requirements and review procedures applicable to sales literature containing bond mutual fund volatility ratings. Previously, the NASD Regulation staff interpreted NASD rules to prohibit the use of bond mutual fund volatility ratings in sales material.

IM-2210-5 permits the use of bond mutual fund volatility ratings only in supplemental sales literature and only if certain conditions are met:

- The word "risk" may not be used to describe the rating.
- The rating must be the most recent available and be current to the most recent calendar quarter ended prior to use.
- The rating must be based exclusively on objective, quantifiable factors.
- The entity issuing the rating must provide detailed disclosure on its rating methodology to investors through a toll-free telephone number, a Web site, or both.
- A disclosure statement containing all of the information required by the rule must accompany the rating. The statement must

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include such information as the name of the entity issuing the rating, the most current rating and the date it was issued, and a description of the rating in narrative form containing certain specified disclosures.

Rule 2210(c)(3) requires members to file bond mutual fund sales literature that includes or incorporates volatility ratings with the Department at least 10 days prior to use for Department approval. If the Department requests changes to the material, the material must be withheld from publication or circulation until the requested changes have been made or the material has been re-filed and approved. For a more complete description of IM-2210-5 and Rule 2210(c)(3), please see *NASD Notice to Members 00-23* (April 2000).

Extension Of Trial Period

The SEC originally approved IM-2210-5 and the new Rule 2210(c)(3) on an 18-month trial basis, which trial period was scheduled to expire on August 31, 2001, unless extended or permanently approved by the NASD at or before that date. NASD Regulation requested the 18-month trial period to provide an opportunity to assess whether the rule had facilitated the dissemination of useful, understandable information to investors, and whether it had prevented the dissemination of inappropriate and misleading information.

The Department has received very few filings pursuant to these provisions. In general, these filings have met the requirements of IM-2210-5. However, the staff does not believe that it has received a sufficient number of filings to evaluate adequately the rule's effectiveness. The staff believes that additional experience with the rule is necessary to evaluate adequately its effect on the delivery of accurate and useful information to investors concerning bond mutual fund volatility.

Accordingly, NASD Regulation is extending the expiration date of IM-2210-5 and Rule 2210(c)(3) for an additional two years, until August 31, 2003, to allow more filings to be made. Before this period expires, the NASD Regulation staff will evaluate the rule and determine whether to recommend that the rule be eliminated, modified, or permanently approved as is.

NASD Regulation also is amending IM-2210-5 to clarify that if it expires on August 31, 2003, Rule 2210(c)(3) also would expire at that time.

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ATTACHMENT A – RULE TEXT

New language is underlined; deletions are in brackets.

IM-2210-5. Requirements for the Use of Bond Mutual Fund Volatility Ratings

(This rule and Rule 2210(c)(3) will expire on August 31, [2001] 2003, unless extended or permanently approved by the Association at or before such date.)

(a) No change.

(b) No change.

(c) No change.

NASD Notice to Members 01-59—Request For Comment

**ACTION REQUESTED BY
OCTOBER 15, 2001**

Regulation Of Shelf Offerings

NASD Requests
Comment On Proposed
Rule Amendments To
Address Shelf Offerings
Of Securities; **Comment
Period Expires October
15, 2001**

SUGGESTED ROUTING

The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.

- Corporate Finance
- Legal & Compliance
- Registered Representatives
- Senior Management
- Trading & Market Making

KEY TOPICS

- IM-2440
- Mark-Up Policy
- Merchant Banking
- NASD Rule 2710
- NASD Rule 2720
- NASD Rule 2810
- Shelf Offerings
- Underwriting Compensation

Executive Summary

NASD Regulation, Inc. (NASD RegulationSM) proposes to amend NASD Rules 2710, 2720, 2810, IM-2440, and Schedule A to the NASD By-Laws to adopt filing requirements and fees for shelf offerings of securities, and to otherwise amend those rules to address shelf offerings.

The text of these proposed amendments is included with this *NASD Notice to Members—Request for Comment* (see Attachment A).

Action Requested

NASD Regulation encourages all interested parties to comment on the proposal. Comments must be received by **October 15, 2001**. Members and interested persons can submit their comments using the following methods:

- mailing in the checklist (Attachment B)
- mailing in written comments
- e-mailing written comments to pubcom@nasd.com
- submitting comments using the online form at the NASDR Web Site (www.nasdr.com)

If you decide to submit comments using both the checklist and one of the other methods listed above, please indicate that in your submissions. The checklist and/or written comments should be mailed to:

*Barbara Z. Sweeney
Office of the Corporate Secretary
NASD Regulation, Inc.
1735 K Street, NW
Washington, DC 20006-1500*

Important Note: The only comments that will be considered are those submitted via e-mail or

in writing. Before becoming effective, any rule change developed as a result of comments received must be adopted by the NASD Regulation Board of Directors, may be reviewed by the NASD Board of Governors, and must be approved by the SEC.

Questions/Further Information

As noted, written comment should be submitted to Barbara Z. Sweeney. Questions concerning this *NASD Notice to Members—Request for Comment* may be directed to Joseph E. Price, Director, or Paul M. Mathews, Staff Supervisor, Corporate Financing Department, NASD Regulation, at (240) 386-4623.

Background

NASD Rule 2710 regulates the underwriting terms and arrangements of most public offerings of securities sold through NASD members. The underwriting terms and arrangements of Direct Participation Program (DPP) offerings are regulated by NASD Rule 2810. NASD Rule 2720 regulates public offerings when the securities offered are those of a member, the member's parent company, an affiliate of the member, or a company with which a member has a conflict of interest. Pursuant to the filing requirements in Rule 2710, members must file public offerings that are subject to Rules 2710, 2720, and 2810 (collectively the "Corporate Financing Rules") with the Corporate Financing Department of NASD Regulation (Department) for review.

NASD Regulation applies the Corporate Financing Rules to shelf offerings that are made pursuant to Rule 415 under the Securities

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Act of 1933 (Securities Act). Certain shelf offerings of issuers with a three-year reporting history, significant float, and high trading volume are exempt from the Rules' filing requirements. The NASD discussed the application of the Corporate Financing Rules to shelf offerings in *NASD Notice to Members 88-101* and stated the following:

“[I]t is the view of the [Corporate Financing] Committee that the participation of a member in any offering of securities distributed pursuant to Rule 415 constitutes participation in a public offering [and]... any member who is named as a potential distribution participant in the registration statement or who may participate in any transaction that takes securities off the shelf is responsible for ensuring that a timely filing is made with the Department...”

Accordingly, NASD Regulation considers shelf offerings to be public offerings within the scope of the Corporate Financing Rules, and members that take securities off a shelf and sell them to the public must file information about the offering with the Department unless the transaction meets an exemption from the filing requirements provided in the Rules.

The application of the Corporate Financing Rules to shelf offerings has raised a number of practical problems. For example, when more than one member takes securities off a shelf and sells them to the public, it may be unclear which member must make the requisite filing with the Department. Members also have questioned whether filing fees should be based on the entire

amount of securities registered pursuant to Rule 415 or whether filing fees should be assessed only with respect to tranches that actually are taken off the shelf and sold.

Many issuers initially file shelf offerings with the SEC before they enter into underwriting agreements with members for the sale of the securities. Because the NASD filing requirements are the responsibility of its members rather than issuers, the issuer may not file the offering with the Department. Those issuers that do file with the Department often cannot identify, at the time of filing, the members that will be engaged in sales or provide information regarding underwriting discounts, commissions, or other terms and arrangements. In addition, issuers often file shelf-registered offerings on behalf of selling securityholders. Because sales off the shelf would be under the control of the securityholders in those offerings, the issuer may have little or no information regarding the selling arrangements between the securityholders and members.

Another difficult issue in regulating shelf-registered offerings involves the calculation of underwriting compensation. The proper calculation methodology is especially problematic because of the many kinds of transactions in which shelf-registered securities are distributed. For example, shelf offerings can be done as principal or agency transactions, at a fixed price or discount to the market price, or “at the market.” Shelf takedowns may either be made pursuant to an underwriting agreement or without any written agreement, and pricing arrangements may involve complex formulas, such as those found in equity line or PIPE transactions.

Finally, if members do not promptly file shelf-registered offerings prior to their participation in a takedown, the Department's review processes could delay the offering, thus affecting the registrant's ability to take advantage of market opportunities that shelf registration is designed to provide.

Although NASD Regulation recognizes that the Corporate Financing Rules can be amended to better address the issues discussed above, we continue to believe that regulating these transactions provides important investor protections against abusive practices, including fraud and manipulation. The majority of NASD Regulation enforcement actions involving shelf offerings have involved unseasoned and thinly traded issuers, but shelf offerings of larger issuers eligible for Form S-3 also have been the subject of enforcement actions. In addition, shelf offerings of larger issuers sometimes involve compliance issues with regard to the underwriting compensation limitations of Rules 2710 and 2810 and the conflict-of-interest provisions of Rule 2720.

Description Of Proposed Amendments Regarding Shelf Offerings

A. Summary of Proposal: NASD Regulation proposes to amend Rules 2710, 2720, and 2810 to accommodate the special characteristics of shelf offerings while continuing to require pre-filing review of the types of shelf offerings that require closer regulatory oversight. Most shelf offerings would have to be filed either after the transaction has occurred as a “Notice Filing” or prior to the transaction as a “Full Review Filing.” NASD Regulation would retain all of the current

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exemptions for shelf offerings of larger seasoned issuers and we propose a new transaction-based exception called the “Market Transaction Exception.”

We propose to make several conforming and clarifying amendments to the Corporate Financing Rules. For example, we would amend Rule 2710 to clarify how underwriting compensation is to be calculated, and how to apply the review period for underwriting compensation when shelf takedowns occur long after a shelf registration statement has been declared effective. We also propose to amend Rule 2720 to address the definition of investment grade rated debt and provide for coordination with Rule 2710 regarding shelf offering filing obligations and fee requirements. We propose to amend Rule 2810 so that DPP offerings that are registered and distributed pursuant to Rule 415 qualify for the new regulatory treatment of shelf offerings under Rule 2710. Conforming amendments also would include a proposal to amend the NASD’s Mark-Up Policy in IM-2440 so that it applies to takedowns and sales that would be exempt from the compensation limits in Rule 2710 pursuant to the new Market Transaction Exception and an amendment to Schedule A to the NASD By-Laws to address the payment of Corporate Financing filing fees for shelf offerings.

B. Notice Filings: In order to provide members with increased flexibility to quickly take advantage of market opportunities, NASD Regulation proposes to permit members to make “Notice Filings” for certain types of offerings. Members would not need a “no objections” opinion from the Department regarding underwriting terms and arrangements prior

to participating in the offerings. We also propose to create an electronic filing form for the Notice Filing.

1. Filing Requirement: Members would make Notice Filings after any takedown from the shelf that is not otherwise exempt from the filing requirements or required to be filed as a Full Review Filing. Offerings of investment grade rated debt that currently are required to be filed with the Department under Rule 2720 because they involve some conflict of interest also would be eligible for a Notice Filing.

2. Filing Procedure: Each member that participates in a shelf takedown would be responsible for making a Notice Filing that provides information about its participation.

a. General: We propose to require a Notice Filing no later than T+3 after each “takedown and/or sale” by a member. Each member selling securities registered on a shelf registration statement would be obligated to make a Notice Filing and pay a filing fee based on the value of the securities it sells.

b. Multiple Takedowns: If a member participates in multiple takedowns within the T+3 time period, the filing requirement will operate on a rolling T+10 basis. Thus, if additional takedowns occur within T+3 of the first takedown, the member can delay filing the required Notice, but no later than T+10 after the first takedown covered by the Notice. The Notice filed in such a case would provide

information on each of the takedowns. If a member participates in additional takedowns outside of the initial T+3 time period, then the member must make a separate Notice Filing after each takedown.

3. Filing Fee: Members that file a public offering of securities with the Department must pay a filing fee pursuant to the requirements in Section 6 of Schedule A to the NASD By-Laws (Schedule A). The required fee is equal to \$500 plus .01% of the proposed maximum offering price of all securities registered on a registration statement. The fee is capped at \$30,500 per registration statement. NASD Regulation proposes to amend Schedule A to address the payment of filing fees for Notice Filings. The NASD would waive the current minimum \$500 fee and impose a filing fee of .01% of the maximum anticipated sales price of the securities to be offered by the member to the public after each takedown. Members would not be required to pay de minimus fees of less than \$100 and the \$30,500 cap would apply to each takedown of securities off of a particular shelf.

4. Electronic Filing Process: We propose to create a Web-based electronic filing system for Notice Filings. The required information would be significantly less than that currently required for public offerings filed with the Department through COBRADesk. We anticipate that members making multiple Notice Filings could save previous submissions and change only the relevant

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portions in any new filing. We also expect to employ calculators, drop-down boxes, and other technological features to standardize and simplify the filing process. No hard-copy documents would be required to be submitted with a Notice Filing.

C. Full Review Filings: NASD Regulation proposes to continue to require the filing of certain shelf-registered offerings prior to a member's participation in the distribution. These offerings would be subject to the Department's standard review procedures under the Corporate Financing Rules, and members would continue to be prohibited from participating in such a distribution unless the Department has issued an opinion of "no objections" regarding the underwriting terms and arrangements.

1. Filings Required: NASD Regulation proposes to require Full Review Filings for non-exempt offerings:

- a. of securities of "thinly traded issuers," as proposed to be defined below, unless the sales qualify for the Market Transactions Exception;
- b. subject to Rule 2720, except that shelf takedowns and sales of "investment grade rated debt" will be eligible for Notice Filing;
- c. otherwise eligible for Notice Filing but in which a participating member:
 - i. has acquired unregistered equity securities of the issuer in the 180-day period prior to the day of the intended takedown;¹ or
 - ii. will receive underwriting compensation that exceeds 8% of the offering proceeds

(defined as "the maximum anticipated sales price of the maximum amount of securities to be offered to the public").

2. Definition Of Thinly Traded Issuer:

NASD Regulation proposes to define the term "thinly traded issuer" as an issuer that has publicly held equity securities held by non-affiliates that do not meet all of the following requirements:

- a. at least \$25 million in public float;
- b. at least \$100,000 average daily trading volume over the preceding 60 calendar days; and
- c. listed for at least 90 days on The Nasdaq Stock Market, a national securities exchange, or a "designated offshore securities market," as defined in Regulation S.

3. Definition Of Investment Grade Rated Debt:

NASD Regulation proposes to define the term "investment grade rated debt" for purposes of the Corporate Financing Rules as nonconvertible debt or preferred securities rated in one of the four highest generic rating categories by a nationally recognized statistical rating organization.

4. Review Practices: The Department proposes to change its review practices for Full Review Filings. Each member that participates in a shelf offering would have to determine whether its participation required a Notice Filing, a Full Review Filing or qualified for the Market Transactions Exception. The Department would no longer issue a "no objections" letter

that addresses all *potential* members that may participate in takedowns and sales. Instead, any opinion of no objections issued by the Department will only cover the arrangements entered into by the member that makes the Full Review Filing unless: (i) a managing underwriter makes the filing on behalf of a syndicate or selling group; (ii) each member that will participate in the distribution is identified; and (iii) detailed information is disclosed in the filing regarding the underwriting terms and arrangements.

5. Filing Fee: Filing fees for Full Review Filings would not change from those currently assessed under Schedule A.

D. The Market Transaction Exception (MTE):

In order to facilitate sales of securities from a shelf registration that are more similar to ordinary trading than to a "public offering," NASD Regulation proposes to adopt an exception from filing for market transactions in shelf-registered equity or convertible-to-equity debt securities. To be eligible for the exception, a transaction would be required to meet all of the following standards:

1. MTE Listing/Reporting Requirements:

The equity securities to be offered or the equity securities underlying a convertible security would have to be listed on The Nasdaq Stock Market, a national securities exchange, or quoted on the OTC Bulletin Board, and the issuer must have been an Exchange Act reporting company for at least 180 days.

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2. MTE Volume Limitations: No member sells securities in an amount that:

- a. on any single trading day is in excess of 5% of the average daily trading volume (ADTV), calculated in accordance with SEC Regulation M;
- b. over 10 trading days that is in excess of 20% of the ADTV; and
- c. exceeds 20% of the shelf-registered securities in the aggregate (A Notice or Full Review Filing would be required once the 20% threshold has been reached).

3. MTE Manner Of Sale

Limitation: The member could not engage in any “special selling efforts” but may engage in ordinary “solicitation.” “Special selling efforts” would include:

- a. “cold calling”;
- b. the payment of commissions to sales persons that are higher than normal for ordinary trading transactions; or
- c. the issuance of a research report with respect to the security that does not comply with SEC Rules 138 or 139.

4. MTE Compensation

Limitation: Transactions eligible for the exception are limited to takedowns and sales in which:

- a. the member does not receive a mark-up, mark-down, or commission greater than is customary for ordinary trading or that

does not comply with the NASD’s Mark-Up Policy; and

- b. the member has not acquired unregistered equity or equity-related securities of the issuer or any other item of compensation within the 180-day period prior to the date of the takedown.²

5. MTE Ineligible Transactions:

Transactions would not qualify for the exception if:

- a. the offering is subject to Rule 2720; or
- b. the transactions occur within 180 days of the issuer’s initial public offering or the issuer has not been a reporting company for 180 days at the time of the transactions.

E. Existing Filing Exemptions:

Rule 2710 currently exempts certain shelf offerings from the filing provisions. All current filing exemptions available for shelf offerings would be retained, including the exemption for offerings of the securities of issuers that meet the 36-month reporting history, public float, and trading volume standards that were used to determine the eligibility to file registration statements on Forms S-3 and F-3 prior to 1992. In addition, the Rule exempts shelf offerings by Canadian issuers that registered on SEC registration statement Form F-10.³ Offerings with conflicts of interest governed by Rule 2720 are not eligible for these exemptions.

NASD Regulation considered whether to expand the exemptions to all shelf-registered offerings filed on Forms S-3 and F-3. We decided not to propose this

expansion, however, because we are aware of manipulative and abusive practices involving listed issuers with less than a three-year reporting history. Accordingly, NASD Regulation proposes to retain the current standards in order to ensure the fairness of underwriting terms and arrangements in the case of less experienced and less well-capitalized issuers.⁴

F. Underwriting Compensation Calculation Methodology:

We propose to permit members to rely on one of several alternative methods to calculate the discount or commission received by members that participate in shelf offerings. The alternatives are intended to take into account the different characteristics of the securities sold in shelf offerings and recognize the different calculations currently used by members.

1. Transactions Governed By An Agreement:

When the shelf takedowns are governed by an underwriting, equity line, PIPE, or similar agreement between the issuer and any selling member, the amount of the commission or discount would be based on the calculation set forth in the agreement. Such agreements may be firm commitment underwriting agreements, best-efforts underwriting agreements, equity lines of credit agreements, purchase agreements, or some other form of agreement for the sale of securities from a shelf registration.⁵

2. Transactions Not Governed By An Agreement:

In the absence of an agreement governing a member’s participation in a takedown

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of securities from a shelf registration, the following alternative methods of calculation would be available.

- i. In an agency transaction, the commission would be the amount of the actual commission that is added to the sale price of the securities paid by investors;
- ii. In a principal transaction not governed by an agreement, we are proposing three alternative methodologies that members could utilize to determine compensation amounts. In order to be eligible to make a Notice Filing, a discount calculated in accordance with the methodologies, when added to any other items of value received by members participating in the offering, could not exceed 8%.

A. Resale Price Method: The discount would be calculated as the difference between the purchase price of the securities off the shelf and their resale price.

B. Prevailing Market Price Method: The discount would be calculated as the difference between the purchase price of the securities off the shelf and the “prevailing market price” of the security in the principal market at the time of purchase, as calculated by reference to IM-2440, the Mark-Up Policy, and *NASD Notice to Members 92-16*.⁶ Because this methodology would not work in a dominated or controlled market, we propose not to make it available for offerings of securities of thinly traded issuers.

C. Bought Deal Method: The discount would be calculated as the difference between the purchase price of the securities off the shelf and the price at which the first significant amount of sales after the takedown were executed. This methodology would take into account market price movements that occur subsequent to a member’s acquisition of the shelf-registered securities that could affect the discount, while ensuring that enough securities are sold to establish a reasonable, bona fide compensation calculation. Using the Bought Deal Method would require either that:

1. the purchase price of the takedown is of at least \$10 million but no more than \$50 million of securities and at least 50% of the securities are sold at the initial resale price or at lower prices; or
2. the purchase price of the takedown exceeds \$50 million and at least 25% of the securities are sold at the initial resale price or at lower prices; and
3. Request for Comment on a Volume Weighted Average Price (VWAP) methodology. NASD Regulation requests comment on whether the alternative calculation methodologies should include one that takes into account the daily volume weighted average price per share of the security in the principal market at the time of purchase as reported by a third-party quotation service.

4. Offering Proceeds. We also propose to amend the definition of “offering proceeds” in Rule 2710(a)(4) to provide that the offering proceeds in a shelf offering, which are used to determine both the filing fee and to calculate the amount of total compensation, shall be the maximum anticipated sales price of the securities that the member making the filing has sold (Notice Filing) or will offer to sell (Full Review Filing). The amount of compensation for a shelf offering would be calculated as follows. If, for example, the maximum discount is 5.5% using one of the methods set forth above, the amount of the discount will be considered to be 5.5% of the offering proceeds calculated in reliance on Rule 2710(a)(4). The value of any other items of value received by members participating in the offering would be factored into the offering proceeds to develop percentage values for each item of compensation. These percentage values would be added to the 5.5% discount in the example to determine the total amount of compensation.

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Endnotes

- 1 A member would not lose its eligibility to make a Notice Filing if its acquisition of unregistered equity securities qualified for one of the exceptions from underwriting compensation proposed in the amendments to Rule 2710(c)(5) pending at the SEC, File No. SR-NASD-00-04, Amendment No. 5. A PIPE or similar transaction in which a member or affiliate has purchased private placement securities that are immediately registered for distribution would be eligible for Notice Filing.
- 2 The only types of securities that would be covered by this limitation are the securities considered an item of compensation received in connection with the offering under Rule 2710(c)(3)(A). Thus, a member's purchase of the issuer's straight debt securities would not eliminate the member's ability to rely on the Market Transaction Exemption.
- 3 We propose to adopt new Rule 2710(b)(10)(D) to set out more clearly the eligibility requirements for the filing exemptions for shelf offerings on Forms S-3, F-3, and F-10. While these offerings are exempt from the Rule 2710 filing requirements, they must comply with the substantive requirements of Rule 2710 or Rule 2810, including the limitations on underwriting compensation.
- 4 We propose, however, to rescind an interpretation included in *Notice to Members 93-88* (December 1993) that provided that the exemptions were not available if shelf-registered securities were sold in conventional underwritten offerings within a few days following the effective date of the registration statement.
- 5 In its review of Full Review Filings and its post-effective review of Notice Filings, the Department will analyze the calculations and amounts paid to ensure compliance with the Corporate Financing Rules.
- 6 We propose to amend IM-2440 to clarify that the 5% policy does not apply to Full Review Filings or Notice Filings. Members relying on the Prevailing Market Price Method, however, would be required to calculate the applicable discount in accordance with the methodology for determining "prevailing market price" set forth in the Mark-Up Policy and *Notice to Members 92-16*.

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ATTACHMENT A

PROPOSED AMENDMENTS TO THE CORPORATE FINANCING RULES

(Note: New text is underlined; deletions are struck out.)

2710. Corporate Financing Rule - Underwriting Terms and Arrangements

(a) Definitions

(1) Investment Grade Rated Debt

Any public offering of straight debt or straight preferred securities rated in one of the four highest generic rating categories by a nationally recognized statistical rating organization.

(2) Issuer

The issuer of the securities offered to the public, any selling security holders offering securities to the public, any affiliate of the issuer or selling security holder, and the officers or general partners, directors, employees and security holders thereof.

~~(2)~~ (3) Net Offering Proceeds

Offering proceeds less all expenses of issuance and distribution.

~~(3)~~ (4) Offering Proceeds

The maximum public offering price of all securities offered to the public, not including securities subject to any overallotment option, securities to be received by the underwriter and related persons, or securities underlying other securities. In the case of a shelf offering, the maximum anticipated sales price of the securities that the member will offer to the public.

(5) Participating Member(s)

Any NASD member that is participating in a public offering, any associated person of the member, any members of their immediate family, and any affiliate of the member.

(4) (6) Participation or Participating in a Public Offering

Participation in the preparation of the offering or other documents, participation in the distribution of the offering on an underwritten, non-underwritten, or any other basis, furnishing of customer and/or broker lists for solicitation, or participation in any advisory or consulting capacity to the issuer related to the offering, but not the preparation of an appraisal in a savings and loan conversion or a bank offering or the preparation of a fairness opinion pursuant to SEC Rule 13e-3.

(7) Securities Act

The Securities Act of 1933, as amended.

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(8) Shelf Offering

Any offering of securities registered with the SEC and offered pursuant to SEC Rule 415, adopted under the Securities Act.

(9) Takedown

In connection with a shelf offering, the securities purchased by a member in a principal transaction or the securities sold by a member in an agency transaction. If a member enters into an underwriting, equity line, or similar agreement with an issuer or selling security holders with respect to a shelf offering, a takedown shall be the entire amount of securities registered on the registration statement that is covered by the agreement.

(10) Thinly-Traded Issuer

An issuer that has publicly held equity securities held by non-affiliates do not have a public float of at least \$25 million, an average daily trading volume (ADTV) of at least \$100,000 over the preceding 60 calendar days, and has not been listed for at least 90 calendar days on The Nasdaq Stock Market, a national securities exchange, or a designated offshore securities market, as defined in SEC Regulation S, under the Securities Act.

(6) (11) Underwriter and Related Persons

Consists of underwriter's counsel, financial consultants and advisors, finders, any participating member, and any other persons related to any participating member.

(b) Filing Requirements

(1) - (3) No change.

(4) No change

(B) No offering of securities subject to this Rule shall commence unless:

(i) the documents and information specified in subparagraphs (5) and (6) below have been filed with and reviewed by the Association; and

(ii) the Association has provided an opinion that it has no objections to the proposed underwriting and other terms and arrangements or an opinion that the proposed underwriting and other terms and arrangements are unfair and unreasonable, except that this requirement shall not apply in the case of a shelf offering subject to Notice filing under subparagraph (1)(B) below. If the Association's opinion states that the proposed underwriting and other terms and arrangements are unfair and unreasonable, the member may file modifications to the proposed underwriting and other terms and arrangements for further review.

(C) No change.

(5) No change.

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(6) Information Required to be Filed

- (A) No change.
- (B) No change.

(7) Offerings Exempt from Filing

Notwithstanding the provisions of subparagraph (1) above, documents and information related to the following public offerings need not be filed with the Association for review, unless subject to the provisions of Rule 2720. However, it shall be deemed a violation of this Rule or Rule 2810, for a member to participate in any way in such public offerings if the underwriting or other arrangements in connection with the offering are not in compliance with this Rule or Rule 2810, as applicable:

(A) securities offered by a corporate, foreign government or foreign government agency issuer which has unsecured non-convertible debt with a term of issue of at least four (4) years, or unsecured non-convertible preferred securities, rated by a nationally recognized statistical rating organization in one of its four (4) highest generic rating categories, except that the initial public offering of the equity of an issuer is required to be filed;

(B) non-convertible debt securities and non-convertible preferred securities rated by a nationally recognized statistical rating organization in one of its four (4) highest generic rating categories;

~~(C) offerings of securities:~~

~~(i) registered with the Commission on registration statement Forms S-3 or F-3 pursuant to the standards for those Forms prior to October 21, 1992 and offered pursuant to SEC Rule 415 adopted under the Securities Act of 1933, as amended; or~~

~~(ii) of a foreign private issuer incorporated or organized under the laws of Canada or any Canadian province or territory, and is registered with the Commission on Form F-10 pursuant to the standards for that Form approved in Securities Act Release No. 6902 (June 21, 1991) and offered pursuant to Canadian shelf prospectus offering procedures;~~

(C) securities offered pursuant to a redemption standby "firm commitment" underwriting arrangement registered with the Commission on Forms S-3, F-3 or F-10 (only with respect to Canadian issuers);

~~(E)~~ (D) financing instrument-backed securities which are rated by a nationally recognized statistical rating organization in one of its four (4) highest generic rating categories;

~~(F)~~ (E) exchange offers of securities where:

(i) the securities to be issued or the securities of the company being acquired are listed on The Nasdaq National Market, the New York Stock Exchange, or the American Stock

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Exchange; or

(ii) the company issuing securities qualifies to register securities with the Commission on registration statement Forms S-3, F-3, or F-10, pursuant to the standards for those Forms as set forth in ~~subparagraphs (C)(i) and (ii) of this paragraph~~ paragraph 10(D); and

~~(G)~~ (F) offerings of securities by a church or other charitable institution that is exempt from SEC registration pursuant to Section 3(a)(4) of the Securities Act.

(8) No change.

(9) Offerings Required to be Filed

Documents and information relating to all other public offerings including, but not limited to, the following must be filed with the Association for review:

- (A) direct participation programs as defined in Rule 2810(d)(2);
- (B) mortgage and real estate investment trusts;
- (C) rights offerings;
- (D) securities exempt from registration with the Commission pursuant to Section 3(a)(11) of the Securities Act of 1933, as amended, which is considered a public offering in the state where offered;
- (E) securities exempt from registration with the Commission pursuant to Rule 504 adopted under the Securities Act of 1933, as amended, which is considered a public offering in the states where offered;
- (F) securities offered by a bank, savings and loan association or common carrier even though such offering may be exempt from registration with the Commission;
- (G) securities offered pursuant to Regulation A or Regulation B adopted under the Securities Act of 1933, as amended;
- (H) exchange offers that are exempt from registration with the Commission under Sections 3(a)(4), 3(a)(9), or 3(a)(11) of the Securities Act of 1933 (if a member's participation involves active solicitation activities) or registered with the Commission (if a member is acting as dealer-manager) (collectively "exchange offers"), except for exchange offers exempt from filing pursuant to subparagraph (7)(F) above that are not subject to filing by subparagraph (9)(I) below;
- (I) any exchange offer, merger and acquisition transaction, or other similar corporate reorganization involving an issuance of securities that results in the direct or indirect public ownership of the member; and

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(J) any offerings of a similar nature that are not exempt under subparagraph (7) or (8) above; and

(K) shelf offerings pursuant to subparagraph (10) below.

(10) Shelf Offerings

(A) General Filing Requirement: A member that anticipates participating in a shelf offering in any capacity shall file with the Association the documents and information with respect to the offering specified in subparagraphs (5) and (6) above no later than one business day after the filing or submission of the registration statement with the SEC or, if the member's participation is to occur at least fifteen business days after effectiveness of the registration statement, no later than fifteen business days prior to the anticipated date on which offers will commence:

(B) Notice Filing: A member that is required to file an offering pursuant to subparagraph (A) above, may instead file a Notice with the Association disclosing information required in the form of Notice no later than T+3 after the date of the takedown or, if more than one takedown occurs during the T+3 time period, no later than T+10 after the first takedown covered by the Notice, if the following conditions are met:

(i) the participating member will not receive compensation in excess of 8%, as calculated pursuant subparagraphs (e)(3) and (4) below.

(ii) the offering is not subject to Rule 2720, except for shelf offerings of only investment grade rated debt;

(iii) the participating member has not acquired any unregistered securities of the issuer within 180 days of its participation in the takedown; and

(iv) the securities offered are not those of a thinly-traded issuer.

(C) Market Transaction Exemption: A takedown of equity securities or convertible-to-equity debt securities off a shelf offering shall be exempt from the filing requirement in subparagraph (A) above if the following conditions are met:

(i) the conditions set out in subparagraph (B)(i)-(iii) above are met;

(ii) the securities offered are not those of a thinly-traded issuer, unless the thinly-traded issuer has been subject to the reporting requirements of Section 12 or 15(d) of the Securities Act for more than 180 days;

(iii) the takedown does not occur within 180 days of the issuer's initial public offering;

(iv) the security is listed on The Nasdaq Stock Market or a national securities exchange or quoted on the OTC Bulletin Board;

(v) no member sells an amount of securities in excess of:

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a. 5% of the average daily trading volume (ADTV), calculated in compliance with SEC Regulation M, on any trading day; and

b. 20% of the ADTV over 10 trading days; and

c. exceeds 20% of the shelf registered securities in the aggregate.

(vi) no member:

a. engages in special selling efforts or unusual solicitation activities, including “cold calling”;

b. grants higher-than-normal commissions to sales persons that are not standard for ordinary trading transactions; and

c. issues any research report with respect to the security that does not comply with SEC Rules 138 or 139.

(vi) no participating member receives compensation (including the mark-up, mark-down, or commission) that exceeds the amount permitted under NASD IM-2440, the Mark-Up Policy; and

(vii) the participating member has not acquired unregistered equity or equity-related securities of the issuer or any other item of underwriting compensation (excluding the mark-up, mark-down, or commission) within the 180 day period prior to the date of the takedown.

(D) Exemption From Filing: Notwithstanding subparagraphs (A) and (B) above, documents and information related to the following shelf offerings need not be filed with the Association for review, unless the shelf offering is subject to the provisions of Rule 2720. Shelf offerings of securities are exempt from the Rule’s filing requirements if the offering is:

(i) by a company that has been subject to the reporting requirements of Section 12 or 15(d) of the Act for at least 36 calendar months, and is current in its reporting obligations, if:

a. the company registers the offering with the Commission on registration statement Form S-3 and the aggregate market value of the company’s voting stock held by non-affiliates is at least \$150 million or, alternatively, at least \$100 million and the stock has had an annual trading volume of at least three million shares; or

b. the company registers the offering with the Commission on registration statement Form F-3 and the aggregate market value worldwide of the company’s voting stock held by non-affiliates is the equivalent of at least \$300 million; or

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(ii) registered with the Commission on Form F-10 by a foreign private issuer incorporated or organized under the laws of Canada or any Canadian province or territory and offered pursuant to Canadian reporting requirements for at least 36 calendar months, and is current in its reporting obligations, and the aggregate market value of the company's outstanding equity is at least (CN) \$75 million.

(10) and (11) renumbered (11) and (12).

(c) & (d) no change.

(e) Application of Rule to Shelf Offerings

(1) Shelf offerings filed under subparagraphs (b)(10)(A) and (B) are subject to subparagraph (c)(4) and subparagraph (c)(7), as follows:

(A) If a takedown occurs less than 15 business days following effectiveness of a shelf registration statement, the review period and lock-up restriction shall be based on the required filing date for the shelf offering under subparagraphs (b)(10)(A) above.

(B) If a takedown occurs 15 business days or more following effectiveness of a shelf registration statement, the review period and lock-up restriction shall be based on the earlier of the takedown or the commencement of sales.

(2) Compensation received by participating members shall include all items of value received and all arrangements entered into for the future receipt of an item of value, as required pursuant to subparagraph (c)(4) above, and shall not be unfair or unreasonable pursuant to paragraph (c) above.

(3) For purposes of determining the maximum amount of underwriting compensation that is considered fair and reasonable under subparagraph (c) (2), the discount or commission paid to members shall be:

(A) the amount calculated pursuant to the terms of an underwriting, equity line, or similar agreement that governs the transaction;

(B) in an agency transaction not governed by an agreement, the amount of the actual commission that is added to the sale price of the securities paid by investors;

(C) in a principal transaction not governed by an agreement, the difference between the purchase price of the securities off the shelf paid by members and either the:

(i) resale price of the security;

(ii) "prevailing market price" of the security in the principal market at the time of purchase, as calculated by reference to IM-2440, the Mark-Up Policy, and NASD Notice to Members 92-16 so long as the securities are not those of a thinly-traded issuer; or

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(iii) initial resale price of the security, so long as:

a. the purchase price of the takedown is of at least \$10 million but no more than \$50 million of securities and at least 50% of the securities are sold at the initial resale price or at lower prices; or

b. the purchase price of the takedown exceeds \$50 million of securities and at least 25% of the securities are sold at the initial resale price or at lower prices.

2720. Distribution of Securities of Members and Affiliates – Conflicts of Interest

(a) & (b) - No change

* * *

(c) Participation in Distribution of Securities of Member or Affiliate

(1) & (2) No Change

(3) If a member proposes to underwrite, participate as a member of the underwriting syndicate or selling group, or otherwise assist in the distribution of a public offering of its own or an affiliate's securities, or of securities of a company with which it or its associated persons, parent or affiliates have a conflict of interest, one or more of the following three criteria shall be met:

No Change

(B) the offering is of a class of equity securities for which a bona fide independent market exists as of the date of the filing of the registration statement and as of the effective date thereof; or

(C) the offering is of a class of securities rated ~~BAA or better by Moody's rating service or BBB or better by Standard & Poor's rating service or rated in a comparable category by another rating service acceptable to the Association~~ by a nationally recognized statistical rating organization in one of its four highest generic rating categories.

* * *

(m) Filing Requirements; Coordination with Rule 2710

(1) No change.

(2) All offerings of securities included within the scope of this Rule shall be subject to the provisions of Rule 2710, and documents and filing fees relating to such offerings shall be filed with the Association pursuant to the provisions of that Rule and Section 6 of Schedule A to the NASD By-Laws. The responsibility for filing the required documents and fees shall be that of the member issuing securities, or, in the case of an issue of an affiliate, the managing underwriter or, if there is none, the member affiliated with the issuer.

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(3) No change.

* * *

2810. Direct Participation Programs

* * *

(c) Filing Requirements: Coordination with Rule 2710

All offerings of securities included within the scope of this Rule shall be subject to the provisions of Rule 2710, and documents and filing fees relating to such offerings shall be filed with the Association pursuant to the provisions of that Rule and Section 6 of Schedule A to the NASD By-Laws.

(c) is renumbered (d).

* * *

IM-2440. Mark-Up Policy

* * *

(c) Transactions to Which the Policy is Applicable

The Policy applies to all securities handled in the over-the counter market, whether oil royalties or any other security, in the following types of transactions:

* * *

(6) Transactions in which a member sells securities from an offering registered with the SEC pursuant to SEC Rule 415 that relies on the exemption from filing with the Association under Rule 2710(b)(10)(C) for Market Transactions.

(d) Transactions to Which the Policy is Not Applicable

The Mark-Up Policy is not applicable to the sale of securities where a prospectus or offering circular is required to be delivered and:

(1) the securities are sold at the specific public offering price; or

(2) the securities are registered pursuant to SEC Rule 415 and are subject to the compensation limitations of Rule 2710 or Rule 2810.

Schedule A to the NASD By-Laws

Assessments and fees pursuant to the provisions of Article VI of the By-Laws of the NASD shall be determined on the following basis.

* * *

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Section 6 – Fees for Filing Documents Pursuant to the Corporate Financing Rule

(a) There shall be a fee imposed for the initial documents relating to any offering filed with the NASD pursuant to the Corporate Financing Rule equal to \$500 plus .01% of the proposed maximum aggregate offering price or other applicable value of all securities registered on an SEC registration statement or included on any other type of offering document (where not filed with the SEC), but shall not exceed \$30,500. The amount of filing fee may be rounded to the nearest dollar.

(b) There shall be an additional fee imposed for the filing of any amendment or other charge to the documents initially filed with the NASD pursuant to the Corporate Financing Rule equal to .01% of the net increase in the maximum aggregate offering price or other applicable value of all securities registered on an SEC registration statement, or any related Rule 462(b) registration statement, or reflected on any Rule 430A prospectus, or included on any other type of offering document. However, the aggregate of all filing fees paid in connection with as SEC registration statement or other type of offering document shall not exceed \$30,500.

(c) The fee imposed for a shelf offerings of securities filed with the NASD pursuant to pursuant to Rule 2710(b)(10)(A), shall be calculated pursuant to subsections (a) and (b) above.

(d) The fee imposed for shelf offering of securities filed with the NASD as a Notice Filing pursuant to Rule 2710(b)(10)(B), shall be equal to .01% of the maximum sales price of the maximum amount of securities that a member will offer to the public after each takedown off the shelf, but no member shall pay an excess of \$30,500 in connection with any takedown of securities. A member is not required to pay fees in amounts less than \$100 due under this section in connection with a Notice Filing.

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ATTACHMENT B

Request For Comment Checklist

We have provided below a checklist that members and other interested parties may use in addition to or in lieu of written comments. This checklist is intended to offer a convenient way to participate in the comment process, but does not cover all aspects of the proposal described in the *Notice*. We therefore encourage members and other interested parties to review the entire *Notice* and provide written comments, as necessary.

Instructions

Comments must be received by **October 15, 2001**. Members and interested parties can submit their comments using the following methods:

- mailing in this checklist
- e-mailing written comments to *pubcom@nasd.com*
- mailing in written comments
- submitting comments online at the NASDR Web Site (*www.nasdr.com*)

The checklist and/or written comments should be mailed to:

Barbara Z. Sweeney
Office of the Corporate Secretary
NASD Regulation, Inc.
1735 K Street, NW
Washington, DC 20006-1500

Proposed Amendments to Rule 2710 to Address Shelf Offerings of Securities

<p>1. Should the NASD change the way shelf offerings are regulated under its current rules?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> See my attached written comments</p> <p>2. Do you believe that the new approach to regulate shelf offerings is consistent with the NASD's investor protection goal?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> See my attached written comments</p> <p>3. Should the requirements for the Market Transaction Exception be relaxed to permit members to sell more shelf-registered securities without making a filing?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> See my attached written comments</p> <p>4. We propose to permit members to make Notice Filings when a conflict of interest exists solely for offerings of investment grade rated debt securities. Should members be permitted to make</p>	<p>more filings subject to Rule 2720 (conflicts of interest rule) as Notice Filings?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> See my attached written comments</p> <p>5. Should the proposed definition of "thinly traded issuer," which impacts eligibility for Notice Filings and use of the "Prevailing Market Price Method" of calculating underwriting compensation, be revised to include fewer issuers?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> See my attached written comments</p> <p>6. Should a member receiving compensation greater than 8% but within the compensation table set forth in <i>NASD Notice to Members 92-53</i> for offerings of a particular size and type be subject to a Full Review rather than a Notice Filing?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> See my attached written comments</p>
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7. Are the compensation methodologies proposed sufficient to cover the various ways members sell shelf-registered securities?
 Yes No See my attached written comments
8. Should the \$10 million threshold for using the "Bought Deal Method" of calculating underwriting compensation be lower?
 Yes No See my attached written comments
9. Should a VWAP-based methodology for calculating underwriting compensation be included in this proposal?
 Yes No See my attached written comments
10. Should the proposed methodology for calculating filing fees for Notice Filings be adopted?
 Yes No See my attached written comments
11. Should members be required to disclose in the "Plan of Distribution" or "Underwriting" section of the Registration Statement the methodology relied on for calculating underwriting compensation under NASD rules?
 Yes No See my attached written comments

Contact Information

Name: _____

Firm: _____

Address: _____

City: _____

State/Zip: _____

Phone: _____

E-Mail: _____

Are you:

An NASD Member

An Investor

A Registered Representative

Other: _____

ACTION REQUESTED

Intermarket Surveillance Group

New Requirements For Electronic Blue Sheets Submissions

SUGGESTED ROUTING

The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.

- Legal & Compliance
- Operations
- Senior Management

KEY TOPICS

- Blue Sheets

Executive Summary

This *Notice to Members* discusses new uniform provisions regarding the automated reporting requirement for Electronic Blue Sheets (EBS).

Effective August 8, 2001 all members were required to:

- (1) electronically submit to the Securities and Exchange Commission (SEC or Commission), upon request, customer and proprietary transactions via the EBS system, and (2) provide to the SEC, upon request, a current contact person for blue sheet data.

Effective January 7, 2002 all members will be required upon request to report via the EBS system:

1. Prime Brokerage Identifiers
2. Average Price Account Identifiers
3. Depository Institution Identifiers

All members are strongly encouraged to test their ability to provide these new categories of information with either the Securities Industry Automation Corporation (SIAC) or the NASD Form Filings system in order to be in compliance by the effective dates.

Member firms that use a "service bureau" to transmit electronic blue sheets on their behalf are required to ensure that service bureaus comply with applicable SEC and SRO rules and regulations on their behalf.

This *Notice* was prepared by the following self-regulatory organizations (SROs) acting jointly as members of the Intermarket Surveillance Group (ISG):

American Stock Exchange, Inc. (Amex)

Boston Stock Exchange, Inc. (BSE)

Chicago Board Options Exchange, Inc. (CBOE)

Chicago Stock Exchange, Inc. (CHX)

Cincinnati Stock Exchange, Inc. (CSE)

International Securities Exchange (ISE)

NASD Regulation, Inc. (NASDR)

New York Stock Exchange, Inc. (NYSE)

Pacific Exchange, Inc. (PCX)

Philadelphia Stock Exchange, Inc. (PHLX)

New Uniform Provisions

Recently, the SEC adopted Rule 17a-25 under Section 17 of the Securities Exchange Act of 1934 (Exchange Act).¹

Rule 17a-25:

Provision 1: codifies the requirement that broker/dealers must electronically submit to the Commission, upon request, information concerning customer and proprietary transactions via the EBS system;

Provision 2: requires broker/dealers to provide to the Commission, on request, and keep current, information concerning the firm's contact for blue sheet data; and,

Provision 3: adds three reportable data elements not currently required by the EBS system utilized by the SROs:

- i. prime brokerage identifiers;
- ii. average price account identifiers; and
- iii. depository institution identifiers.

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Provisions 1 and 2 on the previous page became effective on August 8, 2001 while Provision 3 will be effective on January 7, 2002.

As provided by SRO rules,² members and member organizations must currently provide the data required in Provision 1 on the previous page to the SROs through the EBS system. Firms also use the EBS system to respond to SEC requests for information. Rule 17a-25 requires broker/dealers to submit the required information to the Commission upon request in a format specified by the broker/dealer's designated SRO under Rule 17d-1 of the Exchange Act.

As a result of the new requirements in Provision 3 on the previous page, SIAC will add the three additional fields to the EBS system file. The chart below describes the format and location of the three new fields in the EBS system file. See Attachment A for the complete EBS system file³ layout. The fields are located in record "5" of each blue sheet transaction.

- The prime broker field is to be populated with the clearing number of the account's prime broker.
- The average price account field will be used to identify

whether the account is the average price account itself or the recipient of transactions for an average price account. This field will be populated with the following values:

- 1 = recipient of average price transaction
- 2 = average price account itself
- The depository institution identifier is to be populated with the identifying number assigned to the account by the depository institution.

All members are strongly encouraged to test their enhanced blue sheet information with SIAC before sending actual blue sheet information with the new data elements. Please contact SIAC's Network Support Department at (212) 383-5401 for testing information. Firms that utilize SIAC's PC Data Entry system must obtain an updated version of the blue sheet data entry software from SIAC's PC Service Center at (212) 383-2062. Members that use the PC Data Entry system need not test. NASD members that submit EBS data via the Form Filings system should test their enhanced blue sheet information via Form Filings before sending actual blue sheet information with the new data elements. Those

members should contact the CASH Help Desk at (800) 321-NASD (6273) for testing information.

To comply with Provision 2 on the previous page, updated firm blue sheet contact information can be submitted to the SEC by providing Joseph Cella, Chief, Office of Market Surveillance, or Mark Lineberry, Branch Chief with the following:

Full name, title, address, telephone number(s), facsimile number(s), and electronic mail address(es) for each person designated by the member, broker, or dealer as a SEC contact.

They can be reached by writing to:

**Securities and Exchange
Commission
450 5th Street NW
Washington, DC 20549-1001**

or via e-mail at cellaj@sec.gov or lineberrym@sec.gov, respectively.

Questions concerning provisions of Rule 17a-25 should be directed to Alton Harvey, Office Chief, at (202) 942-4167, or Anitra Cassas, Special Counsel, at (202) 942-0089, Division of Market Regulation, Securities and Exchange Commission, 450 5th Street, NW, Washington, DC 20549-1001.

From Col	To Col	LNG	Field Name	Format	Justify	Cobol Picture	Default Value
62	65	4	Prime Broker	Alphanumeric	Left	X(4)	Spaces
66	66	1	Average Price Account	Alphanumeric	—	X(1)	Spaces
67	71	5	Depository Institution Identifier	Alphanumeric	Left	X(5)	Spaces

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Questions/Further Information

Questions concerning this *Notice* may be directed to:

Amex

Eric Miller (212) 306-1552

BSE

Brian Colby (617) 235-2158

CBOE

Pat Sizemore (312) 786-7752

CHX

Dan Liberti (312) 663-2057

CSE

Jeffrey T. Brown (312) 786-8893

ISE

James Sampson (212) 897-0235

NASDR

Jim Dolan (240) 386-5007

NYSE

Aldo Martinez (212) 656-8532

PCX

Tim Miller (415) 835-4848

PHLX

Edward Deitzel (215) 496-5298

Endnotes

- 1 See SEC Release No. 34-44494.
- 2 Amex – Rule 153A, CBOE – Rule 15.7, CSE – 8.2, 5.3, ISE – Rule 1404, NASD – Rule 8211, 8212 and 8213, NYSE – Rule 342.20, 410A, 476 (a) (11), PCX – Rule 10.2(c), PHLX – Rule 785
- 3 The NASD's Form Filing system for submitting EBS data is also being modified to add the three new reportable data elements. All NASD members submitting EBS data via Form Filings will be required to include all relevant information pertaining to the three new data elements with each EBS submission beginning on January 7, 2002.

© 2001, National Association of Securities Dealers, Inc. (NASD). All rights reserved. Notices to Members attempt to present information to readers in a format that is easily understandable. However, please be aware that, in case of any misunderstanding, the rule language prevails.

RECORD LAYOUT FOR SUBMISSION OF TRADING INFORMATION

**** THIS RECORD MUST BE THE FIRST RECORD OF THE FILE ****

FIELD POSITION FROM TO	FIELD LENGTH	FIELD NAME/DESCRIPTION/REMARKS	FIELD FORMAT	JUSTIFY	PICTURE CLAUSE	DEFAULT VALUE
1 3	3	FILLER	A	LJ	X (3)	HDR
4 5	2	FILLER	A	LJ	X (2)	.S
6 10	5	DTRK-SYSID	N	LJ	9 (5)	12343
11 12	2	FILLER	A	LJ	X (2)	.E
13 14	2	FILLER	N	LJ	9 (2)	00
15 16	2	FILLER	A	LJ	X (2)	.C
17 20	4	DTRK-ORIGINATOR	A	LJ	X (4)	--
		Please call SIAC for assignment (212) 383-2210				
21 22	2	FILLER	A	LJ	X (2)	.S
23 26	4	DTRK-SUB-ORIGINATOR	A	LJ	X (4)	--
		Please call SIAC for assignment (212) 383-2210				
27 27	1	FILLER	A	LJ	X (1)	B
28 33	6	DTRK-DATE	N	LJ	9 (6)	MMDDYY
		Contains submission date.				
34 34	1	FILLER	A	LJ	X (1)	B
35 59	25	DTRK-DESCRIPTION	A	LJ	X (25)	FIRM TRADING INFORMATION
		Required to identify this file.				
60 80	21	FILLER	A	LJ	X (21)	B

Justify
RJ = Right Justification of Data
LJ = Left Justification of Data

Default Values - Code
Blanks = B
Zero = Z

Field Format - Code
alphanumeric = A
numeric = N
packed = P
binary = B

RECORD LAYOUT FOR SUBMISSION OF TRADING INFORMATION

FIELD POSITION FROM	FIELD POSITION TO	FIELD LENGTH	FIELD NAME/DESCRIPTION/REMARKS	FIELD FORMAT	JUSTIFY	PICTURE CLAUSE	DEFAULT VALUE
1	1	1	HEADER RECORD CODE Value: Low Values OR ZERO	A	--	X	--
2	5	4	SUBMITTING BROKER NUMBER If NSCC member use NSCC clearing number. If not a NSCC member, use clearing number assigned to you by your clearing agency.	A	LJ	X (4)	B
6	40	35	FIRM'S REQUEST NUMBER Tracking number used by the firm to record requests from an organization.	A	--	X (35)	B
41	46	6	FILE CREATION DATE Format is YYMMDD	A	--	X (6)	--
47	54	8	FILE CREATION TIME Format is HH:MM:SS	A	--	X (8)	--
55	55	1	REQUESTOR CODE Requesting Organization Identification. Values: The same codes in Exchange Code Field in RECORD SEQUENCE NUMBER ONE.	A	--	X	--
56	70	15	REQUESTING ORGANIZATION NUMBER Number assigned by requesting organization	A	LJ	X (15)	B
71	80	10	FILLER	A	--	X (10)	B

Field Format - Code
 alphanumeric = A
 numeric = N
 packed = P
 binary = B

Default Values - Code
 Blanks = B
 Zero = Z

Justify
 RJ = Right Justification of Data
 LJ = Left Justification of Data

RECORD LAYOUT FOR SUBMISSION OF TRADING INFORMATION

FIELD POSITION FROM TO	FIELD LENGTH	FIELD NAME/DESCRIPTION/REMARKS	FIELD FORMAT	JUSTIFY	PICTURE CLAUSE	DEFAULT VALUE
1	1	RECORD SEQUENCE NUMBER ONE The first record of the transaction. Value: 1	A	--	X	--
2	4	SUBMITTING BROKER NUMBER Identical to Submitting Broker Number in Header Record	A	LJ	X(4)	--
6	4	OPPOSING BROKER NUMBER The NSCC clearing house number of the broker on the other side of the trade.	A	LJ	X(4)	B
10	12	CUSIP NUMBER The cusip number assigned to the security. Left justified since the number is nine characters at present (8+ check digit) but will expand in the future	A	LJ	X(12)	B
22	8	TICKER SYMBOL The symbol assigned to this security.	A	LJ	X(8)	B
30	6	TRADE DATE The date this trade executed. Format is YYMMDD.	A	--	X(6)	B
36	6	SETTLEMENT DATE The date this trade will settle. Format is YYMMDD.	A	--	X(6)	B
42	12	QUANTITY The number of shares or quantity of bonds or option contracts.	N	RJ	9(12)	Z
54	67	NET AMOUNT The proceeds of sales or cost of purchases after commissions and other charges.	N	RJ	S9(12)V99	Z
68	68	BUY/SELL CODE Values: 0 = Buy, 1 = Sale, 2 = Short Sale, 3 = Open Long, 4 = Open Short, 5 = Close Long, 6 = Close Short.	A	--	X	B

Justify
RJ = Right Justification of Data
LJ = Left Justification of Data

Default Values - Code
Blanks = B
Zero = Z

Field Format - Code
alphanumeric = A
numeric = N
packed = P
binary = B

RECORD LAYOUT FOR SUBMISSION OF TRADING INFORMATION

FIELD POSITION FROM TO	FIELD LENGTH	FIELD NAME/DESCRIPTION/REMARKS	FIELD FORMAT	JUSTIFY	PICTURE CLAUSE	DEFAULT VALUE
69	78	PRICE	N	RJ	9(4)V(6)	Z
79	79	EXCHANGE CODE	A	--	X	B

A = Buy Cancel, B = Sell Cancel, C = Short Sale Cancel, D = Open Long Cancel, E = Open Short Cancel, F = Close Long Cancel, G = Close Short Cancel. Values 3 to 6 and D to G are for options only
 The transaction price. Format: \$\$\$\$ CCCCCC.
 Exchange where trade was executed.
 Values:

- A = New York Stock Exchange
- B = American Stock Exchange
- C = Chicago Stock Exchange
- D = Philadelphia Stock Exchange
- E = Pacific Stock Exchange
- F = Boston Stock Exchange
- G = Cincinnati Stock Exchange
- I = International Securities Exchange
- K = CBOE
- L = London Stock Exchange
- M = Toronto Stock Exchange
- N = Montreal Stock Exchange
- O = Vancouver Stock Exchange
- R = NASDAQ
- S = Over-the-Counter
- T = Tokyo Stock Exchange
- X = Securities Exchange Commission
- Z = Other

80 80 1 BROKER/DEALER CODE
 Indicate if trade was done for another Broker/Dealer. Values: 0 = No; 1 = Yes

Field Format - Code
 alphanumeric = A
 numeric = N
 packed = P
 binary = B

Default Values - Code
 Blanks = B
 Zero = Z

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RECORD LAYOUT FOR SUBMISSION OF TRADING INFORMATION

FIELD POSITION FROM	FIELD POSITION TO	FIELD LENGTH	FIELD NAME/DESCRIPTION/REMARKS	FIELD FORMAT	JUSTIFY	PICTURE CLAUSE	DEFAULT VALUE
1	1	1	RECORD SEQUENCE NUMBER TWO Value: 2	A	--	X	--
2	2	1	SOLICITED CODE Values: 0 = No; 1 = Yes	A	--	X	B
3	4	2	STATE CODE Standard Postal two character identification.	A	--	X(2)	B
5	14	10	ZIP CODE/COUNTRY CODE Zip Code -- five or nine character (zip plus four) Country code -- for future use.	A	LJ	X(10)	B
15	22	8	BRANCH OFFICE/REGISTERED REPRESENTATIVE NUMBER Each treated as a four character field. Both are left justified.	A	LJ	X(8)	B
23	28	6	DATE ACCOUNT OPENED Format is YYMMDD	A	--	X(6)	B
29	48	20	SHORT NAME FIELD Contains last name followed by comma (or space) then as much of first name as will fit.	A	LJ	X(20)	B
49	78	30	EMPLOYER NAME	A	LJ	X(30)	B
79	79	1	TIN 1 INDICATOR Values: 1 = SS#; 2 = TIN	A	--	X	B
80	80	1	TIN 2 INDICATOR Values: 1 = SS#; 2 = TIN -- for future use.	A	--	X	B

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Field Format - Code
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numeric = N
packed = P
binary = B

RECORD LAYOUT FOR SUBMISSION OF TRADING INFORMATION

FIELD POSITION FROM	FIELD POSITION TO	FIELD LENGTH	FIELD NAME/DESCRIPTION/REMARKS	FIELD FORMAT	JUSTIFY	PICTURE CLAUSE	DEFAULT VALUE
1	1	1	RECORD SEQUENCE NUMBER THREE Value: 3	A	--	X	--
2	10	9	TIN ONE Taxpayer Identification Number	A	LJ	X (9)	B
11	19	9	TIN TWO Taxpayer Identification Number #2	A	LJ	X (9)	B
20	20	1	Reserved for future use.				
21	50	30	NUMBER OF N&A LINES	A	--	X	B
51	80	30	NAME AND ADDRESS LINE ONE	A	LJ	X (30)	B
			NAME AND ADDRESS LINE TWO	A	LJ	X (30)	B

Field Format - Code
 alphanumeric = A
 numeric = N
 packed = P
 binary = B

Default Values - Code
 Blanks = B
 Zero = Z

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RECORD LAYOUT FOR SUBMISSION OF TRADING INFORMATION

FIELD POSITION FROM	FIELD POSITION TO	FIELD LENGTH	FIELD NAME/DESCRIPTION/REMARKS	FIELD FORMAT	JUSTIFY	PICTURE CLAUSE	DEFAULT VALUE
1	1	1	RECORD SEQUENCE NUMBER FOUR Value: 4	A	--	X	--
2	31	30	NAME AND ADDRESS LINE THREE	A	LJ	X (30)	B
32	61	30	NAME AND ADDRESS LINE FOUR	A	LJ	X (30)	B
62	62	1	PROPRIETARY-CUSTOMER INDICATOR 1 = Trade was for a proprietary account of submitting broker/dealer or another broker/dealer 2 = Trade was for customer of submitting broker/dealer or another broker/dealer	A	--	X	B
63	80	18	ACCOUNT NUMBER Account number	A	LJ	X (18)	B

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Default Values - Code
Blanks = B
Zero = Z

Field Format - Code
alphanumeric = A
numeric = N
packed = P
binary = B

RECORD LAYOUT FOR SUBMISSION OF TRADING INFORMATION

FIELD POSITION FROM	FIELD POSITION TO	FIELD LENGTH	FIELD NAME/DESCRIPTION/REMARKS	FIELD FORMAT	JUSTIFY	PICTURE CLAUSE	DEFAULT VALUE
1	1	1	RECORD SEQUENCE NUMBER FIVE Value: 5	A	--	X (1)	--
2	31	30	NAME AND ADDRESS LINE FIVE	A	LJ	X (30)	B
32	61	30	NAME AND ADDRESS LINE SIX	A	LJ	X (30)	B
62	65	4	PRIME BROKER Clearing number of the account's prime broker.	A	LJ	X (4)	B
66	66	1	AVERAGE PRICE ACCOUNT 1 = recipient of average price transaction. 2 = average price account itself.	N	--	9 (1)	Z
67	71	5	DEPOSITORY INSTITUTION IDENTIFIER Identifying number assigned to the account by the depository institution.	A	LJ	X (5)	B
72	80	9	FILLER	A	--	X (9)	B

Field Format - Code
 alphanumeric = A
 numeric = N
 packed = P
 binary = B

Default Values - Code
 Blanks = B
 Zero = Z

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RECORD LAYOUT FOR SUBMISSION OF TRADING INFORMATION

FIELD POSITION FROM TO	FIELD LENGTH	FIELD NAME/DESCRIPTION/REMARKS	FIELD FORMAT	JUSTIFY	PICTURE CLAUSE	DEFAULT VALUE
1 1	1	TRAILER RECORD DATE One record per submission. Must be the last record on the file. Value: High Values or "9"	A	--	X	--
2 17	16	TOTAL TRANSACTIONS The total number of transactions. This total excludes Header and Trailer Records.	N	RJ	9 (16)	B
18 33	16	TOTAL RECORDS ON FILE The total number of 80 byte records. This total includes Header and Trailer Records, but not the Datatrak Header Record (i.e., does not include the first record on the file).	N	RJ	9 (16)	Z
34 80	47	FILLER	A	--	X (47)	B

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Default Values - Code
Blanks = B
Zero = Z

Field Format - Code
alphanumeric = A
numeric = N
packed = P
binary = B

NASD Notice to Members 01-61

FIPS Changes

Fixed Income Pricing SystemSM Additions, Changes, And Deletions As Of July 20, 2001

SUGGESTED ROUTING

The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.

- Corporate Finance
- Legal & Compliance
- Municipal/Government Securities
- Operations
- Senior Management
- Trading & Market Making

KEY TOPICS

- FIPS

As of July 20, 2001, the following bonds were added to the Fixed Income Pricing System (FIPSSM).

Symbol	Name	Coupon	Maturity
ASTR.GA	All Star Gas Corp	11.000	08/14/01
AIQ.GA	Alliance Imaging Inc	10.375	04/15/11
AELU.GA	American Cellular Corp	9.500	10/15/09
ASCA.GB	Ameristar Casinos Inc	10.750	02/15/09
AMKR.GC	Amkor Technology Inc	9.250	02/15/08
AETC.GB	Applied Extrusion Tech Inc	10.750	07/01/11
AGY.GD	Argosy Gaming Co	9.000	09/01/11
CHK.GI	Chesapeake Energy Corp	8.125	04/01/11
STZ.GA	Constellation Brands Inc	8.000	02/15/08
DHI.GG	D.R. Horton Inc	7.875	08/15/11
EMMS.GB	Emmis Communications Corp	12.500	03/15/11
ENSO.GD	Envirosource Inc	14.000	12/15/08
HBCR.GB	Harborside Healthcare Corp	12.000	08/01/07
ISFI.GA	Istar Financial Inc	8.750	08/15/08
LPX.GA	Louisiana-Pacific Corp	8.500	08/15/05
LPX.GB	Louisiana-Pacific Corp	8.875	08/15/01
LPX.GC	Louisiana-Pacific Corp	10.875	11/15/08
NVON.GA	Noveon Inc	11.000	02/28/11
ORN.GA	Orion Power Holdings Inc	12.000	05/01/10
PPE.GD	Park Place Entertainment Corp	8.125	05/15/11
PDSG.GA	PDS Gaming Corp	12.000	07/01/07
PENN.GB	Penn National Gaming Inc	11.125	03/01/08
PME.GA	Penton Media Inc	10.375	06/15/11
CHX.GB	Pilgrims Pride Corp	9.625	09/15/11
RYL.GG	Ryland Group Inc	8.000	08/15/06
SQAA.GB	Sequa Corp	8.875	04/01/08
STO.GN	Stone Container Corp	9.250	02/01/08
STO.GO	Stone Container Corp	9.750	02/01/11
TEX.GC	Terex Corp	10.375	04/01/11
WCIN.GA	WCI Communities Inc	10.625	02/15/11

As of July 20, 2001, the following bonds were deleted from the Fixed Income Pricing System.

Symbol	Name	Coupon	Maturity
ABBY.GA	Abbey Healthcare Group Inc	9.500	11/01/02
AMD.GA	Advanced Micro Devices Inc	11.000	08/01/03
AIMM.GA	Aim Management Group Inc	9.000	11/15/03
AIFT.GA	Aircraft Svs Intl Group Inc	11.000	08/15/05
CDS.GA	Alliance Entertainment Corp	11.250	07/15/05
ALLY.GB	Alliance Gaming Corp	12.875	06/30/03
ALCU.GA	Allnet Communications Svs Inc	9.000	05/15/03
AWRL.GC	America West Airlines	8.120	07/02/01
AAG.GA	American Annuity Group Inc	11.125	02/01/03
AAG.GB	American Annuity Group Inc	9.500	08/15/01
AHI.GA	American Healthcare Mgmt Inc	10.250	08/01/03

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ASKI.GB	American Skiing Co	13.750	01/15/07
AMIC.GA	Americold Corp	15.000	05/01/07
AMIC.GB	Americold Corp	11.450	06/30/02
AKNG.GA	Ameriking Inc	10.750	12/01/06
ASCA.GA	Ameristar Casinos Inc	10.500	08/01/04
ANCP.GA	Anacomp Inc	15.000	11/01/00
PTSH.GA	Arcadcan partners (Potash)	10.750	05/01/05
AS.GB	Armco Inc	9.200	07/15/00
AS.GC	Armco Steel Corp	8.500	09/01/01
ATCV.GA	ATC Group Services Inc	12.000	01/15/08
AVBM.GA	Avalon Cable of Michigan	9.375	12/01/08
AVGH.GA	Avatar Holdings Inc	8.000	10/01/00
BLYP.GA	Bally Park Place Funding Inc	9.250	03/15/04
BLYD.GA	Bally's Grand Inc	10.375	12/15/03
BARY.GA	Barry's Jewelers Inc	11.000	12/22/00
BZH.GA	Beazer Homes USA Inc	9.000	03/01/04
BHW.GA	Bell & Howell Co	11.500	03/01/05
BSPO.GA	Bell Sports Inc	11.000	08/15/08
BBY.GB	Best Buy Inc	8.625	10/01/00
BEV.GA	Beverly Enterprise Inc	8.750	12/31/03
BGLI.GA	BGLS Inc	15.750	01/31/01
BFDG.GA	Big 5 Holdings Inc	13.625	09/15/02
FLER.GB	Big Flower Press Inc	10.750	08/01/03
BYD.GA	Boyd Gaming Corp	10.750	09/01/03
BRCH.GA	Breed Technologies Inc	9.250	04/15/08
BVPS.GD	BVPS II Funding Corp	7.670	12/01/00
CE.GB	Calenergy Co Inc	9.875	06/30/03
CAHF.GA	California Hotel Finance Co	11.000	12/01/02
CPRK.GA	Cap Rock Communications Corp	12.000	07/15/08
CPRK.GB	Cap Rock Communications Corp	11.500	05/01/09
CSNO.GA	Casino America Inc	11.500	11/15/00
CSNO.GB	Casino America Inc	12.500	08/01/03
CMGF.GA	Casino Magic Finance Corp	11.500	10/15/01
CBG.GA	CB Richard Ellis Service Inc	8.875	06/01/06
CCIR.GB	CCI Corp	13.875	07/15/00
CHCR.GA	Charter Communications SO East L.P.	11.250	03/15/06
CHWN.GA	Chatwins Group Inc	13.000	05/01/03
CQB.GC	Chiquita Brands Intl Inc	10.500	08/01/04
CQB.GE	Chiquita Brands Intl inc	11.500	06/01/01
CITI.GA	Citicasters Inc	9.750	02/15/04
CYYS.GA	Cityscape Financial Corp	12.750	06/01/04
CLDG.GA	Claridge Hotel & Casino Corp	11.750	02/01/02
CKMH.GA	Clark Materials Handling Co	10.750	11/15/06
CUCN.GA	Coldwell Bankers Corp	10.250	06/30/03
CLDU.GA	Colt Industries Inc	11.250	12/01/15
CUMH.GA	Columbia Healthcare Corp	10.875	03/01/02
CUMH.GB	Columbia Healthcare Corp	11.500	06/01/02
CDDA.GA	Commodore Media Inc	13.250	05/01/03
CFNI.GA	Contifinancial Corp	8.375	08/15/03
CNAN.GB	Continental Airlines Inc	7.522	06/30/01

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CCVS.GC	Continental Cablevision Inc	11.000	06/01/07
CMEY.GA	Continental Medical Systems Inc	10.875	08/15/02
CMCS.GD	Corncast Corp	9.500	01/15/08
CMCS.GF	Corncast Corp	9.375	05/15/05
COMN.GB	Corndata Networks	13.250	12/15/02
CMM.GA	Criimi Mae Inc	9.125	12/01/02
CSWS.GA	CS Wireless Systems Inc	11.375	03/01/06
DGN.GA	Data General Corp	8.375	09/15/02
DLMC.GA	Del Monte Corp	12.250	04/15/07
DLM.GA	Del Monte Foods Co	12.500	12/15/07
DLNF.GA	Del Norte Funding Corp	11.250	01/02/14
DTLS.GA	Details Inc	10.000	11/15/05
DLCA.GA	Dial Call Communications Inc	10.250	12/15/05
DTC.GB	Domtar Inc	11.250	09/15/17
EGEO.GA	Eagle Geophysical Inc	10.750	07/15/08
EPIH.GA	Eagle-Picher Industry Inc	9.500	03/01/17
ESTC.GA	Echostar Communications Corp	12.875	06/01/04
ECSR.GA	Echostar DBS Corp	12.500	07/01/02
EPHO.GB	Econophone Inc	11.000	02/15/08
EE.GB	El Paso Electric Co	7.750	05/01/01
ELPF.GA	El Paso Funding Corp	10.750	04/01/13
EGCS.GA	Empire Gas Corp	12.875	07/15/04
ERCF.GA	Empress River Casino Finance Corp	10.750	04/01/02
EDNY.GD	Envirodyne Industry Inc	0.000	06/15/00
EDYN.GD	Envirosource Inc	9.750	06/15/03
ERLY.GA	Erly Industries Inc	12.500	12/01/02
ETH.GA	Ethan Allen Inc	8.750	03/15/01
EVHC.GA	Everest Healthcare Svs Corp	9.750	05/01/08
EVGI.GA	Evergreen International Aviation Inc	13.500	08/15/02
FBWL.GA	Fair Lanes Inc	9.500	07/15/01
FLCN.GB	Falcon Drilling Inc	12.500	03/15/05
FMAC.GB	First Merchants Accept Corp	11.000	03/15/05
FNWH.GB	First Nationwide Holdings Inc	12.250	05/15/01
FTU.GA	First Union Corp	7.500	12/01/02
FLGS.GB	Flagstar Corp	11.250	11/01/04
FLGS.GC	Flagstar Corp	10.750	09/15/01
FLM.GB	Fleming Companies Inc	7.937	12/15/01
FDB.GA	FoodBrands American Inc	10.750	05/15/06
FCSG.GA	Forecast Group LP	11.375	12/15/00
FMPT.GA	Forman Petroleum Corp	13.500	06/01/04
GBPR.GA	GB Property Funding Corp	10.875	01/15/04
GNRP.GA	Generac Portable Products LLC	11.250	07/01/06
GNSF.GB	GNS Finance Corp	9.25	03/15/03
GTHC.GA	Gothic Production Corp	11.125	05/01/05
GCRP.GA	Graphic Controls Corp	12.000	09/15/01
GRDH.GA	Great Dane Holdings	14.500	01/01/06
GKBC.GA	Great Lakes Bankcorp	18.000	03/01/06
GSCW.GA	GS Escrow Corp	6.750	08/01/01
GSLN.GA	Guardian S & L Assoc	12.625	01/15/02
HWG.GA	Hallwood Group Inc	13.500	07/31/09

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GBCR.GA	Harborside Healthcare Corp	11.000	08/01/08
HPH.GA	Harnischfeger Industry Inc	8.900	03/01/22
HPH.GB	Harnischfeger Industries Inc	7.250	12/15/25
HPH.GC	Harnischfeger Industries Inc	6.875	02/15/27
HPH.GD	Harnischfeger Industries Inc	8.700	06/15/22
HAY.GE	Hayes Wheels International Inc	9.250	11/15/02
HDRM.GA	Hedstrom Corp	10.000	06/01/07
HDHG.GA	Hedstrom Holdings Inc	12.000	06/01/09
HEGP.GA	Helicon Group LP/Cap Corp	11.000	11/01/03
HHI.GC	Home Holdings Inc	7.875	12/15/03
HZCM.GA	Horizons/CMS Healthcare Corp	10.375	04/01/03
HNP.K.GA	Huntsman Packaging Corp	9.125	10/01/07
IMAX.GA	Imax Corp	10.000	03/01/01
IPCG.GA	Impac Group Inc Ser B	10.125	03/15/08
IHMD.GA	Imperial Home Décor Group Inc	11.000	03/15/08
IFBC.GA	Infinity Broadcasting Corp	10.375	03/15/02
INGS.GB	Ingersoll Newspapers Inc	12.125	09/01/00
IAD.GA	Inland Steel Inds Inc	12.750	12/15/02
INRK.GA	International Bank (Wash)	15.750	08/01/00
ICFP.GA	International Comfort Products Holdings Inc	8.625	05/15/08
IWIR.GA	Intl Wireless Commun Hldgs Inc	0.000	08/15/01
ITTO.GA	ITT Corp New	6.250	11/15/00
IVXH.GA	Ivex Holdings Corp	13.250	03/15/05
IVEX.GA	Ivex Packaging Corp	12.500	12/15/02
JCOM.GC	Jacor Communications Co	8.000	02/15/01
HEFR.GA	JH Heafner Company	10.000	05/15/08
JPSA.GA	JPS Automotive Products Inc	11.125	06/15/01
KBLR.GA	Keebler Foods Corp	10.750	07/01/06
LMFO.GA	Loomis Fargo & Co	10.000	01/15/04
MIKE.GA	Michaels Stores	10.875	06/15/06
OHC.GA	Oriole Homes Corp	12.500	01/15/03
OMI.GA	Owens & Minor Inc New	10.875	06/01/06
PAX.GA	Paxson Communications Corp	11.625	10/01/02
PIC.GB	Piccadilly Cafeterias Inc	8.875	04/01/08
RHC.GA	Rio Hotel & Casino Inc	10.625	07/15/05
SOLA.GA	Sola Group LTD	9.625	12/15/03
SLTF.GB	Specialty Foods Corp	10.250	08/15/01
TRHD.GA	Transtar Holding LP	13.375	12/15/03
UCIV.GA	UCC Investors Holdings Inc	10.500	05/01/02

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As of July 20, 2001 changes were made to the symbols of the following FIPS bonds:

<u>New Symbol</u>	<u>Old Symbol</u>	<u>New Name/Old Name</u>	<u>Coupon</u>	<u>Maturity</u>
NXGN.GA	MTUM.GA	Next Generation Network Inc/Mentus Media Corp	12.000	02/01/03
SBLK.GA	HVDM.GA	SeaBulk Intl Inc/Hvide Marine Inc	12.500	06/30/07

All bonds listed above are subject to trade-reporting requirements. Questions pertaining to FIPS trade-reporting rules should be directed to Patricia Casimates, NASDR Market Regulation, at (240) 386-4994.

Any questions regarding the FIPS master file should be directed to Cheryl Glowacki, Nasdaq Market Operations, at (203) 385-6310.

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INFORMATIONAL

Trade Date— Settlement Date

Columbus Day: Trade Date—Settlement Date Schedule

SUGGESTED ROUTING

The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.

- Internal Audit
- Legal & Compliance
- Municipal/Government Securities
- Operations
- Trading & Market Making

KEY TOPICS

- Holiday Trade Date—
Settlement Date Schedule

Columbus Day: Trade Date—Settlement Date Schedule

The schedule of trade dates-settlement dates below reflects the observance by the financial community of Columbus Day, Monday, October 8, 2001. On this day, The Nasdaq Stock Market and the securities exchanges will be open for trading. However, it will not be a settlement date because many of the nation's banking institutions will be closed.

Trade Date	Settlement Date	Reg. T Date*
Oct. 2	Oct. 5	Oct. 9
3	9	10
4	10	11
5	11	12
8	11	15
9	12	16

Note: October 8, 2001, is considered a business day for receiving customers' payments under Regulation T of the Federal Reserve Board.

Transactions made on Monday, October 8, will be combined with transactions made on the previous business day, October 5, for settlement on October 11. Securities will not be quoted ex-dividend, and settlements, marks to the market, reclamations, and buy-ins and sell-outs, as provided in the Uniform Practice Code, will not be made and/or exercised on October 8.

* 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 titled "Reg. T Date."

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For Your Information

Check/Wire Payments Reflected In CRD Accounts

The National Association of Securities Dealers, Inc. (NASD®) Finance Department has identified the following possible reasons a check or wire payment may not be reflected in a member firm's CRD® account:

- If your payment was sent by a parent firm, on behalf of an affiliated firm, it may have been credited to the parent's CRD account.
- If payment was sent by an affiliated firm, on behalf of a parent firm, it may have been credited to the affiliated firm's CRD account.
- If your payment was sent by a clearing firm, it may not have had a proper Firm CRD # or recognizable name and, therefore, may be held by our Finance Department.
- If an incorrect lockbox number was used in the address, your payment may be applied to other accounts your firm has with the NASD (e.g., Assessments, CRD Renewals, Advertising Regulation, etc.).

Please consider the above scenarios when inquiring about a payment that is believed to be mis-posted. Any information you can supply will greatly assist our Finance Department staff in researching your payment and making a prompt correction.

Finally, please remember that to ensure proper application of your funds, be certain to include your Firm CRD # on your check and verify the correct lockbox number for the type of payment you are remitting.

If you have any questions about this information, please contact the Gateway Call Center at (301) 869-6699.