

# Notice To Members

National Association of Securities Dealers, Inc.

April 1990

## Number 90 - 19

### Suggested Routing:\*

- |   |  |                                       |                                    |
|---|--|---------------------------------------|------------------------------------|
| <input checked="" type="checkbox"/> Senior Management | <input type="checkbox"/> Internal Audit                | <input type="checkbox"/> Operations   | <input type="checkbox"/> Syndicate |
| <input type="checkbox"/> Corporate Finance            | <input checked="" type="checkbox"/> Legal & Compliance | <input type="checkbox"/> Options      | <input type="checkbox"/> Systems   |
| <input type="checkbox"/> Government Securities        | <input type="checkbox"/> Municipal                     | <input type="checkbox"/> Registration | <input type="checkbox"/> Trading   |
| <input type="checkbox"/> Institutional                | <input type="checkbox"/> Mutual Fund                   | <input type="checkbox"/> Research     | <input type="checkbox"/> Training  |

\*These are suggested departments only. Others may be appropriate for your firm.

### REQUEST FOR COMMENTS

**Subject: Proposed Amendments to the NASD By-Laws and Code of Procedure to Implement The Recommendations of the Special Committee on NASD Structure and Governance; Last Date for Comment: April 30, 1990**

#### EXECUTIVE SUMMARY

The Board of Governors ("Board") has approved the recommendations of the Special Committee on NASD Structure and Governance ("Special Committee"). The Board now requests comments on proposed amendments to the NASD By-Laws and Code of Procedure to implement the Special Committee's recommendations with respect to modifications in the size and composition of the Board, the number and configuration of the NASD districts and the review of disciplinary cases by the National Business Conduct Committee and the Board.

#### BACKGROUND

The Special Committee was established by the Board to review the corporate structure and governance of the NASD and its subsidiaries in light of the far-reaching changes that have occurred in the securities markets and the industry serving those markets in recent years. The Special Committee conducted an intensive study over the last 10 months and developed a series of recommendations designed to enhance the ability of the

NASD to meet its increasing responsibilities. The recommendations were also designed to ensure that the NASD's governance process fairly represents the increased diversity of the securities industry, that the volunteer members of the industry and the public who serve on the Board and its committees can address problems knowledgeably and efficiently, and that the process continues to command respect and confidence.

The recommendations are set forth in the final report ("Report") of the Special Committee that was submitted to the Board in early March. A copy of this Report accompanies this *Notice to Members*. Additional copies of the Report are available by calling the NASD Corporate Communications Department at (202) 728-6900. The Board has approved all the recommendations of the Special Committee and submits the following proposed amendments to the NASD By-Laws and Code of Procedure necessary to implement those recommendations for your comment.<sup>1</sup>

<sup>1</sup>The Board has directed the staff to implement those recommendations of the Special Committee (relating primarily to the committees of the Board and the NASDAQ<sup>®</sup> market) that do not require changes to the By-Laws or approval by the Securities and Exchange Commission ("SEC").

The Board encourages you to comment on these important proposed amendments. The Board intends to consider your comments at its next regularly scheduled meeting in May and to approve final proposed amendments to the By-Laws (incorporating such revisions, if any, as may be approved by the Board in response to the comments it receives and upon further consideration of the proposed amendments). These final proposed amendments to the By-Laws then will be submitted for approval by a vote of the members.

### PROPOSED AMENDMENTS

The proposed amendments to the By-Laws and the Code of Procedure implement recommendations of the Special Committee relating to the size and composition of the Board, the number and configuration of the districts, and the review of disciplinary cases by the National Business Conduct Committee and the Board.

#### The Board of Governors

The By-Laws currently provide for a Board of 31 Governors. The proposed amendments implement the Special Committee recommendations that the size of the Board be reduced to enhance the participation of individual Governors and the efficiency of the Board and that the Board be given the authority to adjust its size between 25 and 29 Governors. The Special Committee recommended that the Board be no smaller than 25 Governors since the Board must represent a variety of interests and experience and much of its work is assisted by a large number of committees on which Governor service is highly desirable. The Special Committee recommended that the Board consist of 29 Governors at this time.

Under the current By-Laws the Board is composed of 21 Governors elected from the districts; nine Governors elected by the Board from the securities industry, issuers and the public; and the President. The proposed amendments implement the Special Committee recommendation that a greater proportion of Governors be elected by the Board based on:

- the need to fairly and effectively represent the many types of participants in the securities industry,<sup>2</sup> some of which traditionally have not been represented through the district election process;

- the need to recruit candidates with a

broad range of backgrounds and with specialized expertise in the international, technology and other diverse issues that must be addressed effectively by the Board to fulfill the mission of the NASD;

- the desire to improve the NASD's ability to recruit candidates who may be able to make significant contributions to the Board and to the NASD's mission, but who are unable to commit the time required for service at both the Board and district level;

- the need for domestic and overseas issuer representation in the heightened competitive environment in which the NASDAQ<sup>®</sup> market operates;

- the need for substantial public representation on the Board; and

- the practical limitations on the size of the Board.

This recommendation decreases the number of Governors elected from the districts. The Special Committee made two recommendations to ensure that this would not jeopardize fair representation of local and regional firms — which both distinguishes the NASD from other self-regulatory organizations and is necessary for effective nationwide regulation and enforcement: first, each district should be represented on the Board by at least one Governor; and second, the number of Governors elected from the districts should constitute an absolute majority of the Board.

The Special Committee considered the issue of compensation for Governors, the Chairman of the Board and members of committees and found that the lack of compensation has not to date adversely affected the recruitment of highly qualified candidates for service as Chairman or on the Board or its committees. Consequently, the Special Committee did not recommend compensation at this time. The Special Committee did recommend, however, that the Board be given the flexibility to provide for such compensation in the event the Board finds it necessary to ensure the successful recruitment of highly qualified candidates for ser-

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<sup>2</sup>This would include representation of banks, pension funds, and other institutions (both domestic and international); specialty or limited-purpose broker-dealers; and continued representation of insurance companies and underwriters of investment company shares.

vice as Chairman or on the Board or its committees.<sup>3</sup>

### Districts

The NASD's district structure, and its role in the selection of Governors, is an essential element of the governance of the NASD that distinguishes the NASD from other self-regulatory organizations in the securities industry. The Special Committee found that changes to the existing district structure, consistent with fair and effective district representation on the Board, were necessary to address significant demographic shifts in the NASD's membership as well as the revisions to the composition of the Board recommended by the Special Committee.

Although the NASD membership has expanded substantially during the past 10 years, the number of large general securities firms has declined. The growth in membership has generally been attributable to smaller firms that specialize in direct participation programs, variable contracts, mutual funds or other special products and, to a large extent, is the natural result of federal legislation adopted in 1984 requiring all broker-dealers conducting a public securities business to become NASD members, including those firms formerly registered only with the SEC. While total membership in the past decade has grown from 2,981 firms in December 1980, to an all-time high of more than 6,700 firms in August 1987, and currently consists of 6,153 firms, the number of regional and national general securities firms has fallen from 667 to 558 firms.<sup>4</sup> For example, the combined membership of District 10 (Washington, D.C.) and District 11 (Philadelphia) has more than doubled from 1980 to the present, but the two districts have experienced a reduction of almost 50 percent in the number of regional and national general securities members headquartered in their districts during the same time period.<sup>5</sup>

Changes in the demographics of the membership have also led to substantial disparities in the number of members and the scope of the regulatory responsibilities among the various districts. As an example, District 9 (Cleveland) and District 7 (Atlanta) are each represented by one Governor, although District 9 has only 166 members and employs 16 staff members, while District 7 has 547 members and a staff of 48. The Report contains a table and map showing the existing con-

figuration of the districts, the number of members in each district and the number of Governors representing each district.<sup>6</sup>

The Board approved the changes to the districts recommended by the Special Committee in view of the NASD's obligation under the Securities Exchange Act of 1934, as amended ("Exchange Act") to ensure fair representation of its members in the selection of Governors<sup>7</sup> and the requirement of the By-Laws that the Board consider from time to time the fairness of the representation of the various districts on the Board.<sup>8</sup> The reconfiguration yields somewhat fewer, but larger districts which the Board believes will benefit the NASD by lessening the disparities among districts in terms of number of members and regulatory responsibilities, providing a larger pool of candidates from which to elect District Committee and Board members, and improving the NASD's ability to administer and supervise the districts.

<sup>3</sup>Members of the governing boards of other self-regulatory organizations receive compensation. For example, the New York Stock Exchange and the American Stock Exchange provide compensation to their directors comparable to that provided to directors of public companies.

<sup>4</sup>These figures include firms that are members of the NASD and one or more exchanges and are derived from records maintained by the Compliance Division that divide members into various examination categories. This consolidation of larger members has significantly reduced the pool of firms that has traditionally been a valuable source of candidates to serve on district committees and the Board.

<sup>5</sup>In 1980, these districts had a combined total of 73 such regional and national general securities members. This number has fallen to 41 such members in 1989.

<sup>6</sup>The table and map are contained in the section of the Report titled "Districts."

<sup>7</sup>Section 15A(b)(4) of the Exchange Act requires that "[T]he rules of the association [NASD] assure a fair representation of its members in the selection of its directors and administration of its affairs and provide that one or more directors shall be representative of issuers and investors and not be associated with a member of the association, broker, or dealer."

<sup>8</sup>Article VII, Section 4(b)(10) of the By-Laws.

The Special Committee also recommended that the Board have the authority to change the number and borders of the districts and the number of Governors nominated from each district,<sup>9</sup> in view of its statutory and By-Law obligations to ensure the fairness of representation of the various districts on the Board.

The proposed amendments implement the recommendations of the Special Committee by amending the By-Laws and Schedule B to the By-Laws. The total number of districts are reduced from 13 to 11 by:

- Merging District 8 and District 9 into a single new district.
- Merging District 10 and District 11 into a single new district.
- Merging District 1 and District 3 into a single new district.
- Dividing District 2 into two new, separate districts, the first of which would comprise the portion of District 2 referred to as District 2N and the second of which would comprise the portion of District 2 referred to as District 2S.
- Changing the borders of two of the three merged districts and most of the other districts to obtain a more equal distribution of members by district.

The new districts would be represented on the proposed 29 member Board by a total of 15 Governors as follows:

- Three Governors elected from new District 10 (comprising New York City, its adjacent counties, and northern New Jersey).
- Two Governors elected from revised District 7 (Florida, Georgia, South Carolina, North Carolina, Puerto Rico, Canal Zone and the Virgin Islands).
- Two Governors elected from revised District 8 (Illinois, Indiana, Michigan, Wisconsin, Ohio and part of upstate New York).
- One Governor elected from each of the other new or revised districts.

The Report contains a table and map showing the proposed configuration of the districts, the number of members in each district and the number of Governors representing each district.<sup>10</sup>

The District Committees in the merged districts will consider whether establishing subcommittees of the District Committee and the District Business Conduct Committee is an effective means

of improving representation at the district level and reducing travel time for committee members. The Board does not envision closing any of the existing NASD offices at this time.

### National Business Conduct Committee

The proposed amendments make two primary changes to the Code of Procedure to implement Special Committee recommendations to improve the disciplinary process and to reduce the burden that this process imposes on the National Business Conduct Committee ("NBCC") and the Board.<sup>11</sup> The NBCC, a committee of the Board composed solely of Governors, is responsible for reviewing formal actions<sup>12</sup> of the District Business Conduct Committees ("DBCCs") and the Market Surveillance Committee ("MSC"), developing enforcement policy and recommending to the Board the adoption or amendment of rules relating to the business conduct of NASD members.

Although the existing NBCC structure works well, the increasing workload of the NBCC poses serious challenges. In the period from 1985 to 1988 alone, the number of formal actions filed by the DBCCs increased by 81 percent (from 476 to 865). Also in this period, the MSC became a significant source of disciplinary actions.<sup>13</sup> In 1985, the MSC filed 14 formal actions; in 1988, it filed 42 formal actions. The NBCC held 50 hearings in 1985; by 1988 this figure had more than doubled.

<sup>9</sup>Subject to the requirements that each district be represented by at least one Governor and that the number of Governors elected from the districts constitute an absolute majority of the Board.

<sup>10</sup>The table and map are contained in the section of the Report titled "Districts."

<sup>11</sup>Implementing these two primary changes will require a number of conforming changes in other articles of the Code of Procedure.

<sup>12</sup>Formal disciplinary actions consist of summary complaints; letters of acceptance, waiver and consent; offers of settlement, and decisions rendered after a DBCC or MSC hearing. Informal actions consist primarily of letters of caution, letters of future observance and compliance, and staff interviews.

<sup>13</sup>The Board authorized the establishment of the MSC in November 1984.

While some of this increase in volume, particularly in the case of the MSC, reflects events surrounding the market break of October 1987, partial figures for 1989 indicate that the trend is still upward compared with the years before 1987.

The increased workload of the NBCC poses a number of problems. Since the time that each member of the NBCC can contribute is limited, there are constraints on the time available for the NBCC to address increasingly complex policy issues relating to enforcement and the business conduct of members. Further, it is hard to expect members of the NBCC to have much additional time to give to other committees and the increasingly demanding work of the Board itself. The heavy workload of NBCC service may discourage some valuable prospective industry and public candidates from serving on the Board.

Under current practice, the NBCC normally appoints a Governor serving on the NBCC and a recent former Governor as a hearing panel.<sup>14</sup> Service on hearing panels is a substantial burden on the time of members of the NBCC.<sup>15</sup> The Board agrees with the Special Committee that this allocation of the time of members of the NBCC to the hearing panels could detract from the ability of the NBCC to effectively address regulatory policy issues. Accordingly, the NBCC, in the cases it deems appropriate, should use its discretion to appoint hearing panels consisting of a current Governor and a recent former Governor and also should have the discretion to appoint hearing panels consisting exclusively of recent former Governors. Panels so constituted would provide respondents a hearing before experienced and respected members of the industry. In addition, all cases, regardless of the composition of the hearing panel, would continue to be reviewed by the NBCC.

The proposed amendments implement this Special Committee recommendation by revising the Code of Procedure to remove the restriction that at least one current industry member of the Board serve on NBCC hearing panels. This would permit, in appropriate cases, hearing panels to be composed exclusively of recent former industry Governors.

The Code of Procedure would also be revised to provide that the decisions of the NBCC are the final decisions of the NASD in disciplinary cases and would not require action of the full Board to become effective. The Board would review only

those specific decisions of the NBCC that the Board calls for review on the request of one or more Governors.

This would limit the time commitment required from all Governors with respect to decisions of the NBCC without limiting the right of the Board to review an NBCC decision when one or more Governors believe such review is appropriate. The change reflects the importance of the NBCC and recognizes the quality and consistency of its decisionmaking. It would, however, make appeal to the SEC the sole recourse for respondents seeking to challenge a decision of the NBCC (unless a Governor requested review by the Board). The Board believes that since a significant number of Governors would have participated in the NBCC decision, the elimination of mandatory review by the full Board would not reduce the overall fairness of the NASD disciplinary process.

The NASD encourages all members and interested persons to comment on the proposed amendments. Comments should be directed to:

Mr. Lynn Nellius  
National Association of  
Securities Dealers, Inc.  
1735 K Street, NW  
Washington, DC 20006-1506

Questions concerning this notice should be directed to Derek W. Linden, Associate General Counsel, Office of General Counsel, at (202) 728-8810 or Lynn Nellius, Secretary of the NASD, at (202) 728-8381.

Comments must be received **no later than April 30, 1990**. Changes to the NASD By-Laws must be approved by a vote of the NASD membership and filed with, and approved by, the SEC

<sup>14</sup> Article III, Section 2(c) requires that (unless otherwise consented to by the parties) every member of a hearing panel must be currently associated with a member of the NASD. The proposed amendments do not alter this requirement.

<sup>15</sup> Each Governor that is associated with a member and who serves on the NBCC spends on average at least six full days in hearings alone during the one-year term. Preparing for the five or more cases heard at each full day of hearings, and traveling to and from the hearings, adds at least another six to twelve days of time commitment. These time demands are exacerbated by the increasing number of cases which require several days of hearings.

before becoming effective. Changes to the NASD Code of Procedure must be approved by the Board of Governors of the NASD and filed with, and approved by, the SEC before becoming effective.

## TEXT OF PROPOSED AMENDMENTS

(Note: New text is underlined; deleted text is in brackets.)

### By-Laws

#### ARTICLE I Definitions

When used in these By-Laws, and any rules of the Corporation, unless the context otherwise requires, the term:

"Board" means the Board of Governors of the Corporation.

"Governor" means a member of the Board.

(The defined terms under Article I will be alphabetized and the subsection letters will be deleted.)

#### ARTICLE VII Composition of Board

Sec. 4. (a) The management and administration of the affairs of the Corporation shall be vested in a Board of Governors composed of from twenty-five to twenty-nine Governors [thirty-one members], as determined from time to time by the Board. The Board shall consist of: (i) at least thirteen but not more than fifteen Governors [twenty-one] to be elected by the members of the various districts in accordance with the provisions of subsection[s] (b) [(1) through (5)] hereof;[,] (ii) at least eleven but not more than thirteen Governors [nine] to be elected by the Board [of Governors] in accordance with the provisions of subsection[s] (c) [(b)(6),(7) and (8)] hereof;[,] and (iii) the President of the Corporation to be selected by the Board [of Governors] in accordance with the provisions of Article X, Section 2 of the By-Laws. The Board, in exercising its power to determine its size and composition under this subsection (a), shall be required to select its members in a manner such that when all vacancies, if any, are filled, the number of Governors elected by the members of the various districts in accordance with subsection (b) hereof shall exceed the number of Governors (including the President) not so elected.

(b) The several districts shall be represented on the Board [of Governors]. Each district shall elect at least one Governor. The Board shall determine from time to time which districts, if any, shall elect more than one Governor to provide fair representation of its members and of the various districts. The determination of which districts shall elect more than one Governor need not be submitted to the membership for approval and shall become effective at such time as the Board may prescribe. [The elected members of the Board of Governors shall be chosen as follows:] The Board shall, from time to time, consider the fairness of the representation of members and of the various districts on the Board, and whenever it finds any unfairness in such representation to exist, it shall make appropriate changes in the number or boundaries of the districts or the number of Governors elected by each district to assure fair representation of members and districts.

[(1) Three members of the Board of Governors shall be elected from and by the members of the Corporation eligible to vote in District No. 2;]

[(2) Two members of the Board of Governors shall be elected from and by the members of the Corporation eligible to vote in District No. 8;]

[(3) Five members of the Board of Governors shall be elected from and by the members of the Corporation eligible to vote in District No. 12;]

[(4) Two members of the Board of Governors shall be elected from and by the members of the Corporation eligible to vote in District No. 13;]

[(5) One member of the Board of Governors shall be elected from and by the members of the Corporation eligible to vote in each of the remaining districts not referred to in Subsections (1), (2), (3) and (4) of this Section;]

(c) The Board shall elect (i) at least three Governors representative of investors, none of whom are associated with a member or any broker or dealer; (ii) at least three Governors representative of issuers, at least one of whom is not associated with a member or any broker or dealer; (iii) at least three Governors chosen from members; (iv) at least one Governor representative of members who are the principal underwriters of investment company shares; and (v) at least one Governor representative of insurance companies or insurance company affiliated member.

[(6) One member of the Board of Governors shall be elected by the Board of Governors from

among the principal underwriter members of investment company shares, and he shall be designated a Governor-at-Large;

(7) One member of the Board of Governors shall be elected by the Board of Governors from among insurance company members or insurance company affiliated members of the Corporation and he shall be designated a Governor-at-Large;

(8) Seven members of the Board of Governors shall be elected by the Board of Governors and they shall be designated Governors-at-Large. Any Governor-at-Large initially filling a Governor-at-Large office shall be elected at such time as the Board of Governors in its discretion deems appropriate;

(9) At least one member of the Board of Governors shall be representative of issuers and not be associated with a member, broker or dealer and at least one member of the Board of Governors shall be representative of investors and not be associated with a member, broker or dealer;

(10) The Board of Governors shall, from time to time, consider the fairness of the representation of the various districts on the Board of Governors, and whenever it finds any unfairness in such representation to exist, it shall recommend appropriate changes in these By-Laws to assure fair representation of all districts.]

#### **Term of Office**

Sec. 5. Each Governor [elected member of the Board of Governors, including the Governors-at-Large], except as otherwise [herein] provided by these By-Laws or the Certificate of Incorporation, shall hold office for a term of three years, and until his successor is elected and qualified, or until his death, resignation or removal. The President of the Corporation shall serve as a member of the Board [of Governors] until his successor is selected and qualified, or until his death, resignation or removal.

#### **Succession to Office**

Sec. 6. (a) The office of a retiring Governor [member of the Board of Governors] elected under subsection[s] (1) through (5)] (b) of Section 4 [3(b)] of this Article shall be filled by the election of a Governor [member] from the same district as that of the retiring Governor [member]. The office of a retiring Governor [-at-Large] elected under subsection (c) of Section 4 of this Article shall be

filled by election by the Board [of Governors] as provided in subsections (c)(i) through (c)(v) [(6), (7) and/or (8)] of Section 4 [3(b)] of the Article, as the case may be.

(b) Notwithstanding subsection (a) of this Section 6, the Board shall prescribe the succession of office in cases affected by a change in the number of Governors constituting the Board, the composition of the Board, the number or boundaries of districts, or the number of Governors elected by a district.

#### **Election of Board Members**

Sec. 7. The [elected members of the Board of] Governors elected under subsection (b) of Section 4 of this Article shall be chosen as follows:

#### **Procedure for Nominations by Nominating Committees**

(a) Before June 1 of each year, the Secretary of the Corporation shall notify in writing the Chairman of the respective District Committees of the expiration of the term of office of any member of the Board [of Governors] elected under subsection[s] (1) through (5)] (b) of Section 4[3(b)] of this Article which will expire during the next calendar year. The said Chairman shall thereupon notify the Nominating Committee elected for such District pursuant to the provisions of Section 3 of Article IX of the By-Laws and such Nominating Committee shall proceed to nominate a candidate from such District for the office of each such member of the Board [of Governors] whose term is to expire. Nominating Committees in nominating candidates for the office of [member of the Board of] Governor[s] shall endeavor, as nearly as practicable, to secure appropriate and fair representation on the Board [of Governors] of all classes and types of members engaged in the investment banking and securities business. No Nominating Committee shall nominate an incumbent member of the Board [of Governors] to succeed himself unless it first takes appropriate action by a written ballot sent to the entire membership within the District to ascertain that such nomination is acceptable to a majority of the members voting on such ballot in the District except where the incumbent member of the Board [of Governors] is serving pursuant to the provisions of Section 8 [7](a) of this Article. Each candidate nominated by the Nominating Committee shall be certified to the District Committee by September 1 and within five (5) days thereafter a

copy of such certification shall be sent by the District Committee to each member of the Corporation eligible to vote in the district. Such candidate shall be designated the "regular candidate."

**Filling of Vacancies on Board**

Sec. 8. All vacancies in the Board [of Governors] other than those caused[s] by the expiration of a Governor's term of office, shall be filled as follows:

(a) If the unexpired term of a Governor elected under subsection[s] (b) [(1) through (b)(5)] of Section 4 [3] of this Article, is for less than twelve months, such vacancy shall be filled by appointment by the District Nominating Committee of a representative of a member of the Corporation eligible to vote in the same district.

(b) If the unexpired term of a Governor elected under subsection[s] (b) [(1) through (b)(5)] of Section 4 [3] of this Article, is for twelve months or more, such vacancy shall be filled by election, which shall be conducted as nearly as practicable in accordance with the provisions of Section 7 [6] of this Article.

(c) If the unexpired term is that of a Governor[-at-Large] elected by the Board, such vacancy shall be filled in accordance with the provisions of subsections (c)(1) through (c)(v) [(b)(6), (b)(7), and/or (b)(8)] of Section 4 [3] of this Article as the case may be.

**ARTICLE VIII  
District Committees**

**Administrative Districts**

Sec. 1. For the purpose of administration, the United States is hereby divided into districts, the boundaries of which shall be established by the Board [of Governors]. The Board [of Governors] may from time to time make such changes in the number or boundaries of such districts as it deems necessary or appropriate. Neither the establishment nor any change in the number or boundaries of such districts need be submitted to the membership for approval, and the number or boundaries, as established or changed, shall become effective at such time as the Board [of Governors] may prescribe. The Board shall prescribe such policies and procedures as are necessary or appropriate to address the implementation of a new district configuration in the event of a change in the number or boundaries of the districts.

**ARTICLE IX  
Nominating Committees**

**Composition of Nominating Committees**

Sec. 1. (a) Each of the Districts created under Section 1 of Article VIII of the By-Laws shall elect a Nominating Committee, as provided in Section 3 of this Article. Each such Nominating Committee shall consist of five members; provided, however, that the Board [of Governors] by resolution may increase any such Nominating Committee to a larger number. Members of the Nominating Committee in each District shall be members of the Corporation having places of business in the respective District, but shall not be members of the District Committee. All Nominating Committees shall include a majority of persons who have previously served on the District Committee and/or on the Board [of Governors] and shall[,] [insofar as practicable,] include at least one current or former [member of the Board of] Governor[s].

**ARTICLE X  
[Restrictions on] Compensation of  
Board and Committee Members**

Sec. 6. [No member of t]The Board [of Governors (except the President of the Corporation or the President pro tem), no member of any District Committee and no member of any other Committee, other than an Extended Hearing Committee as defined in Article I of the Corporation's Code of Procedure] shall be entitled to provide for reasonable [received any] compensation from the Corporation of the Chairman of the Board, Governors, and the members of any committee of the Board or any District Committee. [for any work done in connection with his duties as a member of the Board of Governors, any District Committee or any other committee. However, such persons shall be entitled to] The Board may also provide for reimbursement of [for] reasonable expenses incurred by such persons in connection with the business of the Corporation.

**ARTICLE XIV  
Powers of Board to Prescribe Sanctions**

(d) refusal by a member or person associated with a member to abide by an official ruling of the Board [of Governors] or any committee [Uniform Practice Committee] exercising [acting within its] powers delegated [appropriate authority] by the Board, with respect to any transaction which is sub-



ject to the Uniform Practice Code; or

(e) failure by a member or a person associated with a member to adhere to any ruling, order, direction or decision of, or to pay any penalty, fine or costs, imposed by, the Board [of Governors], the National Business Conduct Committee, the Market Surveillance Committee, any other committee exercising powers delegated by the Board or any District Business Conduct Committee.

**Schedule B to the By-Laws**

**Schedule B**

The number and territorial boundaries of the several districts established as provided in Section 1 of Article VIII and the number of Governors elected from the several districts established as provided in Section 4(b) of Article VII of the By-Laws of the Corporation[,] are as follows:

**District No. 1**     State of Hawaii, in the State of California, the Counties of Monterey, San Benito, Fresno and Inyo, and the remainder of the State North or West of such Counties, and in the State of Nevada, the Counties of Esmeralda and Nye, and the remainder of the State North or West of such Counties.  
[States of Alaska, Idaho, Montana, Oregon and Washington.]

One Governor shall be elected from and by the members of the Corporation eligible to vote in District No. 1.

**District No. 2**     In the State of California, that part of the State South or East of the Counties of Monterey, San Benito, Fresno and Inyo, and in the State of Nevada, that part of the State South or East of the Counties of Esmeralda and Nye.  
[States of California, Nevada and Hawaii.]

One Governor shall be elected from and by the members of the Corporation eligible to vote in District No. 2.

**District No. 3**     States of Alaska, Arizona, Colorado, Idaho, Montana, New Mexico, Oregon, Utah, Washington and Wyoming.

One Governor shall be elected from and by the members of the Corporation eligible to vote in District No. 3.

**District No. 4**     States of Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota [Oklahoma].

One Governor shall be elected from and by the members of the Corporation eligible to vote in District No. 4.

**District No. 5**     States of Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Oklahoma and [in the State of] Tennessee[, the Counties of Montgomery, Dickson, Hickman, Lewis and Lawrence and the remainder of the State lying West of such Counties].

One Governor shall be elected from and by the members of the Corporation eligible to vote in District No. 5.

**District No. 6**     State of Texas.

One Governor shall be elected from and by the members of the Corporation eligible to vote in District No. 6.

**District No. 7**     States of Florida, Georgia, North Carolina, and South Carolina [, and, in the State of Tennessee, the Counties of Robertson, Cheatham, Williamson, Maury and Giles and the remainder of the State lying East of such Counties]; Puerto Rico, Canal Zone and the Virgin Islands.

Two Governors shall be elected

from and by the members of the Corporation eligible to vote in District No. 7.

**District No. 8** States of Illinois, Indiana, [Iowa,] Michigan, [Minnesota,] [North Dakota,] Ohio [South Dakota] and Wisconsin, and in the State of New York, the Counties of Monroe, Livingston and Steuben and the remainder of the State West of such Counties.

Two Governors shall be elected from and by the members of the Corporation eligible to vote in District No. 8.

**District No. 9** The District of Columbia and the States of Delaware, Maryland, Pennsylvania, Virginia and West Virginia, and in the State of New Jersey, the Counties of Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, Ocean and Salem [States of Kentucky and Ohio].

One Governor shall be elected from and by the members of the Corporation eligible to vote in District No. 9.

**District No. 10** In the State of New York, the Counties of Nassau, Orange, Putnam, Rockland, Suffolk, Westchester, and the five Boroughs of New York City, and the State of New Jersey (except for the counties of Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, Ocean and Salem) [The District of Columbia and the States of Maryland, North Carolina and Virginia].

Three Governors shall be elected from and by the members of the Corporation eligible to vote in District No. 10.

**District No. 11** [The] States of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont and New York (except for the Counties of Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester; the Counties of Monroe, Livingston and Steuben and the remainder of the State West of such Counties; and the five Boroughs of New York City) [Delaware, Pennsylvania, West Virginia and New Jersey, except for the Counties of Bergen, Essex, Hudson, Passaic and Union].

One Governor shall be elected from and by the members of the Corporation eligible to vote in District No. 11.

**[District No. 12** In the State of New York, the Counties of Nassau, Orange, Putnam, Rockland, Suffolk, Westchester, and the five Boroughs of New York City, and, in the State of New Jersey, the Counties of Bergen, Essex, Hudson, Passaic and Union.]

**[District No. 13** States of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont and New York, with the exception of the Counties of Nassau, Orange, Putnam, Rockland, Suffolk, Westchester, and the five Boroughs of New York City.]

**Code of Procedure**

**ARTICLE II**

**Disciplinary Actions by the District Business Conduct Committees, the Market Surveillance Committee and Others**

**Complaints Directed by the Board [of Governors] or the National Business Conduct Committee**

**Sec. 12. The National Business Conduct Com-**

mittee and the Board [of Governors] shall each have the authority when (on the basis of information and belief) [it is] of the opinion that any act, practice or omission of any member of the Corporation or of any person associated with a member of the Corporation is in violation of any rule, regulation or statutory provision, to file a complaint with a Committee against such member or such person associated with a member or to instruct any Committee to do so, and any such complaint shall be handled in accordance with this Article.

**ARTICLE III**  
**Review of Disciplinary Actions**  
**[and Hearings Before] by the**  
**National Business Conduct Committee**  
**and the Board of Governors**

Sec. 1.(a) If a Committee shall take any disciplinary action against any member, or shall dismiss any complaint, as herein provided, such action or dismissal shall be subject to review by the National Business Conduct Committee [Board of Governors] on its own motion within 45 calendar days after the date of the decision. Any such action or dismissal shall also be subject to review upon application by any person aggrieved thereby, filed within 15 calendar days after the date of the decision. Application to the National Business Conduct Committee [Board of Governors] for review, or the institution of review by the National Business Conduct Committee [Board of Governors] on its own motion, shall operate as a stay of any such action or dismissal, until a decision is rendered by the National Business Conduct Committee [Board of Governors] upon such review as hereinafter provided.

(b) If a respondent or any aggrieved person who has made application to the National Business Conduct Committee [Board of Governors] for a review shall withdraw the appeal without a determination by the National Business Conduct Committee [Board of Governors] on the merits thereof, the National Business Conduct Committee [Board of Governors] shall have an additional period of 45 calendar days subsequent to the withdrawal in which to determine whether it shall review the matter on its own motion.

**Hearing[s] Panels [Before the Board]**

Sec. 2.(a) In the case of an appeal or call for review, the complainant, if other than the Committee, or the respondent may request a hearing before

a hearing panel of the National Business Conduct Committee [Board of Governors]. If a request is made, a hearing shall be granted. In the absence of a request for a hearing, the National Business Conduct Committee [Board of Governors] may have any matter set down for a hearing. A notice stating the date, time and place of the hearing shall be mailed to the complainant, if other than the Committee and respondent at least 10 calendar days before the hearing. The notice period may be waived in writing by the respondent or a shorter notice given where extraordinary circumstances require.

(b) Upon consideration of the length of expected testimony, the volume and complexity of documentary evidence, and other factors it may deem material, the National Business Conduct Committee may determine that a matter shall be set for an Extended Hearing. Notice of an Extended Hearing shall be given as provided in Section 2(a).

(c) Unless otherwise consented to by the parties, all hearings shall be held before a hearing panel appointed by the National Business Conduct Committee consisting of two or more persons, all of whom are associated with members of the Corporation, and either (i) at least one of whom shall also be a current [member of the Board of] Governor[s] or (ii) all of whom shall also have served as Governors.

(d) All Extended Hearings shall be held before an Extended Hearing Committee appointed by the National Business Conduct Committee consisting of two or more persons, all of whom previously shall have served as [members of the Board of] Governors; provided, however, that the Chairman of the National Business Conduct Committee shall have the discretion to appoint to an Extended Hearing Committee one or more current [members of the Board of] Governors and to compensate any or all members of the Extended Hearing Committee at the rate then in effect for arbitrators appointed under the Code of Arbitration Procedure.

(e) If a hearing is held, the hearing panel shall consider the record before the Committee and any new material submitted by the complainant and the respondent. If respondent has waived a hearing and the National Business Conduct Committee [Board] does not order a hearing on its own motion, the panel shall consider the matter on the record, which may include new evidence as long as all par-

ties have previously been tendered the new evidence.

(f) The hearing panel shall present its recommended findings and sanctions to the National Business Conduct Committee[. The National Business Conduct Committee shall make its recommended findings and sanctions to the Board of Governors] which shall make the final determination.

#### **Powers of the National Business Conduct Committee [Board] on Review**

Sec. 4. In any proceeding to review any disciplinary action taken or dismissed by a Committee, the National Business Conduct Committee [Board of Governors] may affirm, dismiss, modify or reverse dismissals with respect to each of the Committee findings or remand the matter with appropriate instructions to the Committee. The National Business Conduct Committee [Board of Governors] may affirm, increase, or reduce any sanction, or impose any other fitting sanction.

#### **Decision of the National Business Conduct Committee [Board]**

Sec. 5.(a) In any proceeding to review any disciplinary action taken by a Committee or a dismissal by a Committee if the National Business Conduct Committee [Board of Governors] determines that a violation alleged in the complaint has occurred, it shall issue a written decision which shall set forth:

- (1) the act or practice which the respondent has been found to have engaged in or omitted;
- (2) the rule, regulation, or statutory provision which such act or omission to act is deemed to violate;
- (3) the basis upon which the findings are made; and
- (4) the sanction imposed and the reason

therefor.

#### **Notification of Decision**

Sec. 6. The complainant, the respondent and the member of the Corporation with whom the respondent is presently an associated person shall be promptly notified and sent a copy of any written decision rendered by the National Business Conduct Committee [Board of Governors].

#### **Review by the Board**

Sec. 7. The decisions of the NBCC are subject to review by the Board upon the request of one or more Governors. Such review shall be in accordance with resolutions of the Board governing the review of National Business Conduct Committee decisions. In reviewing any decision of the National Business Conduct Committee, the Board may affirm, dismiss, modify or reverse dismissals with respect to each of the National Business Conduct Committee findings or remand the matter with appropriate instructions to the National Business Conduct Committee or any Committee. The Board may affirm, increase, or reduce any sanction, or impose any other fitting sanction.

#### **Application to SEC for Review**

Sec. 8[7]. In any case where either the complainant or the respondent feels aggrieved by any final disciplinary action taken by the National Business Conduct Committee or Board [of Governors], such person may make application for review to the Securities and Exchange Commission in accordance with the Securities Exchange Act of 1934, as amended. The member of the Corporation with whom the respondent is presently an associated person shall be notified promptly of any application for review to the Securities and Exchange Commission.

# Notice To Members

National Association of Securities Dealers, Inc.

April 1990

**Number 90 - 20****Suggested Routing:\***

- |   |  |                                       |                                    |
|---|--|---------------------------------------|------------------------------------|
| <input checked="" type="checkbox"/> Senior Management | <input type="checkbox"/> Internal Audit                | <input type="checkbox"/> Operations   | <input type="checkbox"/> Syndicate |
| <input type="checkbox"/> Corporate Finance            | <input checked="" type="checkbox"/> Legal & Compliance | <input type="checkbox"/> Options      | <input type="checkbox"/> Systems   |
| <input type="checkbox"/> Government Securities        | <input type="checkbox"/> Municipal                     | <input type="checkbox"/> Registration | <input type="checkbox"/> Trading   |
| <input type="checkbox"/> Institutional                | <input type="checkbox"/> Mutual Fund                   | <input type="checkbox"/> Research     | <input type="checkbox"/> Training  |

\*These are suggested departments only. Others may be appropriate for your firm.

**REQUEST FOR COMMENTS**

**Subject: Proposed Amendments to Article III, Section 5(b) and Article IV, Sections 3 and 4 of The NASD By-Laws, and Article IV, Section 5 of the NASD Rules of Fair Practice;**  
**Last Date for Comment: May 5, 1990**

**EXECUTIVE SUMMARY**

The NASD requests comments on proposed amendments to Article III, Section 5(b) and Article IV, Sections 3 and 4 of the NASD By-Laws, and Article IV, Section 5 of the NASD Rules of Fair Practice. The amendments to the By-Laws would codify current procedures employed by the NASD in processing terminations for cause and cancellations or revocations of members. The amendment to the Rules of Fair Practice would clarify the obligation of members and persons who remain subject to the NASD's jurisdiction to respond to requests for information made by the NASD. The texts of the proposed amendments follow this notice.

**BACKGROUND**

A significant aspect of the NASD's self-regulatory activity involves the investigation of terminations of associated persons for cause to determine whether the circumstances leading to the termination involved violations of the NASD's or other securities rules. To ensure adequate time to

investigate such matters fully and to bring disciplinary action where appropriate, the NASD's practice has been to place a hold on terminations for cause when the Uniform Termination Notice For Securities Industry Registration ("Form U-5") indicates the possibility of misconduct. The effect of the hold is to prevent the termination from becoming effective and thus postpone the commencement of the one-year period within which, under Article IV, Section 4 of the By-Laws, an individual no longer associated with a member firm remains subject to the NASD's jurisdiction to file a complaint.

The investigation of a termination for cause necessarily involves obtaining information from the terminated individual, typically by means of a request for information pursuant to Article IV, Section 5 of the Rules of Fair Practice. The NASD has consistently taken the position that an individual who remains subject to the filing of a complaint pursuant to Article IV, Section 4 of the By-Laws, or whose termination is subject to a hold, remains a "person associated with a member" for purposes of the individual's obligation to provide information requested by the NASD pursuant to Article IV, Section 5 of the Rules of Fair Practice. Furthermore, the NASD regards any failure by a member or associated person to respond to Article IV,

Section 5 requests for information to be a violation of Article III, Section 1 of the Rules of Fair Practice. When required to provide information with regard to any matter involved in an NASD investigation, a member or associated person is required to testify on the record if so directed by any committee, or duly authorized agent of any such committee, in order to comply with Article IV, Section 5. The NASD's ability to require such persons to provide information regarding the circumstances of their termination and to impose sanctions for failure to do so is essential to the discharge of its regulatory obligations.

As a result of a significant number of recent disciplinary actions involving failure to provide information regarding terminations for cause, as well as cancellations and revocations of memberships, in response to the NASD's requests made pursuant to Article IV, Section 5, the NASD Board of Governors has determined that it is appropriate to publish these amendments for comment.

## **SUMMARY OF PROPOSED AMENDMENTS**

### **Article III of the NASD By-Laws**

#### **Section 5**

Article III, Section 5(b) of the NASD's By-Laws currently subjects members that have voluntarily resigned from NASD membership to the NASD's jurisdiction for one year after the effective date of the resignation. The membership of numerous firms has been cancelled or revoked by the NASD for failure to pay dues and fees and to file financial reports with the NASD. However, because Article III, Section 5(b) of the By-Laws does not apply to cancelled or revoked firms, the NASD does not cancel the membership of a firm as a matter of practice. Instead, the NASD holds the cancellation or revocation of the firm membership in abeyance pending completion of any investigation in which it is determined that formal disciplinary action may be warranted. This procedure frustrates the NASD's obligation to cancel or revoke the membership of firms that do not comply with NASD requirements and can lead to firms remaining in the securities business for an extended period of time.

The NASD is, therefore, proposing to renumber current Section 5(b) as new Section 6 and revise the provision so that the retention of jurisdic-

tion provisions will apply to members whose membership has been cancelled or revoked by the NASD.

### **Article IV of the NASD By-Laws**

#### **Section 3**

The NASD is proposing to amend Article IV, Section 3(a) of the NASD By-Laws to codify the NASD's current practice of placing a hold on a termination for cause of a person associated with a member when the Form U-5 indicates that the circumstances surrounding the termination may have involved actionable misconduct. The proposed amendment would also codify the NASD's position that a hold may be imposed retroactively; that is, in cases when a termination is permitted to become effective, the NASD may rescind the effective termination date based on the subsequent receipt of an amended Form U-5 that discloses previously undiscovered misconduct.

#### **Section 4**

Article IV, Section 4 of the NASD By-Laws currently provides that the NASD retains, for one year following the effective date of termination, jurisdiction to bring a disciplinary action against a person formerly associated with a member alleging misconduct that occurred during the period of association. The NASD is proposing to amend Section 4 to codify the NASD's practice of extending the one-year jurisdictional period by placing a hold on a termination for cause and preventing the termination from taking effect. The amendment would also provide that failure of a person to respond to a request for information pursuant to Article IV, Section 5 of the Rules of Fair Practice during the period that a person is subject to the NASD's jurisdiction to file a complaint may be charged as a violation of the NASD's rules, notwithstanding that such failure occurred after the person ceased to be associated with an NASD member.

### **Article IV of the NASD Rules of Fair Practice**

#### **Section 5**

The NASD is proposing to amend Article IV, Section 5 of the Rules of Fair Practice to codify the NASD's position that the obligation to respond to a request for information extends to persons who remain subject to the NASD's jurisdiction to file a complaint. The NASD believes it essential

that persons whose terminations are being investigated for possible misconduct be under an obligation to provide information necessary to enable the staff to determine whether a complaint is warranted.

In addition, Section 5 is proposed to be amended to provide that "failure" to respond to an Article IV, Section 5 request for information, rather than a "refusal" as is presently provided, constitutes a violation of the NASD's rules. When a member or associated person is required to report with regard to any matter, the NASD also proposes that such person must testify on the record if so directed by any committee or duly authorized agent of any such committee. Finally, the NASD proposes that Section 5 be amended to provide that a request for information is properly made if sent to a member's or person's last address of record with the NASD.

\* \* \* \* \*

The NASD encourages all members and other interested persons to comment on the proposed amendments. Comments should be directed to:

Mr. Lynn Nellius  
Corporate Secretary  
National Association of  
Securities Dealers, Inc.  
1735 K Street, NW  
Washington, DC 20006

Comments must be received no later than May 5, 1990. All comments will be made available for public inspection. Comments received by this date will be considered by the NASD's National Business Conduct Committee and the NASD Board of Governors. If the Board approves the proposed amendments, the NASD will submit them to the membership for a vote. If approved by the membership, the amendments must be filed with and approved by the Securities and Exchange Commission before becoming effective.

Questions concerning this notice may be directed to Deborah F. McIlroy, Senior Attorney, NASD Office of the General Counsel, at (202) 728-8816.

**PROPOSED AMENDMENTS  
TO NASD BY-LAWS**

(Note: New text is underlined; deleted text is in brackets.)

**ARTICLE III  
Resignation, Cancellation or  
Revocation of Members**

[Sec. 5(b)] Sec. 6. A resigned member or a member that has had its membership cancelled or revoked shall continue to be subject to the filing of a complaint under the Code of Procedure based upon conduct which commenced prior to the effective date of the member's resignation from the Corporation or the cancellation or revocation of its membership. Any such complaint, however, shall be filed within one year after the effective date of the resignation, cancellation or revocation.

Current Section 5(a) renumbered as Section 5.

Current Sections 6-9 renumbered as Sections 7-10, respectively.

**ARTICLE IV**

**Notification by Member to Corporation  
and Associated Person of Termination;  
Amendments to Notification**

Sec. 3(a). Following the termination of the association with a member of a person who is registered with it, such member shall promptly, but in no event later than thirty (30) calendar days after such termination, give written notice to the Association on a form designated by the Board of Governors of the termination of such association, and concurrently shall provide to the person whose association has been terminated a copy of said notice as filed with the Association. A member who does not submit such notification in writing, and provide a copy thereof to the person whose association has been terminated, within the time period prescribed shall be assessed a late filing fee as specified by the Board of Governors. Termination of registration of such person associated with a member shall not take effect so long as any complaint or action is pending against a member and to which complaint or action such person associated with a member is also a respondent, or so long as any complaint or action is pending against such person individually or so long as any examination of the member or person associated with such member is in process. The Corporation may at its discretion determine that termination of registration of such person associated with a member shall not take effect where the written notice thereof discloses that such person engaged or may have

engaged in conduct that may constitute a violation of any statute, rule or regulation governing such person's activities while associated with a member. The Corporation, however, may in its discretion declare the termination effective at any time; provided, however, that if, during the period that such person remains subject to the Corporation's jurisdiction to file a complaint under the Code of Procedure as provided in Section 4 of this Article IV, the Corporation shall receive notice that such person engaged or may have engaged in conduct that may constitute a violation of any statute, rule or regulation governing such person's activities while associated with a member, the Corporation may at its discretion declare the termination ineffective as of the date the Corporation first received notice of the termination.

(b) The member shall notify the Association in writing by means of an amendment to the notice filed pursuant to paragraph (a) above in the event that the member learns of facts or circumstances causing any information set forth in said notice to become inaccurate or incomplete. Such amendment shall be filed with the Association and provided to the person whose association with the member has been terminated not later than thirty (30) calendar days after the member learns of the facts or circumstances giving rise to the amendment.

#### Retention of Jurisdiction

**Sec. 4.** A person whose association with a member has been terminated and is no longer associated with any member of the Corporation shall continue to be subject to the filing of a complaint under the Code of Procedure based upon conduct which commenced prior to the termination or upon such person's failure, while subject to the Corporation's jurisdiction as provided herein, to provide information requested by the Corporation pursuant to Article IV, Section 5 of the NASD Rules of Fair Practice, but any such complaint shall be filed within one (1) year after the effective date of termination of registration pursuant to Section 3 above or, in the case of an unregistered person, within one (1) year after the date upon which such person ceased to be associated with the member. In the event that the Corporation shall determine pursuant to Section 3 above that the termination of a person's association with a mem-

ber shall not take effect, such person shall continue to be subject to the filing of a complaint as provided herein until, and for one (1) year following, the Corporation's determination to permit the termination to take effect.

### PROPOSED AMENDMENT TO NASD RULES OF FAIR PRACTICE

(Note: New text is underlined, deleted text is in brackets.)

#### ARTICLE IV

##### Reports and Inspection of Books for Purposes of Investigating Complaints

**Sec. 5.** For the purpose of any investigation, or determination as to filing of a complaint or any hearing of any complaint against any member of the Corporation or any person associated with a member made or held in accordance with the Code of Procedure, any Local Business Conduct Committee, any District Business Conduct Committee, or the Board of Governors, or any duly authorized member or members of any such Committees or Board or any duly authorized agent or agents of any such Committee or Board shall have the right (1) to require any member of the Corporation, [or] person associated with a member, or person no longer associated with a member when such person is subject to the Corporation's jurisdiction to report, either informally or on the record, orally or in writing with regard to any matter involved in any such investigation or hearing, and (2) to investigate the books, records and accounts of any such member with relation to any matter involved in any such investigation or hearing. No member, [or] person associated with a member, or person no longer associated with a member, where such person is subject to the Corporation's jurisdiction shall [refuse] fail to make any report as required in this Section, or [refuse] fail to permit any inspection of books, records and accounts as may be validly called for under this Section. Any notice requiring an oral or written report or calling for an inspection of books, records and accounts pursuant to this Section shall be deemed to have been received by the member or person to whom it is directed by the mailing thereof to the last known address of such member or person as reflected on the Corporation's records.



# Notice To Members

National Association of Securities Dealers, Inc.

April 1990

**Number 90 - 21****Suggested Routing:\*** Senior Management Corporate Finance Government Securities Institutional Internal Audit Legal & Compliance Municipal Mutual Fund Operations Options Registration Research Syndicate Systems Trading Training

\*These are suggested departments only. Others may be appropriate for your firm.

**Subject: Collection of Fines and Costs in Disciplinary Proceedings****EXECUTIVE SUMMARY**

The NASD Board of Governors has decided to clarify its policy concerning the collection of fines and costs assessed in disciplinary cases. In brief, the NASD intends, in disciplinary decisions issued by its District Committees, Market Surveillance Committee, or Board of Governors decisions on or after July 1, 1990, to take steps to collect assessed fines and costs at the conclusion of appellate or review proceedings. The NASD will not pursue direct collection of fines and costs in cases concluded prior to July 1, 1990, pursuant to Offers of Settlement, Letters of

Acceptance, Waiver, and Consent (AWC), or, in cases resulting from decisions of District Committees, the Market Surveillance Committee, or the Board of Governors issued prior to July 1, 1990.

In addition, in instances where a respondent has entered into a settlement pursuant to an Offer of Settlement or AWC in which the remedial sanctions include both a bar and a fine, the NASD may suspend efforts to collect the fine until such time as the respondent attempts to re-enter the securities industry.

At its January 1990 meeting, the NASD Board of Governors decided to clarify its policy concerning the collection of fines and costs resulting from decision in disciplinary proceedings and the Association's acceptance of Offers of Settlement and Letters of Acceptance, Waiver, and Consent (AWCs).

Article V, Section 2 of the NASD Rules of Fair Practice authorizes the NASD to suspend or revoke the registration of a member or a person associated with a member if such member or person fails promptly to pay a fine or costs assessed pursu-

ant to Article V, Section 1, or Article V, Section 3, respectively, of the NASD Rules of Fair Practice. Article V, Section 2 of the NASD Rules of Fair Practice also authorizes the NASD to suspend or expel from membership any member who fails to immediately terminate its association with any person who fails promptly to pay a fine or costs assessed pursuant to Article V, Section 1, or Article V, Section 3, respectively, of the NASD Rules of Fair Practice.

It is the intention of the Board of Governors to notify the membership that, in addition to the

procedures relating to payment of monetary sanctions and suspensions or revocation of membership or registration for failure to make such payment set forth in Article V, Section 2 of the Rules of Fair Practice, the NASD intends to pursue other available means for collection of fines and costs imposed by its District Committees, the Market Surveillance Committee, and Board of Governors in disciplinary decisions issued on or after July 1, 1990, at the conclusion of appellate or review proceedings. Thus, the NASD will pursue collection of a fine imposed pursuant to a District Committee, the Market Surveillance Committee, or Board of Governors decision issued on or after July 1, 1990, once such decision becomes final.

The NASD will not pursue the collection of fines and costs assessed in cases concluded prior to July 1, 1990, by means of Offers of Settlement or AWCs, or in cases resulting from decisions of District Committees, the Market Surveillance Commit-

tee, or the Board of Governors issued prior to July 1, 1990, in light of the fact that respondents might have entered into settlements or elected not to pursue appellate remedies believing that direct efforts would not be made to collect fines in their cases.

In instances where a respondent has entered into a settlement pursuant to an Offer of Settlement or AWC in which the remedial sanctions include both a bar and a fine, the NASD may suspend efforts to collect the fine until such time as the respondent attempts to re-enter the securities industry. The NASD will continue to require all such respondents to demonstrate full compliance with all remedial sanctions before an application for membership or for association with a member in any capacity will be entertained.

Questions concerning this notice may be directed to Norman Sue, Jr., Assistant General Counsel, Office of General Counsel, at (202) 728-8117.

# Notice To Members

National Association of Securities Dealers, Inc.

April 1990

## Number 90 - 22

### Suggested Routing:\*

- |   |  |  |   |
|---|--|--|---|
| <input checked="" type="checkbox"/> Senior Management | <input checked="" type="checkbox"/> Internal Audit | <input checked="" type="checkbox"/> Operations | <input type="checkbox"/> Syndicate          |
| <input type="checkbox"/> Corporate Finance            | <input type="checkbox"/> Legal & Compliance        | <input type="checkbox"/> Options               | <input type="checkbox"/> Systems            |
| <input type="checkbox"/> Government Securities        | <input type="checkbox"/> Municipal                 | <input type="checkbox"/> Registration          | <input checked="" type="checkbox"/> Trading |
| <input type="checkbox"/> Institutional                | <input type="checkbox"/> Mutual Fund               | <input type="checkbox"/> Research              | <input type="checkbox"/> Training           |

\*These are suggested departments only. Others may be appropriate for your firm.

### Subject: SOES Tier Levels to Change for 416 Issues on April 16, 1990

On June 30, 1988, the maximum SOES order size for all NASDAQ National Market System (NASDAQ/NMS) securities was established as follows:

- A 1,000-share maximum order size was applied to those NASDAQ/NMS securities that had an average daily nonblock 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 maximum order size was applied to those NASDAQ/NMS securities that had an average daily nonblock 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 maximum order size was applied to those NASDAQ/NMS securities that had an average daily nonblock 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.

These order-size tiers were set by the NASD after extensive research and polling of all NASDAQ/NMS market makers. The purpose of establishing these tiers was to provide public investors with the most efficient means of handling their small orders while ensuring that market makers were not required to assume unrealistic risks under the new mandatory SOES participation rules.

At the time of their establishment, the NASD Trading Committee and Board of Governors decided that the tier levels applicable to each security would be reviewed periodically to determine if the trading characteristics of the issue had changed so as to warrant a SOES tier-level move. Such a review was conducted as of December 29, 1989, using the aforementioned formula and fourth-quarter trading data. The results of this review were analyzed by the SOES Subcommittee and the NASD Trading Committee, which recommended that changes in SOES tier levels should be implemented per the formula calculation with the exception that an issue would not be permitted to move more than one level.

To further explain, if an issue previously was categorized in the 200-share tier, it would not be permitted to move to the 1,000-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. Likewise, a security previously assigned to the 1,000-share tier could move only to 500 shares, regardless of the formula calculation. Only 15 issues were affected by this change during the most recent review. In adopting this policy, the Committee was attempting to minimize market-maker exposure on issues for which the tier level increased and to maintain adequate public investor access on issues for which the tier level decreased.

The committee also recognized that the formula used to assign the tier levels cannot always accurately reflect the trading characteristics for each issue. As such, market makers are reminded that the SOES Subcommittee will review on a case-by-case basis suggested tier-level changes if a significant number of market

makers in that issue believe such a change is warranted. For more information regarding this process, please contact NASDAQ Market Listing Qualifications at (202) 728-8039.

Following is a listing of the NASDAQ/NMS issues that will require a SOES tier-level change on April 16, 1990.

### NASDAQ/NMS SOES CHANGES

#### All Issues in Alphabetical Order by Name

Symbol	Company Name	Old Tier Level	New Tier Level	Symbol	Company Name	Old Tier Level	New Tier Level
SRCE	1ST SOURCE CORP	1000	500	BPILF	BASIC PET INTL LTD	1000	500
<b>A</b>				BLLW	BELL W AND CO INC	500	1000
ABSI	A B S INDS	1000	500	BGAS	BERKSHIRE GAS CO	200	500
ACMT	A C M A T CORP	200	500	BTHL	BETHEL BANCORP	500	200
ALFB	ABRAHAM LINCOLN FSB	500	1000	BLSC	BIO LOGIC SYS CORP	1000	500
ACET	ACETO CORP	1000	500	BIRT	BIRTCHEER CORP THE	500	1000
JAIL	ADTEC INC	500	1000	BLVD	BOULEVARD BANCORP	500	1000
AGPH	AGOURON PHARM INC	500	1000	BTSB	BRAINTREE SAV BANK THE	500	1000
AKZOY	AKZO N V ADR	500	1000	BSBC	BRANFORD SAVINGS BANK	500	1000
ATNG	ALATENN RESOURCES	500	1000	BRID	BRIDGFORD FOODS CORP	200	500
AORGB	ALLEN ORGAN CO B	500	200	BRLN	BROOKLYN SAV BANK THE	500	1000
ABGA	ALLIED BANKSHARES	200	500	BANQ	BURRITT INTRFIN BANCORP	500	1000
ACOL	AMER COLLOID CO	200	500	<b>C</b>			
AFIL	AMER FILTRONA CORP	500	200	CCBF	C C B FIN CORP	1000	500
AMEI	AMER MED ELEC INC	500	1000	CNET	C O M N E T CORP	500	1000
ANUC	AMER NUCLEAR CORP	500	1000	CPBI	C P B INC	500	1000
ARIG	AMER RELIANCE GROUP INC	500	1000	CCBT	CAPE COD BANK TR CO	200	500
AMWD	AMER WOODMARK CORP	500	1000	CATA	CAPITOL TRANSAMERICA	500	200
ASBI	AMERIANA SAV BANK FSB	1000	500	CAFS	CARDINAL FINL GROUP	200	500
AFFZ	AMERICA FIRST FIN LP	500	1000	FFCA	CAROLINA BANCORP INC	1000	500
AMTA	AMISTAR CORP	500	200	CECX	CASTLE ENERGY CORP	500	1000
AMTY	AMITY BANCORP INC	500	200	CELLW	CELL TECH INC WTS 92	1000	500
ANDR	ANDERSEN GROUP INC	500	1000	CSBC	CENTRAL SOUTHERN HLD	500	200
ATOG	ANDOVER TOGS INC	1000	500	CHLN	CHALONE INC	1000	500
AIND	ARNOLD INDUSTRIES	1000	500	CHCR	CHANCELLOR CORP	500	200
ARTW	ART S WAY MFG CO INC	1000	500	CHER	CHERRY CORP	500	1000
ASTE	ASTEC INDS INC	500	1000	CPCI	CIPRICO INC	500	1000
ATRO	ASTRONICS CORP	500	1000	CINS	CIRCLE INCOME SHARES	500	1000
ATPC	ATHEY PRODUCTS CORP	1000	500	CIBA	CITIZENS BANK	500	200
AFED	ATLAFED BANCORP INC	200	500	CIZCF	CITY RESOURCE CANADA	500	1000
ATTC	AUTO TROL TECH	1000	500	CTRIS	CLEVETRUST RLTY SBI	500	1000
ASII	AUTOMATED SYSTEMS	1000	500	COCAW	COCA MINES INC WTS	200	500
AUTR	AUTOTROL CORP	1000	500	CODN	CODENOLL TECH CORP	500	1000
<b>B</b>				COBA	COMMERCE BNCP INC NJ	500	1000
BGSS	B G S SYSTEMS INC	1000	500	CBNB	COMMERCEBANCORP	500	1000
BNHB	B N H BNSH INC	500	1000	CBOCA	COMMERCIAL BNCP COLO	200	500
BTRI	B T R REALTY INC	500	1000	CBNH	COMMUNITY BANKSHARES	500	1000
BLCC	BALCHEM CORP	200	500	CBSI	COMMUNITY BK SYSTEM	500	200
BMCC	BANDO MCGLOCKLIN CAP	500	1000	CIDN	COMPUTER IDENTICS CORP	1000	500
BNHC	BANK OF NEW HAMP CORP	500	1000	CSTP	CONGRESS STREET PROP	200	500
ASAL	BANKATLANTIC FSB	200	500	CTLC	CONS TOMOKA LAND	500	200
BIOW	BANKS OF IOWA INC	1000	500	CORC	CORCOM INC	500	1000
BOMA	BANKS OF MID AMER	500	1000	CNPGF	CORNUCOPIA RES LTD	500	1000
BARY	BARRY S JEWELERS INC	1000	500	CSLH	COTTON STATES LIFE	200	500
BAMI	BASIC AMER MEDICAL	500	1000	CWTS	COUNTRY WIDE TRANS	1000	500
				COILP	CRYSTAL OIL CO PFD A	200	500

Notice to Members 90-22

Symbol	Company Name	Old Tier Level	New Tier Level
<b>D</b>			
DOCO	D O C OPTICS CORP	200	500
DMAR	DATAMARINE INTL INC	200	500
DSCC	DATASOUTH COMPUTER	200	500
DTSI	DATRON SYSTEMS INC	500	1000
DAVX	DAVOX CORP	500	1000
DEER	DEERFIELD FED SAV LOAN	200	500
DETA	DEL TACO RESTAURANTS	500	200
DEVC	DEVCON INTL CORP	200	500
DRTK	DURATEK CORP	500	1000
DUCO	DURHAM CORP	1000	500

<b>E</b>			
EFIC	E F I ELECTRONICS CORP	500	1000
EWAT	E TOWN CORP	200	500
ETEX	EASTEX ENERGY INC	1000	500
EASTS	EASTOVER CORP SBI	200	500
ELCN	ELCO INDS INC	500	1000
ETCIA	ELECTRONIC TELECOM A	500	200
ENNI	ENERGYNORTH INC	1000	500
ECLAY	ENGLISH CHINA ADR	500	1000
ESEX	ESSEX CORP	200	500
EXAR	EXAR CORP	500	1000

<b>F</b>			
FBXC	F B X CORP	500	1000
FLSHP	F L S HLDGS A PFD	500	200
FNWB	F N W BANCORP INC	500	1000
FICI	FAIR ISAAC AND CO	500	200
FCBK	FAIRFIELD COUNTY BANC	500	1000
FEDF	FEDERATED FIN SAV LOAN	1000	500
FIGI	FIGGIE INTL INC	500	200
FCHT	FIRST CHATTANOOGA	1000	500
FCNCA	FIRST CITIZENS CL A	500	200
FRFD	FIRST COMM BANCORP IL	500	200
FCLR	FIRST COMMERCIAL L R	1000	500
FFAM	FIRST FAMILY GROUP	200	500
FFAL	FIRST FED ALABAMA	200	500
FFMY	FIRST FED S L FT MYR	1000	500
FFES	FIRST FED S L HRTFD	1000	500
FFSD	FIRST FED SAV BANK AL	500	1000
LFSA	FIRST FED SAV LENAWE	1000	500
FFUT	FIRST FED SAV UTAH	500	1000
FFWP	FIRST FED WESTERN PA	500	1000
FFBC	FIRST FIN BANCORP OH	200	500
FRCC	FIRST FIN CARIB CORP	1000	500
FSEB	FIRST HOME FED SAV LOAN	500	200
FIBI	FIRST INTERST BANCORP	200	500
FLFC	FIRST LIBERTY FIN	500	1000
FMSB	FIRST MUTUAL SAV BK	1000	500
FBAC	FIRST NATL BANCORP GA	1000	500
FNGB	FIRST NORTHERN SAV BANK	500	200
FNYB	FIRST NY BUSINESS BANK	500	1000
FOBBA	FIRST OAK BROOK CL A	500	200
FSFC	FIRST SEC FIN CORP	200	500
FAME	FLAMEMASTER CORP THE	500	200
FLAEF	FLORIDA EMP INS CO	1000	500
FFPC	FLORIDA FIRST FED	500	1000
FSNR	FORSCHNER GROUP THE	500	1000
FELE	FRANKLIN ELECTRIC CO	500	1000

<b>G</b>			
XRAY	G E N D E X CORP	500	1000

Symbol	Company Name	Old Tier Level	New Tier Level
GWCC	G W C CORP	1000	500
GBAN	GATEWAY BANCORP INC	500	200
GCOR	GENCOR INDS INC	1000	500
GENIP	GENETICS INSTIT PFD	200	500
GMFD	GERMANIA BANK FSB	500	1000
GBYLF	GIANT BAY RES LTD	500	1000
GSBI	GRANITE STATE BKSHS	1000	500
GBBS	GREAT BAY BANKSHARES	500	1000
GFGC	GREAT FALLS GAS CO	500	1000
GREY	GREY ADVERTISING INC	500	200
GRIF	GRIFFIN TECHNOLOGY	500	1000
GATS	GULF APPLIED TECH	500	1000

<b>H</b>			
HEIC	H E I CORP	1000	500
HHOT	H H OIL TOOL CO INC	200	500
HAKO	HAKO MINUTEMAN INC	500	200
THCO	HAMMOND CO THE	500	1000
HATH	HATHAWAY CORP	1000	500
HVFD	HAVERFIELD CORP	500	200
HAVT	HAVERTY FURNITURE	1000	500
HTLD	HEARTLAND EXPRESS	1000	500
HEBC	HERITAGE BANCORP	500	1000
HSBK	HIBERNIA SAV BANK THE	500	1000
HFGA	HOME FED SAV BANK GA	200	500
HFSF	HOME FED SAV LOAN SF	500	1000
HOMF	HOME FED SAV SEYMOUR	500	1000
HFSLP	HOME OWNERS SAV A PF	500	1000
HTWN	HOMETOWN BANCORP INC	500	1000
HOSP	HOSPOSABLE PROD INC	1000	500
HTEK	HYTEK MICROSYSTEMS	500	1000

<b>I</b>			
ICOC	I C O INC	500	1000
IEHC	I E H CORP	500	1000
IIVI	I I V I INC	1000	500
INRD	I N R A D INC	200	500
INVG	I N V G MTG SECS CORP	1000	500
IWCR	I W C RES CORP	500	1000
TIBI	IMAGE BANK THE	200	500
INDHK	INDEP INS GROUP INC NV	1000	500
IACI	INDUSTRIAL ACOUSTICS	500	200
INFD	INFODATA SYSTEMS INC	500	1000
INSMA	INSITUFORM MIDAMER A	200	500
ICAR	INTERCARGO CORP	1000	500
ICEYF	INTL CAP EQUIP LTD	500	1000
ISLH	INTL HOLDING CAP CORP	500	200
ILFCW	INTL LEASE FIN WTS	200	500
ITIC	INVESTORS TITLE CO	500	1000

<b>J</b>			
JMBS	J M B REALTY TR SBI	200	500
JKHY	JACK HENRY AND ASSOC	500	1000
JACO	JACO ELECTRONICS INC	1000	500
JMLC	JAMES MADISON LTD	200	500
JASN	JASON INC	1000	500
JEFG	JEFFERIES GROUP INC	500	1000
JFFN	JEFFERSON BANK	500	200
JERR	JERRICO INC	1000	500
JGRP	JESUP GROUP INC	500	200
JALC	JOHN ADAMS LIFE CORP	200	500
WILLA	JOHN WILEY SONS CL A	1000	500
JSBK	JOHNSTOWN SAV BANK FSB	200	500

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Symbol	Company Name	Old Tier Level	New Tier Level	Symbol	Company Name	Old Tier Level	New Tier Level
<b>K</b>				NMDY	NORMANDY OIL GAS CO	1000	500
KEQU	KEWAUNEE SCIENTIFIC	500	200	CBRYA	NORTHLAND CRANBERR A	1000	500
KNAP	KNAPE AND VOGT MFG	500	1000	NWIB	NORTHWEST IL BANCORP	200	500
<b>L</b>				NOVXM	NOVA PHARM CORP WTS C	1000	500
LCSI	L C S INDS INC	200	500	NOVXL	NOVA PHARM CORP WTS D	1000	500
LDMFA	LAIDLAW INC CL A S2	200	500	NYCOP	NYCOR INC PFD	1000	500
LSNB	LAKE SHORE BANCORP	200	500	<b>O</b>			
LDMK	LANDMARK BANK FOR SAV	500	1000	OGLE	OGLEBAY NORTON CO	1000	500
LCBI	LANDMARK COMM BANCORP	500	1000	OFFI	OLD FASHION FOODS	200	500
LSER	LASER CORP	1000	500	OLDB	OLD NATL BANCORP	1000	500
LIBHA	LIBERTY HOMES INC A	500	200	OSTNO	OLD STONE PFB B 2.40	200	500
LIFE	LIFELINE SYSTEMS INC	500	1000	OSBW	OLYMPIC SAV BANK	500	200
LFIN	LINCOLN FINANCIAL CORP	1000	500	OCGI	OMNI CAP GROUP INC	1000	500
LNDL	LINDAL CEDAR HOMES	1000	500	OVVW	ONE VALLEY BANCORP W VA	1000	500
LIND	LINDBERG CORP	500	1000	OCOMA	OUTLET COMMUN CL A	1000	500
LOGC	LOGIC DEVICES INC	500	1000	OXID	OXIDYNE GROUP THE	1000	500
LEIX	LOWRANCE ELECTRONICS	500	200	<b>P</b>			
<b>M</b>				PHPH	P H P HEALTHCARE CORP	500	1000
MIHO	M I SCHOTTENSTEIN	1000	500	PALM	PALFED INC	500	1000
MLRC	MALLON RESOURCES CORP	500	1000	PKWY	PARKWAY CO	500	200
MANA	MANATRON INC	500	200	PATK	PATRICK INDS INC	500	1000
MRC5	MARCUS CORP	1000	500	PENT	PENN ENTRPR INC	1000	500
MCOR	MARINE CORP ILL	1000	500	PVIR	PENN VIRGINIA CORP	1000	500
MTWN	MARK TWAIN BCSHS	500	1000	PSPA	PENNVIEW SAVS ASSOC	200	500
MFAC	MARKET FACTS INC	200	500	PNTAP	PENTAIR INC PFD 87	500	200
MAXC	MAXCO INC	1000	500	PBNB	PEOPLES SAV FINL CORP	500	1000
MFLR	MAYFLOWER CO-OP BK	500	1000	PTRL	PETROL INDS INC	1000	500
MOIL	MAYNARD OIL CO	500	1000	PETT V	PETTIBONE CORP NEW WI	500	200
MGCC	MEDICAL GRAPHICS CORP	500	1000	PICOA	PHYSICIANS INS OH A	500	1000
MDTA	MEGADATA CORP	500	1000	PBGI	PIEDMONT BKGP INC	200	500
KITS	MERIDIAN DIAGNOSTICS	500	1000	PFBK	PIONEER FED SAV BANK	500	1000
MIGI	MERIDIAN INS GROUP INC	1000	500	PFSIP	PIONEER FIN SVCS PFD	500	1000
METS	MET COIL SYSTEMS CORP	1000	500	SIGN	PLASTI LINE INC	1000	500
MAIL	MICHAEL ANTHONY JEWL	500	1000	PLZA	PLAZA COMMERCE BANCORP	1000	500
MWAV	MICROWAVE LABS INC	500	1000	PLEN	PLENUM PUBLISHING CORP	1000	500
MIAM	MID AM INC	500	1000	PSLA	PREFERRED SAV BANK	200	500
MABC	MID AMERICA BANCORP	1000	500	PBKC	PREMIER BKSHS	500	200
MMSB	MID MAINE SAV BANK FSB	500	1000	PENG	PRIMA ENERGY CORP	200	500
MNES	MINE SAFETY APPLS CO	500	200	PMBK	PRIMEBANK FED SAV BANK	500	1000
MVBC	MISSION VALLEY BANCORP	500	1000	PROFE	PROFESSIONAL INV INS	1000	500
MAHI	MONARCH AVALON INC	200	500	PRFT	PROFFITT S INC	500	200
MHCO	MOORE HANDLEY INC	200	500	PSYS	PROGRAMMING AND SYS	1000	500
MTNR	MOUNTAINEER BKSHS WV	500	200	PVNA	PROVENA FOODS INC	200	500
MUEL	MUELLER PAUL CO	500	200	PULS	PULAWSKI SAV LOAN	500	1000
LABL	MULTI COLOR CORP	1000	500	<b>Q</b>			
MUTU	MUTUAL FED SAV LOAN	500	200	QEDX	Q E D EXPLORATION	200	500
MFBZ	MUTUAL FED SAVS BANK	500	1000	QLTIF	QUADRA LOGIC TECH	500	1000
<b>N</b>				<b>R</b>			
NSCB	N B S C CORP	500	200	RRMN	RAILROADMENS FED IND	500	200
NIPNY	N E C CP ADR	1000	500	RCHI	RAUCH INDS INC	1000	500
NHDI	N H D STORES INC	1000	500	RCOT	RECOTON CORP	1000	500
NANO	NANOMETRICS INC	200	500	RFTN	REFLECTONE INC	500	1000
NCMC	NATL CAP MGT CORP	500	1000	RAUT	REPUBLIC AUTO PARTS	500	1000
MBLA	NATL MERCANTILE BANCORP	500	1000	RSLA	REPUBLIC CAP GROUP INC	500	1000
NSSX	NATL SANITARY SUPPLY	500	200	RSFC	REPUBLIC SAV FIN CORP	500	200
NBTY	NATURE'S BOUNTY INC	500	1000	RESR	RESEARCH INC	200	500
NAVX	NAVIGATORS GROUP INC	500	1000	ROIL	RESERVE INDS CORP	500	200
NWRK	NETWORKS ELECTRONICS	500	200	REXI	RESOURCE AMERICA INC	1000	500
NIIS	NEW IMAGE INDS INC	200	500				
NIEX	NIAGARA EXCHANGE CORP	500	1000				

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Symbol	Company Name	Old Tier Level	New Tier Level
RESP	RESPIRONICS INC	500	1000
PREV	REVERE FUND INC	500	1000
REXL	REXHALL INDS INC	500	1000
RSGI	RIVERSIDE GROUP INC	500	200
RDWI	ROADWAY MOTOR PLAZA	500	1000
RESC	ROANOKE ELEC STEEL	1000	500
RNIC	ROBINSON NUGENT INC	500	1000
RONC	RONSON CORP	1000	500
ROTO	ROTO ROOTER INC	500	1000
ROYLW	ROYALPAR INDS WTS A	200	500
RULE	RULE INDS INC	1000	500
RBCO	RYAN BECK CO INC	500	1000

**S**

SDNB	S D N B FINANCIAL CORP	500	200
SJNB	S J N B FINANCIAL CORP	500	1000
SKFB	S K FAMOUS BRANDS	500	1000
SNLFA	S N L FINANCIAL CORP A	1000	500
STVI	S T V ENGINEERS INC	500	200
SWCB	SANDWICH CO-OP BANK	500	1000
SWARA	SCHWARTZ BROS INC A	1000	500
SIDY	SCIENCE DYNAMICS CORP	500	1000
SCOT	SCOTT AND STRINGFELL	200	500
SEAB	SEABOARD SAVINGS LOAN	200	500
SSBA	SEACOAST SAVINGS BANK	500	1000
SEWY	SEAWAY FOOD TOWN INC	500	200
SFGI	SECURITY FINL GROUP INC	500	200
SLTM	SELECTERM INC	500	200
SNCO	SENSOR CONTROL CORP	1000	500
SHOP	SHOPSMITH INC	1000	500
SETBS	SIERRA RL EST 83 SBI	500	200
SETC	SIERRA RL EST TR 84	500	1000
SKAN	SKANEATELES SAV BANK	500	200
SMGS	SOUTHEASTERN MI GAS	1000	500
SSIF	SOUTHEASTERN SAV	500	1000
SISC	STEWART INFO SVCS CORP	1000	500
STRU	STRUCTOFAB INC	500	200
SUBBA	SUBURBAN BANCORP A	500	1000
SUMI	SUMITOMO BANK OF CA	500	1000
SMMT	SUMMIT SAV ASSOC	500	1000
SNRU	SUNAIR ELECTRONICS	500	1000
SNLT	SUNLITE INC	1000	500
SRBC	SUNRISE BANCORP	500	1000
SUNF	SUNSTAR FOODS INC	1000	500
SYMC	SYMANTEC CORP	500	1000
SNTC	SYNETIC INC	500	1000

**T**

TCII	T C I INTL INC	500	1000
TSH	T S I INC	1000	500
TOPT	TELE OPTICS INC	500	1000
TNII	TELECOMMUN NETWORK	1000	500
TMTX	TEMTEX INDS INC	200	500
TAVI	THORN APPLE VALLEY	200	500
TOCRZ	TOCOR INC UTS	500	1000
TODDA	TODD A O CORP CL A	1000	500
TKIOY	TOKIO MARINE ADR	1000	500
TLAM	TONY LAMA CO INC	500	1000
TRGL	TREADOR ROYALTY CORP	500	1000
TGDGF	TOTAL ENERGOLD CORP	500	1000
TRNI	TRANS INDS INC	1000	500

Symbol	Company Name	Old Tier Level	New Tier Level
TLII	TRANS LEASING INTL	500	1000
TRSL	TRANSNATIONAL INDS	1000	500
TRTI	TRANSTECH IND INC	1000	500
TWBC	TRANSWORLD BANCORP	500	200
TMAS	TRIMAS CORP	1000	500
TUCK	TUCKER DRILLING CO	500	1000
TDRLF	TUDOR CORP LTD	200	500
TUSC	TUSCARORA PLASTICS	1000	500
TTOYW	TYCO TOYS INC WTS 93	500	1000

**U**

UNRI	U N R INDS INC	1000	500
UNRIW	U N R INDS INC WTS	1000	500
UNSL	U N S L FIN CORP	500	200
INTK	U S INTEC INC	1000	500
UICI	UNITED INS COS INC	500	1000
UMSB	UNITED MISSOURI BCSH	1000	500
UNEWY	UNITED NEWSPAPER ADR	500	1000
USBK	UNITED SAV BANK VA	500	1000
UBMT	UNITED SAV BANK F A MT	500	1000
TOTE	UNITED TOTE INC	1000	500
UHCO	UNIV HOLDING CORP	500	1000
USBP	USBANCORP INC PA	500	1000

**V**

VLCM	VALCOM INC	200	500
VWBN	VALLEY WEST BANCORP	200	500
VALY	VALLICORP HLDGS INC	200	500
VREOS	VANGUARD REAL SBI	200	500
VCRE	VARI CARE INC	1000	500
VLGEA	VILLAGE SUPER MKT A	500	1000
VIST	VISTA RESOURCES INC	1000	500

**W**

WCRSY	W C R S PLC ADR	500	200
WNSI	W N S INC	200	500
WPPGY	W P P GROUP PLC ADR	500	1000
WALS	WALSHIRE ASSURANCE	500	200
WIMI	WARWICK INS MGRS INC	200	500
WAMUP	WASHINGTON MUT PFD A	1000	500
WSBX	WASHINGTON SAV BANK	200	500
WATFZ	WATERFORD PLC ADR UT	200	500
WHOO	WATERHOUSE INVESTOR	500	200
WEBS	WEBSTER CLOTHES INC	1000	500
WLPI	WELLINGTON LEISURE	1000	500
WCBC	WEST COAST BANCORP CA	500	1000
WSBK	WESTERN BANK OREGON	200	500
WFPR	WESTERN FED SAV P R	200	500
WFRAF	WHARF RESOURCES LTD	1000	500
WSVS	WILAND SVCS INC	200	500

**X**

XPLR	XPLOR CORP	200	500
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**Y**

YESS	YANKEE ENERGY SYS	500	1000
YFED	YORK FINANCIAL CORP	1000	500

**Z**

ZIGO	ZYGO CORP	200	500
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