

Notice To Members

National Association of Securities Dealers, Inc.

October 1990

Number 90 - 66

Suggested Routing:*

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| <input checked="" type="checkbox"/> Senior Management | <input checked="" type="checkbox"/> Internal Audit | <input type="checkbox"/> Operations | <input type="checkbox"/> Syndicate |
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| <input type="checkbox"/> Government Securities | <input type="checkbox"/> Municipal | <input type="checkbox"/> Registration | <input type="checkbox"/> Trading |
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*These are suggested departments only. Others may be appropriate for your firm.

Subject: Proposed Amendments to SEC Rule 15c3-1 Regarding Withdrawals of Net Capital

EXECUTIVE SUMMARY

The Securities and Exchange Commission (SEC) has issued Release No. 34-28347, containing proposed amendments to Rule 15c3-1 (the "Rule") with respect to withdrawals of net capital. The proposal would expand the capital withdrawal limitations in subparagraph (e) of the Rule and would require, in certain instances, notification to the Commission prior to effecting the withdrawal(s) of capital directly or indirectly to

benefit certain specified persons or entities related to the broker-dealer. The Commission, by order, could, in exceptional circumstances, prohibit such withdrawals if it determined that the withdrawal(s) could be detrimental to the financial integrity of the broker-dealer or affect the broker-dealer's ability to meet customer obligations. The SEC's comment period expires October 22, 1990. The text of the proposed amendments follows this notice.

BACKGROUND

The Securities and Exchange Commission (SEC) has proposed amendments to its Net Capital Rule designed to address the issues arising from the withdrawal of capital from a broker-dealer by a parent or affiliate. The amendments are intended to improve the Commission's ability to protect the customers and creditors of a broker-dealer in those circumstances where a financial problem in a holding company or other affiliate leads to withdrawals of capital from the broker-dealer.

Subparagraph (e) of the Rule (limitation on withdrawal of equity capital) currently establishes certain prohibitions on the withdrawal of equity capital from a broker-dealer failing to maintain

specified levels of net capital. The proposed amendment would expand the scope of this section by prohibiting capital withdrawals, directly or indirectly, by actions of a stockholder, partner, or affiliate of the broker-dealer (insiders) without first notifying the Commission and its designated examining authority at least two business days before the intended withdrawal of capital if:

(i) the projected withdrawal, along with other withdrawals during the preceding thirty (30) days, would equal or exceed 20 percent of the firm's excess net capital; or

(ii) 30 percent of excess net capital during the preceding 90 days.

The notification requirement would apply to

aggregate withdrawals in excess of \$50,000.

Under the proposal, once notification is given, the Commission could, in exceptional circumstances, prohibit the proposed capital withdrawal to insiders and affiliates by issuing an order that would prevent such withdrawal for a period of twenty (20) business days if the Commission believes the capital withdrawal "... may be detrimental to the financial integrity of the broker-dealer or which may unduly jeopardize its ability to repay its customer claims or other liabilities of the broker-dealer." This 20-day time period would enable the Commission and its staff to further examine the broker-dealer's financial condition so as to determine whether, and under what circumstances, to permit the withdrawal entirely or partially, or prohibit it for additional periods, each with a term no longer than 20 business days.

In addition to the prohibitions currently in subparagraph (e) of the Rule, the Commission is proposing to include a new condition tied to proprietary "haircuts." If a projected capital withdrawal were to cause the firm's net capital to be less than 30 percent of the "haircut" deduction, the withdrawal would be prohibited.

The term "capital withdrawals" is broadly defined to include not only return of capital contributions, but also dividend distributions, stock redemptions, unsecured advances or loans to stockholders, partners, sole proprietors, affiliates, or *employees*. But withdrawals would not include required tax payments or the payment of reasonable compensation to partners.

In addition to comments on the proposed amendments, the Commission is soliciting comments on whether additional amendments to the financial responsibility rule are appropriate, espe-

cially as to larger broker-dealers with affiliated entities. The Commission is asking for alternative approaches regarding capital levels, such as net capital requirements based on haircuts, for large dealer firms that are able to achieve a significant degree of leverage under existing capital rules, particularly firms operating under the alternative method.

NASD members that wish to comment on the proposed rule change should do so by October 22, 1990.

Comment letters in triplicate should be sent to:

Jonathan G. Katz
Secretary

Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549.

Comment letters should refer to File No. S7-14-90. All comment letters received will be made available for public inspection and copying in the SEC's Public Reference Room, 450 Fifth Street, NW, Washington, DC 20549.

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

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

Questions concerning this notice may be directed to Walter Robertson, NASD Associate Director, Financial Responsibility, at (202) 728-8236 or Samuel Luque, Associate Director, Financial Responsibility, at (202) 728-8472.

**SECURITIES AND EXCHANGE
COMMISSION**

17 CFR Part 240

[Release No. 34-28347; File No. S7-14-90]

RIN 3235-AD79

**Net Capital Rule; Prohibited
Withdrawal by Registered Broker-
Dealers****AGENCY:** Securities and Exchange
Commission.**ACTION:** Proposed rule amendments.

SUMMARY: The Securities and Exchange Commission proposes to amend its net capital rule under the Securities Exchange Act with respect to withdrawal of net capital. The proposal would, under certain circumstances, prohibit registered broker-dealers from withdrawing capital directly or indirectly to benefit certain described persons related to the broker-dealer, without first notifying the Commission at least two business days before the withdrawal of capital. The proposed amendments would also permit the Commission, by order, to prohibit any of these withdrawals of capital from the registered broker-dealer, if the Commission believed the withdrawal may be detrimental to the financial integrity of the broker-dealer or might affect the broker-dealer's ability to repay its customer claims or other liabilities. Finally, the proposed amendments would prohibit any of these withdrawals of capital if the effect of such withdrawals would cause the broker-dealer's net capital to be less than 30 percent of its deductions required by the net capital rule as to its readily marketable securities.

The proposed amendments are designed to address the issues arising from the withdrawal of capital from a broker-dealer by a parent or affiliate, and they are intended to improve the Commission's ability to protect the customers and creditors of a broker-dealer in those circumstances where a financial problem in a holding company or other affiliate leads to withdrawals of capital from the broker-dealer. The Commission requests comment on the amendments set forth in the proposed rule. In addition, the Commission is requesting comment on whether additional amendments to the Commission's financial responsibility rules are appropriate in order to address the issues arising from the increased complexity of broker-dealer holding company structures and the higher incidence of proprietary risks undertaken by many broker-dealers.

DATES: Comments to be received on or before October 22, 1990.

ADDRESSES: Persons wishing to submit written comments should file three copies with Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. All comment letters should refer to File No. S7-14-90. All comments received will be available for public inspection and copying in the Commission's Public Reference Room, 450 Fifth Street, NW., Washington, DC 20549.

FOR FURTHER INFORMATION CONTACT: Michael A. Macchiaroli, (202) 272-2904, Michael P. Jamroz, (202) 272-2372 or Roger G. Coffin, (202) 272-2396. Division of Market Regulation, 450 Fifth Street, NW., Washington, DC 20549.

SUPPLEMENTARY INFORMATION:**I. Introduction**

The primary purpose of the net capital rule (Securities Exchange Act Rule 15c3-1; 17 CFR 240.15c3-1) is to protect customers and creditors of registered broker-dealers from monetary losses and delays that can occur when a registered broker-dealer fails. In this way, the Rule acts to prevent systemic risk from the failure of a financial intermediary. The Rule requires registered broker-dealers to maintain sufficient liquid assets to enable firms that fall below the minimum net capital requirements to liquidate in an orderly fashion without the need for a formal proceeding. Presently the net capital rule generally requires a registered broker-dealer to maintain net capital in excess of the greater of \$25,000 or 6% percent of its liabilities and other obligations ("aggregate indebtedness or basic method"). If the broker-dealer makes an election under paragraph (f) of the Rule, the broker-dealer must maintain net capital in excess of the greater of \$100,000 or 2 percent of its so-called aggregate debit items (the "alternative method"). These aggregate debit items generally may be thought of as its customer-related receivables.¹

Generally, the net capital requirement is computed by deducting from net worth, among other things, the book value of illiquid assets and certain prescribed percentages from the market value of proprietary securities. These latter deductions are referred to as "haircuts". In the case of many firms, these haircuts require the firm to

¹ More specifically, the broker-dealer must maintain net capital in excess of 2 percent of its aggregate debit items as computed in accordance with the Formula for Determination of Reserve Requirement for Brokers and Dealers contained in Securities Exchange Act Rule 15c3-3 (17 CFR 240.15c3-3).

maintain significant amounts of capital (either equity capital or properly subordinated debt) to carry the positions while maintaining net capital compliance.

Paragraph (e) of the Rule generally prohibits withdrawals of equity capital of the registered broker-dealer by action of any stockholder or partner, or the making of unsecured advances or loans to any stockholder, partner or employee if the effect of such withdrawals, advances or loans is to reduce the broker-dealer's net capital below certain levels. The withdrawals cannot cause the broker-dealer's net capital to be less than, among other things, 120 percent of the applicable minimum dollar amount required under the Rule. If the broker-dealer is computing its requirement under the basic method, the broker-dealer may not allow its net capital to be lowered as the result of equity capital withdrawals and unsecured loans such that its aggregate indebtedness would exceed 1,000 percent of its net capital. If the broker-dealer computes its requirement under the alternative method, it may not allow its net capital to be reduced lower than 5 percent of its aggregate debit items.

These early warning levels in the Rule are set at an amount above the minimum net capital requirement of the broker-dealer. They are designed to provide the Commission and the self-regulatory organizations a margin of safety in which to respond to the potential failure of a firm. These early warning levels restrict the withdrawal of capital below the specified limits, although the Rule does not expressly restrict the broker-dealer from making other distributions of capital to its parent or affiliates. Despite these limitations, the early warning levels of the Rule have generally provide an adequate cushion of net capital before a firm could be considered to be in or approaching financial difficulty. This is particularly true in the case of a large retail firm with a large customer business and little or no dealer business.

II. The Drexel Burnham Bankruptcy

Recent events have indicated that the existing early warning restrictions may not be sufficient to address the problems that have arisen in connection with the development by many broker-dealers of large, complex holding companies. The Division of Market Regulation in its October 1987 Market Break Report anticipated to some degree the problems that might arise:²

² See The October 1987 Market Break. A Report by the Division of Market Regulation of the U.S. Securities and Exchange Commission. February 1988, pp 5-17, 5-18.

The large investment banking firms generally are owned by holding companies that have other subsidiaries engaging in unregulated securities-related or banking related activities. These unregulated entities attain a degree of leverage and take credit risks regulated broker-dealers cannot. In some cases, the registered broker-dealer's parent (without the broker-dealer's capital) or sister affiliates have significantly less capital than the broker-dealer. Moreover, the Division believes that in many cases the creditors of those entities are indirectly relying on the credit of the broker-dealer and the ability of the holding company to shift capital from broker-dealer to the unregulated entity. . . .

A broker-dealer may be indirectly affected, however, by an insolvency of an affiliate or a parent. Broker-dealers often need short-term financing. The failure of a related entity could have substantial effects on the broker-dealer. In addition, management might seek ways to divert capital from the broker-dealer to the extent permitted by the net capital rule. While this shift of assets would not, by itself, place a firm in net capital violation, it could leave the firm more exposed to failure during volatile market conditions.

The recent bankruptcy of Drexel Burnham Lambert Group Inc. ("Drexel"), the holding company parent of the broker-dealer Drexel Burnham Lambert, Inc. ("DBL"), underscores the need for amendments to the net capital rule that will enable the Commission to control diversions of a broker-dealer's capital within an interlocking financial services structure. In that case, Drexel had over \$1 billion in commercial paper and other unsecured short term borrowings. Unsecured borrowing, particularly through the commercial paper market, is a common financing technique used by many large broker-dealer holding companies. As a result of significant losses and a decline in the rating of its commercial paper, Drexel found it more difficult to renew its short-term borrowings. Drexel was then forced to look to the only liquid sources of capital in its assets—the excess net capital of DBL and an affiliate government securities dealer.

In a period of approximately three weeks, and without the knowledge of the Commission or the New York Stock Exchange Inc., (the "NYSE") DBL's designated examining authority, approximately \$220 million was transferred to the holding company in the form of short term loans. This action occurred during a period in which the default or financial problems of a number of issuers³ had adversely impacted the liquidity and pricing reliability in the high-yield securities market and raised difficulties in valuing

a substantial portion of the firm's portfolio of securities for purposes of determining capital compliance. Moreover, at the time the Commission became aware of Drexel's financial dilemma, Drexel or its affiliates had more than \$400 million in short-term liabilities coming due in the next two weeks and an additional \$330 million scheduled to mature in the next month.

Prior to the chapter 11 bankruptcy filing by Drexel, the Commission advised Drexel and DBL of its concerns regarding the substantial withdrawals of capital by Drexel from DBL and an affiliate government securities dealer. In addition, the Division of Market Regulation sent a letter to DBL confirming its understanding that DBL would not make any further loans to Drexel or its affiliates without prior consultation with the Commission. This letter was followed by two letters from the NYSE which: Prohibited DBL from making any loans or advances to any related entity without NYSE approval; increased DBL's haircuts on its high yield inventory position; and prescribed a minimum net capital requirement for DBL of \$150,000,000.⁴

Had the Commission and the NYSE not intervened when they did, Drexel would have continued to withdraw funds out of DBL and probably would have continued until the broker-dealer's early warning level was reached. Especially in light of Drexel's precarious financial position and the uncertainty with respect to DBL's valuation of its high yield portfolio, this would have created the risk that the broker-dealer's customers and its counterparties would have been subjected to a liquidation under the Securities Investor Protection Act.

III. The Proposed Rule Amendments

The Commission proposes to address the potential for a holding company parent in financial difficulty from withdrawing a substantial percentage of a broker-dealer's net capital in three different ways. First, the Commission is concerned that the present early warning levels may not be sufficient for

firms that primarily do a dealer business. Because such a firm may have relatively few customer debits, the capital level required under the alternative method may be relatively low, and it may not be related to the size or risk of its dealer business. Haircuts provide an approximation of the risk in a dealer's proprietary securities positions. Accordingly, the proposed amendments would establish a new early warning level for a dealer based on the firm's proprietary positions, as represented by the haircuts on those positions. If a firm triggers the proposed new early warning level, that event will indicate to the Commission that the firm's net capital is low in relation to the amount of the firm's securities positions. In such cases, no capital should be removed from the firm to benefit insiders.

In order to assess the impact of the proposed early warning level on large broker-dealer subsidiaries of holding companies, the Commission staff examined data provided by the staff of the NYSE which reflected NYSE member financial data as of December 31, 1989. The proposed amendments would raise the early warning level of twelve of the twenty largest NYSE member firms. These firms would have a total of approximately \$911 million in capital restricted from withdrawal by the proposed amendments, or an average of \$76 million per firm.

Additionally, twelve of the twenty NYSE member firms with the largest dollar amount of haircuts would be affected by the proposed amendments. These firms would have approximately \$940 million in additional capital restricted from withdrawal. On average, each of these firms would have approximately \$78 million in capital per firm that would be subject to restrictions on withdrawal. The twenty NYSE firms that would be most impacted by the proposed early warning level would have approximately \$1 billion in additional capital restricted from withdrawal, for an average of approximately \$50 million per firm.

Based on this data, the Commission has preliminarily concluded that 30 percent of a firm's haircuts will provide

³ During 1989, 47 issuers defaulted or were involved in distressed exchange offers (i.e., an exchange of an outstanding debt security for a security with a lower principal amount or a lower interest rate) on approximately \$7.3 billion in registered high-yield securities. For example, in June of 1989, Integrated Resources, a major issuer of high-yield securities, defaulted on \$1 billion in commercial paper. In July of 1989, the Southmark Corporation filed for bankruptcy, and in September of that year, the Campeau Corporation announced that it lacked sufficient cash to satisfy its debt obligations. In January of 1990, the Campeau Corporation filed for protection from creditors under the federal bankruptcy laws. These failures

adversely impacted the high-yield market in two ways. First, secondary trading in high-yield securities fell off sharply. Second, new transactions involving the issuance of high-yield securities began to slow down, with a resultant decline in underwriting and related income.

⁴ The NYSE letters were predicated on NYSE Rules 325 and 326, which authorize the NYSE to require a member firm to maintain net capital in an amount necessary to meet a firm's financial obligations, and authorize the NYSE to prohibit a firm from advancing funds to its owners.

an adequate cushion of net capital to liquidate a firm's positions. If a firm reaches this early warning level, regulatory authorities will be alerted to the need for increased surveillance of the firm and will be able to take appropriate action. This action may include requiring a firm to reduce its securities positions.

Second, the proposed amendments would require a broker-dealer to notify the Commission and its designated examining authority at least two business days before it intends to withdraw capital in certain instances. This notification would be required only where the projected withdrawal, along with other withdrawals over the preceding 30 days, would equal or exceed 20 percent of the firm's excess net capital, or where 30 percent of the firm's excess net capital was withdrawn over the preceding 90 days. In order to provide smaller broker-dealers flexibility to transfer funds in the ordinary course of business, the notification requirement would not be triggered by aggregate withdrawals of less than \$50,000. This exception would not apply to limitation on withdrawals imposed by the other early warning levels.

Finally, the proposed amendments would also allow the Commission in extraordinary circumstances to restrict any withdrawal of capital by insiders of the firm for a period of up to twenty business days at a time. This discretionary authority could be used where the Commission believes that any withdrawal of capital may be detrimental to the financial integrity of the broker-dealer or might unduly jeopardize the broker-dealer's ability to pay its liabilities to customers or other creditors.

The twenty business day period would enable the Commission and its staff to further examine the broker-dealer's financial condition, net capital position and the risk exposure to the customers and creditors of the broker-dealer. During this period the Commission, after considering the above and other factors, could determine whether, under what circumstances, or in what amounts, withdrawals of net capital from the broker-dealer should be allowed. To continue to restrict withdrawals, however, additional orders will have to be issued by the Commission, each with a term of no more than twenty business days.

The Commission does not expect that this authority will be exercised except in those exceptional circumstances where the Commission is concerned that the concentration or lack of liquidity of the

assets held by the dealer raise concerns about the firm's ability to liquidate, if necessary, in an orderly fashion.

IV. Request for Comment

The Commission requests comments on the proposed amendments. In particular, commentators are requested to address the issue of whether the proposed amendments will improve the Commission's ability to respond to serious financial and liquidity problems occurring in the holding company of a broker-dealer. Comment is also invited on any potential adverse impact the proposed amendments may have on the willingness of other corporate entities to invest in and to maintain substantial excess net capital in a broker-dealer. Comment is also requested on the adequacy of the specific standards proposed, including, but not limited to, the use of a 30 percent of haircuts test for limiting capital withdrawals and the provision that exempts notification when the anticipated withdrawal is \$50,000 or less.

With respect to the provision that would enable the Commission to restrict withdrawals of capital from any particular broker-dealer, the Commission preliminarily believes that the execution of an order under paragraph (e)(4) would fall within section 23(c) of the Securities Exchange Act and, in particular, 17 CFR 201.27 adopted thereunder. More specifically, Rule 201.27 would require the Commission to give prompt notice to the broker-dealer in the event an order restricting a withdrawal of capital is issued. The Commission requests comment on whether proposed paragraph (e)(4) raises issues under either section 23(a) of the Securities Exchange Act or the Administrative Procedure Act.

In addition to requesting comment on the amendments proposed today, the Commission also requests comment on whether additional amendments to the Commission's financial responsibility rules are appropriate in light of the increased complexity of broker-dealer holding company structures and the higher incidence of proprietary risks now taken by many broker-dealers. Specifically, the Commission requests comment on the adequacy of the existing minimum capital levels for broker-dealers, in particular larger broker-dealers that conduct a broad range of activities, both in the broker-dealer and in affiliated enterprises. The Commission asks for alternative approaches to determining the appropriate required capital for large firms in view of the large degree of

leverage that those firms, particularly those that operate under the alternative method, can attain.⁵ Insofar as the deductions taken on the firm's securities positions represent the Rule's general measurement of risk related to those positions, the Commission asks for comment regarding whether the net capital Rule should provide for a required level of capital that is based on the haircuts incurred by the firm on its positions.

V. Summary of Initial Regulatory Flexibility Analysis

The Commission has prepared an Initial Regulatory Flexibility Analysis ("IRFA") in accordance with 5 U.S.C. 630 regarding the proposed amendments. The Analysis notes that the objective of the proposed amendments is to further the purposes of the various financial responsibility rules which provided safeguards with respect to financial responsibility and related practices of brokers and dealers. Smaller broker-dealers will generally not be affected because the new early warning level will generally not be in excess of their present early warning levels. Additionally, a firm may withdraw capital of up to \$50,000 without notice if this withdrawal would not pull the firm below other early warning levels. In sum, the Analysis states that the proposed amendments would affect the ability of broker-dealers to distribute capital to related parties. The amendments are designed to prevent insiders from withdrawing capital from the registered broker-dealer to benefit the parent or its ultimate owners to the detriment of the creditors of the broker-dealer. A copy of the IRFA may be obtained by contacting Roger G. Coffin, Division of Market Regulation, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC, 20549, (202) 272-2396.

VI. Statutory Analysis

Pursuant to the Securities Exchange Act of 1934 and particularly sections 15(c)(3), 17 and 23 thereof, 15 U.S.C. 78o(c)(3), 78q and 78w, the Commission proposes to amend § 240.15c3-1, of title 17 of the Code of Federal Regulations in the manner set forth below.

⁵ For example, immediately before Drexel declared bankruptcy, DBL's net capital requirement was approximately \$16 million, in addition to aggregate haircuts of approximately \$900 million.

VII. List of Subjects in 17 CFR Part 240

Reporting and recordkeeping requirements; Securities.

VIII. Text of the Proposed Amendments

In accordance with the foregoing, title 17, chapter II of the Code of Federal Regulations is proposed to be amended as follows:

PART 240—GENERAL RULES AND REGULATIONS, SECURITIES EXCHANGE ACT OF 1934

1. The authority citation for part 240 is amended by adding the following citation:

Authority: Sec. 23, 48 Stat. 901, as amended (15 U.S.C. 78w), * * *. § 240.15c3-1 is also issued under secs. 15(c)(3), 15 U.S.C. 78o(c)(3).

2. By revising paragraph (e) to § 240.15c3-1 as follows:

§ 240.15c3-1 Net capital requirements for brokers or dealers.

* * * * *

(e)(1) Limitation on withdrawal of equity capital. No equity capital of the broker or dealer or a subsidiary or affiliate consolidated pursuant to appendix C (17 CFR 240.15c3-1c) may be withdrawn by action of a stockholder or a partner or by redemption or repurchase of shares of stock by any of the consolidated entities or through the payment of dividends or any similar distribution, nor may any unsecured advance or loan be made to a stockholder, partner, sole proprietor, employee or affiliate:

(i) Without prior written notice to the Commission in Washington, DC, to the regional office of the Commission for the region in which the broker or dealer has its principal place of business, to the broker or dealer's designated examining authority and to the Commodity Futures Trading Commission if such broker or dealer is registered with such Commission, received at least two business days prior to the withdrawals, unsecured advances or loans if those withdrawals, advances or loans in the aggregate exceed, in any 30 day period, the greater of \$50,000 or 20 percent of the broker or dealer's excess net capital or in any 90 day period, 30 percent of excess net capital; or

(ii) If after giving effect thereto and to any other such withdrawals, advances or loans and any Payments of Payment Obligations (as defined in appendix D (17 CFR 240.15c3-1d) under satisfactory subordination agreements which are scheduled to occur within 180 days following such withdrawal, advance or loan either:

(A) Aggregate indebtedness of any of the consolidated entities exceeds 1000 percent of its net capital; or

(B) Its net capital would be less than: (1) 120 percent of the minimum dollar amount required by paragraph (a); or,

(2) 5 percent of aggregate debit items computed in accordance with 17 CFR 240.15c3-3a; or,

(3) If registered as a futures commission merchant, 7 percent of the funds required to be segregated pursuant to the Commodity Exchange Act and the regulations thereunder (less the market value of commodity options purchased by option customers on or subject to the rules of a contract market, each such deduction not to exceed the amount of funds in the option customer's account), if greater; or,

(4) 30 percent of deductions from net worth in computing net capital required by paragraph (c)(2)(vi) and appendix A; or

(C) If the total outstanding principal amounts of satisfactory subordination agreements of a broker or dealer consolidated pursuant to appendix C (17 CFR 240.15c3-1c) (other than such agreements which qualify as equity under paragraph (d) of this section) would exceed 70% of the debt-equity total as defined in paragraph (d).

(2) Excess net capital is that amount in excess of the amount required under paragraph (a). The term equity capital includes capital contributions by partners, par or stated value of capital stock, paid-in capital in excess of par, retained earnings or other capital accounts. The term equity capital does not include securities in the securities accounts of partners and balances in limited partners' capital accounts in excess of their stated capital contributions.

(3) Paragraphs (e)(1) and (e)(2) shall not preclude a broker or dealer from making required tax payments or preclude the payment to partners of reasonable compensation, and such payments shall not be included in the calculation of withdrawals, advances, or loans for purposes of paragraph (e)(1)(i).

(4) The Commission may by order restrict, for a period up to twenty business days, any withdrawal by the broker or dealer of equity capital or unsecured loan or advance to a stockholder, partner, sole proprietor, employee or affiliate which the Commission believes may be detrimental to the financial integrity of the broker or dealer or which may unduly jeopardize its ability to repay its customers claims or other liabilities of the broker or dealer.

* * * * *
By the Commission.
Dated: August 15, 1990.
Jonathan G. Katz,
Secretary.
[FR Doc. 90-19606 Filed 8-20-90; 8:45 am]
BILLING CODE 8010-01-M

Notice To Members

National Association of Securities Dealers, Inc.

October 1990

Number 90 - 67

Suggested Routing:*

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

Subject: SOES Tier Levels to Change for 450 Issues on October 15, 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 June 29, 1990, using the aforementioned formula and second-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 23 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 October 15, 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
A							
ELUXY	A B ELECTRLX ADR	1000	500	BARY	BARRY S JEWELERS INC	500	200
SKFRY	A B SKF ADR	1000	500	BLLW	BELL W AND CO INC	1000	500
ACMT	A C M A T CORP	500	200	BNHN	BENIHANA NATL CORP	1000	500
ABBK	ABINGTON BANCORP INC	1000	500	BLSC	BIO LOGIC SYS CORP	500	1000
ALFB	ABRAHAM LINCOLN FSB	1000	500	BLAK	BLACK INDS INC	200	500
ACLE	ACCEL INTL CORP	1000	500	BLIS	BLISS LAUGHLIN INDS	500	200
AROS	ADVANCE ROSS CORP	1000	500	BRCOA	BRADY W H CO CL A	500	1000
ARVX	AEROVOX INC	500	1000	BRJS	BRAIDAS CORP	500	200
AMFI	AMCORE FINANCIAL INC	500	1000	BSBC	BRANFORD SAVINGS BANK	1000	500
AMJX	AMER FSB DUVAL CNTY	1000	500	BRDL	BRENDLE'S INC	1000	500
AMPH	AMER PHYSICIANS SVC	1000	500	BRID	BRIDGFORD FOODS CORP	500	200
ARIG	AMER RELIANCE GROUP INC	1000	500	BCKY	BUCKEYE FIN CORP	1000	500
RICE	AMER RICE INC	1000	500	C			
AMWD	AMER WOODMARK CORP	1000	500	CERB	C E R B C O INC	500	200
FUND	AMERICAS ALL SEAS FD	500	1000	CPST	C P C REXCEL INC	1000	500
AMTA	AMISTAR CORP	200	500	CSPI	C S P INC	500	1000
AMOS	AMOSKEAG CO	500	200	CALGF	CAL GRAPHITE CORP	500	1000
AMPI	AMPLICON INC	1000	500	CRBI	CAL REP BANCORP INC	200	500
ANEN	ANAREN MICROWAVE INC	1000	500	CSTB	CALIFORNIA STATE BANK	500	1000
ANDR	ANDERSEN GROUP INC	1000	500	CBAM	CAMBREX CORP	1000	500
ARDNA	ARDEN GROUP CL A	500	200	CCBT	CAPE COD BANK TR CO	500	1000
ALOT	ASTRO MED INC	1000	500	CAFS	CARDINAL FINL GROUP	500	200
ATKM	ATEK METALS CENTER	1000	500	CDRGW	CEDAR GROUP WTS A	1000	500
ATFC	ATICO FINANCIAL CORP	500	200	CELLW	CELL TECH INC WTS 92	500	200
AFED	ATLANFED BANCORP INC	500	200	CJFC	CENTRAL JERSEY FINL	500	200
ATWD	ATWOOD OCEANICS INC	500	1000	CPSA	CENTRAL PENN FIN CORP	500	200
ATTC	AUTO-TROL TECH	500	200	CSBC	CENTRAL SOUTHERN HLD	200	500
AUTR	AUTOTROL CORP	500	1000	CSBI	CENTURY SOUTH BANKS	200	500
B							
BFEN	B F ENTERPRISES INC	500	200	CHCR	CHANCELLOR CORP	200	500
BFSI	B F S BANKORP INC	1000	500	CHER	CHERRY CORP	1000	500
BGSS	B G S SYSTEMS INC	500	1000	CHPK	CHESAPEAKE UTIL CORP	500	1000
BNHB	B N H BNSH INC	1000	500	CVAL	CHESTER VALLEY BANCORP	500	200
BTRI	B T R REALTY INC	1000	500	DOCKS	CHICAGO DOCK SBI	1000	500
BTBTY	B T SHIP ADR	200	500	CDCRA	CHILDREN'S DISCOVER A	500	200
BAIB	BAILEY CORP	1000	500	CPCI	CIPRICO INC	1000	500
BLCC	BALCHEM CORP	500	200	CINS	CIRCLE INCOME SHARES	1000	500
BWINB	BALDWIN LYONS CL B	1000	500	CIZCF	CITY RESOURCE CANADA	1000	500
BTEK	BALTEK CORP	1000	500	CIVC	CIVIC BANCORP	200	500
BCNJ	BANCORP NEW JERSEY	1000	500	CTRIS	CLEVETRUST RLTY SBI	1000	500
BNHC	BANK OF NEW HAMP CORP	1000	500	CLDRP	CLIFFS DRILLING PFD	500	200
ASAL	BANKATLANTIC FSB	500	200	COCAW	COCA MINES INC WTS	500	200
BNKF	BANKERS FIRST CORP	1000	500	CODN	CODENOLL TECH CORP	1000	500
BOMA	BANKS OF MID AMER	1000	500	CHTB	COHASSET SAVINGS BANK	500	200
				CBNB	COMMERCEBANCORP	1000	500
				CBOCA	COMMERCIAL BANCORP COLO	500	200
				CTIA	COMMUN TRANSMISSION	1000	500

Notice to Members 90-67

Symbol	Company Name	Old Tier Level	New Tier Level	Symbol	Company Name	Old Tier Level	New Tier Level
CBNH	COMMUNITY BANKSHARES	1000	500	FAMA	FIRST AMARILLO BANCORP	500	200
CBSI	COMMUNITY BANK SYSTEM	200	500	FAMRB	FIRST AMER FIN CORP B	1000	500
CIDN	COMPUTER IDENTICS CORP	500	1000	FAMRA	FIRST AMER FINL CORP A	1000	500
CLRI	COMPUTER LANGUAGE	500	1000	FBNC	FIRST BANCORP TROY NC	500	200
COND	CONDOR SVCS INC	1000	500	FCTR	FIRST CHARTER CORP	500	200
CSTP	CONGRESS STREET PROP	500	200	FCHT	FIRST CHATTANOOGA	500	1000
CFIB	CONS FIBRES INC	500	200	FRFD	FIRST COMM BANCORP IL	200	500
CBNE	CONSTITUTION BANCORP NE	500	200	HCEN	FIRST FAMILY GROUP	500	200
CONH	CONTL HOMES HOLDING	1000	500	FFAL	FIRST FED ALABAMA	500	200
CORC	CORCOM INC	1000	500	FFSW	FIRST FEDERAL FINL	500	200
CSTN	CORNERSTONE FIN CORP	1000	500	FFMY	FIRST FED S L FT MYR	500	1000
CSMO	COSMO COMMUN CORP	1000	500	FFSD	FIRST FED SAV BANK AL	1000	500
CSTR	COSTAR CORP	200	500	FSBG	FIRST FED SAV BANK GA	500	200
CLFI	COUNTRY LAKE FOODS	1000	500	FLAG	FIRST FED SAV BANK LAG	500	200
CRRC	COURIER CORP	500	200	FFSM	FIRST FED SAV BANK MT	200	500
FYBR	CRITICAL INDS INC	1000	500	FFWP	FIRST FED WESTERN PA	1000	500
CRAN	CROWN ANDERSEN INC	500	1000	FGHC	FIRST GEORG HLDGS	200	500
COILP	CRYSTAL OIL CO PFD A	500	200	FSEB	FIRST HOME FED SAV LOAN	200	500
CUNB	CUPERTINO NATL BANCORP	200	500	FSPG	FIRST HOME SAV BANK	500	200
D				FLFC	FIRST LIBERTY FIN	1000	500
DPHZ	D A T A P H A Z INC	1000	500	FMSB	FIRST MUTUAL SAV BANK	500	1000
DOCO	D O C OPTICS CORP	500	200	FPNJ	FIRST PEOPLES FIN CORP	1000	500
DMCVB	DAIRY MART STORES B	1000	500	FSFI	FIRST STATE FINL SVC	1000	500
DMCB	DATA MEASUREMENT CORP	500	200	WOBS	FIRST WOBURN BANCORP	1000	500
DATM	DATUM INC	1000	500	FLGLA	FLAGLER BANK CORP CL A	500	200
DSII	DECOM SYS INC	500	200	FFPC	FLORIDA FIRST FED	1000	500
DEVC	DEVCON INTL CORP	500	1000	FOILP	FOREST OIL CORP PFD	500	1000
DLOG	DISTRIBUTED LOGIC CORP	1000	500	FELE	FRANKLIN ELECTRIC CO	1000	500
DOUG	DOUGLAS AND LOMASON	500	200	G			
DREW	DREW INDS INC	1000	500	GWCC	G W C CORP	500	1000
E				GATW	GATEWAY FED CORP	500	1000
EBMI	E AND B MARINE INC	1000	500	GBLD	GEN BLDG PRODS CORP	500	200
ECLAY	E C C PLC ADR	1000	500	GENIP	GENETICS INSTIT PFD	500	1000
EBSI	EAGLE BANCSHARES	1000	500	GNBC	GLENDALE BANCORP	200	500
VFBK	EASTERN BANCORP INC	1000	500	GLTX	GOLDTEX INC	500	200
EASTS	EASTOVER CORP SBI	500	200	GFGC	GREAT FALLS GAS CO	1000	500
EAVN	EATON VANCE CORP	500	1000	GRIF	GRIFFIN TECHNOLOGY	1000	500
ELCN	ELCO INDS INC	1000	500	GROV	GROVE BANK FOR SAV	500	200
ELRC	ELECTRO RENT CORP	1000	500	GULL	GULL LABS INC	1000	500
ETCIA	ELECTRONIC TELECOM A	200	500	H			
EFSB	ELMWOOD FED SAV BANK	1000	500	HEII	H E I INC	1000	500
EASI	ENGINEERED SUPPORT	1000	500	HALL	HALL FIN GROUP INC	1000	500
ENVT	ENVIRONMNTL TECTONICS	500	1000	HWEC	HALLWOOD ENERGY CORP	1000	500
ENVI	ENVIROSAFE SERVICES	1000	500	THCO	HAMMOND CO THE	1000	500
EQICB	EQUITABLE OF IOWA B	1000	500	HATH	HATHAWAY CORP	500	1000
XCOL	EXPLORATION CO LOUIS	1000	500	HVFD	HAVERFIELD CORP	200	500
F				CHHC	HEIST C H CORP	200	500
FMFS	F AND M FINL SVC CORP	500	200	HELX	HELIX TECHNOLOGY INC	500	1000
FLSHP	F L S HLDGS A PFD	200	500	HERS	HERITAGE FINL SVC IL	1000	500
FMCO	F M S FINANCIAL CORP	1000	500	HSBK	HIBERNIA SAV BANK THE	1000	500
FNBR	F N B ROCHESTER CORP	500	1000	HIWDF	HIGHWOOD RESOURCES	500	200
FNWB	F N W BANCORP INC	1000	500	HIFS	HINGHAM INSTI SAVING	1000	500
FICI	FAIR ISAAC AND CO	200	500	HFGA	HOME FED SAV BANK GA	500	200
FCBK	FAIRFIELD COUNTY BANCORP	1000	500	HFSF	HOME FED SAV LN SF	1000	500
FLCP	FALCON PRODUCTS INC	500	1000	HOMF	HOME FED SAV SEYMOUR	1000	500
FAHSP	FARM AND HOME PFD A	1000	500	HFIN	HORIZON FIN SVC INC	1000	500
FARC	FARR CO	500	1000	HOSP	HOSPOSABLE PROD INC	500	1000
FSCR	FEDERAL SCREW WORKS	500	200	HYDE	HYDE ATHLETIC INDS	1000	500
FIGI	FIGGIE INTL INC	200	500				

Notice to Members 90-67

Symbol	Company Name	Old Tier Level	New Tier Level	Symbol	Company Name	Old Tier Level	New Tier Level
I				MOIL	MAYNARD OIL CO	1000	500
IIVI	I I V I INC	500	1000	MCFE	MCFARLAND ENERGY INC	1000	500
INRD	I N R A D INC	500	200	MTIX	MECHANICAL TECH INC	500	200
TIBI	IMAGE BANK THE	500	1000	MDIN	MEDALIST INDS	1000	500
IMATW	IMATRON INC WTS 90	500	200	MDXR	MEDAR INC	1000	500
IMGN	IMMUNOGEN INC	500	1000	MGCC	MEDICAL GRAPHICS CORP	1000	500
INDB	INDEP BANK CORP MA	500	1000	MRET	MERET INC	500	200
INFD	INFODATA SYSTEMS INC	1000	500	KITS	MERIDIAN DIAGNOSTICS	1000	500
IGSI	INSITUFORM GULF SO	500	200	MRMK	MERRIMACK BANCORP	1000	500
ISEC	INSITUFORM SOUTHEAST	1000	500	METS	MET-COIL SYSTEMS CORP	500	1000
INTS	INTEGRATED SYS INC	500	1000	MTRO	METRO TEL CORP	500	200
IFED	INTER FED SAV BANK	500	200	MFGR	METROBANK FIN GROUP INC	1000	500
INTL	INTER TEL INC	1000	500	MWAY	MICROWAVE LABS INC	1000	500
INPH	INTERPHASE CORP	500	000	MMSB	MID MAINE SAV BANK FSB	1000	500
INTP	INTERPOINT CORP	1000	500	MIDS	MID-SOUTH INS CO	500	200
ICEYF	INTL CAP EQUIP LTD	1000	500	MSSB	MID-STATE FED SAV BANK	1000	500
ILFCW	INTL LEASE FIN WTS	500	1000	MIDC	MIDCONN BANK	1000	500
IRON	IRONSTONE GROUP INC	1000	500	MAHI	MONARCH AVALON INC	500	200
IROQ	IROUOIS BANCORP	500	200	MHCO	MOORE HANDLEY INC	500	200
ISKO	ISCO INC	1000	500	MORP	MOORE PRODUCTS CO	200	500
IYCOY	ITO YOKADO CO ADR	200	500	MORF	MOR-FLO INDS INC	500	200
J				MOTR	MOTOR CLUB OF AMER	1000	500
JGIN	J G INDUSTRIES INC	1000	500	MTNR	MOUNTAINEER BKSHS WV	200	500
JMLC	JAMES MADISON LTD	500	200	MRGC	MR GASKET CO	1000	500
JASN	JASON INC	500	1000	MUEL	MUELLER PAUL CO	200	500
JEFG	JEFFERIES GROUP INC	1000	500	LABL	MULTI-COLOR CORP	500	1000
JALC	JOHN ADAMS LIFE CORP	500	200	N			
JOSL	JOSLYN CORP	1000	500	NIPNY	N E C CORP ADR	500	1000
K				NYCL	N Y C A L CORP	1000	500
KCSG	K C S GROUP INC	1000	500	NBCC	NATL BANC COMMERCE	500	1000
KMSI	K M S INDS INC	1000	500	NBAK	NATL BANCORP OF ALASKA	500	200
KTHI	K TRON INTL INC	1000	500	NCMC	NATL CAP MGT CORP	1000	500
KMCI	KEEGAN MGMT CO	200	500	NCBM	NATL CITY BANCORP	500	200
KTCO	KENAN TRANSPORT CO	500	200	NPBC	NATL PENN BSCHS INC	200	500
KNAP	KNAPE AND VOGT MFG	1000	500	NTSC	NATL TECH SYS INC	1000	500
KRUG	KRUG INTL CORP	1000	500	NWLIA	NATL WESTERN LIFE A	500	1000
L				NAVG	NAVIGATORS GROUP INC	1000	500
LCSI	L C S INDS INC	500	200	NGFCF	NEVADA GOLDFIELDS CORP	500	200
LDBC	L D B CORP	500	200	NIIS	NEW IMAGE INDS INC	500	1000
LXBK	L S B BANCSHARES NC	200	500	NLON	NEW LONDON INC	500	1000
LDMK	LANDMARK BANK FOR SAV	1000	500	NEWE	NEWPORT ELECTRONICS	500	200
LCBI	LANDMARK COMM BANCORP	1000	500	NNSL	NEWPORT NEWS SAV BANK	500	200
LSER	LASER CORP	500	1000	NIEX	NIAGARA EXCHANGE CORP	1000	500
LFIN	LINCOLN FINANCIAL CORP	500	1000	NMDY	NORMANDY OIL GAS CO	500	1000
LNSB	LINCOLN SAVINGS BANK	500	200	NCCB	NORTHERN CA COMMUNIT	200	500
LNDL	LINDAL CEDAR HOMES	500	1000	NWIB	NORTHWEST IL BNCORP	500	200
LIND	LINDBERG CORP	1000	500	NWTL	NORTHWEST TELEPROD	500	200
LEIX	LOWRANCE ELECTRONICS	200	500	NOVXM	NOVA PHARM CORP WTS C	500	200
M				NYCOP	NYCOR INC PFD	500	1000
MMIM	M M I MEDICAL INC	1000	500	O			
MACD	MACDERMID INC	200	500	OHSC	OAK HILL SPORTSWEAR	1000	500
MLRC	MALLON RESOURCES CORP	1000	500	OHBC	OHIO BANCORP YOUNGSTOWN	500	200
MANA	MANATRON INC	200	500	OLDB	OLD NATL BANCORP	500	1000
MFAC	MARKET FACTS INC	500	200	OVVW	ONE VALLEY BANCORP W VA	500	1000
MFLR	MAYFLOWER CO-OP BANK	1000	500	OPTO	OPTO MECHANIK INC	1000	500
MFFC	MAYFLOWER FIN CORP	1000	500	OFSB	ORIENTAL FED SAV BANK	500	200
				OSHM	OSHMANS SPORTING	1000	500
				P			
				PTSI	P A M TRANSPORT SVCS	1000	500

Notice to Members 90-67

Symbol	Company Name	Old Tier Level	New Tier Level	Symbol	Company Name	Old Tier Level	New Tier Level
PBSF	PACIFIC BANK N A	200	500	SFEM	S F E TECH MFG CO	1000	500
PISC	PACIFIC INTL SVC CORP	1000	500	SJNB	S J N B FINANCIAL CORP	1000	500
PALM	PALFED INC	1000	500	SNLFA	S N L FINANCIAL CORP A	500	200
PATL	PAN ATLANTIC INC	200	500	SUNF	S U N F INC	500	200
PATK	PATRICK INDS INC	1000	500	SNDS	SANDS REGENT THE	1000	500
PMFG	PEERLESS MFG CO	200	500	SATI	SATELLITE INFO SYS	1000	500
PNTAP	PENTAIR INC PFD 87	200	500	SAVO	SCHULTZ SAV-O STORES	1000	500
PFDC	PEOPLES FED DEKALB	200	500	STIZ	SCIENTIFIC TECH INC	200	500
PBNB	PEOPLES SAV FINL CORP	1000	500	SBCFA	SEACOAST BKG CORP FL A	500	1000
PETD	PETROLEUM DEV CORP	1000	500	SSBA	SEACOAST SAVINGS BANK	1000	500
PETT	PETTIBONE CORP	200	500	SLFX	SELFIX INC	1000	500
PHOC	PHOTO CONTROL CORP	500	200	SLRV	SELLERSVILLE SAV LOAN	1000	500
PICOA	PHYSICIANS INS OH A	1000	500	SEQS	SEQUOIA SYS INC	500	1000
PBGI	PIEDMONT BKGP INC	500	200	SHLB	SHELBY FED SAVS BANK	500	200
PMAN	PIEDMONT MGMT CO INC	1000	500	SSBC	SHELTON BANCORP INC	200	500
PSBN	PIONEER BNCORP INC NC	1000	500	SHOP	SHOPSMITH INC	500	1000
PLEN	PLENUM PUBLISHING CORP	500	1000	SETC	SIERRA RL EST TR 84	1000	500
POLK	POLK AUDIO INC	1000	500	SMET	SIMETCO INC	1000	500
POOL	POSEIDON POOLS AMER	1000	500	HAMS	SMITHFIELD CO INC	500	200
PENG	PRIMA ENERGY CORP	500	1000	SOMR	SOMERSET GROUP INC THE	500	200
PSAB	PRIME BANCORP INC	500	1000	SMGS	SOUTHEASTERN MI GAS	500	1000
PMSI	PRIME MEDICAL SYS	1000	500	SMIN	SOUTHERN MINERAL CORP	500	1000
PRFT	PROFFIT'S INC	200	500	SPIR	SPIRE CORP	1000	500
PFNC	PROGRESS FIN CORP	200	500	STRC	STRATFORD AMER CORP	500	1000
PSBK	PROGRESSIVE BANK INC	1000	500	SLMAJ	STUDENT LOAN MKT VOTG	1000	500
PRGR	PROGROUP INC	1000	500	SUBBA	SUBURBAN BANCORP A	1000	500
PLFC	PULASKI FURNITURE CORP	500	1000	SNRU	SUNAIR ELECTRONICS	1000	500
PULS	PULSE BANCORP INC	1000	500	SNLT	SUNLITE INC	500	200
PTNM	PUTNAM TRUST CO	200	500	SRBC	SUNRISE BANCORP	1000	500
Q				SUPX	SUPERTEX INC	1000	500
QTEC	QUESTECH INC	200	500	SUSQ	SUSQUEHANNA BCSHS	1000	500
QUIP	QUIPP INC	500	200	SYMB	SYMBION INC	1000	500
R				SYNL	SYNTELLECT INC	500	1000
RMPO	RAMAPO FINANCIAL CORP	500	200	T			
RARB	RARITAN BANCORP INC	500	1000	TTOI	T E M P E S T TECH	1000	500
RDGCA	READING CO CL A	1000	500	TSII	T S I INC	500	1000
RFTN	REFLECTONE INC	1000	500	TDCX	TECHNOLOGY DEV CORP	500	200
RGEQ	REGENCY EQUITIES CORP	1000	500	TCOMB	TELE COMMUN INC B	500	200
REAL	RELIABILITY INC	500	1000	TMTX	TEMTEX INDS INC	500	200
RAUT	REPUBLIC AUTO PARTS	1000	500	TANT	TENNANT CO	1000	500
RBNC	REPUBLIC BANCORP INC	1000	500	TCSFY	THOMSON C S F ADR	500	200
RSLA	REPUBLIC CAP GROUP INC	1000	500	TAVI	THORN APPLE VALLEY	500	200
RSFC	REPUBLIC SAV FIN CORP	200	500	TMBS	TIMBERLINE SOFTWARE	500	1000
RESR	RESEARCH INC	500	200	TKIOY	TOKIO MARINE ADR	500	1000
ROIL	RESERVE INDS CORP	200	500	TKOS	TOKOS MED CORP DEL	200	500
REXW	REXWORKS INC	1000	500	TLAM	TONY LAMA CO INC	1000	500
RHEM	RHEOMETRICS INC	500	200	TGDGF	TOTAL ENERGOLD CORP	1000	500
RMCI	RIGHT MGMT CONSUL	500	1000	TRNI	TRANS INDS INC	500	1000
ROBN	ROBBINS AND MYERS	500	1000	TLII	TRANS LEASING INTL	1000	500
RPCX	ROBERTS PHARM CORP	500	1000	TRSL	TRANSNATIONAL INDS	500	1000
RONC	RONSON CORP	500	200	TRCR	TRICARE INC	500	1000
RPCH	ROSPATCH CORP	1000	500	TMAS	TRIMAS CORP	500	1000
RCDC	ROSS COSMETICS DIST	1000	500	TRBK	TRUSTBANK SAV FSB	500	1000
ROTO	ROTO-ROOTER INC	1000	500	TDRLF	TUDOR CORP LTD	500	200
RBPAA	ROYAL BANK PENN A	500	1000	TUES	TUESDAY MORNING INC	1000	500
ROYLW	ROYALPAR INDS WTS A	500	200	U			
RBCO	RYAN BECK CO INC	1000	500	UNRI	U N R INDS INC	500	1000
S				UNRIW	U N R INDS INC WTS	500	1000
SCOM	S C S COMPUTE INC	1000	500	UNSL	U N S L FIN CORP	200	500
				USAB	U S A BANCORP INC	1000	500

Notice to Members 90-67

Symbol	Company Name	Old Tier Level	New Tier Level	Symbol	Company Name	Old Tier Level	New Tier Level
UBSI	UNITED BKSHS INC	1000	500	W			
UNCF	UNITED COS FINANCIAL	500	1000	WAIN	WAINWRIGHT BANK TR CO	500	200
UNSA	UNITED FIN CORP SC	500	200	WALB	WALBRO CORP	1000	500
UICI	UNITED INS COS INC	1000	500	WALS	WALSHIRE ASSURANCE	200	500
UMSB	UNITED MISSOURI BCSH	500	1000	WBNC	WASHINGTON BANCORP NJ	1000	500
UNEWY	UNITED NEWSPAPER ADR	1000	500	WSBX	WASHINGTON SAV BANK	500	200
UBMT	UNITED SAV BANK F A MT	1000	500	WHOO	WATERHOUSE INVESTOR	200	500
CETH	UNITED THERMAL CORP	1000	500	WTRS	WATERS INSTRUMENTS	500	200
UPEN	UPPER PENINSULA ERGY	200	500	WFPR	WESTERN FED SAV P R	500	200
UBAN	USBANCORP INC PA	1000	500	WTPR	WETTERAU PROPERTIES	200	500
UBANP	USBANCORP INC PFD A	200	500	WMSI	WILLIAMS INDS INC	1000	500
V				Y			
VALN	VALLEN CORP	200	500	YFED	YORK FINANCIAL CORP	500	1000
VALU	VALUE LINE INC	500	200	Z			
VANF	VANFED BANCORP	1000	500	ZEUS	ZEUS COMPONENTS INC	500	200
VICT	VICTORIA BKSHS	1000	500				
VLGEA	VILLAGE SUPER MKT A	1000	500				
VIPTS	VINLAND PROP TR SBI	1000	500				

Notice To Members

National Association of Securities Dealers, Inc.

October 1990

Number 90 - 68

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 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.

Subject: Amendment to Schedule C of the NASD By-Laws Regarding Requalification by Examination For Persons Whose Registration Has Been Revoked, Effective October 1, 1990

EXECUTIVE SUMMARY

The Securities and Exchange Commission has approved an amendment to Schedule C of the NASD By-Laws that would require any person whose registration(s) has been revoked to re-qualify by examination prior to again becoming registered. The amendment became effective October 1, 1990.

EXPLANATION

The Securities and Exchange Commission has approved an amendment to Part II, Section (1)(c) and Part III, Section (1)(c) of Schedule C to the By-Laws to require any person whose registration(s) has been revoked, pursuant to Article V, Section 2 of the Rules of Fair Practice, to requalify by examination prior to again becoming registered. Article V, Section 2 of the Rules of Fair Practice authorizes the NASD to revoke the registration of a person associated with a member if such person fails promptly to pay any fine or monetary sanction or any costs assessed pursuant to Article V, Section 1 and Article V, Section 3, respectively, of the Rules of Fair Practice.

The NASD's normal policy in attempting to collect fines is to send several requests for payment prior to revoking a person's registration. The NASD believes the requirement that a person requalify by examination if his or her registration(s) is revoked will serve to encourage the prompt payment of fines and costs levied in NASD disciplinary proceedings. Under the present provisions of Schedule C, a person whose registration has been terminated for any reason has two years from the date of such termination to again become registered with the NASD without taking the appropriate qualifying examinations.

Questions concerning this notice may be directed to Craig L. Landauer, Assistant General Counsel, NASD Office of General Counsel, at (202) 728-8291.

TEXT OF RULE CHANGE

(Note: New text is underlined.)

Schedule C of the NASD By-Laws

II

REGISTRATION OF PRINCIPALS

- (1) Registration Requirements
- (c) Requirements for Examination on Lapse of Registration - Any person whose registration

has been revoked pursuant to Article V, Section 2 of the Rules of Fair Practice or whose most recent registration as a principal has been terminated for a period of two or more years immediately preceding the date of receipt by the Corporation of a new application shall be required to pass a Qualification Examination for Principals appropriate to the category of registration as specified in Part II, Section (2) hereof.

III

REGISTRATION OF REPRESENTATIVES

(1) Registration Requirements

(c) Requirement for Examination on Lapse of Registration - Any person whose registration has been revoked pursuant to Article V, Section 2 of the Rules of Fair Practice or whose most recent registration as a representative or principal has been terminated for a period of two (2) or more years immediately preceding the date of receipt by the Corporation of a new application shall be required to pass a Qualification Examination for Representatives appropriate to the category of registration as specified in Part III, Section 2 hereof.

Notice To Members

National Association of Securities Dealers, Inc.

October 1990

Number 90 - 69

Suggested Routing:*

- | | | | |
|---|--|--|--|
| <input checked="" type="checkbox"/> Senior Management | <input type="checkbox"/> Internal Audit | <input checked="" 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 checked="" type="checkbox"/> Registration | <input type="checkbox"/> Trading |
| <input type="checkbox"/> Institutional | <input type="checkbox"/> Mutual Fund | <input type="checkbox"/> Research | <input checked="" type="checkbox"/> Training |

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

Subject: Amendment to Schedule C of the NASD By-Laws Regarding Use of the Modified General Securities Representative Examination to Qualify Persons Registered With The Securities Association of the United Kingdom, Effective Immediately

EXECUTIVE SUMMARY

The Securities and Exchange Commission (SEC) has approved, effective immediately, an amendment to Schedule C of the NASD By-Laws that would allow persons registered with The Securities Association of the United Kingdom to qualify as a general securities representative by passing a modified general securities representative examination.

EXPLANATION

It is the NASD's responsibility under Section 15A(g)(3) of the Securities Exchange Act of 1934 to prescribe standards of training, experience, and competence for persons associated with NASD members. Pursuant to this statutory obligation, the NASD has developed examinations and administers examinations developed by other self-regulatory organizations designed to establish that persons associated with NASD members have attained specified levels of competence and knowledge.

The amendment to Part III, Section (2)(a)(ii)

of Schedule C is intended to coordinate with the recent SEC approval of a New York Stock Exchange (NYSE) rule that allows a qualified registered representative in good standing with The Securities Association of the United Kingdom to become qualified as a general securities representative (Series 7) by passing a modified general securities representative examination developed by the NYSE. The NASD now has no rule that allows for NASD registration of a person who has passed the modified qualification examination.

Questions concerning this notice may be directed to Frank McAuliffe, Vice President, Qualifications, at (301) 590-6694, or David Uthe, Senior Qualifications Analyst, at (301) 590-6695.

TEXT OF RULE CHANGE

(Note: New text is underlined.)

- Schedule C of the NASD By-Laws
- (2) Categories of Representative Registration
- (a) General Securities Representative
- (ii)
- (f) A person registered and in good standing with The Securities Association of the United Kingdom and having passed the Modified General

Securities Representative Qualification Examination for United Kingdom Representatives shall be qualified to be registered as a General Securities Representative except that such person's activities

in the investment banking or securities business may not involve the solicitation, purchase and/or sale of municipal securities as defined in Section 3(a)(29) of the Act.

Notice To Members

National Association of Securities Dealers, Inc.

October 1990

Number 90 - 70

Suggested Routing:*

- | | | | |
|--|--|--|---|
| <input type="checkbox"/> Senior Management | <input checked="" type="checkbox"/> Internal Audit | <input checked="" type="checkbox"/> Operations | <input checked="" type="checkbox"/> Syndicate |
| <input type="checkbox"/> Corporate Finance | <input checked="" type="checkbox"/> Legal & Compliance | <input type="checkbox"/> Options | <input checked="" type="checkbox"/> Systems |
| <input type="checkbox"/> Government Securities | <input checked="" 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: Veteran's Day — Trade Date-Settlement Date Schedule

The schedule of trade dates-settlement dates below reflects the observance by the financial community of Veteran's Day, Monday, November 12, 1990. On Monday, November 12, the NASDAQ system and the exchange markets will be open for trading. However, it will not be a settlement date since many of the nation's banking institutions will be closed in observance of Veteran's Day.

Trade Date	Settlement Date	Reg. T Date*
November 1	8	12
2	9	13
5	13	14
6	14	15
7	15	16
8	16	19
9	19	20
12	19	21

Note: November 12, 1990, is considered a business day for receiving customers' payments under Regulation T of the Federal Reserve Board.

Transactions made on November 12 will be combined with transactions made on the previous business day, November 9, for settlement on Nov-

ember 19. 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 November 12.

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

Questions regarding the application of these settlement dates to a particular situation may be directed to the NASD Uniform Practice Department at (212) 858-4341.

*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 seven (7) business days of the date of purchase or, pursuant to Section 220.8(d)(1), make application to extend the time period specified. The date by which members must take such action is shown in the column entitled "Reg. T Date."

Notice To Members

National Association of Securities Dealers, Inc.

October 1990

Number 90 - 71

Suggested Routing:*

- | | | | |
|--|--|--|---|
| <input 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 checked="" 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: NASDAQ National Market System (NASDAQ/NMS) Additions, Changes, and Deletions As of September 13, 1990

As of September 13, 1990, the following 17 issues joined NASDAQ/NMS, bringing the total number of issues to 2,640:

Symbol	Company	Entry Date	SOES Execution Level
CYNRW	Canyon Resources Corporation (Wts)	8/14/90	500
LUNR	Lunar Corporation	8/14/90	1000
GOIL	Gerrity Oil & Gas Corporation	8/15/90	1000
MCAM	Marcam Corporation	8/16/90	1000
FAIL	Failure Group, Inc. (The)	8/17/90	1000
MMOA	Medical Management of America, Inc.	8/20/90	500
AALR	Advanced Logic Research, Inc.	8/21/90	1000
ICRR	Illinois Central Corporation	8/21/90	1000
SYLN	Sylvan Foods Holdings, Inc.	8/21/90	1000
VITL	Vital Signs, Inc.	8/29/90	1000
PARK	Park National Corporation	8/30/90	200
BIAC	BI Incorporated	9/4/90	1000
LAWR	CMS/DATA Corporation	9/4/90	1000
RDUS	Radius Inc.	9/4/90	1000
RWIN	Republic Waste Industries, Inc.	9/4/90	1000
WTEC	Warrantech Corporation	9/4/90	1000
RMHI	Rocky Mountain Helicopters, Inc.	9/11/90	1000

NASDAQ/NMS Symbol and/or Name Changes

The following changes to the list of NASDAQ/NMS securities occurred since August 13, 1990:

New/Old Symbol	New/Old Security	Date of Change
PROS/PROSZ	Prospect Group, Inc. (The)/Prospect Group, Inc. (The) (Paired Cert.)	8/21/90

Notice to Members 90-71

New/Old Symbol	New/Old Security	Date of Change
PFBK/PFBK	Pioneer Savings Bank/Pioneer Federal Savings Bank	8/22/90
SHOW/SHOW	Showscan Corp./Showscan Film Corp.	8/22/90
MSEL/SOFS	Merisel, Inc./Softsel Computer Products, Inc.	8/23/90
HFSF/HFSF	Home Federal Financial Corporation/Home Federal Savings & Loan Association of San Francisco	9/4/90
HRIZ/HRIZ	Horizon Gold Corporation/Horizon Gold Shares, Inc.	9/4/90
SUNT/CCTC	Sunward Technologies, Inc./Computer and Communications Technology Corporation	9/4/90
CBCX/CBCX	Cambridge Biotech Corp./Cambridge BioScience Corp.	9/10/90
INHO/CGPS	Independence Holding Company/Stamford Capital Group, Inc.	9/10/90

NASDAQ/NMS Deletions

Symbol	Security	Date
FLAI	Fleet Aerospace, Inc.	8/14/90
RCOA	Retailing Corporation of America	8/14/90
SYMB	Symbion, Inc.	8/14/90
TOPT	Tele-Optics, Inc.	8/14/90
CRCH	Church & Dwight Co., Inc.	8/15/90
CIIF	CII Financial, Inc.	8/16/90
FSBC	First Savings Bank, F.S.B.	8/16/90
SUNF	SUNF, Inc.	8/16/90
STRUE	Structofab, Inc.	8/16/90
FFCA	Carolina Bancorp, Inc.	8/20/90
EPSI	Epsilon Data Management, Inc.	8/21/90
MWSB	Mountain West Savings Bank, F.S.B.	8/28/90
QTEC	QuesTech, Inc.	8/28/90
SPILF	S.P.I.-Suspension and Parts Industries Limited	8/28/90
SYNEQ	Syntech International, Inc.	8/28/90
VKSI	Vikonics, Inc.	8/28/90
WTEL	Walker Telecommunications Corporation	8/28/90
WMIC	Western Microwave, Inc.	8/28/90
SBRU	Subaru of America, Inc.	8/31/90
CODNW	Codenoll Technologies Corporation (Wts)	9/4/90
ILFC	International Lease Finance Corporation	9/4/90
ILFCW	International Lease Finance Corporation (Wts)	9/4/90
MUTU	Mutual Federal Savings and Loan Association	9/4/90
MFBZ	Mutual Federal Savings Bank, A Stock Corporation	9/4/90
LABB	Beauty Labs, Inc.	9/6/90
HINT	Henley International, Inc.	9/7/90
ALTO	Altos Computer Systems	9/10/90
BTRL	Biotech Research Laboratories, Inc.	9/10/90
CSMO	Cosmo Communications Corporation	9/11/90
IFSB	Independence Federal Savings Bank	9/11/90

Questions regarding this notice should be directed to Kit Milholland, Senior Analyst, Market Listing Qualifications, at (202) 728-8281. Questions pertaining to trade reporting rules should be directed to Leon Bastien, Assistant Director, NASD Market Surveillance, at (301) 590-6429.

Notice To Members

National Association of Securities Dealers, Inc.

October 1990

Number 90 - 72**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: SIPC Trustee Appointed for DFW Clearing, Inc.

On September 17, 1990, the United States District Court for the Northern District of Texas, Fort Worth Division, appointed a SIPC trustee for:

DFW Clearing, Inc.
3200 City Center II
301 Commerce Street
Ft. Worth, Texas 76102.

Members may use the "immediate close-out" procedures as provided in Section 59(i) of the NASD's Uniform Practice Code to close out open over-the-counter contracts. Also, Municipal

Securities Rulemaking Board Rule G-12(h) provides that members may use the above procedures to close out transactions in municipal securities.

Questions regarding the firm should be directed to the SIPC trustee:

Robert G. Richardson, Esquire
Hutcheson & Grundy
6200 NCNB Plaza
901 Main Street
Dallas, Texas 75202-3714
(214) 761-2828.

Disciplinary Actions

National Association of Securities Dealers, Inc.

October 1990

Disciplinary Actions Reported for October

The NASD is taking disciplinary actions against the following firms and individuals for violations of the NASD Rules of Fair Practice, securities laws, rules, and regulations, and the rules of the Municipal Securities Rulemaking Board. Unless otherwise indicated, suspensions began with the opening of business on Monday, October 1, 1990. The information relating to matters contained in this notice is current as of the 20th of the month preceding the date of the notice. Information received subsequent to the 20th is not reflected in this publication.

FIRMS EXPELLED

Brooks, Weinger, Robbins & Leeds, Inc. (New York, New York) was expelled from membership in the NASD. The sanction was based on findings that the firm failed to honor a \$7,500 arbitration award.

FIRMS SUSPENDED, INDIVIDUALS SANCTIONED

Independent Resource Securities, Inc. (Biloxi, Mississippi) and **Charles M. Mitchell, Sr.** (Registered Principal, Gulfport, Mississippi) submitted a Letter of Acceptance, Waiver and Consent pursuant to which they were fined \$7,500, jointly and severally. The firm was suspended from participation in any underwriting in any manner for three months, and Mitchell was suspended from association with any member of the NASD as a direct participation programs principal for three months and required to requalify as a principal by examination. Furthermore, if the firm participates or assumes a selling role in any contingency offering within two years, the firm and Mitchell agree to obtain a certification from counsel of compliance with SEC Rules 15c2-4 and 10b-9. Without admitting or denying the allegations, the respondents consented to the described sanctions and to the entry of findings that Independent Resource, acting through Mitchell, failed to maintain required net capital, to file a FOCUS Part II report, and to maintain current books and records. The NASD found that, in connection with two direct participation offerings, the firm, acting through Mitchell, made misrepresentations in the private placement memoranda and failed to return investor funds when the selling contingency for each offering was

not met by the termination date. The findings also stated that the firm, acting through Mitchell, sold units of another offering to a registered representative of a different member firm without notifying the firm in writing of the transaction. The NASD also determined that the respondents failed to disclose to investors in an offering memorandum for a drilling program that the firm was to receive compensation on the additional monies collected from investors as completion cost funds. Furthermore, the findings stated that the firm, acting through Mitchell, inaccurately prepared its 1988 assessment report, failed to employ an independent auditor to conduct its 1988 year-end audit, and failed to submit final Form D filings for two private placement offerings.

FIRMS FINED, INDIVIDUALS SANCTIONED

Packard Group, Inc. (New York, New York) and **Henry Val** (Registered Principal, Brooklyn, New York) submitted an Offer of Settlement pursuant to which they were fined \$10,000, jointly and severally, and Val was suspended from association with any member of the NASD in a principal capacity for 30 days. Without admitting or denying the allegations, the respondents consented to the described sanctions and to the entry of findings that Packard Group, acting through Val, conducted a securities business while failing to maintain required minimum net capital and failed to maintain accurate books and records. The NASD also found that the firm, acting through Val, violated the terms of its restriction agreement by making markets in more than 10 issues, filed an inaccurate FOCUS Part I report, and failed to report

NASDAQ volume in one security.

Wakefield Financial Corp. (New York, New York) and **Alexander G. Minella** (Registered Principal, Brewster, New York) were fined \$10,000, jointly and severally, and Minella was barred from association with any member of the NASD in any capacity. The sanctions were based on findings that Wakefield and Minella failed to respond to NASD requests for information related to an NASD investigation.

INDIVIDUALS BARRED OR SUSPENDED

Carlos Alderson (Registered Representative, Chicago, Illinois) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined \$15,000 and barred from association with any member of the NASD in any capacity. Without admitting or denying the allegations, Alderson consented to the described sanctions and to the entry of findings that he submitted 35 fraudulent insurance applications to his member firm and paid the first month's premiums in order to collect \$34,995.39 in commissions.

Lawrence Diodato (Registered Representative, Malibu, California) submitted an Offer of Settlement pursuant to which he was fined \$5,000 and barred from association with any member of the NASD in any capacity. Without admitting or denying the allegations, Diodato consented to the described sanctions and to the entry of findings that he failed to respond to NASD requests for information and to appear at an NASD office to answer questions concerning his association with a member firm.

Robert Diodato (Registered Representative, Studio City, California) submitted an Offer of Settlement pursuant to which he was fined \$5,000 and barred from association with any member of the NASD in any capacity. Without admitting or denying the allegations, Diodato consented to the described sanctions and to the entry of findings that he failed to respond to NASD requests for information and to appear at an NASD office to answer questions concerning his association with a member firm.

Joseph A. Friscia (Registered Principal, New York, New York) was suspended from association with any member of the NASD in any capacity for two years. The suspension will run consecutively with the one-year suspension imposed against him in another NASD action. The

sanctions were based on findings that Friscia failed to appear and testify at a hearing in connection with an NASD investigation.

John R. Kearns (Registered Representative, Northport, New York) was fined \$15,000 and barred from association with any member of the NASD in any capacity. The sanctions were based on findings that Kearns failed to respond to NASD requests for information concerning customer complaints and his termination from a member firm.

Edward E. Lane (Registered Principal, Marietta, Georgia), **William F. Hubler** (Registered Representative, Atlanta, Georgia), and **Robert A. Hartnagel** (Registered Principal, Roswell, Georgia) submitted an Offer of Settlement. Pursuant to that Offer of Settlement, Lane was fined \$15,000 and suspended from association with any member of the NASD in any capacity for two years; Hubler was fined \$10,000 and suspended from association with any member of the NASD in a principal capacity for one year; and Hartnagel was suspended from association with any member of the NASD in a principal capacity for one year and required to requalify by examination as a principal. Without admitting or denying the allegations, the respondents consented to the described sanctions and to the entry of findings that a former member firm, acting through Hubler and Hartnagel, engaged in a securities business while failing to maintain minimum required net capital. The NASD found that, in connection with the sale of mortgage revenue bonds, Lane made false and misleading representations to customers in the offering statement. The NASD also determined that Lane, Hubler, and Hartnagel failed to maintain and enforce written supervisory procedures in connection with municipal securities, and Lane and Hartnagel permitted Hubler to act as a municipal and general securities principal without proper registration with either the NASD or the Municipal Securities Rulemaking Board.

Robert E. Laurence, Jr. (Registered Representative, Warwick, Rhode Island) submitted an Offer of Settlement pursuant to which he was fined \$10,000 and barred from association with any member of the NASD in any capacity. Without admitting or denying the allegations, Laurence consented to the described sanctions and to the entry of findings that he misappropriated three blank checks from a customer's cash management ac-

count, issued checks totaling \$25,000 by forging the customer's signature, and deposited the funds into his personal checking account without the customer's knowledge or consent.

Daniel G. Maloney (Registered Representative, Roslindale, Massachusetts) was fined \$15,000 and barred from association with any member of the NASD in any capacity. The sanctions were based on findings that Maloney failed to respond to NASD requests for information concerning a customer complaint.

Alex E. Mazika, Jr. (Registered Representative, Providence, Rhode Island) submitted an Offer of Settlement pursuant to which he was fined \$2,500 and suspended from association with any member of the NASD in any capacity for 18 months. Without admitting or denying the allegations, Mazika consented to the described sanctions and to the entry of findings that he solicited and sold insurance policies to various customers through the use of false and misleading representations.

Jerry Keith Ostry (Registered Principal, Elmhurst, Illinois) was barred from association with any member of the NASD in any capacity. At the conclusion of two years, he shall have the right to reapply for registration in a nonproprietary, non-supervisory capacity. The sanctions were imposed by the NASD's Board of Governors following an appeal of a decision by the District Business Conduct Committee for District 8. The sanctions were based on findings that Ostry, who owns a company that engages in the business of selling training materials for securities industry qualification examinations, prepared a document that contained questions virtually identical to those that appeared on a Series 62 examination that he took, and by so doing, Ostry created the possibility that the examination would become available to persons seeking to become registered as corporate securities representatives.

John David Smith (Registered Representative, Kenmore, New York) was fined \$15,000 and barred from association with any member of the NASD in any capacity. The sanctions were based on findings that Smith failed to respond to NASD requests for information concerning his termination from a member firm and subsequent customer complaints.

Conrado Berenguer Topacio (Registered Representative, San Francisco, California) was

fined \$45,000 and barred from association with any member of the NASD in any capacity. The sanctions were based on findings that Topacio forged a customer's signature to a margin agreement and submitted it to his member firm without the customer's knowledge or consent. He also entered false and inaccurate information concerning the same customer's net worth and income on an options agreement, and he recommended to the customer and effected options transactions that were unsuitable considering the customer's financial situation and investment needs.

Hubert E. Young (Registered Principal, Lewisville, Texas) was fined \$20,000 and suspended from association with any member of the NASD in any capacity for one year. The sanctions were based on findings that Young executed securities transactions on behalf of a public customer through a member firm without proper registration with that member.

FIRMS EXPELLED FOR FAILURE TO PAY FINES AND COSTS IN CONNECTION WITH VIOLATIONS

U.S. Advisors, Inc., Novato, California
Allegiance Securities, Inc., Elmwood Park,
New Jersey

American Wallstreet Securities, Inc.,
Tampa, Florida

Atlas Financial Group, Incorporated,
Chicago, Illinois

Cardinal Financial Equities, Incorporated,
Fairfax, Virginia

First Asian Securities Corporation, New
York, New York

Hamilton Bohner, Inc., Englewood, Colorado
Huberman Securities Corporation, Boca
Raton, Florida

FIRMS SUSPENDED

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

American Asset Management Corporation, Salt Lake City, Utah (August 30, 1990-September 7, 1990)

B.C. Financial Corporation, Atlanta, Georgia (August 30, 1990)

First Alliance Securities, Inc., Atlanta, Georgia (August 30, 1990)

First Fidelity Capital Corporation, New York, New York (August 30, 1990)

Kettler & Company, Chicago, Illinois (August 30, 1990)

Mika Equities, Los Angeles, California (August 30, 1990)

Multivest Securities, Inc., Ft. Lauderdale, Florida (August 30, 1990)

Seacoast Securities, Inc., Woodstock, Georgia (August 30, 1990)

SUSPENSION LIFTED

The NASD has lifted the suspension from membership on the date shown for the following firm, since it has complied with formal written requests to submit financial information.

Investment & Product Analysis Corporation of America, Inc., Carmel, Indiana (August 21, 1990)

INDIVIDUALS WHOSE REGISTRATIONS WERE REVOKED FOR FAILURE TO PAY FINES AND COSTS IN CONNECTION WITH VIOLATIONS

Jay E. Carlile, Golden, Colorado
 Steven T. Danney, Tarzana, California
 Irwin L. Frankel, Nanuet, New York
 Frank M. Furio, Park Ridge, Illinois
 Gibson C. Gray, Chula Vista, California
 Terry L. Haggerty, Chicago, Illinois
 Merlin J. Hoving, Denver, Colorado
 Michael Huberman, Boca Raton, Florida
 Patrick G. Keel, New Orleans, Louisiana
 Neil Litvin, Staten Island, New York
 Leo C. Loevner, Fairfax, Virginia
 John R. McKowen, Castle Rock, Colorado
 Maynard I. Merel, Belle Harbor, New York
 Jon Edward L. O'Regan, San Antonio, Texas
 Ven Parameswaran, Scarsdale, New York
 John E. Sherman, Littleton, Colorado
 Robert S. Skinner, Houston, Texas
 Randall S. Thornton, Littleton, Colorado
 Allan S. Wagner, Coral Springs, Florida
 Eric J. Walloga, Brandon, Florida

Kevin D. Ward, Brandon, Florida

NASD EXPELS OHIO FIRM, BARS PRINCIPAL, AND IMPOSES FINES FOR FRAUD AND OTHER MISCONDUCT

The NASD's Cleveland District Business Conduct Committee for District 9 has taken disciplinary action against Corna and Co., Inc., a member firm with its principal place of business in Columbus, Ohio, and David A. Corna, owner and president of the firm. Pursuant to an Offer of Settlement, and without admitting or denying the allegations of the Complaint, Corna and Co. was censured, expelled from membership in the NASD, and fined \$100,000. David Corna was censured, barred from association with any member in any capacity, and fined \$150,000. The sanctions are effective immediately.

The firm and David Corna consented to findings that they violated various provisions of the federal securities laws and the rules of the NASD, including Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5 promulgated thereunder, and Article III, Section 18 of the Association's Rules of Fair Practice. These provisions prohibit the use of any manipulative, deceptive, or other fraudulent device in the purchase or sale of any security. They also consented to findings that they violated Article IV, Section 5 of the NASD's Rules of Fair Practice, which requires, among other things, that members and associated persons cooperate in any NASD investigation either orally or in writing.

There were 20 separate causes of complaint brought against the firm and David Corna. Among the most serious charges were those relating to "parking" of securities and unauthorized trades by respondents. The Committee found that the respondents engaged in parking and/or unauthorized trades "on hundreds of occasions" between 1985 and 1989.

"Parking" is a scheme to conceal beneficial ownership of securities by transferring securities to another person with the understanding that they will be reacquired by the original owner in the future with no loss to the person accommodating the parking scheme. An unauthorized trade is executed without the knowledge or consent of the person in whose account the transaction is occurring.

In February and March of 1988, Corna and Co. took a large short position in First World

Cheese, Inc. units and common stock, which were NASDAQ securities. In selling First World short, the firm expected that the price of the securities would decline. Instead, the securities rose dramatically in price, creating an unrealized loss for the firm that at times exceeded \$200,000 and that created immediate net capital deficiencies typically exceeding \$100,000 at the end of each month from February 1988 through September 1988. Instead of ceasing operations as it was required to do under the federal securities laws, Corna and Co. continued to effect securities transactions without adequate net capital.

The firm was able to remain in business as a result of a scheme involving a series of parking transactions and/or unauthorized trades effected by David Corna. By virtue of these fictitious trades, the firm ostensibly transferred its short position to customers, thereby reducing or eliminating securities positions from its books and records. Hence it appeared as if the firm had adequate net capital when, in fact, it still held the short position in these securities, and as a result, incurred related net capital deficiencies. According to the complaint, 19 different customer accounts were involved in the scheme between February 1988 and January 1989.

Apart from this misconduct, David Corna was charged with other instances of parking and unauthorized trades, including the creation of two fictitious customer accounts. This included assigning these accounts fictitious Social Security numbers, which defrauded the firm through which Corna and Co. cleared its business and resulted in the falsification of books and records in order to mislead the NASD and other regulatory bodies.

The Committee also found that, in response to NASD requests for information made pursuant to Article IV, Section 5 of the Rules of Fair Practice, David Corna submitted to the Association edited account statements for the fictitious accounts that did not include all of the activity in those accounts. According to the Committee, Corna's conduct was an attempt to mislead the NASD about the nature of the activity in these two fictitious accounts. The Committee also stated that "it is entirely unacceptable for a member knowingly to submit false information to the Association. Self-regulation as it is

known and practiced in the securities industry would not work if the Association could not rely upon the authenticity of the documents which it requests from its members in the ordinary course of their business."

In addition, David Corna hid order tickets and confirmations of non-bona fide trades, and instructed the firm's operations manager to remove customer account statements from the usual place where they were maintained at or about the time Corna and Co. was being examined by the Association.

David Corna is also charged with forging the signature of several customers and/or former employees to various documents. In connection with the fictitious transactions in First World Cheese and other securities, it appears that David Corna submitted to the firm's clearing firm two W-9 forms that bore the forged signatures of two customers. These forms were in turn submitted to the IRS by the clearing firm.

In addition, the Committee found that David Corna forged the signature of a former employee to a stock certificate and a letter of authorization in order to transfer ownership of the stock to the firm.

In conclusion, the Committee stated that "the conduct at issue represents some of the most serious violations of the federal securities laws and the rules of the Association that can be committed by a member or an associated person. Parking securities, effecting unauthorized trades, creating and using fictitious customer accounts, falsifying documents submitted to the NASD, concealing tickets and related documentation, and forging customers' signatures cannot be tolerated in the securities industry, which depends upon the integrity of its members and associated persons."

Customers who maintained accounts with Corna and Co. will, for the present, continue to be serviced by its existing clearing firm.

The disciplinary action was taken by the NASD's District Business Conduct Committee for District 9, which has jurisdiction over members and associated persons in Ohio and Kentucky. The investigation was jointly carried out by the NASD's Anti-Fraud Department and the staff of District 9.

For Your Information

National Association of Securities Dealers, Inc.

October 1990

Fee Increases for Series 65 Investment Advisor Examination

Effective October 1, 1990, the fee for the Series 65 Uniform Investment Advisor Law Examination rose from \$75 to \$85. Questions

regarding this change should be directed to NASD Member and Market Data Services at (301) 590-6500.

NASD Sends Ethics Brochure to Registered Representative Applicants

The NASD soon will be mailing a pamphlet to all new registered representative applicants. "Welcome to the Securities Industry" will be sent to the home address of each representative. The NASD will obtain these addresses from the Central Registration Depository when the Form U-4 is

processed. The 12-page brochure stresses the regulatory environment in which representatives must conduct their affairs as well as the need for professionalism and fair dealing with investors. Firms may order extra copies for internal distribution by telephoning the NASD at (301) 590-6500.