NOTICE TO MEMBERS: 82-21
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

TO: All NASD Members and Interested Persons

DATE: April 1, 1982

RE: Proposed Amendments to Rules Governing Transactions Executed for Persons Associated with Another Member

Attached hereto are proposed amendments to Article III, Section 28 of the Rules of Fair Practice, which have been authorized for publication by the Board of Governors. Section 28 addresses the responsibilities of members to avoid adversely affecting the interests of other members when executing transactions for persons associated with such other members. It requires written notice to "employer members" as well as the provision of duplicate confirmations and/or statements, if requested.

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

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

Third, the Rule would be amended to provide an exemption from the notification requirements for transactions in redeemable securities of registered investment companies (e.g. mutual funds, unit investment trusts and variable contracts). It does not appear that such transactions present the same potential for adverse impact on an employer member as might exist with respect to other transactions and the notification requirement appears to be unnecessarily burdensome with respect to such transactions. A measure of control by employer members would be retained, however, by reason of the reporting requirements of the Private Securities Transaction Interpretation of Article III, Section 27 of the Rules of Fair Practice. This Interpretation, which requires persons associated with a member to notify such member

of a private securities transaction outside the regular course or scope of association with the member, contains an exemption for transactions subject to the reporting requirements of Section 28. Since transactions in redeemable investment company securities would no longer be subject to the reporting requirements of Section 28, associated persons would be required to report such transactions directly to the member with which they are associated and to supply duplicate copies of confirmations and other documents if so requested by the member.

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

Comments from members and other interested persons on the proposed amendments are requested. Such comments must be in writing and received by the Association on or before May 1, 1982 in order to receive consideration. After the comment period has closed, the proposed amendments must again be reviewed by the Board, taking into consideration the comments received. Thereafter, upon approval by the Board, they must be submitted to the membership for a vote. If approved they must be filed with and approved by the Securities and Exchange Commission prior to becoming effective.

Comments on the proposed amendments should be addressed to S. William Broka, Secretary of the Association, 1735 K Street, N.W., Washington,D.C. 20006. All communications will be considered available for inspection. Questions about the proposed amendments should be directed to Robert L. Butler at the above address (Telephone Number (202) 833-7272).

Sincerely,

Frank J. Wilson
Executive Vice President
Legal and Compliance

Proposed Amendment to Article III, Section 28

of the Rules of Fair Practice

(New Material underlined; deleted material scored through)

Determine Adverse Interest

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

Obligations of Executing Member

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

~~(1) the giving of notice, or~~

~~(2) the mailing or delivery of duplicate confirmations or statements to such employer member relating to~~

~~(a) such transaction individually, or~~

~~(b) to such transactions generally~~

~~which instructions shall be followed.~~

~~Notice to employer member~~

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

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

(1) notify the employer member in writing, prior to the execution of a transaction for such account, of the executing member's intention to open or maintain such an account;

(2) upon written request by the employer member, transmit duplicate copies of confirmations, statements, or other information with respect to such account; and

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

Exemption for Transactions in Investment Company Shares

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

Obligations of Person Associated with a Member

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

Interpretation of the Board of Governors

Transactions Effected for Personnel of Other Members

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

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

NOTICE TO MEMBERS: 82-22
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

April 1, 1982

TO: All NASD Members

RE: Request for Comments on Proposed Amendments to Schedule D of the Association's By-Laws Regarding Locked and Crossed Markets

COMMENT PERIOD CLOSES ON APRIL 22, 1982

The Association's Board of Governors is publishing for comment a proposed amendment to Schedule D of the By-laws regarding locked and crossed markets.1/ This amendment, the text of which is attached to this Notice, would obligate a market maker desiring to enter a quotation which would lock or cross another quotation to make reasonable efforts to avoid such a condition by trading with each market maker whose quotation would be locked or crossed. After the comment period has expired, the Board of Governors will again review the proposal, taking into consideration the comments received, and will thereafter submit the proposal, as may be amended in response to the comments received, to the Securities and Exchange Commission for approval.

This proposed amendment is the result of several months' study of locked and crossed markets by the Association's Trading Committee during which letters of inquiry were sent to market makers involved in locked or crossed markets. The responses to these letters indicated that market makers which locked or crossed a market generally asserted that they were responding to changed market conditions by updating their quotations and that the locked or crossed quotations were "stale". On the other hand, market makers whose quotations were being locked or crossed often responded that their quotations were accurate reflections of their trading position and, in some cases, produced trade tickets representing trades at the quoted prices. After study of these responses, the Board of Governors has concluded that the proposed amendment is the most efficient method to prevent locked and crossed markets in the NASDAQ System.

As noted above, the proposed rule would require an updating market

1/ A "locked" market occurs when the highest bid quotation is equal to the lowest ask quotation. A "crossed" market occurs when the highest bid quotation is greater than the lowest ask quotation.

maker to make reasonable efforts to trade with each market maker it would be locking or crossing to the extent required to prevent a locked or crossed market. In this regard, it should be noted that the NASDAQ System is designed to prevent inadvertent entry of locking or crossing quotations through a two step process. Should an updating market maker enter a quotation which would lock or cross a market, the entry is rejected by the NASDAQ System and the market maker is informed through its terminal that its quotation will cause a locked or crossed market. The updating market maker must then retransmit the quotation to have it entered. Thus, the Association anticipates that, upon receipt of the locked or crossed market message, the updating market maker will attempt to trade with all market makers it would be locking or crossing before retransmitting its quotation. It should be noted that the nature of crossed and locked markets will cause these trades with market makers to be at prices equal to or superior to the quotation which the updating market maker seeks to enter. As such, the Association does not believe this requirement will present an undue burden on market makers.

The proposed amendment requires updating market makers to make "reasonable" efforts to trade with market makers it would be locking or crossing. The Board of Governors expects such reasonable efforts to include contacting each market maker and executing transactions to cause the market maker to update its quotation or to eliminate the need of the updating market maker to change its quotation. Failure of a market maker to honor its quotation for the greater of a normal unit of trading or the size displayed constitutes a violation of the "backing away" provisions of Schedule D.

Comments regarding this proposed amendment should be submitted no later than April 22, 1982 and should be directed to:

S. William Broka, Secretary
National Association of Securities Dealers, Inc.
1735 K Street, N.W.
Washington, D.C. 20006

Questions regarding this Notice should be directed to Molly Bayley at (202) 833-7213.

Sincerely,

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

Proposed Amendment to Section C.3.a.
of
Part I of Schedule D
(language to be deleted is stricken, language to be added is underlined)

3. Continuing Qualifications.

a) Character of quotations entered into the System.

i) A registered market maker which receives a buy or sell order must execute a trade for at least a normal unit of trading at his quotations as they appear on NASDAQ CRT screens at the time of receipt of any such buy or sell order. ~~Each quotation entered by a registered market maker must be reasonably related to the prevailing market.~~ If a registered market maker displays a quotation which indicates that it is for a size greater than a normal unit of trading, he must execute a buy or sell order up to the size displayed.

ii) Each quotation displayed by a registered market maker must be reasonably related to the prevailing market.

iii) Locked and crossed markets. A registered market maker shall not be permitted, except under extraordinary circumstances, to enter quotations into the NASDAQ System if (1) the bid quotation entered is equal to or greater than the ask quotation of another registered market maker entering quotations in the same security or (2) the ask quotation is equal to or less than the bid quotation of another registered market maker in the same security. A market maker has an obligation, prior to entering a quotation which locks or crosses another quotation, to make reasonable efforts to avoid such locked or crossed market by executing transactions with all market makers whose quotations would be locked or crossed.

NOTICE TO MEMBERS: 82-23
Notices to Members should be
retained for future reference

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

April 12, 1982

TO: All NASD Members

RE: G. V. Lewellyn & Co., Inc.
United Central National Bank Bldg., #510
Des Moines, Iowa 50309

ATTN: Operations Officer, Cashier, Fail-Control Department

On Thursday, April 8, 1982, the United States District Court for the Southern District of Iowa, Central Division, appointed a temporary receiver for the above captioned firm. 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 OTC contracts. Also, MSRB Rule G-12 (h)(iv) provides that members may use the above procedures to close-out transactions in municipal securities.

Questions regarding the firm should be directed to:

Temporary Receiver

Paul R. Tyler, Esquire
Dickinson, Throckmorton, Parker,
Mannheimer & Raife
The Financial Center
Suite 1600
Des Moines, Iowa 50309
Telephone: (515) 244-2600

* * * * *

NOTICE TO MEMBERS 82-24
Notices to Members
should be retained
for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

April 16, 1982

TO: All NASD Members

RE: G. V. Lewellyn & Co., Inc.
United Central National Bank Bldg., #510
Des Moines, Iowa 50309

ATTN: Operations Officer, Cashier, Fail-Control Department

On Thursday, April 15, 1982, the United States District Court for the Southern District of Iowa, Central Division, appointed a SIPC Trustee for the above captioned firm. Previously a temporary receiver had been appointed for the firm on April 8, 1982.

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 OTC contracts. Also, MSRB Rule G-12 (h)(iv) provides that members may use the above procedures to close-out transactions in municipal securities.

Questions regarding the firm should be directed to:

SIPC Trustee

Paul R. Tyler, Esquire
Dickinson, Throckmorton, Parker,
Mannheimer & Raife
The Financial Center
Suite 1600
Des Moines, Iowa 50309
Telephone: (515) 244-2600

* * * * *

Notice To Members 82-25
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

April 29, 1982

To: All NASD Members and Other Interested Persons

Re: SEC Regulation D for Limited or Private Offerings

The Securities and Exchange Commission recently adopted Regulation D under the Securities Act of 1933 ("1933 Act") coordinating in a single regulation certain of the SEC's limited offering exemptive rules. Regulation D is a series of six rules, designated Rules 501 through 506, that establishes three exemptions from the registration requirements of the 1933 Act and replaces current exemptions under Rules 146, 240 and 242. Regulation D became available for limited offerings of securities on April 15, 1982, while the current exemptive provisions it replaces will be rescinded on June 30, 1982. Only limited offerings commenced prior to April 15 pursuant to Rules 146, 240 or 242 may continue beyond June 30 without registration under the 1933 Act.

This notice contains a summary of Regulation D and a description of the application of the Association's filing requirements to offerings pursuant to the regulation.

Summary of Regulation D

General Definitions, Terms and Conditions

Rule 501 sets forth definitions and terms that apply generally throughout the regulation. Among the most important of these is the definition of "accredited investor," which is an expansion of the term used in Rule 242. There are eight categories of accredited investors who are not counted for purposes of determining a purchaser limitation. Those categories may be summarized as follows:

1. any financial institution such as banks, insurance companies and investment companies as well as employee benefit plans;

2. any private business development company;

3. any college or university endowment fund, as well as other non-profit organizations with assets of $5 million;

4. any corporate or partnership "insider";

5. any purchaser of at least $150,000 of the securities being offered, with the total purchase price not exceeding 20 percent of the purchaser's net worth at time of sale (including joint net worth with purchaser's spouse) for (a) cash; (b) marketable securities; (c) a full recourse obligation which must be discharged within five years of sale; or (d) cancellation of indebtedness;

6. individuals with a net worth in excess of $1 million (including joint net worth with spouse);

7. individuals with income in excess of $200,000 in each of the last two years, with a reasonable expectation of having income in excess of $200,000 in the year of purchase; and

8. any entity 100 percent owned by accredited investors.

Rule 502 describes general conditions applicable to the regulation. Section 502(a) provides a safe harbor from integration for sales of securities by an issuer made six months prior to and six months after a Regulation D offering. Section 502(b) describes when and what type of disclosure must be furnished in Regulation D offerings. Where an issuer sells securities under Rule 504 or only to accredited investors, Regulation D does not mandate any specific disclosure. For offerings between $500,000 and $5 million to investors that are not accredited pursuant to Rules 505 or 506, non-reporting issuers must disclose the same kind of information as that specified in Part I of Form S-18. Where the issuer is not qualified to use Form S-18 and for offerings above $5 million, non-reporting issuers are required to provide the same kind of information as would be required in a registration statement.

Where the offering is by a reporting company, the information requirements do not depend on the size of the offering. Instead, issuers have an option as to the form this disclosure may take. A reporting company may provide its most recent annual report, the definitive proxy statement filed in connection with that annual report, and, if requested in writing, the most recent Form 10-K. Alternatively, such issuers may elect to provide the information contained in its most recent Form 10-K or Form S-1 registration statement under the 1933 Act or a statement for the registration of securities pursuant to Sections 12(b) or (g) of the Securities Exchange Act of 1934 (the "1934 Act").

While the payment of sales commissions is permitted under old Rules 146 and 242, Rule 240 prohibits such payments. Regulation D does not contain any prohibition or limitation on the payment of sales commissions.

Rule 503 provides for a uniform notice of sale form, designated Form D, the filing of which in timely fashion is a condition to the availability of all exemptions pursuant to Regulation D and Section 4(6) of the 1933 Act.

The Exemptive Provisions

Rule 504, which replaces Rule 240, provides an exemption from registration under Section 3(b) of the 1933 Act for any issuer, which is not a reporting company or

investment company, for offers and sales of securities up to $500,000 during a 12-month period to an unlimited number of persons. In addition, a public offering may be made under this rule if the offering is made exclusively in states that require registration and a disclosure document is delivered pursuant to applicable state law.

Rule 505, which replaces Rule 242, provides an exemption from registration under the 1933 Act for any non-investment company issuer, including partnerships, for offers and sales of restricted securities up to $5 million during any 12-month period to no more than 35 purchasers that are not accredited and to an unlimited number of accredited investors.

Rule 506, which replaces Rule 146, provides an exemption from registration under Section 4(2) of the 1933 Act for any issuer for offers and sales of restricted securities to no more than 35 purchasers that are not accredited and to an unlimited number of accredited investors. While Rule 146 requires the issuer to determine the sophistication of offerees, the determination under Rule 506 relates to purchasers. In order to qualify under Rule 506 the issuer must reasonably believe prior to making the sale that the non-accredited persons either alone or with their "purchaser representatives" understand the merits and risks of the investment. The economic risk test of Rule 146 has been eliminated.

Attached is an excerpt from the Commission's release on Regulation D, Securities Act Release No. 6389 (March 3, 1982), comparing the provisions of Regulation D with those of Rules 146, 240 and 242. Copies of the entire release are available from the Association's Corporate Financing Department.

Association Filing Requirements

Most public offerings in which Association members participate are required to be filed with the Corporate Financing Department for a review of the underwriting terms and arrangements. (See NASD Manual (CCH) at pages 2024-27.) Offerings pursuant to Rules 505 and 506 are considered private placements, however, and need not be submitted for review. Offerings made pursuant to Rule 504 of restricted securities also need not be filed with the Association. However, any public offering of securities pursuant to Rule 504 made exclusively in states that require registration and the delivery of a disclosure document must be filed with the Association for review.

* * * * *

Any questions regarding this notice may be directed to Dennis C. Hensley or Suzanne E. Rothwell of the Corporate Financing Department at (202) 833-7240.

Sincerely,

Gordon S. Macklin
President

Comparative Chart of Securities Act Limited Offering Exemptions

Comparison Item	Rule 240 Rule 504	Rule 242 Rule 505	Rule 146 Rule 506	Section 4(6)
Aggregate Offering Price Limitation	$100,000 $500,000	$2,000,000 (6 mos.) $5,000,000 (12 mos.)	Unlimited Unlimited	$5,000,000
Number of Investors	100 (total shareholders) Unlimited	35 plus unlimited accredited 35 plus unlimited accredited	35 plus those purchasing in excess of $150,000	Unlimited accredited only
Investor Qualification	None required None required	Accredited or none required Accredited or none required	Offeree and purchaser must be sophisticated or wealthy (with representative) Purchaser must be sophisticated (alone or with representative) Accredited presumed to be qualified	Accredited
Commissions	Prohibited Permitted	Permitted Permitted		Permitted
Limitations on Manner of Offering	No general solicitation permitted No general solicitation unless registered in states that require delivery of a disclosure document.	No general solicitation permitted No general solicitation permitted		No general solicitation permitted
Limitations on Resale	Restricted Restricted unless registered in states that require delivery of a disclosure document	Restricted Restricted		Restricted
Issuer Qualifications	No companies having more than 100 shareholders at completion of offering No reporting or investment companies	No non-North American issuers, investment companies, oil and gas companies, or issuers disqualified under Regulation A No investment companies or issuers disqualified under Regulation A	None None	None
Notice of Sales	Form 240 required as a condition of rule except for first $100,000 under rule- 3 copies filed in Regional Office within 10 days after end of month in which sale made	Form 242 required as a condition of rule- 5 copies filed with Commission 10 days after first sale, every six months after first sale, 10 days after completion	Form 146 required as condition of rule- 3 copies filed in Regional Office at time of first sale, except for offerings below $50,000 in 12 months	Form 4(6) required as condition of exemption - 5 copies filed with Commission 10 days after first sale, every 6 months after first sale, 10 days after completion
		Form D required as a condition of exemption - 5 copies filed with Commission 15 days after first sale, every 6 months after first sale, 30 days after last sale		

Comparison Item	Rule 240 Rule 504	Rule 242 Rule 505	Rule 146 Rule 506	Section 4(6)
Information Requirements	No information specified No information specified	1. If purchased solely by accredited no information specified 2. If purchased by any non-accredited, must furnish (a)(non-reporting companies)information in Part I of Form S-18 with 1 year audited financials (b)(reporting companies)most recent annual report, def. proxy statement and recent periodic reports	Must furnish (unless offeree has access via economic bargaining power) 1. Below $1,500,000 - information may be limited to Part II, Form 1-A of Reg A 2. Other offerings (a)(non reporting) information in registration available to issuer - Unaudited financials if audit requirements unreasonable effort or expense (b)(reporting companies)recent Form S-1 or Form 10, def. proxy statement and periodic reports	No information specified No information specified

1. If purchased solely by accredited, no information specified
2. If purchased by non-accredited,
   a. non-reporting companies must furnish
      i. offerings up to $5,000,000-information in Part I of Form S-18 or available registration, 2 yr. financials, 1 year audited-if undue effort or expense, issuers other than limited partnerships only balance sheet as of 120 days before offering must be audited-if limited partnership and undue effort or expense, financials may be tax basis
      ii. offerings over $5,000,000-information in Part I of available registration-if undue effort or expense, issuers other than limited partnerships only balance sheet as of 120 days before offering must be audited-if limited partnership and undue effort or expense, financials may be tax basis
   b. reporting companies must furnish
      i. Rule 14a-3 annual report to shareholders, definitive proxy statement and 10-K, if requested, plus subsequent reports and other updating information or
      ii. information in most recent Form S-1 or Form 10 or Form 10-K plus subsequent reports and other updating information
   c. Issuers must make available prior to sale
      i. exhibits
      ii. written information given to accredited investors
      iii. opportunity to ask questions and receive answers

82-26

Notice to Members: 82-26
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

April 30, 1982

TO: All NASD Members and Interested Persons

RE: Effect of SEC Rule Changes on NASD Qualification Examinations

ATTENTION: REGISTRATION, TRAINING AND COMPLIANCE PERSONNEL AND BRANCH OFFICE MANAGERS

The Securities and Exchange Commission has recently adopted a series of regulations that will impact the subject matter of the qualification examinations administered by the NASD. The chart at the end of this notice lists the areas affected and identifies by study outline section the examinations affected by these regulations. In addition, a brief explanation of these changes is included below.

(1) Amendments to the Net Capital and Customer Protection Rules

On January 13, 1982, the Securities and Exchange Commission issued four releases announcing the adoption of amendments and a series of proposed amendments to Rule 15c3-1, the Net Capital Rule, and Rule 15c3-3, the Customer Protection Rule. The amendments which will become effective on May 1, 1982, will include the following:

- A lowering of the ratio of required capital for firms on the "alternate method" from 4% to 2% of the aggregate debit items from the Reserve Formula;

- A reduction in "early warning levels" for "alternative" rule calculators from 6% to 5% of the aggregate debit items from the Reserve Formula. This rule will also affect the "early warning" reporting requirements of SEC Rule 17a-11;

- A reduction in "early warning levels" for "alternative" rule calculators for limitations on withdrawal of equity capital and repayment of subordinated debt from 7% to 5% of the aggregate debit items from the Reserve Formula. This rule will also affect the "early warning" reporting requirements of SEC Rule 17a-11;

- A sliding scale deduction, based on time, for short securities differences;

- The creation of a "revolving subordinated loan agreement" vehicle which will permit more liberalized repayment provisions;

- The use of an "add-back to net worth" provision for certain illiquid receivables equal to the dollar amount of an actual tax liability arising from such receivables; and,

- The treatment of free shipments of investment company shares as an allowable asset for a period of 16 business days following shipment.

Effective on May 1, 1982, the affected examinations will be graded in accordance with these amendments. For further details on these changes, refer to NASD Notice to Members 82-6, dated February 8, 1982.

(2) Regulation D - Revision of Certain Exemptions from Registration under the Securities Act of 1933 for Transactions Involving Limited Offers and Sales

On March 3, 1982, the SEC adopted a new regulation governing certain offers and sales of securities without registration under the Securities Act of 1933. Regulation D replaces SEC Rules 146, 240 and 242 as well as the applicable notice of sales forms. Regulation D, which comprises a series of six rules, designated 501-506, will become effective on April 15, 1982. Rules 146, 240 and 242 will be rescinded on June 30, 1982. For further details on Regulation D, refer to SEC Release No. 33-6389.

Effective July 1, 1982, the NASD qualification examinations affected by the regulation will be amended to include the six rules of Regulation D. Although Rules 240 and 242 were not previously covered on the examinations, new test questions on their replacements, Rules 504 and 505, will be added to the item banks on July 1, 1982.

Questions regarding this notice should be directed to Carole Hartzog at (202) 833-7392.

Sincerely,

Frank J. McAuliffe
Director
Qualification Examinations
Department

Examinations Affected by the SEC Rule Changes
(Numerical References Within Test Series Identify Study Outline Sections Affected by the Rule Changes)

TEST SERIES AFFECTED	OUTLINE AREAS CHANGES			
	REGULATION D	SEC Rule 15c3-1	SEC Rule 15c3-3	SEC Rule 17a-11
2	7.1	---	---	---
7	15.1.4	---	---	---
8	1.1.1.3.1	3.3.1.2	3.3.1.3	---
22	4.1.3.2	---	---	---
24	1.2.3.1	5.1.1.2.1	5.1.1.2.3	5.1.2.1.5
27	---	2.3.4.2 2.3.6.5 2.6 2.9	3.8 3.15	4.2.3
39	1.2.4.5	---	---	
54	---	*	*	*

Test Series Key

Series Number	Examination Title
2	SECO/NASD Nonmember General Securities Examination
7	General Securities Representative Examination
8	General Securities Sales Supervisor Examination
22	Direct Participation Programs Representative Examination
24	General Securities Principal Examination
27	Financial and Operations Principal Examination
39	Direct Participation Programs Principal Examination
54	Municipal Securities Financial and Operations Principal Examination

* Refer to all applicable sections of the Series 54 outline.

NOTICE TO MEMBERS: 82-27
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

April 28, 1982

TO: All NASD Members, Trading Departments and Branch Offices

RE: Additional NASDAQ/NMS Securities Subject to Real Time Transaction Reporting Effective May 10, 1982

As stated in Notice to Members 82-20, real time transaction reporting began on April 1, 1982 for 40 NASDAQ securities that were designated as NASDAQ/NMS Tier I securities, pursuant to SEC Rule 11Aa2-1. This Rule also requires that the NASD perform a review of all NASDAQ securities at the end of each calendar quarter to determine whether additional securities shall be mandated as NASDAQ/NMS securities.

Nine additional securities qualified for designation as NASDAQ/NMS securities as a result of the analysis conducted as of March 31, 1982. Accordingly, real time transaction reporting will commence for the following issues effective May 10, 1982:

The Chubb Corporation
May Petroleum Inc.
Nike, Inc.
Pay N' Save Corporation
Reeves Communications Corporation
Roadway Express, Inc.
Tandon Corporation
Tipperary Corporation
Triad Systems Corporation

A complete list of the Tier 1 issues is attached.

Questions regarding the Tier 1 criteria should be directed to Gary W. Guinn, Assistant Director, NASDAQ Operations, at (202) 833-7269. Questions pertaining to the trade reporting rules should be directed to Don Heizer at (202) 833-7169 or (202) 833-4889.

Sincerely,

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

JHH/cls

Notice to Members: 82-28
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

MEMORANDUM

TO: All NASD Members

DATE: May 7, 1982

RE: Options "Access Rule" Amendment Eliminating Monthly Uncovered Short Position Report

As a result of a recent amendment to the Association's options "access rules" (Appendix E of the Rules of Fair Practice), members are no longer required to submit the monthly uncovered short options position report as prescribed under Section 5(c) of these rules. This rule amendment was approved by the SEC in order to conform the Association's reporting requirements with those of the option exchanges which are no longer routinely requiring reporting of monthly uncovered short option positions.

Members are still obligated to comply with the provision of Section 5(a) and (b) of Appendix E which, among other things, requires members to report option positions of 200 contracts or more on the business day following the date such positions were reached.

Please feel free to contact Brian Timken at (202) 833-7193, concerning any questions you may have regarding the above.

Sincerely,

Frank J. Wilson
Executive Vice President
Legal and Compliance

NOTICE TO MEMBERS: 82-29
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

May 10, 1982

TO: NASD Members, NASDAQ Subscribers and Branch Offices

RE: Release of last sale information on NASDAQ/National Market System securities to quotation vendors and newswire services

The SEC has been notified that two of the three major vendors of quotation devices and the newswire services have experienced a slight delay in getting communications service established with the NASDAQ Computer Center to receive last sale information on NASDAQ/ National Market System securities. A request to reschedule the release of this information from May 17 to June 1 has therefore been filed with the Commission. It is expected that this request will be approved.

Starting on June 1, 1982, it is anticipated that registered representatives will be able to receive last sale information and cumulative volume throughout the trading day on NASDAQ/NMS securities by interrogation of the same devices currently used to receive quotation information on these securities. Further, the newswire services (Associated Press and United Press International) are expected to transmit to newspapers throughout the nation a stock table that will present the high, low and closing transaction prices for NASDAQ/NMS securities.

Sincerely,

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

JHH/pgn

NOTICE TO MEMBERS 82-30
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

May 12, 1982

MEMORANDUM

TO: All NASD Members

RE: SEC Adopts Rule 17a-8

BACKGROUND

On January 18, 1982, SEC Rule 17a-8 became effective. The rule requires brokers and dealers to file reports and make and preserve records pursuant to the Currency and Foreign Transaction Reporting Act of 1970 (the "Currency Act") and the regulations of the Department of the Treasury adopted thereunder.

The Currency Act and the accompanying regulations were enacted as a means of requiring certain financial institutions, including brokers and dealers, to create records of transactions in currency that may not otherwise be prepared. According to the Treasury Secretary, these records will have a high degree of usefulness in criminal, tax or regulatory investigations or proceedings.

According to the Currency Act, the Treasury is responsible for implementing and administering the reporting and recordkeeping requirements of the Currency Act. With respect to brokers and dealers, however, the Treasury has delegated its responsibility for assuring compliance with the Currency Act and Treasury regulations to the SEC.

SUMMARY

SEC Rule 17a-8 requires that brokers and dealers make the records and reports required by the Currency Act and Treasury regulations. The reports which broker-dealers are required to file by the Currency Act are three (3) in number and are as follows:

(1) Reports of Currency Transactions — Within 15 days following the payment, receipt or transfer of currency exceeding $10,000, a report must be filed with the Commissioner of the Internal Revenue Service (Department of the Treasury, IRS Form 4789 — Currency Transaction Report).

(2) Reports of Transportation of Currency or Monetary Instruments — Those who import or export currency or

other monetary instruments in an aggregate amount exceeding $5,000 and those who receive U. S. currency or other monetary instruments in an aggregate amount exceeding $5,000, on any one occasion from anyplace outside the United States, are required to file reports with the Commissioner of Customs. In the case of the former, the report is generally required to be filed at the time of entry into the United States or at the time of departure, mailing or shipping from the United States. In the case of the latter, the report is to be filed within 30 days after receipt of the currency or other monetary instruments (Department of the Treasury, Customs Form 4790 — Report of International Transportation of Currency or Monetary Instruments)

(3) Reports of Foreign Financial Accounts — Any resident or citizen of the United States, or person doing business within the United States, having a financial interest in, or other authority over, a bank, securities account or other financial account situated in a foreign country must report that relationship, as well as other pertinent information, for each year in which that relationship exists via Department of the Treasury Form 90-22.1 — Report of Foreign Bank and Financial Accounts.

The forms to be used for making the reports referenced in Items (1) and (3) above may be obtained from any Internal Revenue Office. The reports to be used in making the reports referenced in Item (2) above may be obtained from any office of the Bureau of Customs.

The Treasury has also adopted a number of recordkeeping rules, many of which are duplicative of SEC requirements as contained in Rule 17a-3, as a means of implementing and administering the Currency Act. The records to be prepared and maintained by brokers and dealers are as follows:

(1) A record of any extensions of credit in excess of $5,000;

(2) A record of each advice, request, or instruction received regarding a transaction which results in the transfer of funds, or of currency, other monetary instruments, checks, investment securities, or credit of more than $10,000 to a person, account, or place outside the United States;

(3) A record of each advice, request or instruction given to another financial institution or other person located within or without the United States regarding a transaction intended to result in any of the items noted in paragraph (2) above;

(4) A record of any financial interest in, or other authority over, a bank, securities account or other financial account located in a foreign country;

(5) A record of a customer's taxpayer identification number;

(6) A copy of each document granting signature or trading authority over a customer's account; and,

(7) A record of any remittance or receipt of currency, other monetary instruments, investment securities, transfer of funds or credit exceeding $10,000 to or from a person, account or place outside the United States.

Rule 17a-8 requires a broker dealer to retain the records required by the Currency Act for the time period specified by Treasury regulations. Currently, that time period is five (5) years. Where an Exchange Act rule and Treasury regulations require the retention of identical records for varying periods of time, brokers and dealers are required to retain the records for the longer period of time.

DEFINITIONS

To facilitate an understanding of the requirements of the Currency Act and Treasury regulations thereunder, the following definitions are provided:

Currency: The coin and currency of the United States or of any other country, which circulate in and are customarily used and accepted as money in the country in which issued. It includes U. S. silver certificates, U. S. notes and Federal Reserve notes, but does not include bank checks or other negotiable instruments not customarily accepted as money.

Investment Security: An instrument which:

(1) Is issued in bearer or registered form;

(2) Is of a type commonly dealt in upon securities exchanges or markets or commonly recognized in any area in which it is issued or dealt in as a medium for investment;

(3) Is either one of a class or series or by its terms is divisible into a class or series of instruments; and,

(4) Evidences a share, participation or other interest in property or in an enterprise or evidences an obligation of the issuer.

Monetary Instruments: Coin or currency of the United States or of any other country, travelers' checks, money orders, investment securities in bearer form or otherwise in such form that title thereto passes upon delivery, and negotiable instruments (except warehouse receipts or bills of lading) in bearer form or otherwise in such form that title thereto passes upon delivery. The term includes bank checks, travelers' checks and money orders which are signed but on which the name of the payee has been omitted, but does not include bank checks, travelers' checks or money orders made payable to the order of a named person which have not been endorsed or which bear restrictive endorsements.

Transaction in Currency: A transaction involving the physical transfer of currency from one person to another. A transaction which is a transfer of funds by means of bank check, bank draft, wire transfer, or other written order, and which does not include the physical transfer of currency is not a transaction in currency within the meaning of these rules.

* * *

Questions concerning the Currency and Foreign Transaction Reporting Act of 1970 or the applicable Treasury regulations may be directed to Robert Stankey, Office of Enforcement, U.S. Treasury Department, at (202) 566-5630.

Questions with respect to this notice or Rule 17a-8 may be directed to either Kye Hellmers at (202) 833-7320, or Elizabeth A. Wollin at (202) 833-7356.

Sincerely,

Gordon S. Macklin
President

NOTICE TO MEMBERS 82-30
Notices to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

May 12, 1982

MEMORANDUM

TO: All NASD Members

RE: SEC Adopts Rule 17a-8

BACKGROUND

On January 18, 1982, SEC Rule 17a-8 became effective. The rule requires brokers and dealers to file reports and make and preserve records pursuant to the Currency and Foreign Transaction Reporting Act of 1970 (the "Currency Act") and the regulations of the Department of the Treasury adopted thereunder.

The Currency Act and the accompanying regulations were enacted as a means of requiring certain financial institutions, including brokers and dealers, to create records of transactions in currency that may not otherwise be prepared. According to the Treasury Secretary, these records will have a high degree of usefulness in criminal, tax or regulatory investigations or proceedings.

According to the Currency Act, the Treasury is responsible for implementing and administering the reporting and recordkeeping requirements of the Currency Act. With respect to brokers and dealers, however, the Treasury has delegated its responsibility for assuring compliance with the Currency Act and Treasury regulations to the SEC.

SUMMARY

SEC Rule 17a-8 requires that brokers and dealers make the records and reports required by the Currency Act and Treasury regulations. The reports which broker-dealers are required to file by the Currency Act are three (3) in number and are as follows:

(1) Reports of Currency Transactions — Within 15 days following the payment, receipt or transfer of currency exceeding $10,000, a report must be filed with the Commissioner of the Internal Revenue Service (Department of the Treasury, IRS Form 4789 — Currency Transaction Report).

(2) Reports of Transportation of Currency or Monetary Instruments — Those who import or export currency or

other monetary instruments in an aggregate amount exceeding $5,000 and those who receive U. S. currency or other monetary instruments in an aggregate amount exceeding $5,000, on any one occasion from anyplace outside the United States, are required to file reports with the Commissioner of Customs. In the case of the former, the report is generally required to be filed at the time of entry into the United States or at the time of departure, mailing or shipping from the United States. In the case of the latter, the report is to be filed within 30 days after receipt of the currency or other monetary instruments (Department of the Treasury, Customs Form 4790 — Report of International Transportation of Currency or Monetary Instruments)

(3) Reports of Foreign Financial Accounts — Any resident or citizen of the United States, or person doing business within the United States, having a financial interest in, or other authority over, a bank, securities account or other financial account situated in a foreign country must report that relationship, as well as other pertinent information, for each year in which that relationship exists via Department of the Treasury Form 90-22.1 — Report of Foreign Bank and Financial Accounts.

The forms to be used for making the reports referenced in Items (1) and (3) above may be obtained from any Internal Revenue Office. The reports to be used in making the reports referenced in Item (2) above may be obtained from any office of the Bureau of Customs.

The Treasury has also adopted a number of recordkeeping rules, many of which are duplicative of SEC requirements as contained in Rule 17a-3, as a means of implementing and administering the Currency Act. The records to be prepared and maintained by brokers and dealers are as follows:

(1) A record of any extensions of credit in excess of $5,000;

(2) A record of each advice, request, or instruction received regarding a transaction which results in the transfer of funds, or of currency, other monetary instruments, checks, investment securities, or credit of more than $10,000 to a person, account, or place outside the United States;

(3) A record of each advice, request or instruction given to another financial institution or other person located within or without the United States regarding a transaction intended to result in any of the items noted in paragraph (2) above;

(4) A record of any financial interest in, or other authority over, a bank, securities account or other financial account located in a foreign country;

(5) A record of a customer's taxpayer identification number;

(6) A copy of each document granting signature or trading authority over a customer's account; and,

(7) A record of any remittance or receipt of currency, other monetary instruments, investment securities, transfer of funds or credit exceeding $10,000 to or from a person, account or place outside the United States.

Rule 17a-8 requires a broker dealer to retain the records required by the Currency Act for the time period specified by Treasury regulations. Currently, that time period is five (5) years. Where an Exchange Act rule and Treasury regulations require the retention of identical records for varying periods of time, brokers and dealers are required to retain the records for the longer period of time.

DEFINITIONS

To facilitate an understanding of the requirements of the Currency Act and Treasury regulations thereunder, the following definitions are provided:

Currency: The coin and currency of the United States or of any other country, which circulate in and are customarily used and accepted as money in the country in which issued. It includes U. S. silver certificates, U. S. notes and Federal Reserve notes, but does not include bank checks or other negotiable instruments not customarily accepted as money.

Investment Security: An instrument which:

(1) Is issued in bearer or registered form;

(2) Is of a type commonly dealt in upon securities exchanges or markets or commonly recognized in any area in which it is issued or dealt in as a medium for investment;

(3) Is either one of a class or series or by its terms is divisible into a class or series of instruments; and,

(4) Evidences a share, participation or other interest in property or in an enterprise or evidences an obligation of the issuer.

Monetary Instruments: Coin or currency of the United States or of any other country, travelers' checks, money orders, investment securities in bearer form or otherwise in such form that title thereto passes upon delivery, and negotiable instruments (except warehouse receipts or bills of lading) in bearer form or otherwise in such form that title thereto passes upon delivery. The term includes bank checks, travelers' checks and money orders which are signed but on which the name of the payee has been omitted, but does not include bank checks, travelers' checks or money orders made payable to the order of a named person which have not been endorsed or which bear restrictive endorsements.

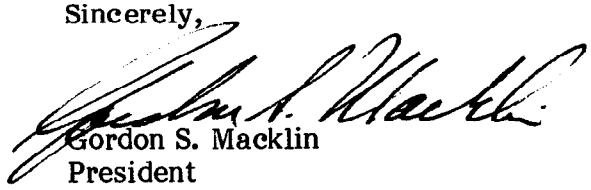
Transaction in Currency: A transaction involving the physical transfer of currency from one person to another. A transaction which is a transfer of funds by means of bank check, bank draft, wire transfer, or other written order, and which does not include the physical transfer of currency is not a transaction in currency within the meaning of these rules.

* * *

Questions concerning the Currency and Foreign Transaction Reporting Act of 1970 or the applicable Treasury regulations may be directed to Robert Stankey, Office of Enforcement, U.S. Treasury Department, at (202) 566-5630.

Questions with respect to this notice or Rule 17a-8 may be directed to either Kye Hellmers at (202) 833-7320, or Elizabeth A. Wollin at (202) 833-7356.

Sincerely,



Gordon S. Macklin
President

NOTICE TO MEMBERS: 82-31
Notice to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

May 14, 1982

TO: All NASD Members and Municipal Securities Bank Dealers

ATTN: All Personnel

RE: Memorial Day Trade Date - Settlement Date Schedule

Securities markets and the NASDAQ System will be closed on Monday, May 31, 1982, in observance of Memorial Day. "Regular-Way" transactions made on the business days preceding that day will be subject to the following schedule.

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

Trade Date		Settlement Date		*Regulation T Date	
May	24	June	1	June	3
	25		2		4
	26		3		7
	27		4		8
	28		7		9
June	1		8		10

* * * * *

The foregoing settlement dates should be used by brokers, dealers and municipal securities dealers for purposes of clearing and settling transactions pursuant to the Association's Uniform Practice Code and Municipal Securities Rulemaking Board Rule G-12 on Uniform Practice. Questions regarding this notice may be directed to the Uniform Practice Department at (212) 938-1177.

* Pursuant to Section 4(c)(2) of Regulation T of the Federal Reserve Board, a broker-dealer must promptly cancel or otherwise liquidate a purchase transaction in a cash account if full payment is not received within seven (7) business days of the date of purchase or, pursuant to Section 4(c)(6), make application to extend the time period specified. The date members must take such action is shown in the column entitled "Regulation T Date".

NOTICE TO MEMBERS NO. 82-32
Notices to Members Should be retained for future reference

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

May 14, 1982

IMPORTANT MAIL VOTE

TO: All NASD Members

RE: Implementation of Linkage Between the Computer Assisted Execution System and the Intermarket Trading System;

Securities and Exchange Commission Approval of Interim Rules Governing ITS/CAES Linkage;

Mail Vote on New Article III, Section 37 of the Rules of Fair Practice Authorizing the Board of Governors to Implement Permanent Requirements Governing the ITS/CAES Linkage;

Request for Comments on Interim ITS/CAES Operating Rules Being Considered for Adoption on a Permanent Basis by the Board Upon Approval of Section 37.

Effective Date of Interim ITS/CAES Rules - May 17, 1982

Last Voting Date on Article III, Section 37 - June 14, 1982

BACKGROUND

The Securities and Exchange Commission (Commission) by its order dated May 6, 1982 (Release No. 18713) adopted final amendments to the plan governing the operation of the Intermarket Trading System (ITS) in order to include the Association as a participant in ITS and to implement the automated interface between ITS and the Computer Assisted Execution System (CAES) previously required by the Commission's order dated April 21, 1981 (Release No. 17744). The automated interface between ITS and CAES (ITS/CAES Linkage) is presently scheduled to commence operation on May 17, 1982.

The CAE System is an automated facility which enables members to enter orders in exchange listed securities through their NASDAQ terminals which are automatically executed by the system against the computer captured bids and offers displayed by market makers that voluntarily register as CAES market makers. The ITS System is an intermarket routing system operated jointly by certain national securities exchanges, and authorized by the Commission, on a provisional basis, as a national market system facility pursuant to Section 11A(a)(3)(B) of the Securities Exchange Act of 1934. The current participants in ITS are the American Stock Exchange, Inc., the Boston Stock Exchange, Inc., the Cincinnati Stock Exchange, Inc., the Midwest Stock Exchange, Inc., the New York Stock Exchange, Inc., the Pacific Stock Exchange, Inc. and the Philadelphia Stock Exchange, Inc. The automated interface between ITS and CAES, which links the over-the-counter and exchange markets in listed securities, is viewed by the Commission as a critical event in the development of the national market system that will provide for the first time an efficient means of routing orders between such markets in an experimental environment free from off-board trading restrictions.

REQUEST FOR MEMBERSHIP VOTE

The ITS Plan, as amended by the Commission order, imposes upon the Association the obligation to adopt, on a permanent basis, specific rules, regulations and procedures governing the operation of the ITS/CAES linkage. In order to comply with these obligations, the Board of Governors has approved for membership vote a new Article III, Section 37 of the Association's Rules of Fair Practice. The text of Article III, Section 37 appears on page 13. This new section will authorize the Board of Governors to adopt the rules, regulations and procedures required under the ITS Plan and permit it to alter, amend or modify them from time-to-time without further recourse to the membership for vote. The proposed rule must be approved by the membership and submitted to and approved by the Securities and Exchange Commission prior to becoming effective. More specifically, the Board of Governors would be authorized to adopt rules, regulations and procedures required for the operation of the CAES including rules, regulations and procedures required for implementation of the linkage of CAES and ITS and by the ITS Plan pursuant to which that linkage was consummated. The rules, regulations and procedures adopted would be entitled "CAES Operating Rules or ITS/CAES Operating Rules" as the case may be.

The Board of Governors wishes to emphasize that this proposed rule is only an enabling rule which would permit the Board to adopt permanent rules. Subject to possible adjustment based upon members' comments which are hereby solicited, the first package of rules which the Board will consider for adoption under proposed Section 37 are included herein commencing on page 14. They are described below. These rules have been designated "interim rules" because they have been adopted for a period of six months pursuant to a special provision of Article VII, Section 1 of the By-Laws authorizing such. Proposed Section 37 of the Rules of Fair Practice is important and merits your immediate attention. Please mark your ballot according to your convictions

and return it in the enclosed, stamped envelope to "The Corporation Trust Company." Ballots must be postmarked no later than June 14, 1982.

INTERIM ITS/CAES RULES

COMMENTS REQUESTED ON PERMANENT IMPLEMENTATION

By a companion order also dated May 6, 1982, (Release No. 18714), the Commission approved and declared effective the enclosed interim rules for implementation during the initial six month period of operation of the ITS/CAES linkage (pilot period). They are, therefore, now in effect. Unless the action described hereafter takes place during the pilot period to make them permanent rules, they will expire at that time. These rules are entitled "INTERIM RULES OF PRACTICE AND PROCEDURE FOR INTERMARKET TRADING SYSTEM/COMPUTER ASSISTED EXECUTION SYSTEM AUTOMATED INTERFACE." In addition to announcing their effectiveness during the pilot period, the Board of Governors is also publishing these rules for comment to determine whether it would be appropriate, in whole or in part, to adopt them on a permanent basis in the event Section 37 of the Rules of Fair Practice is approved by the membership. After the comment period has expired, the proposals will be reviewed by a Committee of the Board of Governors and the Board itself. If the proposals, or an amended version thereof, are at that time approved by the Board they will be submitted to the Commission pursuant to Section 19(b) of the Securities Exchange Act of 1934, as amended. They must be approved by the Commission prior to becoming effective. THE RULES WILL APPLY TO THOSE MEMBERS THAT VOLUNTARILY AGREE TO BECOME REGISTERED AS ITS/CAES MARKET MAKERS IN ONE OR MORE OF THE SECURITIES ELIGIBLE FOR TRADING THROUGH THE ITS/CAES LINKAGE. Thirty Rule 19c-3 securities 1/ are eligible for inclusion in the system during the pilot period. A list of these securities is set forth in Appendix A to this notice. All Rule 19c-3 securities will be eligible for inclusion in the ITS/CAES system after the pilot period. There are approximately 410 such securities.

1/ Rule 19c-3 securities refers to those securities which are affected by the operation of Rule 19c-3 under the Securities Exchange Act of 1934. Rule 19c-3 removed exchange off-board trading restrictions which prohibited exchange member firms from making markets in securities listed on the exchange other than on exchange premises with respect to any security reported in the consolidated transaction system which either was not traded on an exchange prior to April 26, 1979; or, was so traded prior to April 26, 1979, but ceased to be traded on an exchange for any period of time thereafter.

DISCUSSION OF INTERIM RULES

INTRODUCTION

As an overview, the interim rules include requirements for registration of ITS/CAES market makers, procedures for handling the withdrawal, suspension or revocation of an ITS/CAES market maker's registration, operating procedures for execution of transactions within the ITS/CAES system, procedures to obtain interest from other market centers in ITS/CAES securities prior to the opening of the system, procedures for responding to inquiries received from other market centers, procedures for the handling of "trade-throughs" (executing an order at a time when another ITS market center or CAES market maker is displaying a superior quotation), requirements regarding the execution of block transactions in ITS/CAES securities, requirements which prohibit the entering of a quotation for an ITS/CAES security which locks or crosses the market of another ITS/CAES market maker or ITS participant exchange and requirements for the clearance and settlement of transactions identified by the ITS/CAES system as having been executed by a particular ITS/CAES market maker.

The rules contained in this filing are similar to those adopted by each national securities exchange that is a participant in the ITS Plan. There are, however, two areas of the rule proposals which contain substantive dissimilarities from the rules adopted by the ITS participant exchanges. These areas involve section (h), the "trade-through rule" and section (j) the "block transactions rule."

The Board of Governors is deeply concerned with what it believes to be the inequitable application of the trade-through and block rules in their present form. It therefore submitted these rules for Commission approval solely on a temporary basis pending the results of membership comment on the impact of these provisions. These concerns are described in greater detail in discussion beginning on page 11 of this notice. Accordingly, the trade-through and block rules were adopted by the Board with great reluctance. In taking this action, it recognized that the period of their application would be limited to six months. It also recognized that membership comments would be received and thereafter rules reflecting such would be proposed to the Commission on a permanent basis. Nevertheless, the Board also has requested the Commission to immediately direct its attention to, and require the equal application of the trade-through and block rules to all ITS participants. A summary of the rules follows:

SECTION-BY-SECTION ANALYSIS

Section (a) of the rules contains definitions of certain terms used throughout the rules.

Section (b) of the rules deals with registration requirements. In order to participate in the ITS/CAES linkage, a market maker must make appli-

cation to the Association to become registered as an ITS/CAES market maker in one or more securities eligible for inclusion in the system as an ITS/CAES security. Such registration is conditioned upon the ITS/CAES market makers' registration as a CQS third market maker; continuing compliance with the ITS Plan and applicable rules of the Commission and the Association; the maintenance of continuous markets in the securities in which he is registered, maintenance of the physical security of the terminals and related equipment used to enter or receive orders and other messages from the ITS/CAES System, and the acceptance and settlement by the ITS/CAES market maker, or a clearing member acting on his behalf, of each transaction which the ITS/CAES System identifies as having been effected by such ITS/CAES market maker.

Section (c) of the rules provides that such registration may be terminated and appropriate sanctions imposed upon the ITS/CAES market maker for any failure to comply with the ITS Plan or the rules described herein, including Section (b) requiring registration requirements.

Section (d) of the rules provides a series of operating procedures for transactions effected through the ITS System. All such transactions are required to be on a "regular way" basis and must be cleared and settled through a clearing agency registered with the Commission that maintains facilities through which ITS transactions may be compared and settled. Transactions are to be effected by the issuance of "commitments to trade." These are communications seeking the purchase or sale of securities transmitted by an ITS/CAES market maker to another ITS/CAES market maker or an ITS participant exchange. Commitments to trade sent to ITS/CAES market makers will result in the immediate execution of a transaction where the recipient ITS/CAES marker maker is maintaining a quotation in the System at a price and size equal or better to that contained in the commitment to trade. With respect to commitments to trade directed to ITS participant exchanges, such commitment must be accepted within the time period of one or two minutes by a specialist on the exchange rather than being automatically executed through the System.

The commitment to trade must be firm and irrevocable for the period selected by the ITS/CAES market maker. This period must be either one or two minutes following transmission of the commitment to trade. At a minimum, the commitment to trade is required to include a symbol identifying the ITS/CAES market maker, be directed to a particular recipient ITS/CAES market maker or ITS exchange; specify the identity, amount, size and whether the security is to be purchased or sold; specify a price either equal to that displayed by the destination ITS/CAES market maker or ITS exchange, the execution price in the case of a commitment sent in compliance with the block transaction, or a price designated as being at the market, and specify a period of one minute if the normal period during which a commitment shall remain irrevocable is not to be two minutes.

Because orders are executed automatically against the size of the quotation being displayed by the ITS/CAES market maker, the System automatically places the ITS/CAES market maker in a temporary excused withdrawal state

upon execution of a commitment that exhausts the size of the quotation displayed. In such cases, the ITS/CAES market maker is required to promptly reenter a new two-sided quotation into the NASD consolidated quotation service. Transactions of ITS/CAES securities are automatically reported by the System to the Consolidated Tape at the price specified in the commitment or the execution price if such execution occurred at a better price.

Section (e) of the rules provides pre-opening procedures which enable an ITS/CAES market maker that desires to open the market in an ITS/CAES security to obtain through the pre-opening application of the ITS System, pre-opening interest from other ITS/CAES market makers and ITS participant exchanges. These procedures are similar to those on the various ITS participant exchanges. In this way, an ITS/CAES market maker or specialist on an ITS participant exchange may be able to participate in the opening transaction in that stock and thus provide for the execution of limited price orders left with him which otherwise could go unexecuted.

The pre-opening procedures are required to be utilized whenever an ITS/CAES market maker determines that its opening transaction in a security will be at a price which is more than a quarter of a point away from the closing price of that security reported on the consolidated tape. Upon such determination, the ITS/CAES market maker shall send an administrative message called a pre-opening notification through the ITS System to each ITS/CAES market maker registered in the security and the ITS participant exchanges. This pre-opening notification must identify the originator of the message, the security involved, the side of the market in which an order imbalance exists, the amount of the imbalance and the amount of stock paired off. Thereafter, the ITS/CAES market maker may not open the security for at least a period of five minutes following transmission of the pre-opening notification. An ITS/CAES market maker or ITS participant exchange may respond to the pre-opening notification by sending an administrative message called a "pre-opening response" which shall show its interest as principal and as agent for each price at which the ITS/CAES security might open. The pre-opening responses received by the originating ITS/CAES market maker shall be combined with the orders he already holds in the security in deciding upon the price of the opening transaction.

Pre-opening responses which include obligations to buy or sell as agent at the opening price must be satisfied. The ITS/CAES market maker may retain for his own account up to 50 percent of the imbalance remaining after agency orders have been satisfied at such price. Imbalances shall be allocated among the responding ITS/CAES market makers and ITS participant exchanges in proportion to the amount each indicated in its pre-opening response. Where imbalances identified in pre-opening notifications become reversed prior to the opening, the ITS/CAES market maker shall issue an additional pre-opening notification if he contemplates opening his market more than a quarter of a point away from the previous days adjusted closing price in the opposite direction.

Where the opening transaction is expected to be for 5,000 shares or more and the number of paired agency orders plus any imbalance indicated in the pre-opening notification increases or decreases by 50% during the five minute waiting period, the inquiring ITS/CAES market maker shall issue a replacement pre-opening notification and thereafter refrain from opening his market until the original five minute period has expired or until one minute after the issuance of the replacement pre-opening notification, whichever is longer.

In the event the ITS/CAES market maker issuing a pre-opening notification finds that the imbalance contained therein has been reduced, eliminated or reversed so as to indicate an opening price not more than 1/4 of a point away from the previous day's closing price, he shall notify all ITS/CAES market makers and ITS participant exchanges of the alteration of the pre-opening notification and refrain from opening his market for a period of one minute or until the original five minute period following the pre-opening notification has expired, whichever is longer.

The ITS/CAES market maker receiving a pre-opening response to his pre-opening notification shall accord to any agency obligation contained in the pre-opening response the same treatment as he would to any agency order which he receives and shall not reject any pre-opening response that has the effect of further increasing the imbalance indicated in his pre-opening notification for that reason alone.

Promptly after the opening the ITS/CAES market maker that sent the pre-opening notification shall report to each responding ITS/CAES market maker or ITS participant exchange the price and the amount of the securities which they purchased or sold at the opening transaction.

Section (f) of the rules provides that whenever an ITS/CAES market maker receives a pre-opening notification from an ITS participant exchange and the recipient ITS/CAES market maker desires to participate in the opening of that security in the market from which the pre-opening notification was issued, he may do so by sending "obligations to trade" to such ITS participant market in a "pre-opening response." The pre-opening response shall show the ITS/CAES market maker's buy or sell interest both as principal and agent at each price level at which the security might open, on a netted share basis. If the ITS/CAES market maker receives a pre-opening notification through the ITS System, he shall submit obligations to trade that security as principal for his own account to the market issuing such notification only through the ITS system. This restriction shall not apply to any order sent prior to the issuance of a pre-opening notification. Similarly no ITS/CAES market maker shall send an obligation to trade or a commitment to trade through the system in that security prior to the opening unless a pre-opening notification has been issued or a quotation disseminated from the destination market.

Obligations to trade contained in pre-opening responses shall remain binding upon the ITS/CAES market maker until the security has opened in the destination market or until a cancellation or modification of the obligation has been received in such market.

It is important to note that pre-opening responses sent by the ITS/CAES market makers to the market originating the pre-opening notification must be transmitted through the ITS/CAES interface. The mechanism employed by this interface processes the pre-opening responses and aggregates the information contained in all such messages from ITS/CAES market makers and sends it through the system to the appropriate ITS participant exchange. The aggregation occurs approximately four and one-half minutes after the original pre-opening notification was sent by the ITS participant exchange through the ITS/CAES interface. If the pre-opening response is not sent through the system, it will not be part of the aggregation and will not be honored by the ITS participant exchange.

Thus, an ITS participant exchange may obligate itself to the purchase of, for example, only 3,000 shares of a security where five ITS/CAES market makers expressed an aggregated interest in selling a total of 5,000 shares at the applicable price. In such case, the ITS/CAES system will have to allocate the 3,000 shares among the five ITS/CAES market makers on a price and time basis of priority. The aggregation of pre-opening responses leads to the necessity of allocating among the responding ITS/CAES market makers the number of shares for which the initiating exchange issues a commitment to trade.

The pre-opening application discussed above shall apply prior to the opening as well as prior to any resumption of trading following a regulatory halt by any ITS participant exchange or the suspension of quotations in the effected securities by the Association.

All ITS/CAES participants should carefully study the pre-opening application provisions as they are complex and represent procedures not familiar to OTC market makers. Any questions in respect thereto should be addressed to Ernest Comite, Assistant Director, NASDAQ Operations, at (212) 938-1177.

With respect to an ITS/CAES market maker's obligation to honor system trades, section (g) of the rules requires that if an ITS/CAES market maker or a clearing member acting on his behalf is reported on the clearing tape at the close of any trading day, or shown by the activity reports developed by CAES as constituting a side of a system trade, then such ITS/CAES market maker or clearing member must honor the trade on the scheduled settlement date. In other words, where this occurs there is a binding obligation to settle the trade.

Section (h) of the rules, the so-called "trade-through" rule, provides limitations upon the price at which an ITS/CAES market maker can execute a transaction in a security in which he is registered. These limitations extend to transactions effected through the ITS System with another ITS/CAES market maker or ITS participant exchange as well as transactions which occur outside the system where an ITS/CAES market maker is participating on one side of the transaction. The purpose of such limitations

is to prevent a condition known as a "trade-through." A trade-through occurs when an ITS/CAES market maker ignores a better bid or offer available from another ITS/CAES market maker or ITS participant exchange and executes the transaction in the security at an inferior price.

The trade-through rule requires that an ITS/CAES market maker avoid purchasing an ITS/CAES security in which it is registered at a price which is either higher than the offer or lower than the bid displayed from an ITS participant exchange or another ITS/CAES market maker unless certain conditions apply. Similarly, an ITS/CAES market maker must avoid selling an ITS/CAES security in which it is registered at a price which is lower than the bid or higher than the offer displayed from an ITS participant exchange or ITS/CAES market maker unless the same conditions apply.

There are exceptions to the trade-through rule. Because of these exceptions, the rule only applies to quotations of more than 100 shares (or 200 shares if displayed from the Pacific Stock Exchange, Inc.). The other exceptions are when the ITS/CAES market maker is unable to avoid the trade-through because of systems/equipment failure or malfunction; when the transaction is not a regular way contract; when the bid or offer is displayed from a market center whose members are relieved of their firm quotation obligations under paragraph (c)(2) of Rule 11Ac1-1 with respect to such bid or offer; when the bid or offer that is traded-through has caused a locked or crossed market or the commitment received by the ITS/CAES market maker was originated by an ITS participant exchange, because in such case the exchange would have been responsible for initiating the trade-through.

In the event that a trade-through occurs, corrective action must be taken if a complaint is received by the Corporation either through the ITS system from the appropriate ITS participant exchange whose member is the aggrieved party or from an ITS/CAES market maker within a period of five minutes from the time a report of the transaction was disseminated. If the complaint is properly received by the Corporation within the five minute period, and the trade-through occurred between two ITS/CAES market makers acting as principal, the ITS/CAES market makers may agree to correct the price of the transaction to a price at which a trade-through would not have occurred and report the correction to the consolidated last sale reporting system. If an agreement cannot be reached, the ITS/CAES market maker that initiated the trade-through shall satisfy each bid or offer of an ITS/CAES market maker or ITS participant exchange that was traded-through. If neither of these corrective actions are taken, the rule requires that the transaction be voided.

If an ITS/CAES market maker is on only one side of the transaction, or if there are two ITS/CAES market makers and one of them is acting as agent, the ITS/CAES market maker registered in the security must satisfy the bid or offer traded through in its entirety; otherwise, the price of the transaction which constituted the trade-through shall be corrected by the ITS/CAES market maker to a price at which a trade-through would not have occurred.

Where corrective activity is required, the customer's order or portion thereof which was executed in the transaction which constituted the trade-through shall receive either the price which caused the trade-through, the price at which the bid or offer traded-through was satisfied or the adjusted price, whichever price is most beneficial to the order. The ITS/CAES market maker who initiated the trade-through shall be liable for any money differences which may result under this rule.

When the Association receives a trade-through complaint it will notify the ITS/CAES market maker. Upon such notification the ITS/CAES market maker is required to promptly respond to the complaining ITS participant exchange or ITS/CAES market maker. Such response must set forth either the conditions which exempt the transaction from the application of the trade-through rule, if such applies, or the corrective action which will be taken to rectify the trade-through. Where more than one ITS/CAES market maker participates in the transaction, the initiating ITS/CAES market maker shall receive the notification of the trade-through complaint.

In the event the ITS/CAES market maker responsible for a trade-through fails to take corrective action required under the rule, he shall be liable for the lesser of the actual loss proximately caused by the trade-through and suffered by the aggrieved party or the loss proximately caused by the trade-through which would have been suffered by the aggrieved party had he purchased or sold the security subject to the trade through in order to mitigate his loss and had such purchase or sale been effected at the loss basis price. The term "loss basis" price means the price of the next transaction, as reported by the high speed line of the consolidated last sale reporting system, in the security in question, after one hour has elapsed from the time the complaint is received.

ITS/CAES market makers that become the subject of a trade-through by another ITS participant exchange or ITS/CAES market maker may take whatever steps are necessary to mitigate potential losses which may arise from the trade-through. The ITS/CAES market maker shall promptly communicate such action to the offending ITS participant exchange or ITS/CAES market maker. The ITS participant exchanges are bound by trade-through rules similar to that described above.

Section (i) of the rules prohibits an ITS/CAES market maker from creating what is referred to as a "locked or crossed" market. A "locked market" is created when an ITS/CAES market maker displays a bid for an ITS/CAES security at a price which equals the displayed offering price at that time from an ITS participant exchange or ITS/CAES market maker. This condition also occurs where an offer is displayed which equals the displayed bid price at that time from an ITS participant exchange or ITS/CAES market maker. A "crossed market" is created when an ITS/CAES market maker displays a bid for an ITS/CAES security at a price which exceeds the displayed offering price at that time from an ITS participant exchange or ITS/CAES market maker. This condition is also created when an offer is displayed at a price which is less than the displayed bid from an ITS participant exchange or ITS/CAES market maker.

In the event an ITS/CAES market maker makes a bid or offer and in so doing creates a locked or crossed market, he shall promptly send to the affected ITS participant exchange or ITS/CAES market maker a commitment to trade seeking the bid or offer which causes the locked or crossed market unless excused by operation of one or more of the conditions which constitute exceptions to this rule. The commitment sent shall be for the lesser of the number of shares he has bid for, or offered, or the number of shares offered, or bid for, on the ITS participant exchange or from the ITS/CAES market maker.

The conditions which constitute exceptions to the rule include a bid or offer for 100 shares (or 200 shares from the Pacific Stock Exchange); the issuance of a commitment to trade which would be prohibited by SEC Rule 10a-1;2/ the ITS/CAES market maker causing the locked or crossed market is unable to comply with the rule because of a system/equipment failure or malfunction; the bid or offer is not for a regular way contract; or the members whose markets are crossed or locked are relieved of their obligations under paragraph (c)(2) of Rule 11Ac1-1.

Finally, section (j) of the rules creates a requirement whereby ITS/CAES market makers that execute agency or principal crosses of block size in ITS/CAES securities at an execution price outside the best quotation for the security displayed by any ITS participant exchange or ITS/CAES market maker shall send a commitment to trade at the execution price to each ITS participant exchange and ITS/CAES market maker displaying a bid or offer (whichever is applicable) superior to the execution price. This rule applies only to agency or principal crosses involving at least 10,000 shares or a quantity of stock having a market value of at least $200,000. However, it is important to note that block size transactions involving other than an agency or principal cross would remain subject to the provisions of the trade-through rule.

DISCUSSION OF RULES IMPACT

As noted earlier, the Board is deeply concerned with the implications of the trade-through rule and block rule in their present form as applied to the ITS/CAES market makers. The most troubling aspect of these two rules is that ITS/CAES market makers would be required to protect all displayed superior bids or offers on ITS participant exchanges as well as those displayed by all other ITS/CAES market makers, while the same obligation would not apply to the ITS participant exchanges. A specialist on an ITS participant exchange would be required to protect superior bids or offers displayed from each other exchange while protecting only the aggregated best bid or offer from the entire ITS/CAES marketplace. There obviously could be superior displayed prices by ITS/CAES market makers between the best bid, or

2/ Rule 10a-1 under the Securities Exchange Act of 1934 contains requirements governing the execution of short sales.

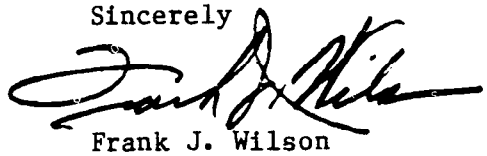
offer, from ITS/CAES market makers and the trade-through or block transaction price. Thus, the entire population of the individual ITS/CAES market makers are being viewed for this limited purpose as only a single market center. This approach to the ITS/CAES marketplace unfairly impacts the ITS/CAES market makers subject to the trade-through rule and block rule.

The precise nature of the problem can be more clearly explained by way of an example. Assume that a transaction is executed on an ITS participant exchange at a price of 9-1/2 when other ITS participant exchanges are displaying bids of 9-5/8 and bid quotations are being displayed by various ITS/CAES market makers at 9-5/8 and 9-3/4. Further assume that the aggregate size of the quotations displayed by ITS/CAES market makers is 5,000 shares at the 9-5/8 bid price and 200 shares at the 9-3/4 bid price. In such a situation all displayed size from the ITS participant exchanges would be protected at 9-5/8 while only those 200 shares being bid for by the ITS/CAES market makers at 9-3/4 would be protected. Thus, the various ITS/CAES market makers bidding for a total of 5,000 shares at 9-5/8 will not be protected under either the trade-through rule or the block policy.

The Board is deeply concerned with the inequitable application of the interim trade-through and block rules and determined that they were to be filed with the Commission solely on a temporary basis pending the results of membership comment on the impact of the proposed provisions. They were filed with the Commission on that basis only because of the urgency expressed by the Commission's staff that their adoption was important to the implementation of the ITS/CAES linkage. In view thereof, the Board adopted these rules with great reluctance. In so doing, it recognized that their adoption at this time would be for a period of no more than six months. Furthermore, the Board relied upon the Commission staff's assurance that the issue would be addressed during the pilot phase of the ITS/CAES linkage. Based upon the experience with the ITS/CAES linkage and, more importantly, the membership comments which will be received in connection with this release, permanent rules will be proposed which reflect the membership's views on these important issues. In view of the foregoing, it is critical that all interested members provide to the Association on a timely basis their views with respect to the foregoing rules.

All comments on these rules should be addressed to S. William Broka, Secretary, National Association of Securities Dealers, Inc., and received by the Association by June 14, 1982, to receive consideration. Questions should be addressed to Robert E. Aber, Assistant General Counsel at (202) 833-7259.

Sincerely



Frank J. Wilson
Executive Vice President
and General Counsel

FOR MEMBERSHIP VOTE
TEXT OF PROPOSED
ARTICLE III, SECTION 37

Section 37. The Board of Governors is authorized to adopt rules, regulations and procedures required for the operation of the Computer Assisted Execution System including rules, regulations and procedures required for implementation of the linkage of the Computer Assisted Execution System and the Intermarket Trading System and the Intermarket Trading System Plan pursuant to which that linkage was consummated. The rules, regulations and procedures adopted hereunder shall be entitled "CAES Operating Rules or ITS/CAES Operating Rules" as the case may be. The Board of Governors shall have the power to alter, amend, supplement or modify the provisions of these rules, regulations and procedures from time-to-time without recourse to the membership for approval as otherwise would be required by Article IV of the By-Laws.

THE FOLLOWING RULES HAVE BEEN DECLARED EFFECTIVE BY THE SECURITIES AND EXCHANGE COMMISSION FOR THE PILOT PERIOD OF THE ITS/CAES INTERFACE.

COMMENTS ARE SOLICITED AS TO WHETHER THESE INTERIM RULES SHOULD BE ADOPTED ON A PERMANENT BASIS.

RULES OF PRACTICE AND PROCEDURE FOR INTERMARKET TRADING SYSTEM/COMPUTER ASSISTED EXECUTION SYSTEM AUTOMATED INTERFACE

(a) DEFINITIONS

(1) The term "Participant Market" shall mean the securities trading floor of each participating ITS Exchange and the markets of ITS/CAES Market Makers in ITS securities.

(2) The term "ITS/CAES Market Maker" shall mean a member of the Corporation that is registered as a market maker with the Corporation for the purposes of participation in ITS through CAES with respect to one or more specified ITS securities in which he is then actively registered.

(3) The term "ITS Participant Exchange" shall mean a participant in the ITS Plan that is a national securities exchange.

(4) The term "ITS Plan" shall mean the plan agreed upon by the ITS participants, as from time to time amended in accordance with the provisions therein, and approved by the Securities and Exchange Commission pursuant to Section 11A(a)(3)(B) of the Securities Exchange Act of 1934, as amended (the Act) and Rule 11Aa3-2 thereunder.

(5) The term "ITS System" shall mean the communications network and related equipment that links electronically the ITS Participant Exchanges and ITS/CAES Market Makers as described in the Plan.

(6) The term "ITS Security" shall mean any security which may be traded through the System by an ITS/CAES Market Maker.

(7) The term "Pre-Opening Application" shall mean the application of the System which permits a specialist or ITS/CAES Market Maker who wishes to open his market in an ITS Security to obtain pre-opening interests from other specialists and ITS/CAES Market Makers.

(b) ITS/CAES REGISTRATION

In order to participate in ITS, a market maker must be registered with the Corporation as an ITS/CAES Market Maker in each security in which a

market will be made in ITS. Such registration shall be conditioned upon the ITS/CAES Market Maker's continuing compliance with the following requirements:

(1) registration as a CQS Third Market Maker pursuant to Part III of Schedule D and compliance with the rules in Part III;

(2) execution of an ITS/CAES Market Maker application agreement with the Corporation at least two days prior to the requested date of registration;

(3) compliance with SEC Rule 15c3-1;

(4) compliance with the ITS Plan, SEC Rule 11Ac1-1 and all applicable rules of the Corporation;

(5) the maintenance of continuous two-sided quotations in the absence of the grant of an excused withdrawal or a functional excused withdrawal by the Corporation;

(6) maintenance of the physical security of the equipment used to interface with the ITS System located on the premises of the ITS/CAES Market Makers to prevent the unauthorized entry of communications into the ITS System; and

(7) acceptance and settlement of each ITS System trade that the ITS System identifies as effected by such ITS/CAES Market Maker, or if settlement is to be made through another clearing member, guarantee of the acceptance of settlement of such identified ITS System trade by the clearing member on the regularly scheduled settlement date.

(c) SUSPENSION OR REVOCATION OF ITS/CAES REGISTRATION

Failure by an ITS/CAES Market Maker to comply with the ITS Plan or any of the rules identified herein shall subject such ITS/CAES Market Maker to censure, fine, suspension or revocation of its registration as an ITS/CAES Market Maker or any other fitting penalty.

(d) ITS OPERATIONS

(1) All transactions effected through ITS shall be on a "regular way" basis. Each transaction effected through ITS shall be cleared and settled through a clearing agency registered with the Securities and Exchange Commission which maintains facilities through which ITS transactions may be compared and settled.

(2) Any "commitment to trade," which is transmitted by an ITS/CAES Market Maker to another ITS participating market center through ITS, shall be firm and irrevocable for the period of either one or two minutes (specified in accordance with G below) following transmission by the sender. All such commitments to trade shall, at a minimum:

(A) include the number or symbol which identifies the ITS/CAES Market Maker;

(B) direct the commitment to a particular participant market;

(C) specify the security which is the subject of the commitment;

(D) designate the commitment as either a commitment to buy or a commitment to sell;

(E) specify the amount of the security to be bought or sold, which amount shall be for one unit of trading or any multiple thereof;

(F) specify (i) a price equal to the offer or bid price then being furnished by the destination Participant Market, which price shall represent the price at or below which the security is to be bought or the price at or above which the security is to be sold, respectively, (ii) a price at the execution price in the case of a commitment to trade sent in compliance with the block trade rule, or (iii) that the commitment is a commitment to trade "at the market."

(G) specify either one minute or two minutes as the time period during which the commitment shall be irrevocable, but if the time period is not specified in the commitment, a two minute period shall be assumed. It should be noted that the period of time represented by these designations may be changed in the future by action of the ITS Operating Committee, whose decision as to the applicable period shall be binding upon ITS/CAES Market Makers.

(3) If a commitment to trade is directed to an ITS/CAES Market Maker, and the execution of such commitment exhausts the size of the quotation being displayed by the ITS/CAES Market Maker, then such ITS/CAES Market Maker shall be placed in a functional excused withdrawal state pending the input of a new two-sided quotation with size into the NASD Consolidated Quotation Service. The new two-sided quotation required of the ITS/CAES Market Maker will be entered as promptly as possible into the NASD Consolidated Quotation Service.

(4) Transactions in ITS securities executed in CAES by ITS/CAES Market Makers or received through the ITS System and executed by an ITS/CAES Market Maker are reported to the CTA Plan Processor by the CAES System at the price specified in the commitment or if executed at a better price, the execution price.

(e) PRE-OPENING APPLICATION - OPENING BY ITS/CAES MARKET MAKER

(1) The pre-opening application enables an ITS/CAES Market Maker or ITS Participant Exchange in any participant market who wishes to open his market in an ITS Security to obtain through the ITS System or CAES, any pre-opening interest of an ITS Participant Exchange or other ITS/CAES Market Makers registered in that security and/or market makers in other participant markets.

(2) Whenever an ITS/CAES Market Maker, in arranging an opening transaction in any ITS Security prior to the opening of such security in another participant market, determines that its opening transaction in any such security will be at a price which is more than 1/4 of a point (or such other amount as may be specified in the Plan from time to time) away from the last price at which that security was reported on the consolidated tape on the last previous day on which transactions in such security were reported on the consolidated tape (the previous day's adjusted closing price), the ITS/CAES Market Maker shall notify the other ITS/CAES Market Makers registered in the security and market makers in other participant markets of such situation by sending an administrative message, called a "pre-opening notification" through the System. Thereafter, the ITS Market Maker is prohibited from opening the security in question until not less than five minutes (or such lesser period of time as may be specified in the Plan) after his transmission of the pre-opening notification. Pre-opening notifications may not be issued prior to 9:30 a.m. E.S.T.

(3) A pre-opening notification shall identify the ITS/CAES Market Maker and the security involved and shall state the side of the market in which the order imbalance exists, the amount of the imbalance, and the amount of stock "paired-off."

(4) Any receiving market maker may respond to the pre-opening notification by sending an administrative message called a "pre-opening response" through the System to the ITS/CAES Market Maker that originated the pre-opening notification. The pre-opening response shall separately show his interest as principal and as agent for each price at which the ITS Security might open.

(5) If the ITS/CAES Market Maker receives a "pre-opening response" through the System containing obligations to buy or sell from other ITS/CAES Market Makers or market makers in other participant markets, he shall combine those obligations with orders he already holds in the security in question and, on the basis of this aggregated information, decide upon the opening transaction in such security.

(6) Whenever pre-opening responses from one or more responding markets include obligations to buy or sell as agent at the opening price, such agency obligations must be satisfied. The ITS/CAES Market Maker may retain for his own account up to 50 percent of the imbalance remaining after agency orders have been satisfied at such price, rounded up or down as may be necessary to avoid the allocation of odd lots. The ITS/CAES Market Maker shall allocate the imbalance remaining in proportion to the amount each responding market obligated itself to buy or sell as principal at the opening price in its pre-opening response, rounded up or down as may be necessary to avoid the allocation of odd lots.

(7) Where a pre-opening notification issued by an ITS/CAES Market Maker identifies an imbalance on one side of the market and, prior to the opening of the security in question by the ITS/CAES Market Maker, the imbalance in his market has reversed so that an imbalance exists on the other side of the market, the ITS/CAES Market Maker shall issue a replacement pre-opening notification ("reversal notification") before opening his market in the security if he contemplates opening the security at more than 1/4 of a point (or such other amount as may be specified in the Plan from time to time) away from the previous day's adjusted closing price. Thereafter, the ITS/CAES Market Maker shall not open the security in question until not less than five minutes after his transmission of the replacement pre-opening notification. Such additional pre-opening notification shall contain the same kind of information as is required in the original pre-opening notification.

(8) Where the opening transaction is expected to be for 5,000 shares or more, and the number of shares represented by paired agency orders plus the imbalance indicated in a pre-opening notification increases or decreases 50 percent or more before the waiting period has elapsed the inquiring ITS/CAES Market Maker shall issue a replacement pre-opening notification. Thereafter, the ITS/CAES Market Maker must wait either one minute, or until the waiting period applicable to the original pre-opening notification expires, whichever is longer, before opening his market (i.e., if more than one minute of the waiting period has expired at the time the alteration notice is sent, the ITS Third Market Maker shall wait for the rest of the period to pass before opening the security).

(9) The ITS/CAES Market Maker who issued the pre-opening notification shall also notify the other ITS/CAES Market Makers and participant markets in the security prior to opening the security if the imbalance indicated in such pre-opening notification has been reduced, eliminated or reversed so as to indicate an opening price not more than 1/4 of a point (or then applicable fraction under the Plan) away from the previous day's closing price. Such notice shall state "XYZ PRE-OPENING NOTIFICATION ALTERED." Under such circumstances, the inquiring ITS/CAES Market Maker must wait either (i) one minute or (ii) until the waiting period applicable to the original pre-opening notification expires, whichever is longer, before opening his market (i.e., if more than one minute of the waiting period has expired at the time the alteration notice is sent, the ITS/CAES Market Maker shall wait for the rest of the period to pass before opening the security).

(10) In receiving a pre-opening response, the ITS/CAES Market Maker shall accord the same treatment to any obligation to trade as agent included in such response as he would to any other order received by him as agent at the same time such obligation was received.

(11) An ITS/CAES Market Maker shall not reject a pre-opening response that has the effect of further increasing the imbalance indicated in his pre-opening notification for that reason alone.

(12) Promptly following the opening in any security as to which an ITS/CAES Market Maker issued a pre-opening notification, such ITS/CAES Market Maker shall report to each responding market the amount of the security purchased or sold or both as principal and/or agent by the responding market at the opening transaction and the price thereof.

(13) The Pre-Opening Application shall apply prior to any resumption of trading following a Regulatory Halt by any Exchange Participant, as referred to in Section X of the CTA Plan, if trading has been halted in all Exchange Markets and, when the affected security is an ITS/CAES security, if the NASD has suspended quotations in the affected security. The Pre-Opening Application shall not apply when trading in any Participant Market is resumed following any other type of halt in trading or when quotations are resumed following their suspension by the NASD for any other reason.

(f) PRE-OPENING APPLICATION - OPENINGS ON OTHER MARKETS

(1) Whenever an ITS/CAES Market Maker who has received a "pre-opening notification" as provided in the Plan in any security as to which he is registered as an ITS/CAES Market Maker wishes to participate in the opening of that security in the market from which the pre-opening notification was issued, he may do so by sending "obligations to trade" to such market in a "pre-opening response." A pre-opening response shall show the ITS/CAES Market Maker's buy and/or sell interest, both as principal for his own account and as agent for orders left with him, at each price level at which the security might open, reflected on a netted share basis.

(2) Once a pre-opening notification as to any security is received by the ITS/CAES Market Maker through the System, ITS/CAES Market Maker(s) in such security shall submit obligations to trade that security, as principal for his own account, to the market from which the pre-opening notification was issued only through the Pre-Opening Application and shall not send orders to trade that security for his own account to such market for participation at the opening in that market by any other means. However, this restriction shall not apply as to any order sent to such market by the ITS/CAES Market Maker prior to the issuance of the pre-opening notification.

(3) No ITS/CAES Market Maker whether acting as principal or agent, shall send an obligation to trade, commitment to trade or order in any security through the System to any other participant market, prior to the

opening of trading in such security on such other market (or prior to the resumption of trading in such security on such other market following a Regulatory Halt as referred to in Section X of the Consolidated Tape Plan) until a pre-opening notification as to such security has been issued from such other market or a quotation has been disseminated from such other market pursuant to Rule 11Ac1-1.

(4) Each obligation to trade which an ITS/CAES Market Maker includes in any pre-opening response shall remain binding on him until the security in question has opened in the market from which the pre-opening notification was issued or until a cancellation or modification of the obligation contained in the pre-opening response has been received in such market, and any such modification shall itself be binding on the ITS/CAES Market Maker until such opening transaction or until a subsequent cancellation or modification thereof has been received in such market.

(5) The procedures for and the provisions of the Pre-Opening Application, as set forth herein, and further elaborated on in the Plan, shall also apply prior to any resumption of trading in any ITS Security following a Regulatory Halt, as referred to in Section X of the Consolidated Tape Plan, but shall not apply when trading in any participant market is resumed following any other type of halt in trading or when quotations in the market of an ITS/CAES Market Maker are resumed following a quotations halt by the NASD.

(g) OBLIGATION TO HONOR SYSTEM TRADES

If an ITS/CAES Market Maker or clearing member acting on his behalf is reported on the clearing tape (as adjusted) at the close of any trading day, or shown by the activity reports developed by CAES as constituting a side of a System trade, such ITS/CAES Market Maker or clearing member shall honor such trade on the scheduled settlement date.

(h) TRADE-THROUGHS

(1) A member registered as an ITS/CAES Market Maker in an ITS/CAES security, shall avoid purchasing or selling such security, whether as principal or agent, at a price which is lower than the bid or higher than the offer displayed from an ITS Participant Exchange or ITS/CAES Market Maker ("trade-through"), unless the following conditions apply:

(A) the size of the bid or offer that is traded-through is for 100 shares, or, if such bid or offer is being displayed from the Pacific Stock Exchange, Inc., 200 shares;

(B) the ITS/CAES Market Maker is unable to avoid the trade-through because of the systems/equipment failure or malfunction;

(C) the transaction which constituted the trade-through is not a "regular way" contract;

(D) the bid or offer that is traded-through is being displayed from a Market Center whose members are relieved of their obligations under paragraph (c)(2) of Rule 11Ac1-1 with respect to such bid or offer;

(E) the bid or offer that is traded-through has caused a locked or crossed market in the ITS Security; or

(F) the commitment received by an ITS/CAES Market Maker which caused the trade-through was originated by an ITS Participant Exchange.

(2) If a trade-through occurs and a complaint is promptly received by the Corporation either through the ITS System from the appropriate ITS Participant Exchange whose member is the aggrieved party or from an ITS/CAES Market Maker, and in no event, more than five minutes from the time the report was disseminated over the high speed line of the consolidated last sale reporting system, then:

(A) if ITS/CAES Market Makers are on both sides of a principal trade, the price of the transaction which constituted the trade-through shall be corrected, by agreement of the parties, to a price at which a trade-through would not have occurred and the price correction shall be reported through the consolidated last sale reporting system; otherwise, (i) the initiating ITS/CAES Market Maker shall satisfy, or cause to be satisfied, the bid or offer traded-through in its entirety at the price of such bid or offer, or, if the initiating ITS/CAES Market Maker elects not to do so, (ii) the transaction shall be voided.

(B) if an ITS/CAES Market Maker executed the transaction and the contra-side was not an ITS/CAES Market Maker or was an ITS/CAES Market Maker acting as agent (i) the ITS/CAES Market Maker registered in the security shall satisfy, or cause to be satisfied, the bid or offer traded-through in its entirety at the price of such bid or offer, or, if the ITS/CAES Market Maker elects not to do so, (ii) the price of the transaction which constituted the trade-through shall be corrected by the ITS/CAES Market Maker to a price at which a trade-through would not have occurred and the price correction shall be reported through the consolidated last sale reporting system.

Whenever the provisions of this paragaraph apply, the customer's order or a portion thereof which was executed in the transaction which constituted the trade-through (whether such order or a portion thereof was executed by the member who initiated the trade-through or by the member on the contra-side of the transaction, or both) shall receive the price which caused the trade-through, or the price at which the bid or

offer traded-through was satisfied, if it was satisfied pursuant to clause (i) thereof, or the adjusted price, if there was an adjustment pursuant to clause (ii) thereof, whichever price is most beneficial to the order or a portion thereof. Money differences resulting from the application of this paragraph shall be the liability of the member who initiated the trade-through.

(3) (A) The Corporation shall notify the ITS/CAES Market Maker of any trade-through complaint received from an ITS Participant Exchange or ITS/CAES Market Maker. Upon receipt of such notification, the ITS/CAES Market Maker shall promptly respond to the complaining ITS Participant Exchange or ITS/CAES Market Maker. Such response shall set forth either, (i) the conditions specified in paragraph (a)(1) above, or (ii) the corrective action to be taken under paragraph (b)(1) above. If there is more than one ITS/CAES Market Maker that is registered in the ITS Security and participating in the transaction, then the ITS/CAES Market Maker that initiated the transaction will receive notification of the trade-through complaint.

(B) If it is ultimately determined that an ITS/CAES Market Maker has engaged in a trade-through but has not taken corrective action required by either paragraph (b)(1)(A) or (b)(1)(B) above, then the ITS/CAES Market Maker shall be liable for the lesser of (i) the actual loss proximately caused by the trade-through and suffered by the aggrieved party, or (ii) the loss proximately caused by the trade-through which would have been suffered by the aggrieved party had he purchased or sold the security subject to the trade-through in order to mitigate his loss and had such purchase or sale been effected at the "loss basis price." For purposes of this paragraph the "loss basis price" shall be the price of the next transaction, as reported by the high speed line of the consolidated last sale reporting system, in the security in question, after one hour has elapsed from the time the complaint is received (or, if the complaint is so received within the last hour in which transactions are reported on the high speed line of the consolidated last sale reporting system on any day, then the price of the opening transaction in such security reported on such high speed line on the next day on which the security is traded).

(C) Any ITS/CAES Market Maker that becomes the subject of a trade-through by another ITS Participant Exchange or ITS/CAES Market Maker may take whatever steps are necessary to mitigate any potential loss resulting from the trade-through of his bid or offer. Such action shall be promptly communicated to the offending ITS participant market.

(D) The provisions of this trade-through rule shall not apply in respect to any Participant Exchange which does not have in effect a similar rule imposing similar obligations and responsibilities.

(i) LOCKED OR CROSSED MARKETS

(1) A member registered as an ITS/CAES Market Maker in an ITS/CAES Security that makes a bid (offer) for such security at a price which equals the offering (bid) price at that time from an ITS Participant Exchange or ITS/CAES Market Maker has created what is referred to in this rule as a "locked market."

(2) A member registered as an ITS/CAES Market Maker in an ITS/CAES Security that makes a bid (offer) for such security at a price which exceeds (is less than) the offering (bid) price at that time from an ITS Participant Exchange or ITS/CAES Market Maker has created what is referred to in this rule as a "crossed market."

(3) An ITS/CAES Market Maker who makes a bid or offer and in so doing creates a locked or crossed market with another ITS Participant or ITS/CAES Market Maker shall promptly send to such other ITS Participant Exchange or ITS/CAES Market Maker a commitment to trade seeking either the bid or offer which causes the locked or crossed market, unless excused by operation of paragraph (4) below. Such commitment shall be for either the number of shares he has bid for (offered) or the number of shares offered (bid for) on the ITS Participant Exchange or ITS/CAES Market Maker whichever is less.

(4) The provisions of paragraph (3) above shall not apply when:

(A) the bid or offer in the ITS participating market center is for 100 shares, or, if from the Pacific Stock Exchange, Inc., 200 shares;

(B) the issuance of the commitment to trade referred to above would be prohibited by SEC Rule 10a-1;

(C) the ITS/CAES Market Maker who causes a locked or crossed market is unable to comply with the provisions of paragraph (3) above because of a systems/equipment failure or malfunction;

(D) the bid or offer that causes the locked or crossed market is not for a "regular way" contract;

(E) the locked or crossed market occurs at a time when, with respect to the ITS Security which is the subject of the locked or crossed market, members of the ITS participating market center to which the commitment to trade would be sent pursuant to paragraph (3) above are relieved of their obligations under paragraph (c)(2) of Rule 11Ac1-1.

(j) BLOCK TRANSACTIONS

(1) An ITS/CAES Market Maker who executes an agency or principal cross of block size in an ITS/CAES security in which he is registered as an ITS/CAES Market Maker at an execution price outside the best quotation for the security displayed by any ITS participant market or other ITS/CAES Market Maker, shall, upon executing the block trade, send to each other participant market and each ITS/CAES Market Maker displaying a bid or offer (as the case may be) superior to the execution price, a commitment to trade, at the execution price, to satisfy the number of shares displayed in that participant market's bid or offer.

(2) For purposes of this section, a block size shall be a trade involving at least 10,000 shares, or a quantity of shares having a market value of at least $200,000.

APPENDIX "A"

ITS/CAES SECURITIES

ASO	Amsouth Bancorporation
ARG	Argo Petroleum
BUD	Anheuser Busch
BBF	Barnett Banks of Florida, Inc.
CJN	Caesars NJ Incorporated
CYR	Cray Research
DTM	Dataram Corporation
DCI	Donaldson
DYC	Dvco Petroleum Company
ELS	Elsinore Corporation
EEE	Ensource, Inc.
FAC	First Atlanta Corporation
GOX	Galaxy Oil Company
GBK	Gulfstream Banks, Inc.
RTH	Houston Oil Royalty Trust
LNH	Liberty National Insurance Holding
MCR	MCO Resources
MAR	Marcade Group
MGM	Metro Goldwyn Film
MXF	Mexico Fund, Inc.
NCB	NCNB Corporation
PAB	Pan American Banks, Inc.
PCF	Penncorp Financial
PBT	Permian Basin Royalty Trust

SEE	Sealed Air
SUL	Sullair Corporation
SU	Sun Banks of Florida, Inc.
TOS	Tosco Corporation
WEN	Wendy's International, Inc.
WWE	Worldwide Energy Corporation

NOTICE TO MEMBERS 82-33
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

May 27, 1982

TO: All NASD Members, NASDAQ Foreign Issuers
and Other Interested Persons

RE: Proposed Revisions to Qualification Requirements
of Foreign Issues on NASDAQ

The Association's Board of Governors is publishing for comment proposed revisions to Section C of Part II of Schedule D under Article XVI of the By-Laws which contains eligibility and authorization requirements for inclusion of foreign issues on the NASDAQ System. These proposals were formulated in response to the strong concern expressed by the staff of the Securities and Exchange Commission regarding continued quotations in NASDAQ of foreign securities exempt from registration pursuant to Rule 12g3-2(b) of the Securities Exchange Act of 1934 and the close study of all factors surrounding the inclusion of foreign securities on NASDAQ by the staff and the Committee appointed for that purpose.

Rule 12g3-2 was approved by the Commission in April 1967 in response to the adoption of Section 12(g) in the Securities Acts Amendments of 1964. Section 12(g) generally placed over-the-counter securities under the same reporting requirements as exchange listed stocks. Rule 12g3-2(b) provides that, while over-the-counter issues would generally be required to be registered, an exemption to registration is available where the issuer or a government official or agency of the issuer's domiciliary country, files with the Commission information required by the issuer's domiciliary country which has been made public in the issuer's home country, has been filed with the stock exchange on which it may be traded and made public, or has been distributed to the issuer's securities holders. The exemption is not, however, available to any issuer with over 50% of its voting securities held directly or indirectly in the United States; with over 50% of its Board of Directors residents of the United States; or where business is principally administered in the United States. The effect of the exemption is such that the reporting, proxy, insider trading and other requirements effecting domestic companies do not apply to the foreign issuer nor does the SEC have regulatory jurisdiction over it.

The Commission staff believes that the promoters of certain of the foreign companies on NASDAQ take advantage of the absence of complete disclosure regarding their companies and the increased exposure NASDAQ companies enjoy to create order demand and unjustifiable price levels. Furthermore, the Enforcement Division of the Commission has emphasized the difficulty it encounters when attempting to bring enforcement actions against such companies because of the lack of jurisdiction.

The NASD Board recognizes the problems which the Commission staff has addressed but believes it unnecessary to require full Section 12(g) registration in order to achieve the desired results. To do so, would result in many sound and reputable companies being removed from the NASDAQ System merely because they don't want to be subject to the SEC's jurisdiction and not because of any improper activity or motives on their part. At the same time, the Board is concerned about the effect on the credibility of the NASDAQ System which the referred to activities would have. Therefore, the Board is proposing an alternative proposal which it believes would address the primary concerns expressed by the Commission staff.

Under the proposal, securities exempted from registration pursuant to Rule 12g3-2(b) will be permitted to be included in NASDAQ only if independently certified financial information is made available on a timely basis to shareholders and the NASD by the issuer. Such information is considered to be a basic component of disclosure necessary for the protection of the investing public. The responsibility for assuring that audited financials are received by shareholders and the NASD would lie with the foreign issuer (or the underlying foreign issuer in the case of ADR's) but that responsibility may be discharged by an ADR bank or broker/dealer acting on behalf of the issuer. It is contemplated that the Association will maintain on its premises a file of such documents for each foreign issuer so as to facilitate member and public access to this important information.

Additionally, the NASDAQ proposal would also require a foreign issuer in order for its security to remain on the NASDAQ System, to promptly disclose any material information which may affect the value of the security or influence investor's decisions to the public through adequate dissemination within the United States. Thus, once on the system, all material information which would have an effect on an investor's decisions must be fully disseminated in the United States or the security will be subject to being removed from the system.

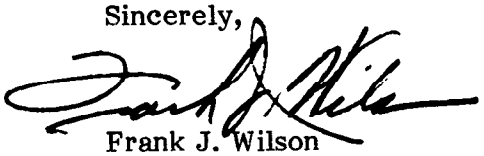
The proposal also provides that exempted foreign securities which meet the foregoing requirements shall be subject to deletion from NASDAQ if over-the-counter trading is suspended by the Commission under Secton 12(k) of the Exchange Act. This provision is designed to respond to the Commission's dilemma presented by the provisions of the 1934 Act, and certain judicial determinations, preventing it from suspending a company from trading for more than one ten day period in most instances notwithstanding the nature of the improper activity discovered. It is believed that deletion from NASDAQ would have an effect comparable to a mandated cessation of trading by the Commission. The proposed deletion from NASDAQ would only be invoked, however, upon a finding that such action would be consistent with the public interest. Thus, the issuer company in respect to which a deletion is proposed would be entitled to a hearing before a Committee of the Association.

The Association's Board believes with these additional requirements of certified financial statements, disclosure of material information and removal from the system in the case of a Section 12(k) suspension where the public interest so requires, will go a long way toward eliminating the problems which have been discerned. At the same time, foreign companies which do not wish to do so will not be forced to subject themselves to SEC jurisdiction in order to stay on NASDAQ.

In addition to the concerns of the Commission discussed above, the Association has experienced difficulty with certain foreign exchanges in the coordination of regulatory activities and their philosophy in connection with their activities involving trading halts and removals. Therefore, the proposal contains a requirement that foreign issuers whose principal marketplace fails to coordinate its regulatory activities with the NASD will not be permitted on the system or, if on, will be removed. In the past, the referred to foreign exchanges have halted trading when movements in the price of the security break certain parameters, irrespective of whether their investigation determines that material news was or was not overhanging the market. In addition, such trading halts, or the removal of them, have not been properly coordinated with the NASDAQ Market Surveillance Section. Further, the dissemination of material news has posed problems in that at least one foreign exchange has construed the mere announcement of news on the exchange floor, without notification of the wire services or any other attempts to disseminate the material broadly to the public, to be adequate dissemination of news. Obviously, this does not afford investors the opportunity of evaluating the news in making their investment decisions. These practices are inconsistent with those of virtually all other domestic and foreign exchanges. The Board has proposed, therefore, that adequate regulatory coordination of the foreign marketplace constitutes a prerequisite to inclusion, or continued inclusion, of a security from such foreign jurisdictions in NASDAQ.

Comments regarding these proposals should be submitted no later than June 28, 1982 and should be addressed to S. William Broka, Secretary, National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington, D.C. 20006. Questions regarding this Notice should be directed to Robert E. Aber at (202) 833-7259.

Sincerely,



Frank J. Wilson
Executive Vice President
Legal and Compliance

TEXT OF PROPOSED AMENDMENTS TO SECTION C OF PART II OF SCHEDULE D

(language to be deleted is stricken, language to be added is underlined)

C. Rules for Authorized Foreign Securities and American Depositary Receipts

1. A security shall be eligible to be an authorized security if it is:

a. issued by a foreign issuer where either the issuer is required to file reports pursuant to section 15(d) of the Securities Exchange Act or the security is exempt from registration under section 12(g) of that Act by reason of the applicability of rule 12g3-2(b) promulgated by the Securities and Exchange Commission, or

b. an American Depositary Receipt or similar security issued in respect of a security authorized under subdivision (a) of this paragraph 1.

2. Notwithstanding a security's exemption from registration pursuant to rule 12g3-2(b), a security of a foreign issuer (or an ADR or similar security issued with respect thereto) shall not be eligible to be an authorized security:

a. if the issuer of such security does not timely make available to its shareholders, and upon application for authorization and annually thereafter, the Corporation does not receive, a balance sheet and statement of operations independently certified (or the equivalent) in accordance with the generally accepted accounting practices of the issuer's country of domicile; or

b. if the principal marketplace of the issuer's securities does not coordinate regulatory activities with the Corporation sufficiently to assure a fair and orderly market in the security and protection of investors and the public interest.

~~2.~~3. An eligible security shall not be authorized, and an authorized security shall be subject to suspension or termination of authorization, if:

a. at any time there is a failure to comply with the eligibility standards set forth in paragraphs 1 and 2 above;

~~a.~~ b. it shall have been suspended from being traded over-the-counter by the Securities and Exchange Commission pursuant to section ~~15(c)(5)~~ 12(k) of the Securities Exchange Act and the Corporation shall determine that the public interest requires suspension or termination of authorization as an authorized security;

~~b.~~ c. there shall have been a failure by the issuer promptly to disclose to the public by adequate dissemination in the United States ~~through the press~~ any material information which may affect the value of its securities or influence investors' decisions;

~~e.~~ d. there shall have been a failure to comply with any obligation of any person regarding filing or disclosure of information material to the issuer or the security, whether the obligation arises under a federal or state statute or rule and the Corporation shall determine that the public interest requires suspension;

~~d.~~ e. there shall have been a failure by the issuer to pay the NASDAQ Issuer Quotations Fee as specified in Section III hereof;

~~e.~~ f. in the case of a security not yet authorized, there shall be fewer than three market makers registered; in the case of an authorized security there shall be fewer than one market maker registered;

~~f.~~ g. in the case of an authorized security, the average daily volume reported by market makers during the first 90 calendar days after authorization is less than 500 shares per day;

~~g.~~ h. the principal amount outstanding shall be less than $10,000,000 in the case of a convertible debt security eligible but not authorized or $5,000,000 in the case of an authorized convertible debt security;

~~h.~~ i. the issuer's total assets shall be less than $2,000,000 in the case of an eligible security not yet authorized or $750,000 in the case of an authorized security;*/

~~i.~~ j. the issuer's total capital and surplus shall be less than $1,000,000 in the case of an eligible security not yet authorized or $375,000 in the case of an authorized security;*/

~~j.~~ k. in the case of rights or warrants, the underlying security is not an authorized security.

*/ Until August 24, 1982, the minimum amounts for authorized securities shall be $500,000 total assets and $250,000 total capital and surplus.

NOTICE TO MEMBERS No. 82-34
Notice to Members should be retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

May 26, 1982

TO: All NASD Members

ATTN: Operations Principal, Cashier and Buy-in Personnel

RE: Amendments to the Uniform Practice Code Section 59, Buy-in Procedures. Amendments to be Effective June 21, 1982

On June 21, 1982, amendments to the buy-in procedure, Section 59 of the Association's Uniform Practice Code, will become effective.

Essentially, the rule changes remove the requirement that the selling member's trade comparison (or other document describing the trade) be attached to notices of intent to buy-in and eliminate the requirement that buy-ins be executed for "cash" or "guaranteed" delivery of certificates.

BACKGROUND

The buy-in procedure contained in Section 59 of the Uniform Practice Code has long been recognized as a means of requiring performance to complete a transaction and of limiting and controlling aged fails-to-receive and fails-to-deliver. Section 59 applies only to transactions between member firms which result in such fails.

The buy-in procedure is initiated by a purchasing member to put a selling member on notice of its intention to "buy-in" a fail-to-receive carried on the books and records of the purchasing member. The execution of a "buy-in" is known as closing out the trade.

PURPOSE OF THE AMENDMENTS

The amendments streamline the buy-in procedure by reducing the amount of paperwork associated with initiating the procedure and by providing a simpler mechanism for the actual execution of buy-ins.

IMPACT OF THE AMENDMENTS

Duplication of effort is avoided by eliminating the requirement in subsection (a) of Section 59 that the buying member attach the selling member's trade comparison to the notice of intent to buy-in. Buy-in

department personnel are relieved of the necessity of obtaining copies of the seller's trade comparison from other operating departments or locations in order to prepare and deliver a notice of intent to buy-in.

Of course, members may continue the practice of attaching sellers' trade comparisons to notices of intent to buy-in, if they so choose.

Another feature of this amendment permits more varied means of sending and receiving notices of intent to buy-in, provided all other requirements are met. For example, with the requirement to attach the seller's trade comparison, notices of intent to buy-in may be delivered in a limited number of ways; namely, hand delivery by messenger, through the U.S. Postal Service, by express mail and similar commercial carrier services. The amendment will make it possible to use more advanced communications technologies for sending and receiving buy-in notices, provided that, strict adherence is kept to the requirements for valid written notice of intention to buy-in as contained in subsection (b).

The amendment to subsection (c) and the conforming amendment in subsection (i) (3) eliminate the requirement that buy-ins be executed for "cash" or "guaranteed" delivery of certificates. As a result, in order to execute a valid buy-in, it will no longer be necessary to specify "cash" or "guaranteed" delivery of certificates as part of the buy-in transaction. There may be occasions, however, when members will find it necessary to obtain "cash" or "guaranteed" delivery of certificates, so that this practice may be continued to be used.

The impact of this amendment is to give a member intending to execute a buy-in greater assurance of the ability to do so and will permit buy-in execution trades, other than those for "cash" or "guaranteed" delivery, to be processed through registered clearing agencies when the buying and selling members are clearing participants and the security is an eligible security.

EFFECTIVE DATE OF THE AMENDMENTS

The amendments described herein will be effective on June 21, 1982, so that notices of intent to buy-in issued on or after June 21 and buy-ins executed pursuant to those notices will be subject to the amended procedures. The execution of buy-ins pursuant to notices issued prior to June 21 will be governed by the provisions of the Code presently in effect.

The text of the amendments to Section 59 of the Association's Uniform Practice Code is attached. Questions regarding these changes may be directed to James Yore, Director, Uniform Practice (212) 938-1177.

TEXT OF AMENDMENTS TO UNIFORM
PRACTICE CODE - SECTION 59

Deletions indicated by strike-throughs

CLOSE-OUT PROCEDURES

SECTION 59. "BUYING-IN"

A contract which has not been completed by the seller according to its terms may be closed by the buyer not sooner than the third business day following the date delivery was due, in accordance with the following procedure:

Notice of "Buy-In"

(a) Written notice of "buy-in" shall be delivered to the seller at his office not later than 12 Noon, his time, two business days preceding the execution of the proposed "buy-in." ~~Attached to or accompanying each notice of "buy-in" shall be a copy of the original comparison or other written statement of the broker/dealer to be "bought-in," evidencing the contract to be closed out.~~

(b) No change.

Seller's Failure to Deliver After Receipt of Notice

(c) On failure of the seller to effect delivery in accordance with the "buy-in" notice, or to obtain a stay as hereinafter provided, the buyer may close the contract by purchasing ~~for "cash" in the best available market, or at the option of the buyer for guaranteed delivery not later than five (5) business days after the regular settlement date, for the account and liability of the party in default~~ all or any part of the securities necessary to complete the contract. Such execution will also operate to close-out all contracts covered under re-transmitted notices of buy-in issued pursuant to the original notice of buy-in. A "buy-in" may be executed by a member from its long position and/or from customers' accounts maintained with such member. In all cases, members must be prepared to defend the price at which the "buy-in" is executed relative to the current market at the time of the "buy-in."

(d) - (h) No change.

"Close-Out" Under Committee or Exchange Rulings

(i) (1) When a National Securities Exchange makes a ruling that all open contracts with a particular member, who is also a member of this Association, should be closed-out immediately (or any similar ruling), members may close-out contracts as directed by the Exchange.

(2) Whenever the Committee ascertains that a court has appointed a receiver for any member because of its insolvency or failure to meet its obligations, or whenever the Committee ascertains, based upon evidence before it, that a member cannot meet its obligations as they become due and that such action will be in the public interest, the Committee may, in its discretion, issue notification that all open contracts with the member in question may be closed-out immediately.

(3) Within the meaning of this section, to close-out immediately shall mean that (i) "buy-ins" may be executed without prior notice of intent to "buy-in" **and without regard to the ~~"cash" or "guaranteed delivery" requirements contained in subsections (c) and (e)~~ hereof** and (ii) "sell-outs" may be executed without making prior delivery of the securities called for.

(4) All close-outs executed pursuant to the provisions of this subsection shall be executed for the account and liability of the member in question. Notification of all close-outs shall immediately be sent to such member pursuant to the confirmation provisions of Section 9 of this Code.

(j) - (n) No Change.

NOTICE TO MEMBERS NO. 82-35
Notices to Members should be
retained for future reference

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST · WASHINGTON, D.C. 20006 · (202) 833-7200

May 27, 1982

IMPORTANT

MAIL VOTE

Officers * Partners * Proprietors

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

RE: Mail Vote on Proposed Amendment to the By-Laws Facilitating Adoption of Changes to the Association's Uniform Practice Code;

Proposed Amendments to Uniform Practice Code Governing Procedures for Acceptance and Settlement of COD Orders.

LAST VOTING AND COMMENT DATE
IS JUNE 28, 1982

Enclosed herewith are proposed amendments to Article XIV, Section 3 of the Association's By-Laws which were approved by the Board of Governors at its March 19, 1982 meeting. The Board also approved the addition of a new Section 64 to the Uniform Practice Code which deals with procedures for accepting and processing customers COD orders and a conforming amendment to Section 1 of the Code. The amendments to Article XIV, Section 3 of the By-Laws are being presented to the membership for approval. New Section 64 and amended Section 1 of the Uniform Practice Code are being submitted to the membership for comment. After the comment period has expired, the Board of Governors will again review the proposal taking into consideration the comments received and will thereafter submit the proposal as may be amended in response to the comments received, to the Securities and Exchange Commission for approval.

BACKGROUND AND EXPLANATION OF PROPOSALS

Regulation T of the Federal Reserve Board permits a broker/dealer and a customer to establish a special account whereby the broker/dealer

purchases a security for a customer or sells a security to a customer with the understanding that the broker/dealer is to deliver the security promptly to the customer and full payment is to be made by the customer against such delivery (i.e., COD). Regulation T states further that the period of time applicable to this type account for payment is not the usual seven (7) business days but thirty-five (35) calendar days after the date of such purchase or sale.

COD customers may include individual investors but are principally institutions, such as banks, insurance companies, registered investment companies, mutual funds, and pension funds which request that securities purchased on a COD basis be delivered to a clearing agent (generally a bank) which will receive in and pay for them. A problem may arise when the COD delivery is made to a customer's clearing agent (bank) and the delivery is DK'd with an explanation that the customer's instructions to receive in and pay for the securities have not been obtained.

DK's can be costly to broker/dealers since an effort must then be made to contact the customer and agent bank to verify the trade and delivery instructions. If verified, redelivery must be made and financing the delivery value and interest costs are incurred by the broker/dealer until the delivery is cleared.

The SIA Operations Subcommittee has been involved in studying the COD/DK problem for some time. In doing so, it recognized that several registered clearing agencies (such as Depository Trust Company and its Institutional Delivery System - ID System) provide facilities for rapid (compared to mail service) confirmation of COD trades and book entry delivery services, which eliminate physical deliveries. The Subcommittee felt that these facilities were not being used to their fullest potential. The Subcommittee also examined NYSE Rule 387 which governs the acceptance of COD orders by NYSE members.

As a solution to the problem, the SIA Subcommittee proposed that the NYSE amend Rule 387 and that the NASD and other self-regulatory organizations adopt a similar rule which would require that a COD transaction executed by a broker/dealer for a customer be processed by using confirmation and book entry delivery facilities which are available at several registered clearing agencies. In the event that this processing method is not used, the SIA Committee felt that transactions executed for customers and institutional clients should be on a cash settlement basis.

The Uniform Practice Committee, a standing committee of the Association's Board of Governors, considered the SIA proposal at several meetings. The Committee felt that the proposal had merit but that an NASD rule should not require firms, or their customers or agents, who were not currently members of clearing agencies to utilize such facilities. Therefore, the Committee recommended and the Board adopted proposed Section 64 of the Uniform Practice Code which is similar to the SIA proposal but only applies to COD transactions in which the broker/dealer, or its clearing agent, and the customer, or its clearing agent, are both members of a registered clearing agency which provides confirmation and book entry delivery facilities.

PROPOSED BY-LAW AND UNIFORM PRACTICE CODE AMENDMENTS

In developing proposed Section 64 to the Uniform Practice Code, it was recognized that certain enabling amendments to Article XIV, Section 3 of the NASD By-Laws and Section 1 of the Uniform Practice Code would be required. These amendments are necessary to broaden the scope of the Code in order to allow coverage of COD transactions between members and their customers. A vote is necessary as to the By-Law amendment and is hereby being requested. Without such amendments, the Code applies only to transactions between members. The approach taken in the amendments is to expand coverage under the By-Laws to all over-the-counter transactions by members and in Section 1 of the Code to set forth the general policy that the Code applies to transactions between members except where otherwise provided in a particular section of the Code. Proposed Section 64 does this by setting forth procedures for the acceptance and execution of "customer" COD transactions.

Paragraphs (1) through (4) of the proposed Section 64 direct members to obtain certain information and assurances prior to the acceptance of COD orders. These requirements are similar to NYSE Rule 387 as it is currently applied.

Paragraph (5) addresses settlement procedures for COD trades and sets forth the general requirement that customers' depository eligible COD transactions be "confirmed, acknowledged and settled by book entry through a securities depository."

Exceptions to this requirement are set forth in subparagraphs (i) and (ii) of paragraph (5). The first exception is for transactions to be settled outside of the United States and the second is for transactions where the parties to one or both sides to the transaction are not participants in a "securities depository" which provides confirmation and book entry facilities. This exception is designed to allow COD transactions outside of the depository system when the parties on one or both sides of the trade are not participants.

The proposed By-Law amendments merit your immediate attention. Please mark the ballot and return it in the enclosed stamped envelope to "The Corporation Trust Company." Ballots must be postmarked not later than June 28, 1982.

All comments relating to the proposed amendments to the Uniform Practice Code should be addressed to S. William Broka, Secretary, NASD, and received by June 28, 1982, to receive consideration. Any questions should be addressed to James R. Yore, Uniform Practice Department (212) 938-1177.

Sincerely,

John T. Wall
Executive Vice President
Member and Market Services

(i) Transactions that are to be settled outside of the United States;

(ii) Transactions wherein both a member and its agent are not participants in a security depository, or where both the customer and its agent are not participants in a securities depository.

(b) Definitions:

(1) "Securities depository" shall mean a clearing agency as defined in Section 3(2)(23) of the Securities Exchange Act of 1934, that is registered with the Securities and Exchange Commission pursuant to Section 17A(b)(2) of the Act.

(2) "Depository eligible transactions" shall mean transactions in those securities for which confirmation, acknowledgement and book entry settlement can be performed through the facilities of a securities depository.

SECTION 64 - ACCEPTANCE AND SETTLEMENT OF COD ORDERS

(a) No member shall accept an order from a customer pursuant to an arrangement whereby payment for securities purchased or delivery of securities sold is to be made to or by an agent of the customer unless all of the following procedures are followed:

(1) The member shall have received from the customer prior to or at the time of accepting the order, the name and address of the agent and the name and account number of the customer on file with the agent.

(2) Each order accepted from the customer pursuant to such an arrangement has noted thereon the fact that it is a payment on delivery (POD) or collect on delivery (COD) transaction.

(3) The member shall deliver to the customer a confirmation, or all relevant data customarily contained in a confirmation with respect to the execution of the order, in whole or in part, not later than the close of business on the next business day after any such execution.

(4) The member shall have obtained an agreement from the customer that the customer will furnish his agent instructions with respect to the receipt or delivery of the securities involved in the transaction promptly upon receipt by the customer of each confirmation, or the relevant data as to each execution, relating to such order (even though such execution represents the purchase or sale of only a part of the order), and that in any event the customer will assure that such instructions are delivered to his agent no later than:

(i) in the case of a purchase by the customer where the agent is to receive the securities against payment (COD) the close of business on the fourth business day after the date of execution of the trade as to which the particular confirmation relates; or

(ii) in the case of a sale by the customer where the agent is to deliver the securities against payment (POD), the close of business on the third business day after the date of execution of the trade as to which the particular confirmation relates.

(5) The facilities of a securities depository shall be utilized for the confirmation, acknowledgement and book entry settlement of all depository eligible transactions covered by this rule except:

TEXT OF PROPOSED AMENDMENTS TO ARTICLE XIV, SECTION 3 OF THE BY-LAWS AND UNIFORM PRACTICE CODE, SECTION 1 AND NEW SECTION 64 OF THE UNIFORM PRACTICE CODE

Deletions in Brackets -- Additions Underlined.

BY-LAWS - ARTICLE XIV,
SECTION 3 - TRANSACTIONS SUBJECT TO CODE

All over-the-counter transactions in securities [between] by members, except transactions in securities exempted under Section 3(a)(12) of the Act, [shall be] are subject to the [pertinent] provisions of the Uniform Practice Code and to the provisions of Section 2 of this Article unless exempted therefrom by the terms of the Code.

UNIFORM PRACTICE CODE - SECTION 1

(a) All over-the-counter transactions in securities between members [except transactions in securities between members which are compared, cleared or settled through the facilities of a registered clearing agency, unless otherwise provided herein; and except transactions in securities exempted under Section 3(a)(12) of the Securities Exchange Act of 1934 and municipal securities as defined in Section 3(a)(29) of the Securities Exchange Act of 1934] shall be subject to the provisions of this Code[.] except:

(i) transactions in securities between members which are compared, cleared or settled through the facilities of a registered clearing agency;

(ii) transactions in securities exempted under Section 3(a)(12) of the Securities Exchange Act of 1934;

(iii) transactions in municipal securities is defined in Section 3(a)(29) of the Securities Exchange Act of 1934.

(b) The scope of coverage contained in paragraph (a) above may be expanded or limited in any section of this Code if specifically provided therein.

(c) Existing paragraph (b).