

# Notice To Members

National Association of Securities Dealers, Inc.

August 1991

**Number 91-48**

**Suggested Routing:\***

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

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

**MAIL VOTE**

**Subject: Proposed New Rule Re: Definition of Branch Office in Article III, Section 27(g)(2) and (g)(3) of the Rules of Fair Practice; Last Voting Date: September 25, 1991**

**EXECUTIVE SUMMARY**

The NASD invites members to vote on proposed amendments to Article III, Section 27(g)(2) and a new Paragraph (g)(3) of the Rules of Fair Practice that would codify certain interpretations by the NASD regarding the definition of branch office.

**BACKGROUND**

In 1989, the NASD Qualifications Committee, a predecessor to the current NASD Membership Committee, issued several interpretations under Article III, Section 27(g)(2) of the NASD Rules of Fair Practice, which defines branch office. These interpretations were intended to clarify the rule's definition of a branch office and the exemption from branch-office registration available for nonbranch business locations that meet certain conditions under the rule. The interpretations were reviewed by the NASD Board of Governors in November 1989 and published in the February 1990 issue of *NASD Regulatory & Compliance Alert*.

While these interpretations clarify the rule's intent, they also materially expand the range of actions that may be performed in the field without triggering the branch-office registration require-

ment. The absence in the rule itself of language reflecting these interpretations has resulted in some confusion among members, especially with the passage of time. To address this situation, the NASD Board proposes to codify the earlier interpretations into the branch-office definition in the Supervision Rule (Article III, Section 27 of the NASD Rules of Fair Practice). Since these interpretations have been used for more than a year and have been found workable in practice, the Board believes it is appropriate to proceed directly to a membership vote without the formality of a comment period.

**SUMMARY OF PROPOSED AMENDMENTS**

Under the current rule, a location may be exempt from registration as a branch office if it is identified to the public only in telephone book listings, business cards, or stationery that also include the address and telephone number of the branch office or office of supervisory jurisdiction (OSJ) responsible for supervising the nonbranch business location.

Under the proposed amendments, members' sales literature (as this term is defined in Article III, Section 35(a)(2) of the NASD Rules of Fair Practice) may include the local address of a nonbranch business location. However, the literature also must identify the location and telephone num-

ber of the appropriate supervisory branch office or OSJ of the member. In addition, members' advertisements (as this term is defined in Article III, Section 35(a)(1) of the NASD Rules of Fair Practice) may include a local telephone number and/or local post-office box of a nonbranch location if the advertisements also identify the location and telephone number of the appropriate branch office or OSJ. These advertisements may **not** include the address of the nonbranch location.

A new Paragraph (g)(3) allows a member to use the firm's main-office address and telephone number for reply purposes on sales literature, advertisements, business cards, and business stationery. However, a member wishing to list such a central site instead of a supervisory branch or OSJ must show that it has in place a significant and geographically dispersed supervisory system appropriate to its business. In addition, any complaints coming through the central site have to be sent to and resolved in conjunction with the office or offices with jurisdiction over the nonbranch business location.

The Board also notes that these exemptions from the branch-office definition were intended as a reasonable accommodation to firms with widely dispersed sales personnel selling limited product lines such as variable contracts and mutual funds. Branch-office registration would still be required for locations that: (1) perform any function under the definition of Office of Supervisory Jurisdiction; (2) publicly display signage other than on lobby directories or doors in office-building internal corridors; (3) operate from public areas of buildings, such as bank branches, even when such locations are temporarily staffed; and (4) advertise an address in any public media.

### REQUEST FOR VOTE

The NASD Board of Governors believes that these changes to the Rules of Fair Practice are necessary and appropriate and recommends that members vote their approval. Please mark the enclosed 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 September 25, 1991.**

Questions concerning this notice may be directed to Frank J. McAuliffe in the Membership & Qualifications Department at (301) 590-6694, R. Clark Hooper in the Advertising Department at

(202) 728-8330, or Craig Landauer in the Office of General Counsel at (202) 728-8291.

## TEXT OF PROPOSED CHANGES TO ARTICLE III, SECTION 27 OF THE RULES OF FAIR PRACTICE

### Supervision

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

(g)(2) "Branch Office" means any location identified by any means to the public or customers as a location at which the member conducts an investment banking or securities business, excluding:

(i) any location identified [solely] in a telephone directory line listing or on a business card or letterhead, which listing, card, or letterhead also sets forth the address and telephone number of the branch office or OSJ of the firm from which the person(s) conducting business at the non-branch location are directly supervised [.]];

(ii) any location referred to in a member advertisement, as this term is defined in Article III, Section 35(a)(1) of the NASD Rules of Fair Practice, by its local telephone number and/or local post office box provided that such reference may not contain the address of the non-branch location and, further, that such reference also sets forth the address and telephone number of the branch office or OSJ of the firm from which the person(s) conducting business at the non-branch locations are directly supervised; or

(iii) any location identified by address in a member's sales literature, as this term is defined in Article III, Section 35(a)(2) of the NASD Rules of Fair Practice provided that the sales literature also sets forth the address and telephone number of the branch office or OSJ of the firm from which the person(s) conducting business at the non-branch locations are directly supervised.

(g)(3) A member may substitute a central office address and telephone number for the supervisory branch office and OSJ locations referred to in paragraph (g)(2) above provided it can demonstrate to the NASD District Office having jurisdiction over the member that it has in place a significant and geographically dispersed supervisory system appropriate to its business and that any investor complaint received at the central site is provided to and resolved in conjunction with the office or offices with responsibility over the non-branch business location involved in the complaint.

# Notice To Members

National Association of Securities Dealers, Inc.

August 1991

## Number 91-49

### Suggested Routing:\*

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

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

## MAIL VOTE

**Subject: Proposed New Rule Re: Definition of "Executive Representative" in Article III, Section 3 of the NASD By-Laws; Last Voting Date: September 25, 1991**

### EXECUTIVE SUMMARY

The NASD invites members to vote on proposed changes to the definition of "Executive Representative" that are intended to better assure proper communication with members on important matters.

that the Executive Representative list will be maintained separately from the firm contact list in the Central Registration Depository (CRD). This will assure that the Executive Representative will receive all important NASD communications and that routine CRD notices will be directed to the right persons at the member.

### BACKGROUND

In *Notice to Members 91-9* (February 1991), the Board requested comment from members on proposed changes to the definition of "Executive Representative" in Article III, Section 3 of the NASD By-Laws. The current definition of "Executive Representative" is quite broad and has, in the past, led to the designation as Executive Representative of persons who have limited authority in their firms. Since all important membership communications are directed to Executive Representatives, who are eligible to cast votes for their respective firms, the Board was concerned that important matters may not be directed to the right person at each member.

The Board proposed, therefore, to amend the definition of Executive Representative to require that only persons of authority in member firms be so designated to the NASD. The Board also noted

### COMMENTS RECEIVED

*Notice to Members 91-9* elicited five (5) comments from members. Three (3) of the five comments supported the proposed changes without reservation.

Two (2) commenters, both affiliated with insurance company members, were critical of the proposal, noting that, where an insurance company itself is a member, securities activities are likely to be handled by persons in "middle management." In the past, the NASD has taken a "carved-out" entity approach toward insurance company members and applied its requirements only to the middle managers in charge of the insurance company's securities sales operation. It would appear that this approach is equally applicable to the Executive Representative and that this could be conveyed to insurance company members administratively, as in the past. Both insurance-affiliated commenters also questioned the appropriateness of the NASD

substituting its judgment for that of the member in appointing a person to represent the member with the NASD.

After consideration of these comments, the Board concluded that the unique situation presented by certain insurance companies, where the entire insurance company is a member, can be handled administratively as has been the case in the past without introducing verbal complications to the By-Laws definition of Executive Representative. The Board also believes the NASD has a stake in the determination of the primary contacts in members and that the proposed definition specifying the proper level of a person in members to receive communications and vote on NASD matters is a justifiable exercise of NASD authority. Accordingly, the NASD Board of Governors recommends that members vote their approval of the proposed changes to the definition of Executive Representative.

Please mark the attached 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 September 25, 1991.**

Questions regarding this notice may be directed to John Vaughn in the Membership Department at (301) 590-6865 or Craig Landauer in the Office of General Counsel at (202) 728-8291.

## TEXT OF PROPOSED BY-LAW CHANGE

### Article III, Section 3

#### NASD By-Laws

#### EXECUTIVE REPRESENTATIVE

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

Sec. 3. Each member shall appoint and certify to the Secretary of the Corporation one "executive representative" who shall represent, vote and act for the member in all the affairs of the Corporation, except that other executives of a member may also hold office in the Corporation, serve on the Board of Governors or committees of the Corporation, or otherwise take part in the affairs of the Corporation. A member may change its executive representative upon giving written notice thereof to the Secretary, or may, when necessary, appoint, by written notice to the Secretary, a substitute for its executive representative. An executive representative of a member or a substitute shall [preferably] be a[n executive officer] member of senior management and registered principal of the member[.]. [if a corporation, a partner in case of a partnership, and the member himself if an individual, but he may be an employee and registered principal of the member, if given authority to act for the member in the course of the Corporation's activities.]

# Notice To Members

National Association of Securities Dealers, Inc.

August 1991

**Number 91-50****Suggested Routing:\***

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

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

**Subject: NASD Board Authorizes Industry Committee to Design Program to Assure Continuing Qualifications of Securities Industry Professionals****EXECUTIVE SUMMARY**

The NASD Board of Governors has decided to move forward with plans to develop an industry-wide program of continuing education and assessment for the securities personnel registered with the NASD. The Board authorized the NASD's Membership Committee to develop a program in which member firms have the option either to adopt a continuing education program for registered personnel that must include an assessment capability and be approved by the NASD, or require their registered personnel to undergo periodic assessment by the NASD of their knowledge in their areas of responsibility. A "grandfather" provision will be available to individuals with significant industry experience and no disciplinary histories.

**BACKGROUND AND DISCUSSION**

In June 1990, the NASD circulated to members in *Notice to Members 90-38* a proposed concept for continuing assessment of registered representatives. The proposal resulted from widespread concerns in the industry and among state se-

curities regulators that the proliferation of new securities products, as well as new laws and regulations, may be creating a need for a formal program to provide assurances that minimum knowledge levels are being maintained by securities industry professionals after their initial registration.

The North American Securities Administrators Association (NASAA) has advised the NASD that several state securities administrators are considering the institution of formal continuing education requirements for the securities industry. Both the NASD and NASAA are concerned that the institution of such requirements on a state-by-state basis could proliferate and that these requirements may differ widely among the states.

More than 100 member firms and securities industry organizations submitted comments and suggestions in response to *Notice to Members 90-38*.

After carefully considering the comments, the NASD concluded that the self-regulated securities industry should take the lead in increasing the standards of professionalism for its practitioners. Investors and the general public should feel confident that securities professionals have a thorough knowledge of the investment products they sell, the rules they must follow, and the increasingly complex financial markets in which they operate.

## PLANNED ACTIONS

In an effort to develop an appropriate vehicle to demonstrate competency and professionalism of registered personnel, the NASD Board at its July 19, 1991 meeting authorized the NASD Membership Committee, composed of industry representatives, to begin developing details of a program that would give member firms two options. One would be to adopt a continuing education program for registered personnel that must include an assessment capability and be approved by the NASD. The other would be to require their registered personnel to undergo periodic assessment by the NASD of their knowledge in their areas of responsibility.

The Board authorized the Committee to design the program with a limited "grandfather" provision in order to exempt from these requirements persons with significant industry experience and no disciplinary histories.

Using those guiding concepts, the Board asked the Committee, which is chaired by Ronald E. Buesinger of A.G. Edwards & Sons, Inc., to report to it this year with specific proposals in the following areas:

- the standards that the NASD will apply in reviewing and approving continuing education and assessment programs adopted by member firms;

- the manner in which the NASD will monitor members' continuing education and assessment programs;

- the role, if any, for the NASD in providing educational materials for continuing education programs conducted by and for members;

- the terms of the "grandfather" provision;

- the number of years in the assessment cycle, with possible variations for limited representatives;

- the consequences for an individual who fails to complete successfully either the member's continuing education program or the NASD's assessment program; and

- the specific actions to be taken with NASAA to ensure that the NASD program will be accepted by any state contemplating continuing education or assessment programs of its own.

Questions concerning this notice may be directed to Frank J. McAuliffe, Vice President, Qualifications and Membership, at (301) 590-6694.

# Notice To Members

National Association of Securities Dealers, Inc.

August 1991

**Number 91-51****Suggested Routing:\***

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

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

**Subject: Request for Comments on Proposed Changes to Schedule C to the NASD By-Laws Regarding the Sale of Partnership Debt by Direct Participation Programs Representatives and Principals; Last Date for Comments: September 25, 1991**

**EXECUTIVE SUMMARY**

The NASD requests comments on proposed amendments to Schedule C to the NASD By-Laws that would permit Direct Participation Programs Representatives and Principals to sell partnership debt. The text of the amendments follows this notice.

**DISCUSSION**

Since the implementation of the direct participation programs registration categories in the early 1980s, the NASD has consistently interpreted the relevant provisions of Schedule C to apply only to the sale of equity interests in direct participation programs as this term is defined in Part II, Section 2(e)(ii) of Schedule C to the By-Laws. In recent years, however, partnership syndicators have begun to issue debt securities of direct participation programs, usually promissory notes, for sale to "qualified plans" as that term is defined under the Employee Retirement Income Security Act (ERISA) regulations.

The principal reason for issuing the security as a debt instrument is to avoid the receipt of unrelated business taxable income (UBTI) as part of

the distribution to debtholders. The NASD believes that these debt instruments are equivalent to equity interests in a partnership and would be offered as equity if not for the adverse tax consequences that would occur.

The NASD is proposing amendments to Schedule C that would permit the sale of partnership debt by direct participation registrants. The NASD believes this to be a reasonable response to the evolution noted above in the syndication business that does not compromise the limited scope of the direct participation registration categories. Since this change would replace past interpretations of the direct participation programs registration provisions, the NASD requests comment from members and other interested parties before the amendments are presented to the NASD Board of Governors for adoption.

Questions may be directed to Carole Hartzog in the Qualifications Department at (301) 590-6696 or Craig Landauer in the Office of General Counsel at (202) 728-8291.

Written comments should be forwarded to Stephen Hickman, Office of the Secretary, National Association of Securities Dealers, Inc., 1735 K Street, NW, Washington, DC 20006-1506. **Comments should be received by September 25, 1991.**

**TEXT OF PROPOSED SCHEDULE C  
CHANGES**

(Note: New language is underlined.)

**Part II, Section (2)(e)(i)a  
Of Schedule C to the NASD By-Laws**

**REGISTRATION OF PRINCIPALS**

*(2) Categories of Principal Registration*

*(e) Limited Principal — Direct Participation  
Programs*

(i) Each person associated with a member who is included within the definition of principal in Part II, Section (1) hereof may register with the Corporation as a Limited Principal — direct participation programs if:

a. his activities in the investment banking and securities business are limited solely to the equity interests in or the debt of direct participation programs as defined in Part II, Section (2)(e)(ii) hereof;

**Part III, Section (2)(c)(i)a  
Of Schedule C to the NASD By-Laws**

**REGISTRATION OF REPRESENTATIVES**

*(2) Categories of Representative Registration*

*(c) Limited Representative — Direct Participation Programs*

(i) Each person associated with a member who is included within the definition of a representative in Part III, Section (1) hereof may register with the Corporation as a Limited Representative — direct participation programs if:

a. his activities in the investment banking or securities business are limited to the solicitation, purchase and/or sale of equity interests in or the debt of direct participation programs as defined in Part II, Section (2)(e)(i) hereof;



# Notice To Members

National Association of Securities Dealers, Inc.

August 1991

## Number 91-52

### Suggested Routing:\*

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

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

**Subject: SEC Approval of Amendments to the Resolution of the Board of Governors — Notice to Membership and Press of Suspensions, Expulsions, Revocations, and Monetary Sanctions Under Article V, Section 1 of the Rules of Fair Practice Regarding the Effectiveness of and Publicity on Disciplinary Sanctions**

### EXECUTIVE SUMMARY

On July 15, 1991, the SEC approved an NASD rule change to provide three clarifications to the Resolution of the Board of Governors — Notice to Membership and Press of Suspensions, Expulsions, Revocations, and Monetary Sanctions under Article V, Section 1 of the Rules of Fair Practice (the "Resolution"). The Resolution has been amended to provide that (1) sanctions imposed in District Business Conduct Committee (DBCC) decisions do not become

effective and will not be publicized until 45 days after the DBCC's decision; (2) expulsions and bars imposed pursuant to an "offer of settlement, or an acceptance, waiver and consent" are effective and may be published immediately on approval by the National Business Conduct Committee (NBCC); and (3) all final decisions of the NASD that call for bars or expulsions will become effective immediately. The amended text follows this notice.

### BACKGROUND

On July 15, 1991, the SEC approved three NASD rule changes to the Resolution dealing with the effectiveness of and publication for the NASD membership and the press of disciplinary sanctions that have been imposed. The three changes conform the Resolution to current practices of the NASD with respect to the effectiveness of and publicity on disciplinary actions.

DBCC decision may become effective, and thus its sanctions publicized, after a 30-day period following the date of the decision. This suggests that a DBCC decision may become effective and its sanctions made known to the public during the last 15 days of the 45-day period in which the NBCC may call a decision for review and the respondent may appeal the decision to the NBCC. As amended, the Resolution now clarifies that the sanctions imposed in the DBCC decisions that are not appealed to or called for review by the NBCC do not become effective until 45 days after the DBCC's deci-

### SUMMARY OF AMENDMENTS

The Resolution currently provides that a

sion. Furthermore, notices of decisions imposing monetary sanctions of \$10,000 or more, or penalties of expulsion, revocation, suspension, and/or the barring of a person from being associated with all members shall not be publicized until 45 days after the DBCC's decision.

It is current practice for respondents in NASD disciplinary actions to waive all rights to appeal when they agree to an offer of settlement ("Offer") or Letter of Acceptance, Waiver and Consent (AWC). Once the Offer or AWC is approved by the NBCC, there is no need for a delay in the effectiveness or publication of expulsions or bars since there can be no SEC review. As amended, the Resolution now provides that expulsion and bars imposed pursuant to an Offer or AWC are effective and may be published immediately on approval by the NBCC.

The Resolution currently provides that all decisions of the Board, if not appealed to the SEC, are effective on the later of 30 days after the date of the decisions or on a date specified by the Association. The current practice is to make any bars or expulsions effective immediately on issuance of the decision. As amended, the Resolution is revised to provide that a final NASD decision issued by either the NBCC or the Board that calls for a bar or expulsion is effective immediately regardless of whether it is appealed to the SEC. All other final decisions of the NBCC or Board, if not appealed to the SEC, continue to be effective on the later of 30 days after the date of the decision or on a date specified by the Association.

Questions concerning this notice may be directed to P. William Hotchkiss, Director, Surveillance, at (202) 728-8235.

**RULES OF FAIR PRACTICE**

**ARTICLE V**

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

**Sec. 1 Sanctions for Violation of the Rules**

\* \* \* \* \*

**Resolution of the Board of Governors**

**Notice to Membership and Press of  
Suspensions, Expulsions,  
Revocations, and Monetary Sanctions**

\* \* \* \* \*

If a decision of a District Business Conduct Committee is not appealed to or called for review by the [Board of Governors] NBCC, the order of the District Business Conduct Committee shall become effective on a date set by the Association but not before the expiration of 45 [30] days after the date of decision. Notices of decisions imposing monetary sanctions of \$10,000 or more or penalties of expulsion, revocation, suspension and/or the barring of a person from being associated with all members shall promptly be transmitted to the membership and to the press, concurrently; provided, however, no such notice shall be sent prior to the expiration of 45 [30] days from the date of the said decision.

Notwithstanding the preceding paragraph, expulsions and bars imposed pursuant to the provisions of Article II, Sections 10 and 11 of the Code of Procedure shall become effective upon approval or acceptance by the National Business Conduct Committee, and publicity regarding any sanctions imposed pursuant to Article II, Sections 10 and 11 of the Code may be issued immediately upon such approval or acceptance.

\* \* \* \* \*

If a final decision of the [Board of Governors] Association is not appealed to the Securities and Exchange Commission, the [decision] sanctions specified in the decision (other than bars and expulsions) shall become effective on a date established by the Association but not before the expiration of 30 days after the date of the decision. Bars and expulsions, however, shall become effective upon issuance of the decision, unless the decision specifies otherwise. Notices of decisions imposing monetary sanctions of \$10,000 or more or penalties of expulsion, revocation, suspension and/or the barring of a person from being associated with all members shall promptly be transmitted to the membership and to the press, concurrently; provided, however, no such notice shall be sent prior to the expiration of 30 days from the date of the said decision.

# Notice To Members

National Association of Securities Dealers, Inc.

August 1991

**Number 91-53****Suggested Routing:\***

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

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

## Subject: Misuse of Treasury Form PD 1832, "Special Form of Detached Assignment for United States Registered Securities"

The NASD recently has been advised by the Department of the Treasury, Bureau of the Public Debt, of the reported misuse of federal government Form PD 1832, "Special Form of Detached Assignment for United States Registered Securities."

Form PD 1832 is used to certify assignments of registered physical Treasury securities. It should be used only at the discretion of the Bureau of the Public Debt or a Federal Reserve Bank, acting as Treasury's fiscal agent, in one or more of the following circumstances:

- To correct a defective assignment already made on the back of a registered physical security.
  - To accommodate owners required to sign a large number of securities.
  - To obtain the assignment of two or more geographically separated assignors.
- Several incidents have been reported to the

Bureau of the Public Debt whereby Form PD 1832 was erroneously being used to represent, convey interest in, or prove ownership of a security. The form is not intended for use without an accompanying registered physical Treasury security. As such, it should not be used to assign or establish an interest in book-entry or agency securities.

Form PD 1832 does not by itself convey any interest nor does it imply any ownership in securities described on its face. Even when properly certified and accompanied by registered physical securities, this form is not to be used unless authorized by the Bureau of the Public Debt or a Federal Reserve Bank.

Report any attempted misuse of Form PD 1832 or direct any questions regarding the form to Walter Childs, Director, Division of Securities Accounts, Bureau of the Public Debt, at (202) 287-4040.

# Notice To Members

National Association of Securities Dealers, Inc.

August 1991

**Number 91-54**

**Suggested Routing:\***

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

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

**Subject: Labor Day — Trade Date-Settlement Date Schedule**

Securities markets and the Nasdaq<sup>®</sup> system will be closed on Monday, September 2, 1991, in observance of Labor Day. "Regular way" transactions made on the preceding business days will be subject to the settlement-date schedule listed below:

Trade Date	Settlement Date	Reg. T Date*
Aug. 23	Aug. 30	Sept. 4
26	Sept. 3	5
27	4	6
28	5	9
29	6	10
30	9	11
Sept. 2	Markets Closed	—
3	10	12

Brokers, dealers, and municipal securities dealers should use these settlement dates for purposes of clearing and settling transactions pursuant to the NASD Uniform Practice Code and Municipal Securities Rulemaking Board Rule G-12 on Uniform Practice.

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

\*Pursuant to Sections 220.8(b)(1) and (4) of Regulation T of the Federal Reserve Board, a broker-dealer must promptly cancel or otherwise liquidate a customer purchase transaction in a cash account if full payment is not received within seven (7) business days of the date of purchase or, pursuant to Section 220.8(d)(1), make application to extend the time period specified. The date by which members must take such action is shown in the column entitled "Reg. T Date."

# Notice To Members

National Association of Securities Dealers, Inc.

August 1991

**Number 91-55**

**Suggested Routing:\***

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

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

**Subject: Nasdaq National Market System (Nasdaq/NMS) Additions, Changes, and Deletions  
As of July 24, 1991**

As of July 24, 1991, the following 54 issues joined Nasdaq/NMS, bringing the total number of issues to 2,568:

Symbol	Company	Entry Date	SOES Execution Level
GNLB	Genelabs Technologies, Inc.	6/13/91	1000
GLYC	Glycomed Incorporated	6/13/91	1000
ADLI	American Dental Laser, Inc.	6/18/91	1000
AXXXR	Artel Communications Corporation (Rts)	6/18/91	500
BTGC	Bio-Technology General Corp.	6/18/91	1000
GKIE	General Kinetics Incorporated	6/18/91	1000
OSSI	Outback Steakhouse, Inc.	6/18/91	1000
SLFC	Shoreline Financial Corporation	6/18/91	200
USLD	U.S. Long Distance Corp.	6/18/91	1000
GHVI	Genesis Health Ventures, Inc.	6/19/91	1000
SDYNW	Stadyn, Inc. (Wts)	6/19/91	500
ICST	Integrated Circuit Systems, Inc.	6/20/91	500
MEDX	Medarex, Inc.	6/20/91	500
MEDXW	Medarex, Inc. (Wts)	6/20/91	500
TANK	Tanknology Environmental, Inc.	6/20/91	1000
CGRP	Coastal Healthcare Group, Inc.	6/21/91	1000
DVRY	DeVRY INC.	6/21/91	1000
IDXX	IDEXX Laboratories, Inc.	6/21/91	1000
RGIS	Regis Corporation	6/21/91	1000
APTV	Advanced Promotion Technologies, Inc.	6/26/91	1000
AESC	AES Corporation (The)	6/26/91	500
CLWY	Calloway's Nursery, Inc.	6/26/91	1000
RHBC	RehabCare Corporation	6/26/91	1000
CORR	COR Therapeutics, Inc.	6/27/91	200
RIDL	Riddell Sports Inc.	6/27/91	1000

<b>Symbol</b>	<b>Company</b>	<b>Entry Date</b>	<b>SOES Execution Level</b>
BERT	Bertucci's, Inc.	6/28/91	1000
CURE	Curative Technologies, Inc.	6/28/91	1000
FORT	FORTIS Corporation	6/28/91	1000
FNOW	Future Now, Inc. (The)	6/28/91	200
STFC	State Auto Financial Corporation	6/28/91	1000
KOKO	Central Indiana Bancorp	7/1/91	500
CNTOW	Centocor, Inc. (Wts)	7/2/91	500
FFSB	First Federal Savings Bank of New Smyrna	7/2/91	200
GENBB	Genessee Corporation (Cl B)	7/2/91	1000
MMSI	Merit Medical Systems, Inc.	7/2/91	1000
ASBK	Aspen Bancshares, Inc.	7/3/91	500
FSVBP	Franklin Savings Bank, FSB (Pfd)	7/3/91	500
ABDN	American Biodyne, Inc.	7/12/91	1000
IHOP	IHOP Corp.	7/12/91	1000
IWBK	InterWest Savings Bank	7/12/91	1000
SSPE	Software Spectrum, Inc.	7/12/91	1000
ALKS	Alkermes, Inc.	7/16/91	200
FTSP	First Team Sports, Inc.	7/16/91	1000
POPEZ	Pope Resources	7/16/91	500
STBS	Sierra Tahoe Bancorp	7/16/91	500
MCRN	Micronics Computers, Inc.	7/17/91	1000
OSTE	Osteotech, Inc.	7/17/91	1000
SNTV	Sun Television and Appliances, Inc.	7/17/91	1000
LSVI	Little Switzerland, Inc.	7/18/91	1000
TCSI	Teknekron Communications Systems, Inc.	7/18/91	1000
MERS	Meris Laboratories, Inc.	7/19/91	200
RELF	ReLife, Inc. (Cl A)	7/23/91	1000
IBCC	Interstate Bakeries Corporation	7/24/91	1000
VLTS	Video Lottery Technologies, Inc.	7/24/91	1000

**Nasdaq/NMS Symbol and/or Name Changes**

The following changes to the list of Nasdaq/NMS securities occurred since June 13, 1991:

<b>New/Old Symbol</b>	<b>New/Old Security</b>	<b>Date of Change</b>
VSLF/VSLF	Banyan Strategic Land Fund II/VMS Strategic Land Fund II	6/24/91
CABI/NCCB	California Bancshares, Inc./Northern California Community Bancorporation, Inc.	7/1/91
MDCO/MDCO	Marine Drilling Co./Marine Holding Co.	7/1/91
STUA/BNGO	Stuart Entertainment Inc./Bingo King, Inc.	7/1/91
VABF/VABF	Virginia Beach Federal Financial Corp./Virginia Beach Federal Savings Bank	7/1/91
PWBC/ECCB	PennFirst Bancorp, Inc./Ellwood Federal Savings Bank	7/2/91
STVI/STVI	STV Group, Inc./STV Engineers, Inc.	7/9/91
MCON/MCON	EMCON/EMCON Associates	7/15/91
ORBT/ORBT	Orbit International Corporation/Orbit Instrument Corporation	7/16/91
KMCI/KMCI	KMC Enterprises, Inc./Keegan Management Company	7/19/91

**Nasdaq/NMS Deletions**

<b>Symbol</b>	<b>Security</b>	<b>Date</b>
BGENP	Biogen, Inc. (Pfd)	6/14/91
ALOY	Alloy Computer Products, Inc.	6/17/91
AMKG	Amoskeag Bank Shares, Inc.	6/17/91
SSBA	Seacoast Savings Bank	6/17/91
CRBN	Calgon Carbon Corporation	6/21/91
CONT	Continental Medical Systems, Inc.	6/21/91
HMDY	Hemodynamics Incorporated	6/24/91
VIVI	Vivigen, Inc.	6/24/91
BLLQE	W. Bell & Co., Inc.	6/25/91
BZMT	BizMart, Inc.	6/25/91
UGNEW	Unigene Laboratories, Inc. (Cl A Wts)	6/26/91
COCA	CoCa Mines, Inc.	6/27/91
ENCC	Encore Computer Corporation	6/27/91
IBCAC	International Broadcasting Corporation	6/27/91
NMDY	Normandy Oil and Gas Company	6/27/91
STRC	Stratford American Corporation	6/27/91
USGL	U.S. Gold Corporation	6/27/91
COCAW	CoCa Mines, Inc. (Wts)	6/28/91
ECFC	Eastchester Financial Corporation	7/1/91
IUTL	Iowa Southern Inc.	7/1/91
MVBC	Mission-Valley Bancorp	7/1/91
WVTK	Wavetek Corporation	7/1/91
TOCRZ	Tocor, Inc.	7/2/91
VITA	Vitalink Communications Corporation	7/2/91
CCEAW	Coca-Cola Enterprises, Inc. (Wts)	7/3/91
HAML	Hamilton Oil Corporation	7/3/91
DRMD	Duramed Pharmaceutical, Inc.	7/5/91
MCOMQ	Midwest Communications Corporation	7/5/91
MRGQE	Mr. Gasket Company	7/8/91
BLAU	Barry Blau & Partners, Inc.	7/11/91
FAMS	Famous Restaurants Inc.	7/12/91
MSICE	Microscience International Corporation	7/12/91
USWNA	US West NewVector Group, Inc. (Cl A)	7/12/91
AMWI	Air Midwest, Inc.	7/15/91
ROYL	Royalpar Industries, Inc.	7/15/91
ROYLW	Royalpar Industries, Inc. (Wts)	7/15/91
FBRC	Fabricland, Inc.	7/17/91
BENHQ	BankEast Corporation	7/18/91
NUME	Numerica Financial Corporation	7/22/91
RGLD	Royal Gold, Inc.	7/22/91
SHRT	Shirt Shed, Inc. (The)	7/22/91
VITC	Victoria Creations, Inc.	7/22/91
VBMV	Viejo Bancorp	7/22/91
AXXXR	Artel Communications Corporation (Rts)	7/23/91
PFCP	Perpetual Financial Corporation	7/23/91
PFCPP	Perpetual Financial Corporation (Pfd)	7/23/91

Questions regarding this notice should be directed to Kit Milholland, Senior Analyst, Market Listing Qualifications, at (202) 728-8281. Questions pertaining to trade reporting rules should be directed to Bernard Thompson, Assistant Director, NASD Market Surveillance, at (301) 590-6436.

# Board Briefs

National Association of Securities Dealers, Inc.

August 1991

## Actions Taken by the NASD Board of Governors in July

■ **President's Message** — The competition for order flow ratcheted up another notch when the New York Stock Exchange (NYSE) announced extended trading hours and indicated that it would apply its Rule 390 off-board trading restrictions to these new hours. The NASD will ask the SEC to clarify, either through an interpretation or rule making, that such restrictions apply only during normal floor auction-market hours from 9:30 a.m. to 4 p.m.

For its part, the Board voted to oppose another NYSE proposal to open its market at 9 a.m., Eastern Time (ET). The Board, based on discussions with NASD members across the country, concluded that the half-hour earlier opening would reduce securities firms' ability to advise customers regarding investment decisions before the opening of trading and increase costs without significant benefit to investors. However, the Board also decided that if other major U.S. equity markets do begin to open at 9 a.m., The Nasdaq Stock Market<sup>SM</sup> would do likewise to avoid investor confusion.

The Nasdaq<sup>®</sup> market continued its strong performance through the second quarter, establishing a six-month record of 20.2 billion shares traded. The Nasdaq Composite Index reached an all-time high in April, and rose 27.3 percent from the beginning of the year to the end of June, double the increases registered by the Dow Jones Industrial, the Standard & Poor's 500, or the New York Stock Exchange Composite Indexes. This sterling performance resulted in a significant increase in investor interest and favorable media coverage about The Nasdaq Stock Market.

The recent surge in initial public offerings (IPOs) also has had a favorable impact on Nasdaq. Through the first six months of 1991, 101 IPOs worth a total of \$2.5 billion listed on Nasdaq. The median dollar amount of the offerings was \$20 million, the highest in the last decade. Although it is not anticipated that this pace will continue in the second half of 1991, the trend toward re-equitiza-

tion of corporate America during the first half of the 1990s is now well established.

Legislative activity continued in several areas. The Government Securities Act Amendments should receive favorable action in both the Senate and the House, after which any serious difficulties should be resolved in conference. The Senate bill would give the NASD sales-practice authority with SEC oversight and a Treasury veto authority over proposed rules. The NASD continues to oppose partnership roll-up legislation currently working its way through the Congress on the basis that the problems experienced by investors in this area have been or can be resolved through regulatory initiatives.

The House Telecommunications and Finance Subcommittee will soon hold a hearing on automated trading systems. The hearing will focus on the impact of these systems on established markets and the need for closer regulation. The NASD's position will be that these systems should be subject to effective market regulation in an open, competitive environment.

In June, the NASD International Markets Advisory Board held its first meeting in London, England with participants consisting primarily of CEOs of institutional investors from around the globe. The group's mandate is fourfold:

- To provide the NASD on a regular and timely basis with information on developments in the major international markets of the world.
- To offer advice to the NASD on the relative importance of these developments and to direct pertinent topics for action to the Board of the NASD.
- To assist the NASD in its objective of establishing itself as an integral part of a global trading market.
- To promote the image of the NASD in general, with particular reference to its role in the emerging and increasingly important marketplace for global securities.

In September, the NASD will host open-



house sessions for representatives of the International Organization of Securities Commissions (IOSCO) during IOSCO's Washington, D.C., meeting. These sessions will be held at the NASD's Washington headquarters and its administrative facility in Rockville, Maryland.

■ **Business Conduct Matters** — A proposal to narrow the definition of "executive representative" is going out for member vote. If approved, the NASD will file the rule change with the SEC for final approval. The existing definition has, in the past, led to the designation as executive representative of persons with limited authority in their firms. Under the proposal, the executive representative would have to be a member of senior management as well as a registered principal of the member.

At the same time the Board is narrowing the definition of executive representative, it supports an expansion of the role of direct participation program representatives and principals. The proposed change to Schedule C of the NASD By-Laws would permit these persons to sell partnership debt as well as equity interests in these direct participation programs.

The Board also voted to file with the SEC for approval additional changes to Schedule C affecting premembership standards. The proposals resulted from an NASD-wide review that concluded the premembership interview should be a "dynamic, probing exercise resulting in objective, informed decisions as to the actual qualifications of applicant firms for NASD membership." The proposed amendments codify recommended review deadlines and extend the application of any restrictive agreements to those persons or entities who take over the business of an NASD member firm.

Members are being asked to vote on a proposed clarification of the exemption from registration as a "branch office" contained in Article III, Section 27 of the NASD Rules of Fair Practice. Now, a location may be exempt if it is identified to the public only in telephone book listings, business cards, or stationery that also include the address and telephone number of the branch office or Office of Supervisory Jurisdiction (OSJ) responsible for supervising the nonbranch business location. Under the proposed amendments, members' sales literature may include the local address of a nonbranch business location. However, the literature also must identify the location and telephone num-

ber of the appropriate supervisory branch office or OSJ of the member.

In addition, members' advertisements may include a local telephone number and local post office box if the advertisements also identify the location and telephone number of the appropriate branch office or OSJ. These advertisements may not include the address of the nonbranch location. Another change would let a member use its main-office address and telephone number for reply purposes on sales literature, advertisements, business cards, and business stationery. However, the member listing such a central site must show that it has in place a significant and geographically dispersed supervisory system appropriate to its business. Furthermore, complaints coming through the central site would have to go on to the office or offices with jurisdiction over the nonbranch business location.

■ **Arbitration Issues** — The Board approved for filing with the SEC an amendment to the Arbitration Code to permit, with the consent of a claimant, the referral of cases to the self-regulatory organization that supervises the markets in which the transaction occurred. Under the proposal, the Arbitration staff would review the claim to determine if all transactions could be readily identified as arising out of another market. For claims with a mix of securities from different markets, the NASD would retain jurisdiction.

The timing of peremptory challenges would be clarified under a proposal approved by the Board for filing with the SEC. The proposal specifies that a peremptory challenge would have to be made within five days of notification of the selection of the panel of arbitrators or the selection of arbitrators to conduct prehearing conferences as well as settle unresolved issues in prehearing proceedings.

Another amendment would clarify an arbitration panel's authority to proceed with and dispose of a case if a party fails to appear not only at the initial hearing but also at any continuation of a hearing session.

Because of a recent spate of requests for prehearing conferences and document production in simplified arbitration cases, the Board approved a change to its simplified arbitration procedures for filing with the SEC. Current rules for simplified arbitration do not address such discovery procedures as prehearing conferences and document produc-

tion. The proposal would amend the provisions for simplified arbitration to refer parties to the provisions for prehearing proceedings, if a hearing arises from a simplified arbitration, to give the parties a time frame to raise production-of-documents disputes with the selected arbitrator in the absence of a hearing and to set a time frame when no hearing will be held to expedite simplified cases.

Another proposal would amend the Code of Arbitration Procedures by permitting the Director of Arbitration to appoint one or more arbitrators where a counterclaim is raised in the amounts of \$10,000 to \$30,000. Currently, the Code provides for the appointment of a panel of three arbitrators if the respondent files a related counterclaim exceeding \$10,000.

The Board also approved for filing with the SEC a proposal concerning the accrual of interest in arbitration awards. Under the amendment, all money awards would have to be paid within 30 days of receipt unless a motion to vacate has been filed with a court of competent jurisdiction. In addition, the award would bear interest from the date of the award unless it's paid within 30 days, the motion to vacate is denied, or the arbitrator specifies something else in the award. The interest rate would be the legal one, prevailing in the state where the award was rendered, or a rate set by the arbitrator.

■ **Market Operation Issues** — The Board approved for filing with the SEC an amendment to Schedule G regarding after-hours trade reporting in listed securities. The change would extend the trade-reporting hours for NASD members trading listed securities to conform to those trade-reporting hours of the Consolidated Tape Association. The Board believes this modification is responsive to members wishing to trade report after hours, enhances revenue potential, and facilitates regulatory reporting and oversight for those trades.

In another Schedule G action, the Board approved amendments to Schedule G to require that members attach a special identifier to trade reports for agency cross transactions executed after 4 p.m. ET at prices that reflect an average weighting or other special pricing formula rather than a current negotiated price. For example, a trade may be negotiated during the trading day for an execution after 4:30 p.m. at a price equal to the average of the high and low price during the day. Certain institutions find such a trade attractive because it ensures

that they will not purchase at the high for the day or sell at the low.

Trade reports such as these, although made in a timely manner, may not relate to the closing price on the exchange and, without an identifier to describe their specialized nature, could cause confusion. To reduce possible confusion and until a special identifier is approved, the Board said that using the .SLD (late-trade) identifier to denote these trades in the interim will not violate the Rules of Fair Practice.

The Board authorized filing with the SEC amendments to the NASD's Public Disclosure Policy to implement an 800 Number Service Plan. The proposal will consist of the following:

- The plan will maintain the current disclosure program except that requests will be received through the 800 number rather than by written request on the present Information Request Form.
- The level of disclosure to callers through the 800 number will remain as it is under the current Public Disclosure Program with disclosure being made of final actions taken by regulatory authorities and criminal convictions.
- The plan will provide the identification of the requestor to the associated person if reportable information is disclosed. The member will receive a monthly report of requests received on the firm or on associated persons, along with the identification of the requestor, if the plan provides reportable information on an associated person.

Under a proposal approved by the Board for filing with the SEC, current SelectNet<sup>SM</sup> operational rules would become permanent. The current rules, approved on a temporary basis until November 20, 1991, are:

- SelectNet will be available only for agency or principal orders that are greater than the SOES tier size.
- Market makers receiving orders through SelectNet will not have to execute partial orders, but may execute partials at their discretion.

- In the event of an emergency or during extraordinary market conditions, either one or both of the aforementioned conditions may be eliminated.

The Board also approved a regulatory filing with the SEC authorizing the introduction of operational modifications to SelectNet. These changes would provide for the operation of SelectNet during the operating hours of the Nasdaq International<sup>SM</sup> service and the period when neither the

international nor domestic quotation service is operational. The changes also include operating capabilities following the close of Nasdaq at 4 p.m. and extending until 5:15 p.m. This will enable the Automated Confirmation Transaction (ACT) service to provide daily recaps to participants in a way consistent with their operational requirements.

Responding to the possible effect of the SEC's recently proposed "penny stock" disclosure rules, the Board approved amendments for filing with the SEC to Schedule D of the NASD By-Laws and to the Nasdaq Transaction Reporting Plan to require 90-second reporting of transactions in regular Nasdaq securities similar to current trade reporting requirements in Nasdaq National Market System (Nasdaq/NMS<sup>®</sup>) issues.

Such reporting would make it more likely that these securities would be exempted from the SEC's proposed definition of a penny stock. The Board approved another measure for filing with the SEC that would mandate the display of 500-share size for regular Nasdaq issues similar to current requirements for display of size in regular Nasdaq issues traded in SOES. The proposal provides exception authority for certain high-priced securities or unique circumstances.

In other action, the Board approved a concept for listing on Nasdaq index warrants on the Nasdaq-100 Index<sup>®</sup> and other indexes of domestic and foreign securities. The measure must now be filed with the SEC for approval. The listing standards and other regulatory requirements for index warrants include:

- Minimum public distribution of one million warrants.
- Minimum of 400 public holders.
- Aggregate market value of at least \$7 million.
- Issuer assets in excess of \$100 million.
- Terms of index warrants limited to one to five years.

- Development and use of options suitability criteria and account-opening procedures for index warrant customers.

- Dissemination of a short generic disclosure statement discussing the unique characteristics and risks of index warrants to all customers interested in trading domestic index warrants.

■ **Business Practice Developments** — The Board received the Report of the Payment for Order Flow Committee and referred it to the appropriate committees for them to review and act on the report's recommendations as well as authorized the public release of the report. The Board established the committee in 1990 to examine cash payments and other practices in the securities industry that affect the routing by brokers of streams of small orders to dealers for execution. In its report, the Committee concluded that cash payments for order flow are not sufficiently different from other inducements used by exchanges and competitive dealers to attract order flow to justify separate regulation. According to the report, like most forms of inducements, cash payments enhance competition for execution services and figure in the method of operation of exchanges, broker-dealers, and clearing firms.

The Board also approved filing a letter with the SEC requesting amendments to its Form ADV (the Uniform Application for Investment Adviser Registration) to require additional and more specific disclosure of soft-dollar payment arrangements. In the Board's view, full disclosure of payment practices would highlight abuses or at least call into question those practices that stretch the limits of the SEC's 1986 interpretation on soft-dollar service arrangements. The Board's recommendation is that money managers provide an annual accounting to clients and to the SEC of the dollar amounts and the specific services and arrangements covered by soft-dollar practices.