

NASD

NOTICE TO MEMBERS: 76-7
Notices to Members should be
retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

February 6, 1976

TO: All NASD Members

RE: J. S. Roberts and Company
211 Elmer Street
Westfield, New Jersey 07091

ATTN: Operations Officer, Cashier, Fail-Control Department

On Tuesday, February 3, 1976, a temporary receiver was appointed for the above captioned firm. Members may use the "immediate close-out" procedure as provided in Section 59 (i) of the NASD's Uniform Practice Code to close-out open OTC contracts.*

Accordingly, questions regarding the firm should be directed to:

Temporary Receiver

Mr. Michael M. Marx
Suite 800, Farragut Building
900 Seventeenth Street, NW
Washington, DC 20006
Telephone (202) 223-8400

* This notice which applies to all NASD Members, has been issued by National Clearing Corporation. The Board of Directors of NCC interprets and enforces the provisions of the NASD's Uniform Practice Code.

NASD

NOTICE TO MEMBERS: 76-8
Notices to Members should be
retained for future reference.
(Corrected Copy)*

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

February 10, 1976

I M P O R T A N T

OPTIONS ON NASDAQ PROPOSAL

- TO: All NASD Members and Interested Persons
- RE:
1. Proposed New Article III, Section 36 of the Rules of Fair Practice Concerning Transactions in Options;
 2. Proposed Appendix E of Article III, Section 36 of the Rules of Fair Practice Concerning Transactions in NASDAQ Options;
 3. Proposed Amendment to Schedule "D" of Article XVI, Section 3 of the By-Laws Concerning NASDAQ System Rules and Regulations for NASDAQ Options;
 4. Proposed Amendments to Schedule "C" of Article I, Section 2(d) of the By-Laws Concerning Registration of and Qualifications for Registered Options Principals;
 5. Proposed Amendment to Article III, Section 30 of the Rules of Fair Practice Concerning Margin Requirements for NASDAQ Options.

The Board of Governors of the Association has proposed a new Rule of Fair Practice, an appendix thereto, a proposed amendment to an existing Rule of Fair Practice and proposed amendments to two (2) Schedules of the Association's By-Laws which would enable the display of options quotations on the NASDAQ System and provide for the regulation of a member's transactions in options.

These proposals are being published by the Board at this time to provide members and other interested persons an opportunity to comment thereon. Comments on these proposals must be submitted in writing and be received by the Association not later than March 11, 1976, in order to receive consideration. After the comment period has expired, the proposals and the comments thereon will be reviewed by the Board's Options Committee and the Board of Governors itself. Thereafter, the proposed rules and various rule amendments will be submitted to the members for vote. If approved, the proposed rules and various rule amendments must be filed with and approved by the Securities and Exchange Commission pursuant to Section 19(b) of the Securities Exchange Act of 1934 prior to becoming effective.

Background and Explanation of Proposed Plan for Options on NASDAQ

On September 27, 1975, the Board authorized an in-depth study of a proposal submitted to it by its Options Committee to develop a system utilizing the NASDAQ facilities for display of quotations in options on qualified listed and over-the-counter securities. As part of this study, the staff undertook a survey of selected members to determine the extent of interest in, and the potential for, a NASDAQ options display system. Approximately 78 percent of the responding members believe that there exists a sufficient potential for the Association to continue exploring the development of a NASDAQ options display system. Based on this favorable response and on a favorable preliminary feasibility study, the Options Committee presented to the Board the enclosed rule proposals and amendments.

The Board's proposed plan contemplates that the NASDAQ System would be utilized for the display of quotations in certain options issued by the Options Clearing Corporation ("Clearing Corporation"). Subject to the authorization by the Association, the options to be displayed will be limited to options in underlying securities selected in accordance with the guidelines and requirements of the Association, the Clearing Corporation and the Securities and Exchange Commission. The criteria will be virtually identical to that utilized in connection with the underlying securities of options traded on the various options exchanges. Initially, options quoted on NASDAQ pursuant to this plan will probably be limited to over-the-counter underlying securities. Illustrative of the types of over-the-counter underlying securities which will initially be the subject of options quotations are the following:

- 1) American Express Company
- 2) Anheuser Busch Inc.
- 3) Bank America Corporation
- 4) Combine Insurance Company of America
- 5) Connecticut General Insurance Company
- 6) Franklin Life Insurance Company
- 7) Hoover Company
- 8) Liberty National Life
- 9) Security Pacific Corporation
- 10) Tampax, Inc.

It should be noted, however, that as of this writing no firm decisions have been made as to exactly what underlying securities will initially be the subject of NASDAQ options quotations and the list is illustrative only. Quotations for these options would only be permitted to be entered on the NASDAQ System by registered options market makers who would have to meet certain qualifications.

The terms of these options would be standardized as to exercise price and expiration date in accordance with the by-laws and rules of the Clearing Corporation. Accordingly, settlement and clearance would be accomplished through the facilities of the Clearing Corporation. Since trade comparison is not a function of the Clearing Corporation, that function would be accomplished for the Association by a third party processor.^{1/}

The by-laws and rules of the Clearing Corporation provide that the Clearing Corporation may issue options for trading on facilities operated by, and perform options clearing functions for, those organizations which are participant owners of the Options Clearing Corporation.^{2/} Thus, a necessary aspect of the NASDAQ options proposal is that the Association become a participant owner of the Clearing Corporation. Preliminary discussions have been held with the Clearing Corporation to achieve that status.

^{1/} The third party processor is presently undesignated.

^{2/} Existing participant owners are the Chicago Board Options Exchange, the American Stock Exchange, Inc., and the PBW Stock Exchange. The Pacific Stock Exchange will soon become a participant owner. These exchanges will be referred to hereafter as the options exchanges.

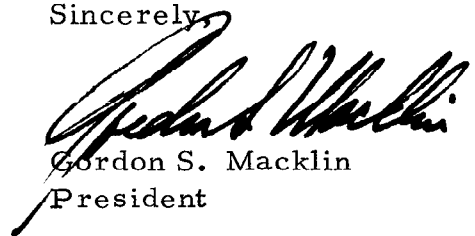
As discussions progress with respect to the Association becoming a participant owner of the Clearing Corporation and the services of the third party processor are acquired, a detailed plan for the trading of NASDAQ options will be formulated. This plan, in conjunction with the enclosed proposed rules, will be filed with the Securities and Exchange Commission pursuant to Rule 19(b) under the Securities Exchange Act of 1934, as amended.

In reviewing and commenting on the enclosed package of proposed rules and rule amendments, commentators should be mindful of the manner in which the proposed rules were formulated. The Options Committee's intent was to have an option contract subject to NASDAQ quotations that was comparable in all respects to the exchange listed options with the exception that there would be no requirement that the underlying security be listed on an exchange, though there would be no prohibition to it being so listed. In developing the rules, the Committee sought to provide for uniform and equal regulation of options trading, irrespective of the marketplace in which the option is traded, hence, commentators will find these proposed rules comparable to provisions presently embodied in exchange options trading systems.

A section-by-section explanation of the proposed rules and amendments commences on the following page.

All comments should be addressed to Mr. Thomas D. Walsh, Secretary, National Association of Securities Dealers, Inc., and received by the Association by March 11, 1976 in order to receive consideration. All comments will be available for inspection. Questions should be addressed to Mr. David Parina, Assistant Director, Department of Regulatory Policy and Procedures (202-833-7247).

Sincerely,



Gordon S. Macklin
President

EXPLANATION OF PROPOSALS

Proposed Article III, Section 36 of Rules of Fair Practice

Proposed Section 36 would be a new Rule of Fair Practice of the Association. Subsection (a) of the proposed rule would prohibit a member or a person associated with a member from effecting transactions in options if such were inconsistent with the rules, regulations and procedures adopted by the Board of Governors pursuant to authority granted to it by subsection (b) of proposed Section 36.

Proposed subsection (b) would delegate to the Board authority to adopt such rules, regulations and procedures for the governance of options trading as may, from time to time, be deemed by the Board to be necessary for the protection of investors and in the public interest, among other criteria stated therein. The areas in which the Board would be authorized to promulgate rules are set forth in subsection (b). The authority thereby granted to the Board would enable it to develop a regulatory program consistent with existing options trading plans and all SEC requirements. Further, it would authorize the Board to adopt rules concerning traditional over-the-counter options. No rules in respect to such are proposed herein.

Subsection (c) would provide for the adoption by the Board of an Appendix E to the Rules of Fair Practice. Appendix E which would contain the rules authorized by subsection (b). Further, subsection (c) would authorize the Board to adopt and amend the provisions of Appendix E without recourse to membership for approval.

Subsection (d) would define the term "option" for purposes of subsections (a), (b) and (c) of proposed Section 36. The definition would include within the meaning of the term conventional or traditional over-the-counter options, as well as options issued by or subject to issuance by the Options Clearing Corporation. This definition should be studied by all members and should be reviewed in conjunction with the proposed provisions of Appendix E, which accompany this notice.

Appendix E

NASDAQ Options Rules

Subsection (a) of Section 1 would specify which options transactions would be subject to the provisions of Appendix E. Specifically, all options

transactions in options issued by the Options Clearing Corporation and displayed on the NASDAQ System, would be subject to Appendix E.

Subsection (b) specifies the meaning of local time as used throughout Appendix E. It should be noted that all times referred to in Appendix E are consistent with and conform to the times established by the Options Clearing Corporation. They are therefore consistent with times specified in comparable situations on the various options exchanges.^{1/}

Section 2 would contain the definitions of terms used throughout Appendix E. The definitions are self-explanatory. Members should be aware that the terms opening purchase transactions, opening writing transactions, closing sale transactions, closing purchase transaction which are defined in paragraphs (s), (t), (u) and (v), respectively, have no relationship to the first and last trade of a particular trading day in options. Rather those terms relate solely to the nature of an option position created or liquidated by a transaction for a particular account and are consistent with the use and definition of those terms on the various exchanges trading options contracts. The same applies to many of the other definitions found in Section 2.

Section 3(a) establishes position limits which would prohibit any member, associated person of such member or public customer from creating positions in any series or class of options through opening transactions (purchase or writing) in excess of limits established from time to time by the Association. These limits would be published in a schedule to be appended to these rules. The limits, yet to be established, would be entirely consistent with the limitations imposed by the options exchanges. Subsection (b) would exempt registered NASDAQ options market makers from the provisions set forth in subsection (a).

The regulatory objective of Section 3 is to prevent any person or group of persons from achieving a position in options which would create the potential for manipulation in a particular class or series of options, or in the underlying security. Further, due to the increased interest in standardized options and the presence of secondary markets for them, it is believed that without these regulatory safeguards the possibility for manipulation by means of "cornering the market" in a particular class or series of options would be greater.

Section 4 would establish a limitation on the number of long positions which may be exercised within five consecutive business days by a member, person associated with a member or public customer. These limits would be published in a schedule to be appended to Appendix E and they would be comparable to limitations on the options exchanges. Subsection (a) would provide

^{1/} The Chicago Board Options Exchange, American Stock Exchange, Inc., PBW Stock Exchange and the Pacific Stock Exchange are collectively referred to herein as the options exchanges.

for exceptions to these limitations. Subsection (b) would provide an exemption for a registered NASDAQ options market maker from the subsection (a) limitations. The regulatory objective of exercise limitations is to assist in the prevention of price manipulations of the underlying security by restricting the number of options which may be exercised in a short period of time. These limitations should minimize the effect exercises may have on the market price of the underlying security.

Section 5 would establish reporting requirements relative to option positions maintained by a member, associated person of a member and public customer.

Subsection (a) would require a member to file a report with the Association containing information regarding each account maintaining positions in excess of a number established by the Association. The report would be required to be filed not later than the close of business on the next business day on which the transaction or transactions caused the account to be in excess of the established standard. The objective of this provision is to enable the Association to monitor situations where excess positions have been acquired and to monitor the liquidation thereof pursuant to Section 9 of the proposed amendments to Schedule D, also submitted herewith.

Subsection (b) would establish as a duty of each member the prompt reporting to the Association of any case in which the member has knowledge that a person or persons have exceeded or are attempting to exceed the position or exercise limits established pursuant to Sections 3 and 4, respectively.

Subsection (c) would require the member to report monthly uncovered short positions to the Association. The regulatory objective of this provision is to monitor the financial exposure uncovered positions present to the member, its clearing member and the Options Clearing Corporation. Appropriate regulatory action could, therefore, be taken as required.

Subsection (d) specifies that members determined to be subject to the reporting requirements of Section 5, as well as all members who effect NASDAQ option transactions for their own account amounting to five or more contracts of the same class during any trading session, shall report on a form prescribed by the Association such transactions on a basis and frequency to be established for such member by the Association. This provision allows for a flexibility in the Association as to reporting frequency and also authorizes for regulatory purposes the close monitoring of situations where a member executes the stated number of transactions in its own account in the same class of options during the same trading session.

Section 6 would prescribe the nature of information which would be required to be on the confirmation to be furnished by a member to a customer relative to an options transaction. These provisions are comparable to the requirements concerning general securities transactions. However, due to the unique features of options, some additional information is required.

Section 7 would require that a current prospectus of the Options Clearing Corporation be delivered to a customer prior to the time his account is opened for options trading. If the Options Clearing Corporation issues a new prospectus or supplement to the current prospectus, it must be distributed to each customer maintaining an options account either at the time such material is issued or not later than the time a trade is entered on behalf of a customer maintaining an options account. The regulatory objective intended by this provision is to make the investor aware of the business and financial condition of the issuer, the nature of the options which are the subject of the transaction, and the inherent risks attendant to the purchase and sale of options.

Section 8 would prohibit a member from entering into an option contract with an issuer, control person or affiliate of an issuer, among others, if the option transaction of that issuer would involve the underlying security of the issuer. The conflict created by such a situation is apparent and, hence, should be prohibited.

Section 9 prohibits any member from accepting for the purpose of covering a short position, satisfying margin requirements or complying with an exercise notice shares of underlying securities which may not be sold by the holder thereof except upon registration pursuant to the provisions of the Securities Act of 1933 or pursuant to SEC rules promulgated under the Securities Act of 1933. This prohibition is necessitated by the obvious impediment to full transferability of the securities in question. An investor when investing in an option bargains in good faith that the underlying securities are fully transferable and not subject to restrictions.

Section 10 would require a member to send a monthly statement of account to each public customer having a transaction in, or an entry with respect to, an option account that occurred in the previous month. Further, this section would require that a quarterly statement of account be forwarded to each public customer having an open position or money balance in an option account.

Section 11(a) would prohibit a member or person associated with a member from accepting an order from a public customer for the purchase

or writing (sale) of an option contract unless the account of the public customer has been approved in a manner consistent with the provisions of Section 11(b) and 11(c) for options transactions. Thus, notwithstanding that a customer has an open account with a member, options transactions could not be effected therein until specific approval for such had been granted by the member being mindful of the provisions of subsections (b) and (c) of Section 11 which require, among other things, that such approval be by a registered options principal.

Subsection (b) would require that prior to approval of public customer's account for options transactions, a member and persons associated with a member shall exercise due diligence to determine the essential facts relative to the financial situation and investment objectives of the public customer. The rule would require that a registered options principal, who is personally informed of such facts, approve in writing the public customer's account for the trading of options. The rule would provide that in the case of a branch office the public customer's account may be approved by the manager of the office, with the stipulation that such account must be approved by a registered options principal within seven business days.

Subsection (c) further requires that prior to approving the account of a public customer for options transaction, the member must obtain a written agreement from the customer which states that the public customer is aware of and agrees to be bound by, the rules and by-laws of the Association and the Options Clearing Corporation. The regulatory intent of this provision is to provide the Association with the means by which the position and exercise limits may be applied and enforced against the account of the public customer. This provision is not intended to provide the Association with disciplinary authority over the account of a public customer but would permit it to, for instance, require the liquidation of excess positions.

Section 12 would prohibit a member or person associated with a member from exercising discretionary authority in the account of a public customer unless the provisions of Article III, Section 15 of the Rules of Fair Practice relative to discretionary accounts and subsection (a)(1) through (a)(3) of Section 12 have been complied with.

Subsection (a)(1) would require the member to obtain written authorization from a public customer specifically authorizing discretionary options transactions in that customer's account. Subsection (a)(2) would require that the account of the public customer must be accepted for the member as a discretionary account by a registered options principal and subsection (a)(3) would require a registered options principal to approve every discretionary order for options transactions. The rules would provide, in the case of a branch office, a discretionary option order may be

approved and initialed on the date of entry by the branch office manager, provided however, that the approval is subsequently approved by a registered options principal within five business days. The requirements of this subsection would not apply to the use of discretion in respect to the price or time at which an order given by a customer for the purchase or sale of a definite number of options contracts is executed. The Board believes that the risks inherent in options trading are such that discretionary trading in options transactions should be closely monitored by members and a specific obligation placed upon management to affirmatively approve each discretionary order entered on behalf of a customer by its representatives.

Subsection (b) would require a member to make and maintain a record of each discretionary options transaction which record would reflect the fact that discretionary authority was exercised and other pertinent data.

It should be emphasized that the provisions of proposed Section 12 would be in addition to the existing provisions of Article III, Section 15 of the Rules of Fair Practice regulating discretionary accounts.

Section 13 would establish suitability requirements in respect to a member's recommendation to a public customer for the purchase or sale of an option. These provisions are more stringent than existing requirements and they should be closely studied by commentators. Subsection (a) would require the member to make a reasonable inquiry as to a public customer's investment objectives, financial situation and needs and any other information deemed necessary to assure that any recommended options transaction would not be unsuitable for such public customer.

Subsection (b) would prohibit a member from effecting on behalf of a public customer an uncovered writing transaction unless the member has had reason to believe, based upon reasonable and diligent inquiry, that such customer is capable of evaluating the additional risks attendant to such transaction and that such customer has the financial capability to meet the potential financial requirements related to such a contract (margin calls).

Section 14 would require a registered options principal of the member to supervise the accounts of public customers and all orders in such accounts related to options transactions. The registered options principal would, therefore, be charged with the responsibility of closely monitoring all of a member's options business.

Section 15 would prescribe that violations of the rules, regulations or by-laws of the Options Clearing Corporation by a member or person associated with a member engaged in NASDAQ options transactions could be deemed conduct inconsistent with the just and equitable principles of trade and a violation of Article III, Section 1 of the Association's Rules of Fair Practice. Thus, members engaging in NASDAQ options transactions would be obligated to adhere to applicable Options Clearing Corporation rules.

Section 16 would provide that the provisions of certain sections under Article III of the Rules of Fair Practice would be specifically applicable to options transactions. It also recognizes that certain of those Rules do not and should not apply. To reinforce the applicability of the stated rules to NASDAQ options, Section 16 also specifies that whenever the term "security" is used in the delineated sections, such should also be construed to mean NASDAQ options.

Proposed Part X
to Schedule D of
Article XVI of the By-Laws

Schedule D of the By-Laws would be amended by adding a new Part X which would embody systems requirements as they pertain to the display of options on the NASDAQ system.

Section 1 would define "registered NASDAQ options market maker" and "authorized underlying security." The qualifications for a registered NASDAQ options market maker and requirements for an authorized underlying security are detailed in Sections 3 and 6, respectively.

Section 2 would establish the level of services available for options displayed on the NASDAQ System. Subsection (a) would provide that a Level I subscriber would have access to representative bid and ask quotations for each NASDAQ option on which a minimum of two registered NASDAQ options market makers are currently quoting the option. Therefore, in the event only one market maker would be entering quotations for a specific option, the NASDAQ System would not release quotations for that option to Level I subscribers.

Subsection (b) would provide that a Level II subscriber would have access to quotations currently entered by all registered NASDAQ options market makers, irrespective of the number of market makers.

Subsection (c) provides that a Level III subscriber would be able to enter quotations into the NASDAQ System for NASDAQ options upon approval by the Association. Level III subscribers would also have access to all option quotations entered into the NASDAQ System.

The provisions of Section 2 are consistent with comparable provisions presently contained in Schedule D relative to general securities quotations. The operation of the system as it relates to NASDAQ options will, therefore, be essentially the same as for general securities. Last sale reporting would, however, be required. Such will be described below.

Section 3 would establish registration, qualification, and various other requirements applicable to a registered NASDAQ options market maker. Subsection (a) would require a member to submit to the Association an application for registration as a registered NASDAQ options market maker. The application would detail financial and other information deemed necessary by the Association to a determination of whether the member meets the qualifications of a registered NASDAQ options market maker.

Subsection (b) would establish minimum net capital requirement for each registered NASDAQ options market maker of \$100,000.

Subsection (c) would require each registered NASDAQ options market maker either to be a clearing member of the Options Clearing Corporation or to establish a clearing arrangement with a clearing member of the Options Clearing Corporation. This is essential since Options Clearing Corporation requires one day settlement on all contracts. They must be fully settled with OCC by 9:00 A.M. Central time on the day following the date of the trade.

Subsection (d) would require each registered NASDAQ options market maker to have a registered options principal. The duties of a registered options principal are specified in amendments to Schedule C of the By-Laws, discussed hereafter.

Subsection (e) would relate to the character of options quotations to be displayed on the NASDAQ System. Subsection (e)(1) would require all bids or offers for options by the Clearing Corporation displayed on the NASDAQ System to be for at least one NASDAQ option contract representing the minimum unit of trading, i. e. one option covering 100 shares of the underlying security.

Subsection (e)(2) would require all bids or offers for options issued by the Clearing Corporation displayed on the NASDAQ System to be expressed in terms of dollars per share of the underlying security. Subsection (e)(2) would further provide bids and offers for an option contract subject to an adjusted unit of trading to be expressed in terms of dollars per the appropriate financial part of the total securities constituting the adjusted unit of trading.

Subsection (e)(3) would require a registered options market maker who receives a buy or sell order to execute a trade for at least one option contract at the quotation he has displayed on NASDAQ at the time of receipt of the order. He would, therefore, be committed to the quotation he has displayed on the screen to the extent of at least one contract at the quoted price.

Subsection (f) would establish a real time trade reporting requirement for transactions in NASDAQ displayed options executed by a registered NASDAQ options market maker. Real time trade reporting will be new to the NASDAQ system. Such reporting is presently being effected by the various other exchanges as part of the program of the Options Price Reporting Authority (OPRA). The Association's program would conform therewith.

Subsection (f)(1)a. would require a registered NASDAQ options market maker to transmit a last sale report through the NASDAQ Transaction Reporting System within one and one-half minutes after execution of a purchase or sale (writing) transaction in a NASDAQ option. This is consistent with OPRA's requirements.

Subsection (f)(1)b. would require each option transaction to be reported to the NASDAQ Transaction Reporting System to reflect the recorded price on the trade ticket exclusive of commissions, taxes or other charges.

Subsection (f)(1)c. would provide that an options transaction between two registered NASDAQ options market makers be reported to the NASDAQ Transaction Reporting System by the registered NASDAQ options market maker representing the sell (writing) side.

Subsection (f)(1)d. would exempt a registered NASDAQ options market maker from reporting options transactions executed on an exchange. The reason for this is obvious. They would have been reported on the exchange where executed.

In addition to real time transaction reporting, other reports will be required. Subsection (f)(2) provides that a registered NASDAQ options market maker shall report weekly and/or monthly such data on NASDAQ options quoted in the system as the Board of Governors may require. The Board would thus have the authority to order additional reports as necessary. Subsection (f)(3) would require that tickets on transactions in NASDAQ options be time stamped at the time of execution.

Subsection (g) would require a registered NASDAQ options market maker to be open and active between 10:00 a.m. and 4:00 p.m. Eastern

time. A registered NASDAQ options market maker would be able to enter quotations into the NASDAQ System outside the normal business hours providing the system is operating and would be permitted to execute transactions. Those transactions would be considered to be next day transactions for settlement purposes, however.

Subsection (h) provides that the registration of a NASDAQ options market maker would become effective on the second business day following receipt of its registration application by the Association unless the applicant is notified by the Association its registration is not effective. In the event said registration is for a NASDAQ option not authorized by the Association, the registered NASDAQ option market maker's registration would not become effective until the start of business on the first day such NASDAQ option is authorized for quotation by the Association.

Subsection (i) would establish withdrawal procedures for the removal of quotations by a registered NASDAQ options market maker from the NASDAQ System. Subsection (i)(1) would permit a registered NASDAQ options market maker to suspend or remove its quotations from the NASDAQ System for a specific period of time upon demonstrating to the Association, and receiving its approval, that circumstances warrant suspension or withdrawal of quotations.

Subsection (i)(2) would prohibit a registered NASDAQ options market maker who has withdrawn its quotations from re-entering quotations in the same day without receiving prior approval by the Association and subsection (i)(3) would terminate the registration of a registered NASDAQ options market maker for each NASDAQ option wherein the market maker withdrew quotations, without the prior approval of the Association, at or before the daily close of the system.

Subsection (i)(4) would permit, subject to certain restrictions, a registered NASDAQ options market maker, upon application to and approval by the Association, to resume display of quotations on the NASDAQ System for the NASDAQ option in respect to which such market maker's registration was terminated. The registered NASDAQ options market maker would not, however, be permitted to resume quotations in the series of options for which its registration had been terminated until after one-half of the time remaining to the expiration date of that series of options has expired. This subsection further provides that this period could not be less than one week nor greater than one month.

Subsection (j) would permit a registered NASDAQ options market maker to withdraw from the NASDAQ System and voluntarily terminate its registration as to any series of options by withdrawing quotations from the NASDAQ System.

Subsection (k) would grant authority to the Association to suspend and/or terminate the registration of a NASDAQ options market maker. Subsection (k)(1) would authorize the Association, upon notice, to suspend a registered NASDAQ options market maker's authority to enter quotations into the NASDAQ System for up to two consecutive business days where it is deemed extraordinary circumstances exist and where the Association believed such action is required to promote just and equitable principles of trade. The period of suspension could be extended by the Association for successive two business day periods, as necessary, if the Association is engaged in an investigation of the registered options market maker's activities in connection with the suspension of quotations and such has not been completed. These provisions are consistent with current provisions of Schedule D relating to general securities.

Subsection (k)(2) would authorize the Association pursuant to the Association's Code of Procedures for Handling Trade Practice Complaints to suspend or terminate the registration of a registered NASDAQ options market maker in one or more NASDAQ options for violation of any applicable Rules of Fair Practice or rule contained in Schedule D.

Section 4 provides the Association may approve for display on the NASDAQ System, only option contracts on underlying securities which have been selected as meeting the criteria specified in Section 6. Section 4 further specifies that such contracts shall be designated as to type of option, the underlying stock, the expiration month and the exercise price.

Section 5 would authorize the Association to establish a series of options open for trading after a class of options has been approved for display on NASDAQ. Subsection (a) would authorize the establishment of the expiration month and exercise price of option contracts included in each series of a class of options that have been approved. When a class of options is commenced for display, a series of options having three different expiration months would normally be opened. The expiration cycles would run in 3, 6 and 9 month periods after a given series is open. Pursuant to the provisions of this section, it is presently contemplated that the striking prices of the NASDAQ options would be fixed at 5 point intervals for underlying securities trading below \$50; 10 point intervals for underlying securities trading between \$50 and \$100; and 20 point intervals for underlying securities trading above \$100. New series of options may be opened with the same expiration dates but with different striking prices to reflect price movements of the underlying security. The striking prices of such options will be set at prices which are reasonably close to prices of the underlying security at the time the series is opened for trading. This procedure and the establishment of striking prices conforms to practices followed by the options exchanges.

Subsection (b) would restrict the trading in a series of NASDAQ options on the business day prior to expiration date for the particular series. No transaction would be permitted after 3:00 p.m. Eastern time on such date.

Subsection (c) would provide that adjustments in options which may be due to acquisitions, mergers or stock dividends will be made by the Options Clearing Corporation in accordance with its rules. When so adjusted, this subsection provides that the adjusted unit of trading and the adjusted exercise price would be applicable with respect to all subsequent transactions in that series of options.

Section 6 would establish the qualifications for authorized underlying securities that would be eligible to be subject to NASDAQ options. Subsection (a) would provide that only the Association will determine the authorized underlying securities for NASDAQ options in accordance with the Association's agreement with the Options Clearing Corporation, and Section 6, as to specific criteria which must be met. The criteria set forth in subsections (a)(1) through (5) of Section 6 are self-explanatory.

Subsection (b) would establish additional criteria that must be met by an underlying security in order to qualify for NASDAQ options. They also are self-explanatory.

Subsection (c) would enable flexibility for those occasions which may arise from time to time that justify an exception to one or more of the criteria. Thus, in an exceptional situation an underlying security which did not meet in detail each and every one of the listed criteria could become an authorized underlying security. This subsection further provides that a security which initially meets the criteria will not necessarily be eliminated from the authorized list should they subsequently cease to meet one or more of the stated criteria.

Section 7 would establish the unit of trading for each series of options displayed on NASDAQ as that unit of trading established by the Options Clearing Corporation pursuant to its rules. The unit of trading under OCC's rules has been established as one contract representing 100 shares of the underlying security for all series of options.

Section 8 relates to the suspension of an authorized underlying security and/or its options from display on the NASDAQ System. Subsection (a) would specify that when the Association deems such necessary and appropriate for investor protection and the prevention of fraud and manipulation, among other things specified therein, including the occurrence of one or more of the events specified in subsection (b), it may suspend an authorized underlying security and/or NASDAQ option from quotation on the NASDAQ System.

Subsection (b) sets forth certain events the occurrence of which may subject an authorized underlying security and/or its option to suspension from the NASDAQ System.

Subsection (c) would allow for exceptions to the application of the criteria set forth in subsections (a) and (b) if such were considered necessary and appropriate in the public interest.

Section 9 would provide authority to require a person or a group of persons acting in concert, who hold or control, or who are obligated with respect to an aggregate position in options which exceeds the position limits established by the Association pursuant to Section 3, Appendix E, to Section 36 of the Rules of Fair Practice to liquidate that portion of the position in excess of such limitations. Subsection (a) would specify that upon a determination that a member has an excess position, the Association shall orally notify such member that it holds a position in options which exceeds the limits established pursuant to Section 3 and advise the member that pursuant to these rules the member has 7 calendar days from the date of such oral notification to reduce his excess positions in options to the extent necessary to eliminate the excess position. This subsection specifies that this notification shall be confirmed forthwith in writing and that the member would be required to communicate to the Association within 5 calendar days of the oral notice his intentions with regard to the elimination of the excess position and to thereafter report to the Association when the elimination of the excess position has been accomplished.

Subsection (b) provides that the Association shall upon its determination that any other person, including a public customer, either acting alone or in concert with others, holds or is obligated in respect of options in excess of the position limits established by the Association orally direct the member or members with whom such person or persons has an option contract to orally notify such person advising that the Association has determined that an excess position exists. Further the member would be required to advise such person that within 7 calendar days of the oral notification that the excess position maintained by such person shall be reduced to eliminate the excess position. Such notifications shall be confirmed forthwith in writing. Further such written notification shall advise such person to communicate to the member or members with whom options accounts are maintained and the Association its intention with regard to the elimination of the excess position.

It is believed that subsections (a) and (b), in addition to serving the purpose intended to eliminate positions in excess of that determined to be in the public interest, because of the notice provisions contained therein, adequately protect the rights of persons who may be the subject of such notices to contest the determination that an excess position exists. Appropriate due process protections are therefore accorded before disposition of the excess position would be required.

Section 10 would authorize the Association to establish restrictions with respect to uncovered short positions. It would specify that whenever the Association determines in light of current market conditions for options and underlying securities that there exists a number of uncovered short positions in excess of the limits established, or that a percentage of outstanding short positions are uncovered in excess of limits established, the Association may, upon determining that such is in the public interest and necessary for the protection of investors and the maintenance of a fair and orderly market, prohibit any further opening writing transactions in options contract of that class unless the resulting short position is covered. Further, this section would authorize the Association to prohibit the uncovering of any existing covered short positions in option contracts of such a class.

Section 11 would authorize the restriction of transactions in out of the money options. Subsection (a) would authorize the Association to restrict opening transactions in any call option wherein the exercise price of an option in a given series exceeds such dollar amount as shall from time to time be established by the Association and the closing price of the underlying security for such option on the last prior day in the principal market in which the underlying security is traded is less than the dollar amount established from time to time by the Association.

Subsection (b) would establish certain exemptions to the limitations prescribed under subsection (a). Subsection (b)(1) would provide that the restrictions would not be applicable to covered opening writing transactions and subsection (b)(2) would exempt spread orders for the purchase and sale of the same number of option contracts of the same class.

Subsection (c) would authorize modification of the provisions set forth under subsections (a) and (b) where determined necessary for the public interest and the maintenance of a fair and orderly market in option contracts subject to certain proscriptions, to wit, the exception or modification could not become effective earlier than 15 minutes after it is displayed on NASDAQ and such could not remain in effect for more than two business days unless notified by a Committee of the Board; and provided that all action taken under the authority of subsection (c) and the reasons therefor be reported to the Board not later than the business day immediately following the one on which such action is taken.

Subsection (d) would contain a broad grant of authority to impose such restrictions on options transactions or the exercise of option contracts in one or more series of options of any class upon a determination that such action is necessary in the interest of maintaining a fair and orderly market in the option contracts, or in the underlying security, or is otherwise necessary in the public interest. It would further provide that there could be no restrictions during the 10 business days prior to the expiration date of a given series of options with respect to the exercise of such option contracts.

[Sections 12 and 13 - Trade comparison and settlement procedures and procedures relative to exercise notices and exercise of options contracts will be developed in a manner consistent with Options Clearing Corporation's requirements.]

Section 14 - Rules of General Applicability. The provisions of Parts IV and IX of Schedule D of Article XVI of the By-Laws, shall to the extent not inconsistent with the provisions hereof, apply to NASDAQ options.

Proposed Amendments to Schedule C
of the By-Laws

It should be noted that the proposed amendments to Schedule C are to a proposed new Schedule C which has previously been submitted to the membership for comment and, subsequently, with modifications, approved by the Board of Governors and filed for approval with the SEC pursuant to Section 19(b) of the Securities Exchange Act of 1934 on November 20, 1975. The SEC has not yet acted on that filing.

New Section 4 of Part I would propose a new requirement that any member engaged in options activities would, whether for the account of a public customer or the account of the firm, be required to have a person associated with such member registered with the Association as a "Registered Options Principal". Section 4 would also require that all persons who are actively engaged in the management, direction or supervision of the day-to-day activities of any member shall also be registered as Registered Options Principals. It should be noted that this provision would not be restricted to members engaging in NASDAQ options activities only. It is designed to be broad enough to reach firms and persons engaging in conventional or traditional over-the-counter options transactions.

New Section 2(f) of Part II would establish as a condition to becoming a Registered Options Principal that a person associated with a member must pass an appropriate qualification examination for registered options principals, or an equivalent acceptable to the Association. The latter provision would give the Association the flexibility to determine in the future whether such an examination of one or the other of the options exchanges would be acceptable for purposes of qualifying as a Registered Options Principal with the Association.

The proposed amendments to Schedule C are consistent with the entry standard programs undertaken by the Association in recent years. These programs are aimed at insuring that a member has competent and experienced persons engaged in the management of specialized areas of

activity, such as options trading. Accordingly, the Association believes a registered options principal requirement is necessary and appropriate for an open and orderly market and in the best interest of investors and the public.

Proposed Amendments to Article III, Section 30 of
the Rules of Fair Practice

It should be noted that the proposed amendment to Appendix A of Section 30 of the Rules of Fair Practice is to the designated section as it has already been amended by the Board and filed with the SEC on October 14, 1975 for its approval. The SEC has not acted on that filing as yet.

The proposed amendments to Section 4(a)(4)(ii) of Appendix A, Section 30, would conform the NASD's margin requirements to those presently applicable to exchange traded options. Specifically, the proposed amendment would provide that the margin maintenance rate with respect to an uncovered short position in a NASDAQ option be 30 percent of the market value of the equivalent number of shares of the underlying security. Presently, this provision provides for a 50 percent minimum margin maintenance requirement for all put and call options.

By conforming the Association's rule to that of the options exchanges, uniform margin maintenance requirements as to all options contracts issued by the Options Clearing Corporation would be in place. It should be noted, however, that this proposed amendment does not change the effective margin maintenance rate presently applied to a conventional or traditional over-the-counter option which will remain at present levels.

TRANSACTIONS IN OPTIONS
PROPOSED ARTICLE III, SECTION 36
OF THE RULES OF FAIR PRACTICE

- (a) A member or a person associated with a member shall not effect any transaction in an option contract, including an option displayed on the NASDAQ System, except in accordance with the provisions of rules, regulations and procedures adopted by the Board of Governors pursuant to the authorization granted in paragraph (b) hereof.

- (b) The Board of Governors is authorized, for the purpose of preventing fraudulent and manipulative acts and practices, promoting just and equitable principles of trade, providing safeguards against unreasonable profits or unreasonable rates of commission or other charges, and for the protection of investors and the public interest, to adopt rules, regulations and procedures for transactions in options relating to:
 - (1) transactions in options contracts, including options displayed on the NASDAQ System, by members for their own account or the accounts of public customers;
 - (2) the comparison - clearance and settlement of transactions in options;
 - (3) the reporting of transactions in options;
 - (4) the qualifications and standards for registered market makers in options;
 - (5) the standards for authorization of underlying securities eligible to be subject to options displayed on the NASDAQ System;
 - (6) the endorsement and guarantee of performance of options; and
 - (7) such other areas of options activity and trading as may be required to achieve the above stated purposes.

- (c) The rules, regulations and procedures authorized by paragraph (b) hereof shall be incorporated into Appendix E to be attached to and made a part of these Rules of Fair Practice. The Board of Governors

shall have the power to adopt, alter, amend, supplement or modify the provisions of Appendix E from time to time without recourse to the membership for approval, as would otherwise be required by Article VII of the By-Laws, and Appendix E shall become effective as the Board of Governors may prescribe unless disapproved by the Securities and Exchange Commission.

- (d) For the purposes of this section, the term "option" shall mean any put or call or straddle or other option or privilege of buying or selling a security without being bound to do so; or a put or call issued, or subject to issuance, by the Options Clearing Corporation pursuant to the rule of the Options Clearing Corporation and displayed on the NASDAQ System, but in either case shall not include any registered warrant, right or convertible security.

APPENDIX E

NASDAQ Options Rules

Section 1 - General

(a) Applicability - The Rules in this Appendix E shall be applicable to the trading of NASDAQ option contracts issued by the Options Clearing Corporation and displayed on the NASDAQ system, the terms and conditions of such contracts, the exercise and settlement thereof, the handling of orders, and the conduct of accounts and other matters relating to options trading. Except to the extent that specific sections in this Appendix govern, or unless the context otherwise requires, the provisions of the By-Laws and Rules of Fair Practice and all other interpretations and policies of the Board of Governors shall also be applicable to the trading of option contracts displayed on NASDAQ.

(b) Local Time - All times are stated in these Rules in terms of the local time in effect in New York City (Eastern Standard Time) or as otherwise specified.

Section 2 - Definitions

The following terms shall, unless the context otherwise requires, have the stated meanings:

(a) Options Clearing Corporation - The term "Options Clearing Corporation" means the Options Clearing Corporation, the issuer of options displayed on NASDAQ.

(b) Rules of the Options Clearing Corporation - The term "rules of the Options Clearing Corporation" means the by-laws and the rules of the Options Clearing Corporation, and all written interpretations thereof as the same may be in effect from time to time.

(c) Clearing Member - The term "clearing member" means a member of the Corporation which has been admitted to membership in the Options Clearing Corporation pursuant to the provisions of the rules of the Options Clearing Corporation.

(d) Participant Organization - The term "participant organization" means a registered national securities exchange or a registered national

securities association which has qualified for participation in the Options Clearing Corporation pursuant to the provisions of Article VII of the By-Laws of the Options Clearing Corporation.

(e) Option Contract - The term "option contract" means a put or a call issued, or subject to issuance, by the Options Clearing Corporation pursuant to the rules of the Options Clearing Corporation.

(f) NASDAQ Option Transaction - The term "NASDAQ option transaction" means a transaction effected by members in an option or options displayed on NASDAQ for the purchase or sale of an option contract, or for the closing out of a long or short position in an option contract.

(g) Type of Option - The term "type of option" means the classification of an option contract as either a put or a call.

(h) Call - The term "call" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Options Clearing Corporation the number of shares of the underlying stock covered by the option contract.

(i) Put - The term "put" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to sell to the Options Clearing Corporation the number of shares of the underlying stock covered by the option contract.

(j) Class of Options - The term "class of options" means all option contracts of the same type of option covering the same underlying stock.

(k) Series of Options - The term "series of options" means all option contracts of the same class of options having the same expiration date and exercise price.

(l) Underlying Security - The term "underlying security" in respect of an option contract means the security which the Options Clearing Corporation shall be obligated to sell (in the case of a call) or purchase (in the case of a put) upon the valid exercise of such option contract.

(m) Exercise Price - The term "exercise price" in respect of an option contract means the stated price per share at which the underlying stock may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of such option contract.

(n) Aggregate Exercise Price - The term "aggregate exercise price" means the exercise price of an option contract multiplied by the number of shares of the underlying stock covered by such option contract.

(o) Expiration Month - The term "expiration month" in respect of an option contract means the month and year in which such option contract expires.

(p) Expiration Date - The term "expiration date" in respect of an option contract means the Saturday immediately following the third Friday of the expiration month of such option contract.

(q) Long Position - The term "long position" means the number of outstanding option contracts of a given series of options held by a person (purchaser).

(r) Short Position - The term "short position" means the number of outstanding option contracts of a given series of options with respect to which a person is obligated as a writer (seller).

(s) Opening Purchase Transaction - The term "opening purchase transaction" means a NASDAQ option transaction in which the purchaser's intention is to create or increase a long position in the series of options involved in such transaction.

(t) Opening Writing Transaction - The term "opening writing transaction" means a NASDAQ option transaction in which the seller's (writer's) intention is to create or increase a short position in the series of options involved in such transaction.

(u) Closing Sale Transaction - The term "closing sale transaction" means a NASDAQ option transaction in which the seller's intention is to reduce or eliminate a long position in the series of options involved in such transaction.

(v) Closing Purchase Transaction - The term "closing purchase transaction" means a NASDAQ option transaction in which the purchaser's intention is to reduce or eliminate a short position in the series of options involved in such transaction.

(w) Covered - The term "covered" in respect to a short position in an option contract means that the writer's obligation is secured by a "bulk deposit" or "specific deposit" evidenced by an "escrow receipt" of underlying security, or the writer holds an equivalent long position in the underlying security in an account with a member of the Corporation through whom the option contract was written.

(x) Uncovered - The term "uncovered" in respect of a short position in an option contract means the short position is not covered.

(y) Outstanding - The term "outstanding" in respect of an option contract means an option contract which has been issued by the Options Clearing Corporation and has neither been the subject of a closing sale transaction or

a comparable closing transaction nor been exercised nor reached its expiration date.

(z) Primary Market - The term "primary market" as used herein means the principal market(s) in which an option or an underlying security is traded.

(aa) Registered NASDAQ Options Market Maker - The term "registered NASDAQ options market maker" means a member who meets the qualifications for such set forth in Schedule D to Article XVI of the By-Laws, is willing and able to serve as such in connection with a NASDAQ option on an authorized underlying security and who is authorized by the Corporation to do so.

(bb) Member - The term "member" means any member of the Corporation.

(cc) Options Trading - The term "options trading," when not preceded by the word NASDAQ, means trading in any option issued by the Options Clearing Corporation, whether or not of a class or series which has been approved for listing on NASDAQ.

(dd) Premium - The term "premium" means the aggregate price of an option agreed upon between the buyer and writer/seller or their agents.

(ee) Escrow Receipt - The term "escrow receipt" means a representation by an issuing bank to the Options Clearing Corporation that a particular customer's securities are on deposit with the bank and will be delivered upon exercise of the option for which the receipt is issued.

(ff) Current Prospectus - The term "current prospectus" shall mean that edition of the prospectus of the Options Clearing Corporation listed by the Options Clearing Corporation as registrant with the Securities and Exchange Commission which at the time it is to be furnished to a given customer meets the requirements of Section 10(a)(3) of the Securities Act of 1933.

Section 3 - Positions Limits

(a) Except with the prior written approval of the Corporation, no member shall effect for any account in which such member has an interest including investment accounts of a registered NASDAQ options market maker, or for the account of any partner, officer, director or employee thereof, or for the account of any customer, an opening transaction in any class of options issued by the Options Clearing Corporation if the member has reason to believe that as a result of such transaction the member or partner, officer, director or employee thereof, or customer, would, acting alone or in concert with others, directly or indirectly, hold or control or be obligated in respect of:

NASD

NOTICE TO MEMBERS: 76-8A
Notices to Members should be
retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

February 19, 1976

TO: All NASD Members and Interested Persons

RE: Correction to Notice to Members No. 76-8,
Dated February 10, 1976
Options On NASDAQ Proposal

Notice to Members No. 76-8, dated February 10, 1976, entitled "Options on NASDAQ Proposal" was printed with certain pages misplaced. The proper page sequence for this notice should have been as follows:

- Sections 5 through 14 appearing on Pages 24 through 30 should have followed Section 4 - Options Contracts Authorized for Trading (p. 35) as part of the Proposed NASDAQ Systems Rules and Regulations for NASDAQ Options.
- Sections 5 through 16 appearing on Pages 36 through 41 should have followed Section 4 - Exercise Limits (p. 23) as part of Appendix E (NASDAQ Options Rules) to Proposed Article III, Section 36 of the Rules of Fair Practice of the Association.

In other words, Sections 5 through 14 on pp. 24-30 and Sections 5 through 16 on pp. 36-41 were erroneously misplaced and should have appeared in reversed positions.

A limited supply of amended Notice to Members No. 76-8 is currently being reprinted. Any person interested in obtaining an amended copy of this notice may do so by calling (202) 833-7351, or by writing the National Association of Securities Dealers, Inc., Department of Regulatory Policy and Procedures, 1735 K Street, N. W., Washington, D. C. 20006.

The Association regrets their error and any inconvenience it may have caused.

* * * *

NOTICE TO MEMBERS NO. 76-8 (Corrected Copy)

(See back of this book)

- (1) an aggregate long position in any class of options;
- (2) an aggregate long position in any expiration month in any class of options;
- (3) an aggregate short position in any class of options;
- (4) an aggregate short position in any expiration month in any class of options; or
- (5) an aggregate uncovered short position in any class of options;

in excess of such number of option contracts as shall be fixed from time to time by the Corporation as the position limit for that particular class of options or expiration month. Such limits, as modified from time to time by action of the Corporation, shall be contained in Schedule __ hereof.

(b) Nothing in subsection (a) hereof shall be construed so as to limit the ability of a registered NASDAQ options market maker to maintain a fair, orderly and continuous market in a class or series of NASDAQ options for which such market maker is registered with the Corporation.

Section 4 - Exercise Limits

(a) Except with the prior approval of the Corporation in each instance, no member shall exercise, for any account in which such member has an interest including investment accounts of a registered NASDAQ options market maker or for the account of any partner, officer, director or employee thereof or for the account of any customer, a long position in any option contract issued by the Options Clearing Corporation if as a result thereof such member or partner, officer, director or employee thereof or customer, acting alone or in concert with others, directly or indirectly, has or will have exercised within any five (5) consecutive business days aggregate long positions in a class of options in excess of such number of option contracts as shall be fixed from time to time by the Corporation as the exercise limit for that particular class of options. The number of time limitations concerning the exercise of options contracts, as modified from time to time by action of the Corporation, shall be contained in Schedule __ hereof.

(b) Nothing in subsection (a) hereof shall be construed to limit the ability of a registered NASDAQ options market maker to maintain fair, orderly and continuous market in a class or series of NASDAQ options for which such market maker is registered with the Corporation.

Section 5 - Reporting of Options Positions

(a) Each member shall file with the Corporation a report with respect to each account in which the member has an interest, including investment accounts of a registered NASDAQ options market maker, each account of a partner, officer, director, or employee of such member, and each customer account, which has (i) an aggregate long position, or (ii) an aggregate short position, or (iii) an aggregate uncovered short position, in option contracts of any class of options issued by the Options Clearing Corporation in excess of such number of option contracts as shall be fixed from time to time by the Corporation as requiring reporting pursuant to this Section. The said requirements shall be contained in Schedule __ attached hereto. Such report shall identify the person or persons having an interest in such account and shall identify separately the total number of option contracts of each such class comprising the long position, short position and uncovered short position, in such account. The report shall be in such form as may be prescribed by the Corporation and shall be filed no later than the close of business on the next business day following the day on which the transaction or transactions requiring the filing of such report occurred. Whenever a report shall be required to be filed with respect to an account pursuant to this subsection, the member filing such shall file with the Corporation such additional periodic reports with respect to such account as the Corporation may from time to time prescribe.

(b) In addition to the reports required by subsection (a) of this Section, each member shall report promptly to the Corporation any instance in which such member has knowledge that a person, acting alone or in concert with others, has exceeded or is attempting to exceed the position limits or the exercise limits set forth in Schedule __ attached hereto.

(c) Every member who has an uncovered short position in a class of options issued by Options Clearing Corporation shall file with the Corporation a report reflecting such in:

- (1) each account in which the member has an interest, including investment accounts of a registered NASDAQ options market maker;
- (2) all accounts of partners, principal executive officers and directors of such member; and
- (3) all accounts of customers.

Such report shall be made as of the 10th of each month (or more frequently if required by the Corporation) and shall be submitted not later than the second business day following the date as of which the report is made.

(d) Every member who has been notified by the Corporation that he is subject to the provisions of this Section or who shall effect NASDAQ options transactions for its account amounting to five or more option contracts of the same class during any trading session shall report such transactions to the Corporation on a basis and frequency to be established for such member by the Corporation. Such report shall be on a form prescribed by the Corporation.

Section 6 - Confirmations

Every member shall promptly furnish to each customer a written confirmation of each transaction in option contracts for such customer's account. Each such confirmation shall show the type of option, the underlying security, the expiration month, the exercise price, the number of option contracts, the premium, the commission, the trade and settlement dates, whether the transaction was a purchase or a sale (writing) transaction, whether the transaction was an opening or a closing transaction, and whether the transaction was effected on a principal or agency basis. The confirmation shall by appropriate symbols distinguish between NASDAQ option transactions and other transactions in option contracts.

Section 7 - Delivery of Current Prospectus

Every member shall deliver a current prospectus to each customer at or prior to the time such customer's account is approved for options trading. Thereafter, each new current prospectus shall be distributed to every customer having an account approved for options trading, or, in the alternative, shall be forwarded not later than the time a trade is entered or accepted on the behalf of the customer.

Section 8 - Transactions with Issuers

No member under any circumstances shall enter a transaction for an option contract for the account of any corporation which is the issuer of the underlying security thereof, or for the account of any person, corporation, partnership or other entity which controls, or is controlled by or under common control with such Corporation; or for a partner or joint venturer or other affiliate of such corporate.

Section 9 - Restricted Stock

Shares of an underlying security which may not be sold by the holder thereof except upon registration thereof pursuant to the provisions of the Securities Act of 1933 or pursuant to SEC rules promulgated under the

Securities Act of 1933, may not be accepted by a member for the purpose of covering a short position in option contracts or satisfying the margin requirements in respect thereto, and may not be delivered for the purpose of satisfying an exercise notice assigned in respect of any such option contract.

Section 10 - Statement of Accounts

Statements of account shall be sent no less frequently than once every month to each customer in whose account there has been an entry during the preceding month with respect to an option contract and quarterly to all customers having an open option position and money balance.

Section 11 - Opening of Accounts

(a) Approval Required - No member or person associated with a member shall accept an order from a customer for the purchase or writing (sale) of an option contract unless the customer's account has been approved for options trading in accordance with the provisions of subsections (b) and (c) hereof.

(b) Diligence in Opening Account - Before approving a customer's account for options trading, a member or any person associated with a member shall exercise due diligence to ascertain the essential facts relative to the financial situation and investment objectives of such customer. Based upon such facts, the member or a general partner or officer of the member who is a Registered Options Principal and who is personally informed of such essential facts shall specifically approve in writing the customer's account for options trading prior to the time any options transaction is entered on behalf of such customer by the member or the person associated with the member; provided, however, that in the case of a branch office, an account may be approved for options trading by the manager of such branch office, in which event the action of such branch office manager shall within seven (7) business days be submitted to and approved by a Registered Options Principal. A record of the information obtained pursuant to this Section and of the approval of each such account shall be maintained by the member as part of its permanent records.

(c) Account Agreement - No customer's account shall be approved for options transactions by a member unless it first obtains from the customer a written agreement that the customer is aware of and agrees to be bound by the Rules of the Corporation applicable to the trading of option contracts and the rules of the Options Clearing Corporation.

Section 12 - Discretionary Accounts

(a) Authorization and Approval - No member and no partner, officer or employee of a member shall exercise any discretionary power with respect to trading in option contracts in a customer's account, or accept orders for option contracts for an account from a person other than the customer, except in compliance with the provisions of Section 15 of the Rules of Fair Practice and unless:

- (1) the written authorization of the customer required by Section 15 shall specifically authorize options trading in the account;
- (2) the account shall have been accepted by a general partner or officer of the member who is a Registered Options Principal; and
- (3) the person approving all such orders with respect to NASDAQ option transactions in such account shall be a Registered Options Principal;

provided, however, that in the case of a branch office discretionary orders may be approved and initialed on the day entered by the branch office manager, provided that such approval shall be subsequently approved within five (5) business days by a general partner or officer of the member who is a Registered Options Principal. The provisions of this subsection shall not apply to discretion as to the price at which or the time when an order given by a customer for the purchase or sale of a definite number of option contracts shall be executed.

(b) Record of Transactions - A record shall be made of every transaction in option contracts in respect to which a member or a partner, officer or employee of a member has exercised discretionary authority, clearly reflecting such fact and indicating the name of the customer, the designation and number of the option contracts, the premium and the date and time when such transaction was effected.

Section 13 - Suitability

(a) No member or person associated with a member shall recommend to any customer any transaction for the purchase or writing (sale) of an option contract unless such member or person associated therewith has reasonable grounds to believe upon the basis of information furnished by such customer after reasonable inquiry by the member or person associated therewith concerning the customer's investment objectives, financial situation and needs, and any other information known by such member or associated person that the recommended transaction is not unsuitable for such customer.

(b) No member or person associated therewith shall effect with or for any customer any transaction whereby such customer writes, or after writing, is obligated as a writer with respect to:

- (1) a call option contract with respect to an underlying security which is not long in the customer's account with the member or which, at the time of writing, is not concurrently purchased by such customer for such account; provided, however, an account shall be deemed long an underlying security if it is long in a security immediately exchangeable or convertible, without restriction other than the payment of money, into such underlying security; or
- (2) a put option contract with respect to an underlying security in which the customer has a short position or, at the time of writing, has effected concurrently a short sale of the underlying security to which such option contract relates;

unless on the basis of information obtained by such member or registered employee from such customer, after reasonable and diligent inquiry, and any other information known by such member or registered employee, such member or registered employee has a reasonable basis for believing that the customer, at the time of the transaction, is capable of evaluating the additional risks in such transactions, and has the financial capability to meet reasonably foreseeable margin calls; pursuant to applicable margin requirements with respect to the proposed position in such call option contract or put option contract and the related short position in the underlying security.

Section 14 - Supervision of Accounts

Every member shall provide for the diligent supervision by a general partner or officer of the member who is a Registered Options Principal of all its customer accounts, and all orders in such accounts, to the extent such accounts and orders relate to option contracts.

Section 15 - Violation of By-Laws and Rules of the Options Clearing Corporation

Any violation of any provision of the rules, regulations or by-laws of the Options Clearing Corporation by any member or person associated with a member engaged in NASDAQ option transactions may be deemed to be conduct inconsistent with just and equitable principles of trade and a violation of Article III, Section 1 of the Corporation's Rules of Fair Practice.

Section 16 - Rules of General Applicability

The provisions of Article III, Sections 1, 2, 3, 4, 5, 6, 10, 11, 12, 13, 15, 18, 19, 20, 21, 23, 24, 25, 27, 28, and 30 of the Rules of Fair Practice are applicable to options transactions. Unless the context otherwise requires, the term "security" whenever used in the aforementioned rules shall also mean NASDAQ options.

SCHEDULE D

PROPOSED PART X

PROPOSED
NASDAQ SYSTEMS RULES AND REGULATIONS
FOR NASDAQ OPTIONS

Section 1 - Definitions

(a) The term "registered NASDAQ options market maker" means a member who meets the qualifications for such set forth in Section 3 hereof, is willing and able to serve as such in connection with a NASDAQ option on an authorized underlying security and who is authorized by the Corporation to do so.

(b) The term "authorized underlying security" means a security which is eligible to be subject to a NASDAQ option pursuant to the provisions of Section 6 hereof and which has been designated by the Corporation to be an authorized underlying security.

Section 2 - Services Available

(a) Level 1 Service

(1) Nature of Service. This service will provide the subscriber with data in the form of representative bid and ask quotations for each NASDAQ option on which a minimum of two registered NASDAQ options market makers are entering quotes during the day.

(2) Availability. The service is available only through independent firms authorized by the Corporation to obtain access to the data from the NASDAQ System for distribution to others. The subscriber must agree with the Corporation that the quotations data received through such service will not be used for illegal purposes nor will access thereto be granted on a continuous basis to any person not approved by the Corporation, and the independent distributor must obtain authorization in writing from the Corporation to serve the subscriber.

(b) Level 2 Service

(1) Nature of Service. This service will provide the subscriber with access to the quotations of all of the registered NASDAQ options market makers entering quotes on each of the NASDAQ options.

(2) Availability. The service is available only to persons approved by the Corporation.

(c) Level 3 Service

(1) Nature of Service. This service will enable the registered NASDAQ options market maker to enter quotations into the System only on the NASDAQ options as to which the Corporation has authorized it to enter quotes. Subscribers to Level 3 service shall also receive Level 2 service.

(2) Availability. Level 3 service is available to any member which, upon application, is authorized by the Corporation to participate in the NASDAQ System as a registered NASDAQ options market maker.

Section 3 - Registration, Qualification and Other Requirements of Marker Makers

(a) Prior to acting as a market maker in NASDAQ options, a member must make application to the Corporation and become registered as such with it. In connection with such application, a member must submit to the Corporation such financial and other information determined by the Corporation to be necessary to determine if it meets the qualifications of a registered NASDAQ options market maker specified hereafter.

(b) Financial Capability. A registered NASDAQ options market maker shall continually maintain a minimum net capital of \$100,000 computed in accordance with the provisions of Paragraph (c)(2) of Rule 15c3-1 under the Securities Exchange Act of 1934.

(c) A registered NASDAQ options market maker shall either be a clearing member of the Options Clearing Corporation or shall have established a clearing arrangement with a clearing member thereof.

(d) A registered NASDAQ options market maker shall have a registered options principal as required by the provisions of Section ___ of Schedule C of Article I of the By-Laws.

(e) Character of quotations entered into the System.

(1) All bids or offers for option contracts issued by the Options Clearing Corporation displayed on NASDAQ shall be for at least one option contract for the minimum unit of trading.

(2) All bids or offers for option contracts issued by the Options Clearing Corporation displayed on NASDAQ shall be expressed in terms of dollars per share of the underlying security; provided, however, all such bids or offers for an option contract for which the Options Clearing Corporation has established an adjusted unit of trading in accordance with paragraphs (c) and (d) of Section 11 of Article VI of the By-Laws of the Options Clearing Corporation shall be expressed in terms of dollars per the appropriate fractional part of the total securities and/or other property constituting such adjusted unit of trading.

(3) A registered NASDAQ options market maker which receives a buy or sell order must execute a trade for at least one NASDAQ option at his quotations as displayed on NASDAQ at the time of receipt of any such buy or sell order. Each quotation entered and displayed by a registered NASDAQ options market maker shall be reasonably related to the then prevailing market.

(f) Transaction Reporting.

(1) Real Time.

a. A registered NASDAQ options market maker shall transmit to the Corporation last sale reports of all purchases and writing (sales) transactions in NASDAQ options executed during the normal trading hours within one and one-half minutes after execution of the transaction. Such report shall hereinafter be referred to as Last Sale Report and shall be on a form prescribed by the Corporation. All Last Sale Reports of purchase and writing (sale) transactions executed during the normal trading hours shall be transmitted through the NASDAQ Transaction Reporting System. Last Sale Reports of purchase and writing (sale) transactions executed outside of normal trading hours shall be reported weekly in writing to the NASDAQ supervisory office in New York City.

b. A registered NASDAQ options market maker shall transmit a Last Sale Report for NASDAQ options for all purchases and writing (sales) in such options at the price recorded on the trade ticket exclusive of commissions, taxes or other charges.

c. In transactions between two registered NASDAQ options market makers, only the registered NASDAQ options market maker representing the writing (sell) side shall make a Last Sale Report.

d. A registered NASDAQ options market maker shall not transmit to NASDAQ a Last Sale Report for transactions executed on an exchange.

(2) Weekly and/or Monthly. A registered NASDAQ options market maker shall report weekly and/or monthly to the System such data on NASDAQ options quoted in the System as the Board of Governors shall require. Such report shall be on a form prescribed by the Corporation.

(3) All trade tickets on transactions in NASDAQ options must be time-stamped at the time of execution.

(g) Normal Business Hours. A registered NASDAQ options market maker shall keep the Corporation advised as to the normal business hours (Eastern time) during which it shall enter quotations. All firms shall be open and active as of 10:00 a. m. Eastern time and no NASDAQ options market maker shall close sooner than 4:00 p. m. Eastern time. However, the registered NASDAQ options market maker will be able to enter quotes outside such normal business hours, providing the System is operating, by appropriate notification to the operator of the NASDAQ System of the desire to enter quotes.

(h) Initiating Service. The registration of a NASDAQ options market maker in a given NASDAQ option shall be effective at the start of business on the second business day following receipt of his registration application by the Corporation; provided, however, said registration is accepted by the Corporation. If said registration is received for a NASDAQ option which option has not previously been authorized by the Corporation, the registered NASDAQ options market maker's registration shall be effective at the start of business on the first day that the NASDAQ option is authorized for quotation by the Corporation.

(i) Withdrawal Procedure.

(1) With the approval of the Corporation, upon showing that it is seriously impaired in its ability to enter quotations, a registered NASDAQ options market maker may suspend its quotations for a specified period of time in the case of contemplated financing in the security, the presence of statutory prohibitions or restrictions, or such other reasons as may be acceptable to the Corporation.

(2) A registered NASDAQ options market maker who withdraws quotations may not re-enter quotations during the day without the prior approval of the Corporation.

(3) A registered NASDAQ options market maker whose quotation in any NASDAQ option is withdrawn, without the prior approval of the Corporation, at or before the daily close of the System shall have its registration in that NASDAQ option terminated subject, however, to the re-registration procedure set forth in paragraph (4) below.

(4) The registered NASDAQ options market maker may by making application to the Corporation under the procedures and requirements set forth in this Schedule D re-register as a registered NASDAQ options market maker in a NASDAQ option in which his registration is terminated pursuant to paragraph (3) above; provided, however, a registered NASDAQ options market maker may not re-enter quotations in the series of the NASDAQ option from which such NASDAQ options market maker had previously withdrawn until after one half of the time remaining to the expiration date of such NASDAQ option had elapsed. Such period shall not exceed one month nor be less than one week.

(j) Voluntary Termination. A registered NASDAQ options market maker may voluntarily terminate its registration as to any NASDAQ option by withdrawing its quotations from the System.

(k) Suspension and Termination of a Registered NASDAQ Options Market Maker's Authority to Enter Quotations by Action of the Corporation.

(1) Suspension. In extraordinary circumstances, and where required to promote just and equitable principles of trade, the Corporation, upon notice, may suspend a registered NASDAQ options market maker's authority to enter quotations into the System for up to two consecutive business days following the Corporation's action; provided, however, that when the Corporation is engaged in an investigation of the registered NASDAQ options market maker's activities in connection with the suspension of quotations, and such investigation has not been completed by the end of the suspension period, the Corporation may extend the suspension for successive additional two consecutive business day periods as necessary.

(2) Termination. The Corporation may, pursuant to provisions specified in the Code of Procedures for Handling Trade Practice Complaints, suspend, condition or terminate the registered NASDAQ options market maker's authority to enter quotations on one or more NASDAQ options for violation of the applicable rules of this Schedule D.

Section 4 - Options Contracts Authorized for Trading

The Corporation may from time to time approve for display on NASDAQ put option contracts and call option contracts in respect of underlying securities which have been selected in accordance with and which meet the criteria of Section 6 hereof. All such option contracts shall be designated as to the type of option, the underlying security, the expiration month and the exercise price. Only quotations in respect to option contracts in a series of options approved by the Corporation and currently open for display on NASDAQ may be quoted by a registered NASDAQ options market maker on the NASDAQ System.

Section 5 - Series of Options Open for Trading

(a) After a class of options has been approved for display on NASDAQ and quotation thereon by registered NASDAQ options market makers, the Corporation may from time to time open series of options in such class for display. Prior to the opening of trading in any series of options, the Corporation shall fix the expiration month and exercise price of option contracts included in each such series. At the commencement of display on NASDAQ of a particular class of options, series of options therein having three different expiration months will normally be opened. The first such expiration month shall be within approximately three months after such series is initially opened for display, the second expiration month shall be approximately six months after such series is initially opened for display, and the third expiration month shall be approximately nine months after such series is initially opened for display. Additional series of options of the same class may be opened for display on NASDAQ and quotation by registered NASDAQ options market makers at or about the time a prior series expires and the expiration month of each such series shall normally be approximately nine months following the opening of such series. The exercise price of each series of options opened for display on NASDAQ and quoted by registered NASDAQ options market makers shall be fixed at a price per share which is reasonably close to the price per share at which the underlying security is traded in the primary markets at or about the time such series of options is first opened for display on NASDAQ as the market price of the underlying security moves substantially from the initial exercise price or prices. The opening of a new series of options for display on NASDAQ shall not per se affect any other series of options of the class previously opened.

(b) No transaction in option contracts of a particular series of NASDAQ options shall be effected after 3:00 p.m. on the business day prior to the expiration date of that series.

(c) The unit of trading and the exercise price initially established for option contracts of a particular series are subject to adjustment by the Options Clearing Corporation in accordance with the rules of the Options Clearing Corporation. When such adjustment or adjustments have been determined, announcement thereof shall be made by the Corporation and effective as of the time specified in such announcement, the adjusted unit of trading and the adjusted exercise price shall be applicable with respect to all subsequent transactions in such series of options.

Section 6 - Qualifications for Authorized Underlying Securities

(a) The authorized underlying securities eligible to be subject to NASDAQ options shall be determined solely by the Corporation. Said determination shall be in accordance with the criteria established pursuant to the Participant Agreement entered into by the Corporation with the Options Clearing Corporation and this Section. The criteria specified in the Participant Agreement are as follows:

(1) Such security is registered under Section 12(g)(1) of the Securities Exchange Act of 1934, as amended, and displayed on the NASDAQ System; or is registered on a national securities exchange in accordance with the requirements of Section 12(b) of the Securities Exchange Act of 1934, as amended; or it is issued by an insurance company meeting the conditions of Section 12(g)(2)(G) of the Securities Exchange Act of 1934, as amended;

(2) The issuer thereof has complied with the reporting and disclosure requirements of Sections 13 and 14 of the Securities Exchange Act of 1934, as amended, unless exempted therefrom;

(3) A majority of the existing board of directors of the issuer thereof have been directors of the issuer, or a predecessor of the issuer, from the beginning of the issuer's last three fiscal years;

(4) The issuer thereof and any of its subsidiaries have not during the past three fiscal years defaulted in the payment of any dividend or sinking fund installment on preferred stock, or on any indebtedness for borrowed money or in the payment of rentals under long term leases; and

(5) The issuer thereof (including its consolidated subsidiaries) had a net income, after taxes but before extraordinary items net of tax effect, of at least \$250,000 for each of the last three fiscal years.

(b) The following additional criteria must be met in order for a security to qualify to be an authorized underlying security for NASDAQ options:

(1) The issuer thereof has a minimum of 10 million outstanding shares in each class of security on which options are to be authorized at least 8 million of which are beneficially owned by persons other than officers or directors of the issuer or 10% stockholders:

(2) There are a minimum of 10,000 holders of said security; and

(3) There was aggregate trading volume reported to the NASDAQ System and/or the securities exchanges on which the security is listed of at least one million shares per year in each of the two previous calendar years; and

(4) There is a representative bid of at least \$10 per share.

(c) Notwithstanding the criteria set forth in paragraph (b) above, the Corporation may from time to time change or make exceptions to one or more of such criteria in particular cases. Underlying securities initially meeting the referred to criteria will not necessarily be eliminated from the authorized list should they subsequently cease to meet one or more of the stated criteria.

Section 7 - Units of Trading

The unit of trading in each series of options displayed on NASDAQ shall be the unit of trading established for that series by the Options Clearing Corporation pursuant to the rules of the Options Clearing Corporation.

Section 8 - Suspension of an Authorized Underlying Security and/or Its Option

(a) In particular instances, where the Corporation deems it necessary and appropriate in order to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to protect investors or the public interest, to insure a fair and orderly market, to assure adequate trading interest and the likelihood of a competitive market, or if one or more of the events set forth in paragraph (b) hereof occur, it may suspend an authorized underlying security and/or its NASDAQ option from quotation on the NASDAQ System.

(b) An authorized underlying security and/or its NASDAQ option shall be subject to suspension if:

(1) It has been and is currently suspended from being traded over-the-counter by the Securities and Exchange Commission pursuant to Section 15(c)(5) of the Securities Exchange Act;

(2) There has been and is currently a failure by the issuer promptly to disclose to the public through the press any material information which may effect the value of its securities or influence investors' decisions;

(3) There has been and is currently a failure to file with the Corporation, the issuer's annual and quarterly report required to be filed with the Securities and Exchange Commission. Issuers which are not required by law to file an annual or quarterly report with the Securities and Exchange Commission must file with the Corporation its annual and quarterly report required to be filed with the appropriate regulatory authority; and

(4) There has been and is currently a failure to comply with any obligation of any person regarding filing or disclosure of material information whether the obligation arises under a federal or state statute or rule and the Corporation shall determine that the public interest requires suspension.

(c) The Corporation may make exceptions to the application of the criteria set forth in paragraphs (a) or (b) hereof if considered necessary and appropriate in the public interest.

Section 9 - Liquidation of Positions

Whenever the Corporation shall determine that a person or a group of persons acting in concert holds or controls, or is obligated in respect of, an aggregate position (whether long or short) in all option contracts issued by the Options Clearing Corporation of one or more classes or series displayed on NASDAQ in excess of the applicable position limit established pursuant to Section 3 hereof and contained in Schedule ___ appended hereto, and where the Corporation determines that the maintenance of such excess position is inconsistent with the public interest and endangers investor safety and the maintenance of a fair and orderly market:

- (1) the Corporation may, in the case of a member found to hold such excess position, orally notify, confirmed by a written notice to, the member advising the member that it holds a position in options which exceeds the limits established pursuant to Section 3 hereof. Said oral and written notices shall also advise the member that, within seven (7) calendar days of the date of oral notification the member shall reduce his position to the extent necessary to eliminate the excess position in a manner consistent with these rules. The notice shall further advise the member to communicate to the Corporation within five (5) calendar days his intentions with regard to the elimination of the excess position and to thereafter report to the Corporation when the said reduction of excess position has been accomplished; and
- (2) the Corporation may in the case of any other person, including a public customer, found to hold such excess position, direct that the member or members with whom such person or persons has an options account, to orally notify, confirmed by a written notice sent on a form to be prescribed by the Corporation to, such person or persons advising such person or persons that the Corporation has determined that an excess position in violation of the limits established pursuant to Section 3 exists in the account of such person or persons and further advising such person or persons that within seven (7) calendar days of the issuance of the notice by the member, the person or persons holding the excess position shall reduce their aggregate options positions in a manner consistent with these rules to the extent necessary to eliminate the excess position. The notice shall also advise such person or persons to communicate to the member or members with whom such person or persons have an options account and the Corporation his or their intentions with regard to the elimination of the excess position.

The Corporation may, in either instance, where it determines that such is necessary in the public interest and necessary for the protection of investors and the maintenance of a fair and orderly market, direct a notice, oral or written, to members advising the members of any person or persons determined to hold a position in options which exceeds the position limits established pursuant to Section 3 hereof. Upon the issuance of such notice any order for the account of the person or persons named in such directive which would have the effect of increasing the excess position of said person shall not be accepted unless in each instance express approval for such transaction is given by the Corporation or until such directive is rescinded.

Section 10 - Limit on Uncovered Short Positions

Whenever the Corporation shall determine in light of current conditions in the market for options issued by the Options Clearing Corporation displayed on NASDAQ, or in the markets for underlying securities, that there are outstanding a number of uncovered short positions in NASDAQ option contracts of a given class displayed on NASDAQ, in excess of the limits established by the Corporation for purposes of this section and contained in Schedule appended hereto, or that a percentage of outstanding short positions in NASDAQ option contracts of a given class displayed on NASDAQ are uncovered, in excess of the limits established by the Corporation for purposes of this section and contained in Schedule appended hereto, the Corporation, upon its determination that such action is in the public interest and necessary for the protection of investors and the maintenance of a fair and orderly market in the options contracts or underlying securities, may prohibit any further opening writing transactions in option contracts of that class unless the resulting short position will be covered, and it may prohibit the uncovering of any existing covered short position in option contracts of one or more series of options of that class. The Corporation may exempt transactions of registered NASDAQ options market makers from restrictions imposed under this Section and it shall rescind such restrictions upon its determination that they are no longer appropriate.

Section 11 - Restrictions on NASDAQ Option Transactions and Exercises

(a) Subject to the provisions of subsections (b) and (c) hereof, no member shall enter on behalf of a customer, on behalf of any officer, director, principal, employee or affiliate of the member, or on behalf of the investment account of the member, any order for an opening transaction in any call option contract issued by the Options Clearing Corporation and displayed on NASDAQ, if the exercise price of such option exceeds such dollar amount as shall from time to time be established by the Corporation for purposes of this section and contained in Schedule appended hereto; and, the closing price of the underlying security for such call option on the last prior day in the principal market(s) in which such underlying security was traded, is less than such dollar amount as

shall from time to time be fixed by the Corporation for purposes of this section and contained in Schedule__appended hereto.

(b) The restrictions set forth in subsection (a) hereof shall not apply to:

- (1) The entry of an order for any opening writing transaction that is covered in the account on a share-for-share basis by a long position in either the underlying security or a security immediately exchangeable or convertible without restriction, other than the payment of money, into the underlying security; or
- (2) The entry of a spread order for the purchase and sale of the same number of option contracts of the same class.

(c) The Corporation may (1) interpret or modify any of the foregoing provisions with respect to particular orders and transactions, and (2) make exceptions, modifications or additions to any of the foregoing provisions with respect to one or more series of options whenever the Corporation determines that such exceptions, modifications, or additions are necessary in the interest of maintaining a fair and orderly market in option contracts or in underlying securities or otherwise are necessary in the public interest or for the protection of investors; provided that any such exception, modification or addition pursuant to paragraph (2) hereof shall become effective not earlier than 15 minutes after it is displayed on NASDAQ and shall not remain in effect for more than two (2) business days unless ratified by a committee of the Board of Governors; and provided further that all action taken under this subsection (c) and the reasons therefor shall be reported in writing to a committee of the Board not later than the business day immediately following the one on which such action is taken.

(d) The Corporation may impose from time to time such restrictions on option transactions or the exercise of option contracts in one or more series of options of any class issued by the Options Clearing Corporation displayed on NASDAQ which it determines are necessary in the interests of maintaining a fair and orderly market in option contracts, or in the underlying securities covered by such option contracts, or otherwise necessary in the public interest or for the protection of investors. During the period of any such restriction, no member shall effect any option transaction or exercise any option contract issued by the Options Clearing Corporation displayed on NASDAQ in contravention of such restriction. Notwithstanding the foregoing, during the ten (10) business days prior to the expiration date of a given series of options, no restriction on the exercise of option contracts shall remain in effect with respect to that series of options.

[Sections 12 and 13 - Trade Comparison and Settlement Procedures

Trade comparison and settlement procedures and procedures relative to exercise notices and exercise of options contracts will be developed in a manner consistent with Options Clearing Corporation's requirements.]

Section 14 - Rules of General Applicability

The provisions of Parts IV and IX of Schedule D of Article XVI of the By-Laws, shall to the extent not inconsistent with the provisions hereof, apply to NASDAQ options.

PROPOSED AMENDMENTS TO SCHEDULE C OF
ARTICLE I, SECTION 2(d) OF THE BY-LAWS

A new Section 4 would be added to Part I of Schedule C and existing Sections 4, 5 and 6 should be renumbered 5, 6 and 7. New Section 4 of Part I would be as follows:

[NOTE: These proposed amendments are to proposed new Schedule C which has been filed with the SEC pursuant to Rule 19(b) under the Securities Exchange Act of 1934 and is awaiting approval by the Commission.]

Section 4

Every member of the Corporation which is engaged in, or which intends to engage in transactions in options with the public, or for the account of the member, shall have at least one Registered Options Principal who shall have satisfied the requirements of Part II, Section 2(f) hereof. Every person actively engaged in the management, direction or supervision of the day-to-day options activities of a member shall also be registered as a Registered Options Principal.

Part II of Schedule C shall be amended by adding to Section 2 thereof a new subsection (f) as follows:

(f) Each person required by Part I, Section 4 hereof to be a Registered Options Principal shall pass the appropriate qualification examination for Registered Options Principal, or an equivalent acceptable to the Corporation, and be registered as such before engaging in the duties or accepting the responsibilities of a Registered Options Principal.

PROPOSED AMENDMENT TO ARTICLE III,
SECTION 30, OF THE RULES OF FAIR PRACTICE

[NOTE: This proposed amendment is to Appendix A as filed with the SEC pursuant to Rule 19(b) under the Securities Exchange Act of 1934 and awaiting approval by it.]

New material indicated by underlining.

Article III, Section 30, Appendix A, Section 4(a)(ii)

"(ii) in the case of puts and calls listed or traded on a registered national securities exchange or displayed in the NASDAQ System, 30 percent of the market value of the equivalent number of shares of the underlying security, plus any unrealized loss or less any unrealized profit;"

NASD

NOTICE TO MEMBERS: 76-9
Notices to Members should be
retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

February 19, 1976

TO: All NASD Members

RE: J.S. Roberts and Company
211 Elmer Street
Westfield, New Jersey 07091

ATTN: Operations Officer, Cashier, Fail-Control Department

On Wednesday, February 11, 1976, a SIPC Trustee was appointed for the above captioned firm. Members were previously advised of the appointment of a temporary receiver for the firm in Notice to Members 76-7.*

Accordingly, questions regarding the firm should be directed to:

SIPC Trustee

Mr. Michael M. Marx
Securities Investor Protection Corp.
Suite 800, Farragut Building
900 Seventeenth Street, N. W.
Washington, D. C. 20006
Telephone (202) 223-8400

*This notice, which applies to all NASD Members, has been issued by National Clearing Corporation. The Board of Directors of NCC interprets and enforces the provisions of the NASD's Uniform Practice Code.

NASD

NOTICE TO MEMBERS: 76-10
Notices to Members should be
retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

February 19, 1976

TO: All NASD Members and Interested Persons

RE: Extension of Consolidated Tape Reporting Requirements

On June 16, 1975, Article XVIII of the Association's By-Laws and Schedule G thereunder were declared effective (pages 1155-1160 of the Association's Manual). Article XVIII and Schedule G contain the rules and procedures for members governing the reporting of over-the-counter transactions in securities required to be reported to the Consolidated Tape ("eligible securities").

After full implementation of the Consolidated Tape, "eligible securities" will include: (1) any common stock, long-term warrant, or preferred stock registered or admitted to unlisted trading privileges on the New York Stock Exchange or the American Stock Exchange; (2) any common stock, long-term warrant, or preferred stock registered or admitted to unlisted trading privileges on any other national securities exchange which substantially meets the original listing requirements of the New York Stock Exchange or the American Stock Exchange; (3) any common stock, long-term warrant, or preferred stock which becomes registered on any national securities exchange and which at the time of such registration substantially meets the original listing requirements of the New York Stock Exchange or the American Stock Exchange; and (4) any right admitted to trading on a national securities exchange which entitles the holder to purchase or acquire a share or shares of an eligible security provided that both the right and the eligible security are admitted to trading on the same national securities exchange.

On June 16, 1975, Tape A of the Consolidated Tape was implemented with reports of transactions in all New York Stock Exchange issues from the various stock exchanges and all transactions in such issues executed in the over-the-counter market. On June 16, 1975, all members who executed over-the-counter transactions in NYSE listed

issues began reporting such transactions to the Consolidated Tape pursuant to the provisions of Schedule G.

On March 1, 1976, Tape B of the Consolidated Tape will be implemented to include all common stocks, long-term warrants, preferred stocks, and rights listed on the American Stock Exchange, and certain issues listed on regional stock exchanges which substantially meet the listing requirements of the New York Stock Exchange or the American Stock Exchange. The issues listed on regional stock exchanges which meet the requirements of "eligible securities" are:

Allcity Insurance Co.
Almaden Vineyards Inc.
Amcord Inc. cum. pfd.
American Quasar Petroleum
Amfac, Inc. series B cum. cv. pfd.
Anchor Coupling Co. Inc.
Automated Medical Laboratories Inc.
Canada Southern Petroleum, Ltd.
Carson Pirie Scott & Co.
Casco Northern Corp.
Columbia Technical Corp.
Crestmont Oil P Gas Co.
Edgecomb Steel of New England, Inc.
Electronized Chemicals Corp.
The Exolon Company
First National Stores Inc.
Fitchburg Gas & Elec. Light Co.
General Exploration Co.
Hein-Werner Corporation
Industrial Acoustics Co. Inc.
Modine Manufacturing Co.
Newport Electric Corp.
O'S Gold Seed Company
Pacific Gas Transmission Co.
Pacific Resources, Inc.
Piper Jaffray Incorporated
Sharon Steel Corporation
Southern Calif. Gas Co. 6% A pfd.
Southern Calif. Gas Co. 6% pfd.
The Starr Broadcasting Group, Inc.
Texas American Oil Corp.

Thriftway Leasing Company
United Canso Oil & Gas Ltd.
United Canso Oilp Gas, Ltd.
Weco Development Corp.
Western Mortgage Investors
Yardney Electric Corp.

Therefore, beginning March 1, 1976, all members who execute over-the-counter transactions in Amex listed issues (except bonds and options) and the above regional stock exchange listed issues must report such transactions pursuant to the provisions of Schedule G.

Very truly yours,

A handwritten signature in cursive script that reads "Thomas D. Walsh". The signature is written in dark ink and is positioned above the printed name and title.

Thomas D. Walsh
Secretary

file re. National Association

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

2/24/76

Dear Friend:

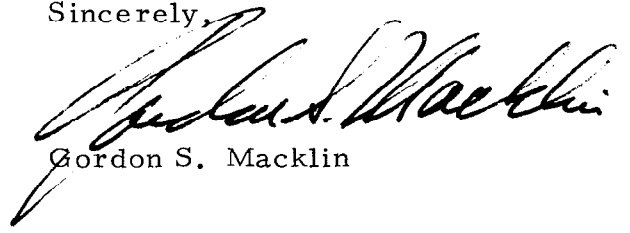
On February 9, 1976 the National Association of Securities Dealers, Inc. (NASD) purchased the NASDAQ System -- the automated quotations service for the over-the-counter securities market -- from the Bunker Ramo Corporation, the System's builder and operator. The enclosed new NASD booklet, "NASDAQ and the Over-the-Counter Market" is therefore very timely, and it is our pleasure to send it to you.

The booklet is a comprehensive, up-to-date description of the OTC market, and how the NASDAQ System serves it. The booklet also explains how the NASD plans to enhance the System, by adding a Composite Quotations Service, an Options Display Service and other features to it. Further, the booklet tells how NASDAQ transmits market information to the media, and thus increases the awareness and understanding of the investing and the general public.

This booklet complements two others which the NASD has recently published, "Investor Protection in the Over-the-Counter Securities Market" and "NASDAQ and the Listing Dilemma".

We would be glad to receive your comments and inquiries about the enclosed booklet. If you would like additional copies, they may be ordered at cost (\$0.55) from our Information Department.

Sincerely,


Gordon S. Macklin