
NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

September 7, 1971

TO: All NASD Members

RE: Adoption of Rule 17a-11 and Form X-17A-11, Under the Securities Exchange Act of 1934, Requiring Supplemental Current Financial and Operational Reports to be Made by Certain Exchange Members, Brokers and Dealers.

It is imperative that the management of all NASD firms thoroughly understand the provisions of SEC Rule 17a-11, effective September 15, 1971. This rule and the filing requirements thereunder are to provide the Commission and the self-regulatory bodies with an adequate and timely flow of information on the financial and operational condition of broker-dealers. The Commission realizes that it would be logistically impossible to detect promptly all net capital and operational problems through inspections or examination of periodic reports. This adopted rule places a duty upon all firms to report immediately when they fall into net capital violation or cease maintaining their books and records on a current basis. These reports are directed to the Securities and Exchange Commission and to each self-regulatory agency of which the broker-dealer is a member. Therefore, the management of each NASD member must assume primary responsibility in identifying and reporting capital and/or operational problems.

The rule contains four major provisions. First, the rule requires that immediate telegraphic notice must be given to the Securities and Exchange Commission and the self-regulatory agencies to which a broker-dealer belongs when the net capital of such broker-dealer is less than required by any capital rule to which it is subject. In addition, a report detailing the firm's financial condition must be filed with the Commission and each self-regulatory agency to which the firm belongs within 24 hours after such net capital deficiency occurs. The contents of such report are detailed in sub-paragraph (a)(2) of the rule.

Second, broker-dealers are required to file Form X-17A-11 within 15 days after the end of any month for which the net capital computation made and recorded pursuant to Rule 17a-3(a)(11) shows a net capital ratio in excess of 1200% or a total net capital less than 120% of minimum required. Such report must be submitted within 15 days after the end of each month thereafter until three successive months have elapsed during which time the net capital ratio is not in excess of 1200% and the total net capital is in excess of 120% of the minimum

required. This form consists of two parts. Part I is identical to the NASD Form Q Questionnaire which the membership has been filing on a quarterly basis. Part II requests specific data which has proven to be of significance with respect to past brokerage failures. Copies of this form may be obtained from the Publications Division, Securities and Exchange Commission, 500 North Capitol Street, Washington, D. C. 20549, or from any of the Commission's Regional Offices.

Third, immediate telegraphic notice must be given to the Commission and the self-regulatory agencies to which a broker-dealer belongs when a broker-dealer, subject to Rule 17a-3, is not making and keeping current the books and records specified under that rule. In addition, such broker-dealer must file a report with the Commission and each self-regulatory agency to which it belongs within 48 hours detailing measures taken to resolve the situation.

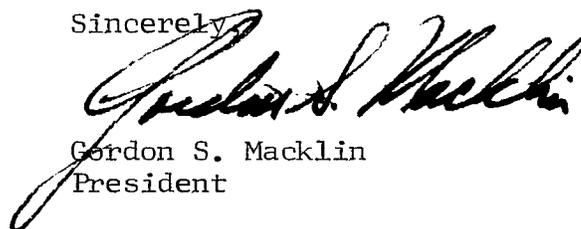
Fourth, the rule requires that any self-regulatory body learning that a member firm has failed to give notice or file a report as required by the rule must itself give notice of that fact.

The above summary is intended to highlight the major components of this new SEC ruling. Each NASD member should review SEC Release No. 9268, Adoption of Rule 17a-11 and Form X-17A-11, Under the Securities Exchange Act of 1934, in order to determine the responsibilities inherent in fulfilling the provisions of the rule. Should a firm's management neglect to heed the provisions of this rule, the Association will act promptly and forcibly against such NASD member.

The membership should especially note the provisions of paragraph (e) of the adopted rule which describes the recipients of the reports described in this rule. Paragraph (e) of Rule 17a-11 reads: "Every notice and report required to be given or filed by this rule shall be given to or filed with the principal office of the Commission in Washington, D. C., with the regional office of the Commission for the region in which the member, broker or dealer has his or its principal place of business, and with each national securities exchange and registered securities association of which such person is a member." This requires each NASD member to send a minimum of three copies of each communication required by this rule, i.e., Commission, Washington, D. C.; Regional Office of Commission; and NASD.

All telegraphic notices and reports required to be filed with the Association pursuant to the provisions of Rule 17a-11 should be directed to the NASD, 1735 K Street, N. W., Washington, D. C. 20006, to the attention of Mr. James E. Brucki, Jr., Assistant Director, Enforcement.

Sincerely,



Gordon S. Macklin
President

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

MAIL VOTE

IMPORTANT!

OFFICERS * PARTNERS * PROPRIETORS

To: Members of National Association of Securities Dealers, Inc.
Date: September 10, 1971
Re: Mail Vote Concerning Changes in Article IV,
Section 3 of the By-Laws

LAST VOTING DATE IS October 10, 1971.

Enclosed herewith is a proposed amendment to Article IV, Section 3 of the By-Laws which, pursuant to the provisions of Article IX thereof, must be approved by the membership before it can become effective. This proposed amendment was submitted to the membership on July 23, 1971, for comment. The comment letters have subsequently been reviewed and the Board has voted to propose the adoption of the amendment as previously submitted to the membership.

Explanation of Proposal

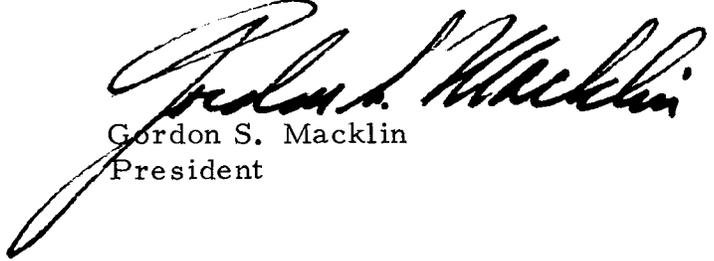
The amendment to Article IV, Section 3 of the By-Laws would decrease the representation of District No. 8 of the Association on the Board of Governors from three members to two and increase the representation on the Board of Governors of District No. 13 from one member to two. This change is being made to more properly conform the representation on the Board of Governors to the distribution of members among those Districts. Conforming technical changes will be made where necessary throughout the By-Laws.

This amendment to the By-Laws is important and merits your immediate attention. Please mark the ballot according to your convictions

and return it in the enclosed stamped envelope to "The Corporation Trust Company." Ballots must be postmarked not later than October 10, 1971.

The Board of Governors believes this amendment is necessary and appropriate and recommends members vote their approval.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Gordon S. Macklin". The signature is written in black ink and is positioned above the printed name and title.

Gordon S. Macklin
President

Proposed Amendment to Article IV, Section 3 of the By-Laws

It is proposed that Article IV, Section 3 of the By-Laws be amended by deleting the words which are lined out and by adding the words which are underlined, as set forth below.

Article IV, Section 3 of the By-Laws

Sec. 3. The several districts shall be represented on the Board of Governors.

The elected members of the Board of Governors shall be chosen as follows:

(a) Three members of the Board of Governors shall be elected from and by the members of the Corporation having places of business in District No. 2;

(b) ~~Three~~ Two members of the Board of Governors shall be elected from and by the members of the Corporation having places of business in District No. 8;

(c) Five members of the Board of Governors shall be elected from and by the members of the Corporation having places of business in District No. 12;

(d) Two members of the Board of Governors shall be elected from and by the members of the Corporation having places of business in District No. 13.

~~(d)~~ (e) One member of the Board of Governors shall be elected from and by the members of the Corporation having places of business in each of the remaining districts not referred to in paragraphs (a), (b), and (c) and (d) of this Section.

~~(e)~~ (f) One member of the Board of Governors shall be elected by the Board of Governors from among the principal underwriter members of investment company shares, and he shall be designated Governor-at-Large.

~~(f)~~ (g) One member of the Board of Governors shall be elected by the Board of Governors from among insurance company members or insurance company affiliated members of the Association and he shall be designated Governor-at-Large.

(g) (h) Three members of the Board of Governors shall be elected from the membership generally and they shall be designated Governors-at-Large. One such Governor-at-Large shall be elected by the Board of Governors in 1970 to take office in 1971. One such Governor-at-Large shall be elected by the Board of Governors in 1971 to take office in 1972. One such Governor-at-Large shall be elected by the Board of Governors in 1972 to take office in 1973.

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

BALLOT

(This ballot must be signed by your "Executive Representative")

After you have indicated your vote on this ballot, please sign it on the dotted line below the box. Failure to do so renders the ballot invalid and it will be excluded from the tabulation. The completed ballot should be mailed in the enclosed stamped envelope addressed to The Corporation Trust Company, Box 631, 100 West Tenth Street, Wilmington, Delaware 19899. Ballot must be mailed by October 10, 1971.

NASD DEPT. OF REGULATIONS
LIBRARY
1735 K STREET NW
WASHINGTON DC 20006

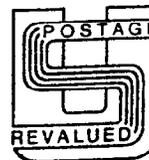
1. Article IV, Section 3 of the By-Laws

Approves

Disapproves

Signature of Executive Representative

FROM:



THE CORPORATION TRUST COMPANY
Box 631
100 West Tenth Street
Wilmington, Delaware 19899

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

September 21, 1971

To All NASD Members:

The Board of Governors has declared that the emergency conditions stemming from back office and "fails" problems still exist.

Thus, Emergency Rules of Fair Practice Nos. 70-1, 70-2 and 70-3 are still in effect. The full text of these Emergency Rules can be found on page 2005 of the NASD Manual.

This action was taken on the basis that conditions in the industry do not warrant discontinuance of the emergency.

The Emergency Rules will be in effect from September 22, 1971 and will remain in effect for a six-month period unless rescinded earlier by action of the Board of Governors.

Sincerely,



Gordon S. Macklin
President

Note: The resolution of the Board of Governors regarding these Emergency Rules appears on the reverse side of this notice.

RESOLUTION CONTINUING EMERGENCY CAUSED
BY FAILS AND BOOKS AND RECORDS PROBLEMS

WHEREAS, the Board of Governors has previously on March 22, 1971, declared an emergency to exist as a result of the large number and dollar amounts of "fails to deliver" securities to a buyer and/or "fails to receive" securities from a seller and because of the lack of currency of books and records of many members of the Association, each of which factors has a potential adverse effect on a member's net capital position; and

WHEREAS, the conditions which gave rise to the previously declared emergency have not abated sufficiently to warrant a change in procedures at this time; and

WHEREAS, the Board of Governors of the Corporation has been informed of and/or has knowledge, and/or is aware of information which is indicative of the continuation of the previously declared emergency situation; and

WHEREAS, the Board of Governors believes that the said emergency condition continues to exist; and

WHEREAS, the National Association of Securities Dealers, Inc. is charged with the responsibility and function of carrying out the purposes of the Maloney Act, codified as Section 15A of the Securities Exchange Act of 1934, as amended, 15 U.S.C. 78o-3, et seq; and

WHEREAS, the aforesaid Act authorizes and requires rules of the Corporation to be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade and, in general, to protect investors and the public interest and to remove impediments to and perfect the mechanism of a free and open market and that they are not designed to permit unfair discrimination between customers, or issuers, or brokers or dealers; and

WHEREAS, pursuant to the provisions of Article VII, Section 1 of the By-Laws of the Corporation the Board of Governors is authorized to reassess the facts and circumstances which gave rise to an emergency previously declared to exist and to declare by resolution, if it deems such appropriate under the facts and circumstances then existing, the emergency to continue to exist for successive six-month periods as required;

NOW, THEREFORE, BE IT RESOLVED, that based upon information which has been supplied to and is before the Board, an emergency condition is hereby found to continue to exist.

NASD

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

September 27, 1971

I M P O R T A N T

THIS NOTICE MUST BE DUPLICATED AND DELIVERED

TO ALL OTC TRADERS IN YOUR FIRM

TO: NASD Members and Branch Offices

SUBJ: New Requirement that Quotations Appearing in the
NASDAQ System be Firm

The Board of Governors is most concerned that the quotations in the NASDAQ System be received by the investing public and the industry with the highest possible degree of confidence. It is the key to the long-range success of the System and of those who participate in it. After a full consideration of this matter, the Board has concluded that a strengthening of the requirements related to the firmness of quotations in the System is necessary and appropriate.

Consequently, the Board of Governors has amended Schedule D, Part I, C (3b) of the NASD By-Laws which pertains to "Character of Quotations Entered into the System" to read as follows:

"A registered market maker which receives a buy or sell order must execute a trade for at least a normal unit of trading at his quotations as they appear on NASDAQ CRT screens at the time of receipt of any such buy or sell order. Each quotation entered by a registered market maker must be reasonably related to the prevailing market."

This amendment represents a change from the previously stated policy with respect to firmness of quotations in NASDAQ as found in the Notice dated March 17, 1971, to NASDAQ Level 2 and Level 3 subscribers, wherein a trader calling a market maker was first expected to ask the market maker to confirm his quotation appearing in the System. This is no longer so.

Under the amended interpretation stated above, a market maker is required to buy or sell a trading unit at the quotation it has prevailing in the System

at the time telephone contact is made with the Trading Department of the market making firm or the market maker's correspondent. In the event a market maker should state that a quote change was already entered during the interim between the time the calling trader interrogated the System and the time he made telephone contact with the market maker or its correspondent, the calling trader is expected to again depress the Transmit (TR) button. (A response to a quote request is received much faster than the time involved in entering a quote change.) Transactions for less than the normal trading unit would be traded on terms established by the market makers.

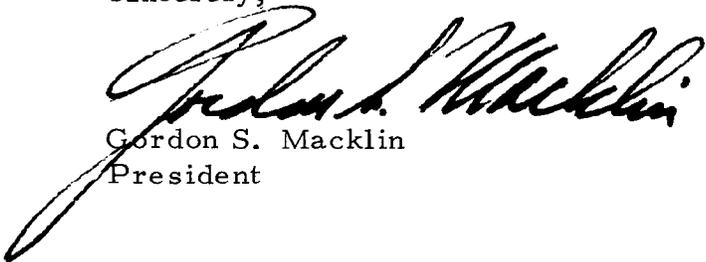
In the event a market maker's terminals are malfunctioning and thus prevented from updating quotations, this fact should be reported immediately to the Bunker-Ramo Service Department and to the NASD NASDAQ Department in New York (Telephone: (212) 269-6393) so that this outage may be entered into the NASDAQ NEWS frame.

It is important that traders working with the System report to the NASD instances of "backing away" so that complaint action may be taken when circumstances warrant such action. Cases of "backing away" will be accepted by the NASD only on the form attached to this Notice. Five copies of the "Report of Backing Away" form have been enclosed for your files. Additional copies may be reproduced by your firm or obtained from any NASD office.

In those instances where the NASD may file a complaint action involving "backing away" from NASDAQ quotations, a defense by the respondent market maker that the complainant firm has "backed away" from the respondent on previous occasions cannot be accepted.

It is the ardent hope of the Board of Governors and the NASDAQ Committee that with the establishment of these new ground rules, instances of "backing away" will disappear and that complaint action will prove to be unnecessary.

Sincerely,



Gordon S. Macklin
President

Enclosures

NASDAQ SYSTEM
REPORT OF "BACKING AWAY"

(Date)

COMPLAINT REPORTED BY: Name of Firm _____

Location _____

Name of Officer or Partner _____

COMPLAINT DIRECTED AGAINST: Name of Market Maker _____

Location _____

Individual's Name, if known _____

1. NAME OF NASDAQ ISSUE AND SYMBOL: _____

2. EXACT TIME PHONE CONTACT WITH MARKET MAKER OR ITS CORRESPONDENT WAS MADE: _____

a. NAME OF CORRESPONDENT CONTACTED, IF APPLICABLE: _____

3. QUOTATION OF MARKET MAKER ON YOUR TERMINAL: _____

. QUOTE GIVEN OVER PHONE BY MARKET MAKER OR CORRESPONDENT: _____

5. DID MARKET MAKER CHANGE QUOTE IN THE SYSTEM BEFORE CALL WAS TERMINATED? _____

a. IF SO, WHAT DID MARKET MAKER CHANGE QUOTE TO? _____

6. WAS TRANSACTION EFFECTED WITH ABOVE NAMED MARKET MAKER? _____

a. IF SO, NUMBER OF SHARES AND PRICE/SHARE: _____

7. ADDITIONAL REMARKS: _____

Please return this form to:

NASD - NASDAQ Department
1735 K Street, N.W.
Washington, D.C. 20006

(Signature of Officer or Partner)

NASDAQ SYSTEM
REPORT OF "BACKING AWAY"

(Date)

COMPLAINT REPORTED BY: Name of Firm _____

Location _____

Name of Officer or Partner _____

COMPLAINT DIRECTED AGAINST: Name of Market Maker _____

Location _____

Individual's Name, if known _____

1. NAME OF NASDAQ ISSUE AND SYMBOL: _____

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a. NAME OF CORRESPONDENT CONTACTED, IF APPLICABLE: _____

3. QUOTATION OF MARKET MAKER ON YOUR TERMINAL: _____

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a. IF SO, WHAT DID MARKET MAKER CHANGE QUOTE TO? _____

6. WAS TRANSACTION EFFECTED WITH ABOVE NAMED MARKET MAKER? _____

a. IF SO, NUMBER OF SHARES AND PRICE/SHARE: _____

7. ADDITIONAL REMARKS: _____

Please return this form to:

NASD - NASDAQ Department
1735 K Street, N.W.
Washington, D.C. 20006

(Signature of Officer or Partner)

NASDAQ SYSTEM
REPORT OF "BACKING AWAY"

(Date)

COMPLAINT REPORTED BY: Name of Firm _____

Location _____

Name of Officer or Partner _____

COMPLAINT DIRECTED AGAINST: Name of Market Maker _____

Location _____

Individual's Name, if known _____

1. NAME OF NASDAQ ISSUE AND SYMBOL: _____

2. EXACT TIME PHONE CONTACT WITH MARKET MAKER OR ITS CORRESPONDENT WAS MADE: _____

a. NAME OF CORRESPONDENT CONTACTED, IF APPLICABLE: _____

3. QUOTATION OF MARKET MAKER ON YOUR TERMINAL: _____

4. QUOTE GIVEN OVER PHONE BY MARKET MAKER OR CORRESPONDENT: _____

5. DID MARKET MAKER CHANGE QUOTE IN THE SYSTEM BEFORE CALL WAS TERMINATED? _____

a. IF SO, WHAT DID MARKET MAKER CHANGE QUOTE TO? _____

6. WAS TRANSACTION EFFECTED WITH ABOVE NAMED MARKET MAKER? _____

a. IF SO, NUMBER OF SHARES AND PRICE/SHARE: _____

7. ADDITIONAL REMARKS: _____

Please return this form to:

NASD - NASDAQ Department
1735 K Street, N.W.
Washington, D.C. 20006

(Signature of Officer or Partner)

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

MAIL VOTE

IMPORTANT!

OFFICERS * PARTNERS * PROPRIETORS

To: Members of National Association of Securities Dealers, Inc.

Date: September 29, 1971

Re: Mail Vote Concerning:

1. Deletion of Article VII, Section 3(d) of By-Laws
2. Amendment of Article IV, Section 2(b) of By-Laws
3. Amendment to Section 22 of Rules of Fair Practice

LAST VOTING DATE IS October 29, 1971

Enclosed herewith are proposed amendments to the Association's By-Laws and its Rules of Fair Practice which, pursuant to the provisions of the By-Laws, must be approved by the membership before they can become effective. These amendments were submitted to the membership on July 23, 1971 for comment. Comment letters have subsequently been reviewed and the Board has voted to propose the adoption of the amendments as previously submitted to the membership except as otherwise indicated herein.

Explanation of Proposals

The proposed amendments to the By-Laws would delete Article VII, Section 3(d) thereof which presently gives the Board of Governors of the Association authority to "prescribe such procedure for the arbitration of controversies between members and between members and customers or

others as it shall deem necessary or appropriate" and add in lieu thereof a new Section 2(b)(4) in Article IV. The effect of these proposals is to broaden the Board's authority covering arbitration procedures and to relocate that authority in the By-Laws. This authority is more properly placed in Article IV, which relates to the authority of the Board generally, than in Article VII, which relates to the establishment of rules of fair practice.

In respect to the broadening of its authority, the Board believes the Association's arbitration procedures should require the submission of certain controversies to arbitration. It believes, however, that in order for it to require such, additional authority from the membership is necessary. In sum, the two amendments would have the effect of delegating to the Association's Board explicit authority to require members to submit controversies to arbitration when such controversies arise between members or between members and customers or others to the extent consistent with law.

As noted above, these amendments were submitted to the membership for comment for a 30-day period on July 23, 1971. Enclosed at that time for the information of and comment by the membership were proposed amendments to the Code of Arbitration Procedure which would have the effect of implementing the new authority of the Board presumed by the amendments described above. Final action on those proposals has not yet been taken by the Board of Governors.

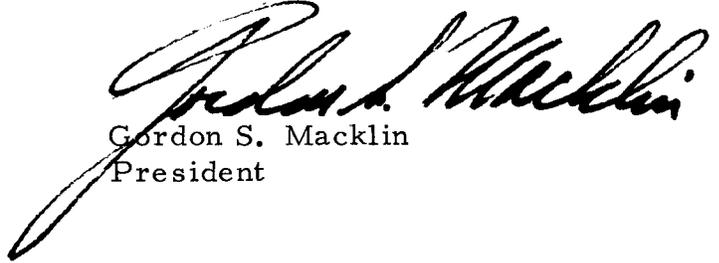
The amendment to Article III, Section 22 of the Association's Rules of Fair Practice would require the disclosure by a member of its financial position to any person contributing new capital to the member. The requirement covers the contribution of any form of new capital including but not limited to subordinated capital, limited partnership interests or privately placed equity securities. In addition, the amendment would require the member receiving such capital and making the disclosure to keep and preserve a written statement from the contributor stating that the disclosure had been made to him. It would also require that a statement of the financial position of the member be made to such persons annually. This latter provision was not part of the proposals which were submitted to the membership for comment on July 23rd but the Board believes it necessary in the public interest.

These amendments to the By-Laws and the Rules of Fair Practice are important and merit your immediate attention. Please mark the ballot according to your convictions and return it in the enclosed stamped envelope

to "The Corporation Trust Company." Ballots must be postmarked not later than October 29, 1971.

The Board of Governors of the Association believes these amendments are necessary and appropriate in the public interest and recommends members vote their approval.

Very truly yours,

A handwritten signature in black ink, appearing to read "Gordon S. Macklin". The signature is fluid and cursive, with a long, sweeping underline that extends to the left and then curves back under the name.

Gordon S. Macklin
President

Proposed Amendments to the By-Laws and Rules of Fair Practice
of the
National Association of Securities Dealers, Inc.

It is proposed that the following sections of the By-Laws and Rules of Fair Practice of the National Association of Securities Dealers, Inc., be amended by deleting the words which are lined out and by adding the words which are underlined as set forth below.

1. Delete Article VII, Section 3(d) of the By-Laws:

~~(d) To prescribe such procedure for the arbitration of controversies between members and between members and customers or others as it shall deem necessary or appropriate.~~

2. Amend Article IV, Section 2(b) of the By-Laws as follows:

(b) The Board of Governors shall be the governing body of the Corporation and, except as otherwise provided by these By-Laws, shall be vested with all powers necessary for the management and administration of the affairs of the Corporation, and for the promotion of the Corporation's welfare, objects and purposes. In the exercise of such powers, the Board of Governors may, (1) adopt for submission to the membership, as hereinafter provided, such By-Laws, Rules of Fair Practice and changes or additions thereto as it deems necessary or appropriate; (2) make such regulations, issue such orders, resolutions, interpretations and directions, and make such decisions as it deems necessary or appropriate; ~~and~~ (3) prescribe maximum penalties for violations of the provisions of these By-Laws, the rules and regulations of the Corporation, for neglect or refusal to comply with orders, directions and decisions of the Board of Governors or of any District Committee or other Committee, or for violation of any rule or regulation adopted by any District Committee, as provided in Section 2 of Article VII hereof; and (4) prescribe a code of arbitration procedure providing for the required or voluntary arbitration of controversies between members and between members and customers or others as it shall deem necessary or appropriate to the extent consistent with law.

Article III, Section 22 of the Rules of Fair Practice

(a) A member shall make available to inspection by any bona fide regular customer, upon request, the information relative to such member's financial condition as disclosed in its most recent balance sheet prepared either in accordance with such member's usual practice or as required by any State or Federal securities laws, or any rule or regulation thereunder.

(b) Any member who receives new capital in any form, including but not limited to subordinated capital, limited partnership interests or privately placed equity securities must provide the contributor of such new capital prior to the receipt thereof, and at least annually thereafter, with a statement of such member's financial condition as disclosed in its most recent balance sheet prepared either in accordance with such member's usual practice and/or as required by any State or Federal securities laws, or any rule or regulation thereunder.

(c) Any member who receives new capital in any form, including but not limited to subordinated capital, limited partnership interests or privately placed equity securities must keep and preserve a written statement from the contributor of such new capital stating that the disclosures required in paragraph (b) of this rule have been made to such contributor.

(b) (d) As used in paragraph (a) of this rule, the term "customer" means any person who, in the regular course of such member's business, has cash or securities in the possession of such member.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

October 1, 1971

To All NASD Members

The recent interruption of NASDAQ Level I Service has been followed by a period of mediation and conciliation between the parties and subsequent meetings, under NASD auspices, between all Level I Distributors to discuss this matter.

As a result of the discussions, it became clear that certain NASD members may not be entirely without fault. Individuals apparently have experimented with key combinations on Level I receivers and may have manipulated the internal workings of Level I devices in order to obtain Level I Service on terminals not authorized to receive it. Any tampering or illegal receipt of the Service by our members should be stopped immediately since they involve violation of the Association's Rules of Fair Practice as well as provisions of Schedule D of the By-Laws.

In order to be certain that this activity be eliminated, examiners from the Association will routinely include as part of their examination agenda inspection of all terminals capable of receiving Level I Service. If the examination demonstrates manipulation of any kind, it may result in complaint action against the individual and possibly against the member if it appears that it has not taken steps to supervise properly in this respect. In this connection, I also ask that you notify District Directors of the Association of any instances of misuse of terminals which come to your knowledge.

Overall, the entire System is functioning very well. Your cooperation with the Association has contributed greatly to System efficiency. Your continued cooperation in this matter will also be greatly appreciated.

This notice has been included as part of the current issue of the NASD News, which NASD members receive in bulk for distribution to registered representatives.

Sincerely,



Gordon S. Macklin
President

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

October 1, 1971

To All NASD Members:

Re: New Procedures for Buy-Ins and Sell-Outs according to Section 59 and 60 of the Uniform Practice Code

This notice will serve to update a previous NASD notice dated July 13, 1971, concerning "Interim Procedures" for buy-ins and sell-outs during the Western Union strike.

In light of the overall strike settlement which now exists and the availability of new communications service thru Western Union and the U. S. Postal Service, i.e. MAILGRAMS, the following procedures have been developed and must be used by members in connection with buy-ins and sell-outs.

Valid Notice of Executed Buy-In or Sell-Out

In order to comply with Section 59(g) or 60(b) - which states that the party executing the buy-in or sell-out shall notify the broker or dealer for whose account the securities were bought or sold as soon as possible on the day of execution - a member executing a buy-in or sell-out must do one of the following:

- A. Deliver by hand, during business hours of the day of execution, written notice containing details of the buy-in or sell-out.
- B. Transmit details of the buy-in or sell-out via teletype on the day of execution.
- C. Forward via telegram or mailgram details of the buy-in or sell-out on the day of execution.

NOTE: Inasmuch as mailgrams and, in some cases, telegrams are not received on the same day they are sent, good practice calls for members utilizing procedure C to give telephone notice of the details of the executed buy-in or sell-out on the day of execution.

(over)

Notice of Executed Buy-In for Re-transmits

In the event a re-transmit of the original intent to buy-in was delivered to another member from whom the securities involved were due, it is the obligation of the member who made such a re-transmit, upon receipt of notice of executed buy-in according to A, B, or C above, to give similar notice on that day of receipt to the succeeding member to whom the re-transmit was sent.

Sincerely,



Gordon S. Macklin
President

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

October 1, 1971

To All NASD Members:

The banks in New York City will be closed on Monday, October 11, in observance of Columbus Day; Monday, October 25, Veterans' Day; and Tuesday, November 2, Election Day. Because of this, there will be no settlements made on these dates. The NASD executive and field offices will remain open on these days and it is requested that all NASD members also keep their OTC operations open on the above dates.

Deliveries of securities or payments of funds ordinarily due on October 11, October 25, and November 2 (except with respect to "cash" transactions) shall be due on the business day following these dates. Transactions executed on these days will be combined for settlement with transactions made on the business day preceding October 11, October 25, and November 2.

These three holidays are not to be considered business days in determining the day for settlement of a contract, the day on which stock shall be quoted ex-dividend or ex-rights, or in computing interest on contracts in bonds or premiums on loans of securities.

Firms should not mark to the market, make reclamation, or close contracts (other than "cash" contracts) on these days.

There will be no change in present procedure with respect to comparisons and "DK's".

A schedule of delivery dates for "regular way" contracts and ex-dividend dates is listed below:

<u>Delivery dates for "regular way" contracts</u>		<u>"Ex-dividend" Dates</u>	
<u>Trade Date</u>	<u>Delivery Date</u>	<u>Record Date</u>	<u>"Ex" Date</u>
(other than U.S. Government securities)		Oct. 8 and 11	Oct. 4
Oct. 4	Oct. 12	12	5
5	13	13	6
6	14	14	7
7	15	15	8
8 and 11	18	Oct. 22 and 25	18
Oct. 18	26	26	19
19	27	27	20
20	28	28	21
21	29	29	22
22 and 25	Nov. 1	Nov. 1 and 2	26
26	3	3	27
27	4	4	28
28	5	5	29
29	8	8	Nov. 1
Nov. 1 and 2	9		

(continued on reverse side)

Delivery dates for "regular way" contracts

<u>Trade Date</u>	<u>Delivery Date</u>
(U.S. Government securities)	
Oct. 8 and 11	Oct. 12
22 and 25	26
Nov. 1 and 2	Nov. 3

RECEIVERS APPOINTED FOR CERTAIN MEMBERS

Receivers have been appointed for the following firms. Members may avail themselves of the immediate close-out procedure as outlined in Section 59(h) of the Uniform Practice Code. Any resultant money differences or other matters of business should be taken up with the appropriate receiver.

Firm: Buttonwood Securities, Inc.
7875 Ivanhoe Avenue
P. O. Box 2078
La Jolla, California 92037

Receiver: Robert G. Sullivan
Suite 814
530 Broadway
San Diego, California 92101
Tel: (714) 234-6781

Firm: Commonwealth Securities Corporation
315 Stahlman Building
211 Union Street
Nashville, Tennessee 37201

Receiver: Fred D. Bryan
Suite 108 Parkway Towers
404 James Robertson Parkway
Nashville, Tenn. 37219
Tel: (615) 256-0942

Questions regarding this notice should be directed to the Uniform Practice Department at 17 Battery Place, Room 1325, New York, New York 10004, (212) 269-6393.

Sincerely,


Gordon S. Macklin
President

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

October 1, 1971

NOTICE

TO: All NASD Members
RE: "Financial Planning"

In recent years, many members have expanded the variety of products and services that they offer to the public. As a result, there has been an increased use of terms such as "financial planning," "financial counselling," "financial consultant," "estate planning," and similar terms to describe these services in members' advertising and sales literature.

Members should exercise caution in the use of such descriptive terms, particularly with respect to titles and descriptions of sales representatives. Such descriptions could imply that specialized training has been given to representatives and/or that the member is generally engaged in an advisory business which is unrelated to compensation earned on sales. Extreme care must be exercised to insure that the use of such descriptions are accurate and fairly represent the activities of the member in light of the variety and nature of services offered, the method of compensation for such services, the experience and the qualifications of the individuals offering such services, any potential conflicts of interest with respect to such services, and, of course, the manner in which such terms or descriptions are used.

The Securities and Exchange Commission, in its findings and opinion in an administrative proceeding against a broker/dealer then registered under the Securities Exchange Act of 1934, found violations of the anti-fraud provisions of the federal securities laws in that, among other things, ". . . registered broker dealer and associated persons represented themselves to be financial planning experts who would choose the best securities for their clients but, contrary to such representation, substantially limited their recommendations to securities yielding respondents greatest profits" (Securities Exchange Act Release No. 9082 - February 19, 1971)

Members should also be aware of the strict limitations on the use of the term "Investment Counsel" in Section 208(c) of the Investment Advisers Act of 1940.

Sincerely,

A handwritten signature in black ink, appearing to read "Gordon S. Macklin". The signature is written in a cursive style with a large initial "G".

Gordon S. Macklin
President

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

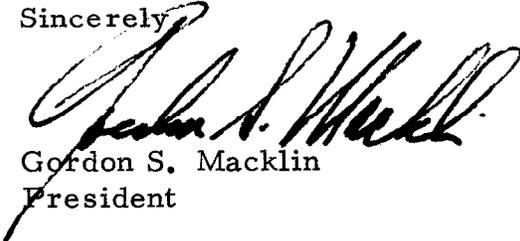
October 28, 1971

To All NASD Members:

NASD members should disregard the penalty imposed in connection with the disciplinary action against Howard Smolar, a registered principal, which was published in Supplement #63 of the NASD Manual at page 708. The penalty has been stayed by reason of appeal to the Securities and Exchange Commission.

Manual Supplement #63 indicates that Smolar will be suspended from associating with any NASD member for thirty days, beginning with the opening of business on Monday, November 1, 1971, and concluding at the close of business on November 30, 1971. This information is in error because of the appeal to the SEC. The Association was not properly notified of Smolar's appeal until shortly after the publication deadline for the Manual Supplement.

Sincerely



Gordon S. Macklin
President

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

November 3, 1971

To All NASD Members:

As noted in an NASD Notice to Members dated September 21, 1971, the Board of Governors has reinstated Emergency Rule 70-2 requiring all members to clear up or settle any fails that are in excess of a certain number of days in age. This rule was amended, effective on November 1, 1971, to require that all fails be cleared within 90 days, rather than the former 120-day requirement. Under the amended rule, fails in foreign securities will be required to be cleared within 150 days, a change from the prior 180-day ceiling.

The text of the amended rule, which can be found on page 2006 of the NASD Manual, reads as follows:

- I. In all cases where a member has a "fail to deliver" or a "fail to receive" on its books which is not cleared by it within 30 days after it reaches 60 days in age (120 days in the case of foreign securities except American Depository Receipts and Canadian securities), such shall constitute a violation of Article III, Section 1 of the Rules of Fair Practice and of this emergency rule.

(Section I amended effective November 1, 1971.)

- II. For good cause shown and in exceptional circumstances, in situations where it can be demonstrated that
 - (1) the member has taken all necessary and reasonable steps to process the clearance of transactions and delay has not been occasioned on his account, where application of the rule would work hardship upon public customers and/or the member, and
 - (2) where the failure to meet the standards set forth above results from an occasional transaction and its peculiar nature such as a dispute arising from a legal transfer,

a member may request exemption from the provisions of Section 1 hereof by written request to the District Secretary of his District in which his principal office is located who shall have the authority to grant exceptions when the above criteria have been met.

III. This rule has been promulgated as an emergency rule of fair practice pursuant to the provisions of Article VII of the By-Laws of the Corporation, an emergency having been found to exist by resolution of the Board of Governors of the Corporation dated September 22, 1969. *

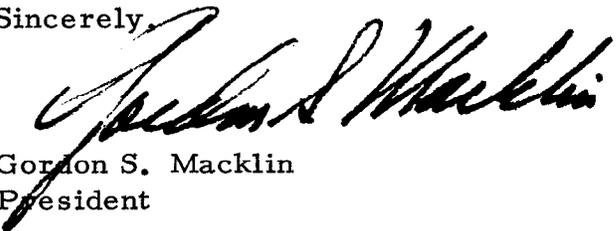
* * *

IBA CORRESPONDENCE COURSE

Enclosed with this notice is a flyer describing a correspondence course sponsored by the Investment Bankers Association of America, entitled "Investment Banking, Stock Exchange Operations and Securities Salesmanship".

Questions about this course should be directed to the Educational Director, Investment Bankers Association of America, 425 - 13th Street, N. W., Washington, D. C. 20004.

Sincerely,



Gordon S. Macklin
President

Enclosure

* The emergency was re-declared by the Board of Governors effective March 19, 1970, September 21, 1970, March 22, 1971 and September 22, 1971.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

November 9, 1971

Attention Operations Officers

To All NASD Members:

The Board of Governors of the Association has recently adopted amendments to Sections 17 and 48 of the Uniform Practice Code. Section 17 deals with the Units of Delivery for Bonds while Section 48 concerns Due-bills and Due-bill Checks. The new Sections became effective November 1, 1971.

The most important effect of the amendment to Section 17 is to allow for the delivery of large denomination certificates in settlement of transactions in bonds. For some time now industry groups have been working toward greater utilization of large denomination certificates in order to obtain processing, storage and security advantages.

Under the amended Section 17 denominations of \$1000 principal amount and multiples of \$1000 up to a maximum of \$100,000 principal amount will be considered a good delivery as further described below. Previously, the largest denomination which could be delivered was \$25,000 principal amount.

A summary of the application of Section 17, as amended, for the delivery of coupon and registered bonds follows:

1. If only coupon bearer certificates are issued and deliverable, delivery must be in denominations of \$500 or \$1000 principal amount.
2. If the issue is deliverable in either coupon or registered form, bonds in either form may be delivered in denominations of \$1000 or multiples of \$1000 but not greater than \$100,000 principal amount.
3. If only registered bonds are issued and deliverable, delivery may be in denominations of \$1000 or multiples of \$1000 but not greater than \$100,000 principal amount.

The amendment to Section 48 affects due-bills which represent the title to securities not yet available for delivery. Amended Section 48 paragraph (a) prohibits the transfer or assignment of a due-bill, which is regarded as a two party instrument, to a third party. In other words, a due-bill endorsed by one member

to give title to securities due to another member may not be "passed on" to a third member which is owed the same securities covered by the due-bill. Therefore, each member owing a due-bill to another member must originate his own.

Furthermore, in order to simplify the due-bill procedure and to minimize paperwork, members may continue to use one due-bill to encompass all certificates delivered in settlement of a transaction rather than individual due-bills for each certificate.

For the full text of these amendments see: Section 17, page 3523 and Section 48, page 3555 in the NASD Manual.

Questions regarding this notice may be directed to the Uniform Practice Department, 17 Battery Place, Room 1325, New York, New York 10004 (212) 269-6393.

Sincerely,



Gordon S. Macklin
President

NASD

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

MAIL VOTE

IMPORTANT!

OFFICERS * PARTNERS * PROPRIETORS

To: Members of the National Association of Securities Dealers, Inc.
Date: November 29, 1971
Re: Mail Vote Concerning Amendment
To Article IV, Section 3(g) of By-Laws

LAST VOTING DATE IS DECEMBER 29, 1971

Below is a proposed amendment to Article IV, Section 3(g) of the Association's By-Laws which, pursuant to the provisions of Article IX thereof, must be approved by the membership before it can become effective.

The purpose of the proposed amendment which deletes from the referred to section the words "from the membership generally" is to enable the Board of Governors of the Association, if it so desires, to appoint to the Board of Governors a representative or representatives of the public as governors-at-large. With the deletion of the language there will be no requirement that the three governors-at-large authorized by that section will be either from within or without the securities industry. It is anticipated, however, that at least one of those three individuals will be from the public sector. The original purpose behind subsection (g) authorizing three at-large governors was to enable the Board to select individuals from the various specialties of the securities industry in accordance with its needs at the time of the selection. It now believes that at least one of the governors-at-large should be from the public. Additional language has also been added to subsection (g) to make clear that the Board of Governors shall elect the governors-at-large.

Proposed Amendment To Article IV, Section 3(g)

Article IV, Section 3(g) shall be amended as indicated by underlining (new language) or lining out (deleted language) as follows:

- (g) Three members of the Board of Governors shall be elected by the Board of Governors ~~from the membership generally~~ and they shall be designated Governors-at-Large. One such Governor-at-Large shall be elected by the Board of Governors in 1970 to take office in 1971. One such Governor-at-Large shall be elected by the Board of Governors in 1971 to take office in 1972. One such Governor-at-Large shall be elected by the Board of Governors in 1972 to take office in 1973.

This amendment to the By-Laws is important and merits your immediate attention. Please mark the ballot according to your convictions and return it in the enclosed stamped envelope to "The Corporation Trust Company." Ballots must be postmarked no later than December 29, 1971.

The Board of Governors believes this amendment to the By-Laws is necessary and appropriate and recommends members vote their approval.

Very truly yours,


Gordon S. Macklin
President

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

November 29, 1971

To Selected NASD Members:

Since aggregate and individual NASDAQ volume figures were released to the wire services accompanied by the ten most active OTC stocks for the first time on November 1, a number of newspapers across the country have begun carrying this important investor information in their daily or weekly stock summaries along with the closing quotations on the OTC market. To the best of our knowledge, those newspapers publishing OTC volume figures include the New York Times, the Wall Street Journal, the Los Angeles Times, the Kansas City Star, the Pittsburgh Press and the Cleveland Plain Dealer (Sunday edition only).

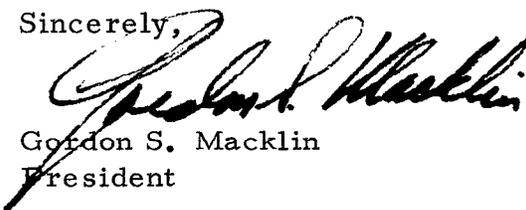
Approximately 45 other morning newspapers, however, have not yet begun to incorporate NASDAQ volume figures into their published tabular information on the OTC market. This important material is available to the newspapers only through the wire services to which they subscribe. A list of these newspapers, their addresses and the name of their financial editor is displayed on the last page of this notice.

Although I have personally written to each newspaper (copy of letter attached), we feel that individual follow-up letters from NASD members, or branch offices of members, interested in the OTC market and located in the newspaper's home city will be extremely beneficial in influencing the management decision to carry NASDAQ volume figures. Accordingly, I'm asking for your help in initiating these letters or personal contact from one or more of your officers or executives to the appropriate financial editor requesting that this OTC volume information be published daily. In addition, it would also be extremely helpful if your sales personnel with OTC customer accounts could obtain the cooperation of some of these individuals in also registering their desire to see volume figures published for the OTC market.

We will not be able to close this communications gap with the public unless all of us in the securities business, particularly the over-the-counter market, express our desire and the need of our customers to have this meaningful indicator of security's activity made available on a regular basis.

I thank you in advance for your cooperation in this campaign to increase the visibility of the over-the-counter market.

Sincerely,



Gordon S. Macklin
President

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

Copy of Letter Sent to Financial Editors Listed on p. 4 of this Notice

November 12, 1971

Dear Mr. :

On November 1 the Wall Street Journal, New York Times and Los Angeles Times began carrying volume figures on a national list of 1,549 NASDAQ listed OTC companies supplied daily at approximately 4:40 P.M., E.S.T. by AP and UPI, which have direct connections with the NASDAQ system computers in Trumbull, Connecticut. Although NASDAQ compiles and transmits aggregate and individual volume figures on more than 2,800 OTC stocks in the system, the wire services have developed their own lists for retransmission, with NASD assistance, to include only the most active securities with broad national investor interest and appeal.

Many NASD member firms, and a number of individual investors, have recently inquired of us as to why this volume information does not appear in their local newspapers -- including your publication -- and we have been hard-pressed to supply an adequate answer, except for the possible limitations of available tabular space in individual financial sections.

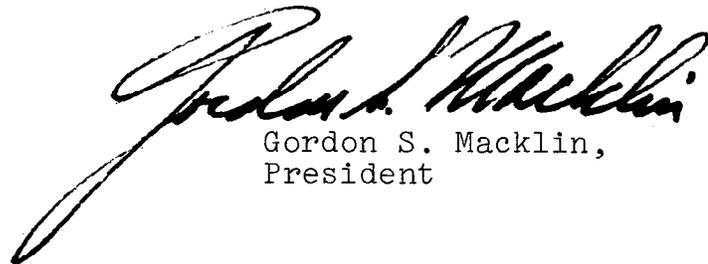
Since the figures that have been released so far indicate that the NASDAQ daily volume exceeds that of all registered stock exchanges combined, except the New York Stock Exchange, and this NASDAQ volume is more than double the volume of the second leading exchange, we sincerely hope that you will give serious consideration to expanding your coverage of the OTC market by carrying this important information which is of major significance and value to your readers based upon our experience and the public inquiries we have received to date.

So that you can see how other newspapers are handling this information, I am enclosing tear sheets of the OTC tables carried by the Wall Street Journal and the New York Times, which include additional tabular information such as the 10 most active NASDAQ stocks, the advances and declines and OTC indices. All of this material is readily available to newspapers from the wire services, which also transmit a closing representative bid and ask quotation every day in the same 1549 securities at approximately 3:35 P.M., E.S.T. The wire services also provide complete weekly summaries of the NASDAQ volume and quotations for Sunday publication.

In view of the broad distribution of share ownership in the OTC market and the apparent activity indicated by NASDAQ volume figures for this first week of November, which exceeded 33 million shares, it may prove of particular value from a circulation and competitive standpoint for A.M. papers to publish this type of information since many afternoon dailies seem to have additional problems with deadline times related to the NASDAQ transmission time.

Should you require anything further in the way of information on this subject or if we can help you in any way, please call me collect in Washington (202) 833-7200, or contact Mr. John Hodges, our NASDAQ vice president, or Mr. Don Benson, our public relations director.

Sincerely,

A handwritten signature in black ink, appearing to read "Gordon S. Macklin". The signature is fluid and cursive, with a long, sweeping underline that extends to the left and then loops back under the name.

Gordon S. Macklin,
President

GSM/cl

LIST OF A.M. NEWSPAPERS THAT DO NOT CARRY NASDAQ VOLUME

<u>PAPER</u>	<u>FINANCIAL EDITOR</u>	<u>ADDRESS</u>	<u>STATE</u>
The Portland Oregonian	Robert Landauer	1320 S W Broadway	Portland, OR 97201
Seattle Post-Intelligencer	Dan Coughlin	6th and Wall	Seattle, WA 98101
San Diego Union	Carl Ritter	940 Third Ave.	San Diego, CA 92112
San Francisco Chronicle	Sid Allen	5th and Mission Sts.	San Francisco, CA 94103
San Francisco Examiner	Jack Miller	3rd and Market	San Francisco, CA 94119
Arizona Republic	Don G. Campbell	120 E. Van Buren St.	Phoenix, AZ 85004
Arizona Star	Richard Wilbur	208 N. Stone Ave.	Tucson, AZ 85701
Rocky Mountain News	Morton Margolin	P. O. Box 719	Denver, CO 80204
St. Louis Globe-Democrat	Theodore Schafers	12th Blvd. at Delmar	St. Louis, MO 63101
Birmingham Post-Herald	Irving Beiman	2200 N. Fourth Ave.	Birmingham, AL 35202
Arkansas Gazette	Leland Duvall	P. O. Box 1821	Little Rock, AR 72203
The Times-Picayune	Stanley Dodds	601-625 North St.	New Orleans, LA 70140
Memphis Commercial Appeal	Emmett Maum	495 Union Ave.	Memphis, TN 38101
The Nashville Tennessean	Albert Cason	1100 Broadway	Nashville, TN 37201
Dallas News	Al Altwett	Young at Houston	Dallas, TX 75222
Houston Post	Edwin D. Hunter	2410 Polk Ave.	Houston, TX 77001
San Antonio Express	Bob Mayes	Ave. E and Third St.	San Antonio, TX 78206
Miami Herald	James Russell	One Herald Plaza	Miami, FL 33101
Florida Times-Union	George Wachendorf	One Riverside Ave.	Jacksonville, FL 32202
Tampa Tribune	Earl Emmons	505 E. Lafayette St.	Tampa, FL 33601
Atlanta Constitution	Gene Tharpe	10 Forsyth St.	Atlanta, GA 30303
Charleston News & Courier	Furney R. Hemmingway	135 Columbus St.	Charleston, SC 29402
Chicago Tribune	Nick Poulos	435 N. Michigan Ave.	Chicago, IL 60611
Chicago Sun Times	Edwin Darby	401 N. Wabash	Chicago, IL 60611
Chicago's American		445 N. Michigan Ave.	Chicago, IL 60611
Indianapolis Star	John H. Lyst	307 N. Pennsylvania St.	Indianapolis, IN 46206
Detroit Free Press	David C. Smith	321 W. Lafayette Blvd.	Detroit, MI 48231
Minneapolis Tribune	Jim Fuller	Fifth and Portland	Minneapolis, MN 55415
The Milwaukee Sentinel	Ross M. Dick	918 N. Fourth St.	Milwaukee, WI 53201
Cincinnati Enquirer	Ralph J. Weiskittel	617 Vine St.	Cincinnati, OH 45202
The Washington Post	Hobart Rowen	1515 L St., N.W.	Washington, DC 20005
Baltimore Sun	Jesse Glasgow	Calvert and Center Sts.	Baltimore, MD 21201
The Virginian Pilot	Joseph R. Bobbitt	150 W. Brambleton Ave.	Norfolk, VA 23501
Richmond Times-Dispatch	Elliott T. Cooper, Jr.	333 E. Grace St.	Richmond, VA 23219
Newark Star-Ledger	John Soloway	217 Halsey St.	Newark, NJ 07102
Buffalo Courier-Express	William Callahan	787 Main St.	Buffalo, NY 14240
The Philadelphia Inquirer	Royal Plenty	400 N. Broad St.	Philadelphia, PA 19101
Pittsburg Post-Gazette	Jack Markowitz	Gazette Square	Pittsburgh, PA 15230
Daily Gazette	John E. N. Hume, Jr.	334 State St.	Schenectady, NY 12301
Syracuse Post-Standard	Miss Dorothy Newer	300 E. Fayette St.	Syracuse, NY 13202
Portland Press Herald	Francis H. Sleeper	390 Congress St.	Portland, ME 04111
Boston Globe	Bruce Davidson	135 Morrissey Blvd.	Boston, MA 02107
Boston Herald Traveler	Edson B. Smith	300 Harrison Ave.	Boston, MA 02118
Providence Journal	George H. Arris	75 Fountain St.	Providence, RI 02902

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

December 10, 1971

To: All NASD Members and Interested Persons

Re: Proposal to Adopt New Rule of Fair Practice - Net
Capital Requirements for Association Members

The Board of Governors of the Association has under consideration a proposal to adopt a new Rule of Fair Practice relating to net capital requirements for Association members. The proposal is being published by the Board at this time to enable all interested parties an opportunity to comment thereon. Such comments must be in writing and be received by the Association by January 10, 1971, in order to receive consideration. After the comment period has been closed, the proposal must again be reviewed by the Board. Thereafter, the proposed rule must be submitted to the membership for vote. Upon the completion of such, if approved, the proposed rule must be submitted to and not disapproved by the Securities and Exchange Commission prior to becoming effective.

Purpose of Proposed Rule

As most members are aware, the financial strength and operational capacity of virtually all segments of the financial community came under severe stress during the 1968-70 crisis. In fact, it is only now that the industry as a whole is beginning to emerge from these dangerous conditions. Although the Association, the SEC and other regulatory organizations initiated a number of far-reaching emergency actions during this period, they were mainly designed as temporary stop gap measures until such time as more permanent solutions could be found.

In this connection, it should be noted that under the authority granted by Section 15A (b) (5) of the Securities Exchange Act of 1934, as amended, the Association can adopt capital requirements for special categories of members, such as underwriters or market makers, and impose other types of financial responsibility requirements on its members or types of members.^{1/} Thus it is within this statutory framework that the Board of Governors of the Association formed a Committee on Capital Standards in July 1970 to conduct a comprehensive study of the adequacy of present regulations regarding broker-dealer financial responsibility standards and,

1/ See Securities Exchange Act Release No. 7507 (January 15, 1965)

on the basis of its findings, to make recommendations to the Board which it believes appropriate and necessary. In carrying out this mandate of the Board, the Committee has relied heavily on the cooperation and assistance rendered by many industry representatives and the staff of the Securities and Exchange Commission.

In order to strengthen current capital requirements, the Committee has proposed a number of new and improved financial responsibility standards for Association members which were recently presented to the Board in the form of a proposed NASD net capital rule. In designing this proposed rule, it should be pointed out that the Committee has taken into consideration many of the complex problems associated with the adequacy, liquidity and permanence of broker-dealer capital. In essence, the purpose of the proposed rule is to provide additional safeguards with respect to the financial responsibility of members, thereby reducing the likelihood of a similar recurrence of the problems experienced by the industry in the past three years.

In order to minimize the confusion which inevitably accompanies the introduction of new requirements, the Association determined to pattern the proposed net capital rule after the current requirements as set forth in SEC Rule 15c3-1 under the Securities Exchange Act of 1934. Consequently, there is a great deal of similarity between the two rules in both form and content. To highlight the significant differences between the Association's proposed rule and Rule 15c3-1 of the Commission, a detailed comparison of the two rules has been enclosed with the text of the proposed rule. Although the Association does not intend to seek an exemption for members from the provisions of Rule 15c3-1, it is anticipated that compliance with the NASD's rule, if adopted, will automatically constitute compliance for most members with the SEC's requirements. As a general statement, it can be said that the requirements under the Association's proposed rule set forth financial responsibility standards for members which are more comprehensive than those under Rule 15c3-1. The Association's proposed rule specifies that the provisions of the rule shall not apply to any member who is currently exempted from the provisions of SEC Rule 15c3-1 i. e., members of national securities exchanges and other specifically exempted by order of the Commission.

Explanation of Proposed Rule

The proposed NASD changes in the financial requirements for members now subject to the provisions of SEC Rule 15c3-1 are discussed below:

Proposed General Provisions

Initially, it should be noted that the Association's proposed rule does not involve a change in the present ratio of aggregate indebtedness to

net capital. It is the view of the Association that such factors as the form, content and permanence of members' capital are decidedly more important than an arbitrarily determined reduction in the ratio of aggregate indebtedness to net capital. In addition, the Association is of the opinion that as new rules are developed with respect to improved protection of customers' assets left on deposit with brokers and dealers, the current reliance on ratio relationships as an absolute measure of a firm's financial posture will become less and less important. Because of this, it is proposed that the present 20 to 1 ratio requirement remain unchanged.

The proposed rule would increase the minimum net capital requirements for members engaged in a general securities business from \$5,000 to \$25,000. In this connection, the proposed rule permits a minimum net capital of \$5,000 for a member meeting certain limiting conditions as specified in the rule. Presently this latter category of members is subject to a \$2,500 minimum net capital requirement under the SEC rule.

Furthermore, the proposed rule also establishes a separate minimum net capital requirement for market makers. This provision would require each market making firm to have and maintain net capital, as defined in the rule, of \$5,000 or in an amount equal to the cost of one trading unit, whichever is greater, for each security in which the member makes a market, up to a maximum of \$100,000. The proposed rule also provides, however, that under no circumstances shall the minimum net capital requirement for market making firms be less than \$25,000.

As a condition for NASD membership, the proposed rule would require all prospective members to have initial net capital of at least 120% of the net capital required to be maintained under the rule; i. e., \$6,000 for \$5,000 category firms and \$30,000 for \$25,000 firms.

The above changes in minimum net capital requirements are being made in order to reduce the high failure rate associated with newly organized firms and the disproportionately large number of capital violations that have occurred among members with limited financial resources.

The proposed rule would also require a member to maintain at least 25% of his total capital in the form of equity as the terms "total capital" and "equity" are defined in the rule. A basic consideration underlying this proposal is the fact that under present requirements, there are no restrictions governing the amount of such capital which can be withdrawn. Because of this, equity capital can be withdrawn, and in many instances was withdrawn, by members when it is much needed in their businesses. Since the owners alone share the rewards of prosperity, it should also follow that they, and not their creditors, should absorb the periodic losses which can be expected to occur in a cyclical business. By virtue of this

proposal, the exposure of creditors will be minimized since at least 25% of a member's capital will be permanent and hence not subject to withdrawal.

In addition, the proposed rule would provide that except with the approval of the Association, members shall be subject to a 25% limitation on the amount of subordinated capital that may be contributed for net capital purposes by individuals other than affiliated persons or members of their immediate families (for the purpose of this section, the terms "affiliated person", "immediate family" and "total capital" have meaning as specifically defined in the rule). This proposal is being made on the basis that there is no known justification for permitting a member to engage in a business which involves dealings with the public and other members of the financial community when its owners or managers lack a substantial financial stake in the success of the enterprise. Clearly, it is inconsistent with sound business practice for any firm engaged in a cyclical industry to conduct such operations with capital resources furnished primarily or exclusively by debt. The purpose of the above proposals pertaining to equity and subordinated capital requirements is to insure that at least 75% of the total capital of a firm is contributed by its owners and operators.

In order that the Association may be more fully informed of the ever changing nature of members' business activities, the proposed rule would require that before shifting from a \$5,000 to \$25,000 category firm, a member must give written notice to the Association of any such intention at least 10 business days prior to effecting such change. The proposal also requires that a statement of financial condition and computation of net capital made pursuant to the rule accompany all such written notifications.

Proposed Exemptions

As explained above, the proposed rule would not apply to any member who is currently exempted from the provisions of Rule 15c3-1 of the Securities and Exchange Commission.

Proposed Special Provisions

The proposed rule would impose additional haircuts on certain proprietary positions of members where undue concentrations exist. In this connection, the additional percentage charges to be deducted from net worth would be 50% of the standard deductions. For the purpose of this section, an undue concentration is defined as securities of a single issuer held in any of the proprietary accounts of a member where the aggregate market value of such position (or positions) exceeds 10% of the combined market value of all long and short positions carried by such member. While the entire position (or positions) is considered an undue concentration, the additional haircut would be applied only to that portion of the position (or positions) in excess of the 10% standard for determining an undue con-

centration. Through the mechanics of this approach, haircuts would be increased in an arithmetic progression as the size of the position (or positions) increases. It should be pointed out, however, that this provision does not apply to positions in U.S. Government Bonds, or securities registered under the Investment Company Act of 1940. Underlying this proposal is the view that the present haircuts charged to the net worth of members with exceptionally large positions or concentrations in securities of single issuers are unrealistic adjustments for measuring such members' net capital and hence their true liquidity.

In addition, the rule would liberalize the present haircut deductions charged against the market making positions of bona fide market makers. In essence, the rule would require a market maker to apply the standard haircut deductions to the total market value of either long or short market making positions, whichever is greater, for each separate haircut percentage category of securities carried by such member; i. e., haircuts would be applied separately to common stocks, preferred stocks, non-convertible bonds. Although this change is comparable to the existing requirements of certain national securities exchanges, it is somewhat less comprehensive than the present requirement of the SEC under Rule 15c3-1. This proposal is being made in order to give recognition to the fact that hedged inventory positions act as a protection against losses and as a safeguard for profits. In this connection, it is clear that the purpose of hedging is very much similar to that of haircut adjustments -- to provide a margin of safety against losses incurred by a broker-dealer as a result of market fluctuations in the prices of securities carried for firm account. Moreover, it should be pointed out that under the Association's proposed rule, a separate minimum net capital requirement will be applicable to all market makers, which dependent on the number of markets made, will require minimum net capital in amounts ranging from \$25,000 to \$100,000.

The satisfactory subordination agreement has been substantially altered from the present requirement under Rule 15c3-1 in order to correct many of the problems which the industry experienced with respect to the rapid decline in the value of securities loaned pursuant to subordination agreements and the impermanent nature of such capital. The proposed agreement must be executed on standard forms prescribed by the Association which will be available at a later date. As was discussed above, the total amount of subordinated capital that may be contributed by "outsiders", as defined in the rule, is limited to 25% of total capital. In addition, the subordinated capital loaned to the member by an "outsider" must be committed to the member for a period of not less than two years. Subordinated capital loaned to the member by an "insider", as defined in the rule, must be committed to the member for a period of not less than four years. This is an increase over the present Commission requirement of one year and represents an attempt to increase the permanence of such capital. In addition, the rights of an "insider" subordinated lender are subordinated to the rights of all creditors of the member and are also subordinated to the

rights of all "outsider" subordinated lenders. The rights of an "outsider" subordinated lender is, of course, subordinated to the rights of all general creditors.

The mechanics of the agreement itself has been materially changed. Under the present Commission rule the value of subordinated capital fluctuates in direct relationship with the price movement of the securities loaned under the agreement. A portion of the disastrous results recently experienced by the industry during a period of rapidly declining prices can be attributable to the obvious volatile nature of this type of capital. Many firms having a large part of their capital in the form of subordinated debt were swept under by rapid depreciation of subordinated securities. In an attempt to correct this situation and to prevent a recurrence of past experiences, the proposed rule attempts to provide more stabilization of subordinated capital.

The proposed rule provides that all subordination agreements be for a fixed sum in cash which sum shall remain fixed for the duration of the agreement. The borrowing member must receive from the lender as collateral for the loan; (1) an amount of cash which is not less than the face amount of the loan; or (2) fully paid for securities whose market value after deduction for haircuts is not less than the face amount of the loan (the market value of the securities after haircuts is referred to as Net Capital Value); or (3) cash and fully paid for securities if the total amount of the cash and the Net Capital Value of the Securities is not less than the face amount of the loan. The Net Capital Value of the collateral must, during all periods of the agreement, be not less than the face amount of the loan. If the securities contributed as collateral for the loan decline in price to a point where the Net Capital Value of the collateral is less than the face amount of the loan, the borrowing member must immediately notify the lender of such. Following such notice there are three courses of action available. First, the lender may contribute additional cash or securities sufficient to increase the Net Capital Value of the collateral to an amount which is not less than the face amount of the loan. Second, the lender and borrower may petition the Association for approval to reduce the face amount of the loan by not more than 15%. In addition to the approval of the Association, there are specified conditions which must be fulfilled before a reduction may be made. It is contemplated that a reduction of the amount of the loan will be approved by the Association only in limited cases in which extenuating circumstances are substantiated. If one of the above two courses of action are not taken, the member must immediately sell as much of the securities as is necessary to increase the Net Capital Value of the collateral to an amount not less than the face amount of the loan. This is accomplished by the fact that as securities are liquidated, the cash proceeds of the sale will normally exceed the value of the securities after haircuts and thus result in an increase in the amount of the collateral. In effect, the proposed rule will insure that subordinated debt will not be

vulnerable to market fluctuation and a subordination agreement for a specified amount will remain stable and liquid during the entire length of the agreement.

The proposed rule also provides that beginning 90 days prior to the maturity date of the agreement only 50% of the face amount of the loan may be used as allowable capital in the members' computation of net capital even though the full face amount of the loan is available for use. After the agreement reaches maturity, the face amount of the loan may not be used in the computation of net capital. This provision is intended to aid the member in preparing for the anticipated reduction in its capital at the time that the agreement reaches maturity and to prevent large amounts of capital from suddenly being unavailable to the member. This provision does not apply if a new subordination agreement equal in amount has been executed.

The proposed subordination agreement incorporates many of the provisions of the current SEC subordination agreement. The proposed agreement cannot be cancelled, modified, nor can the maturity of the indebtedness be accelerated in any way. In addition, the agreement cannot be terminated or repaid if the effect thereof would reduce the net capital of the member below the requirements of the rule. In addition, the proposed agreement sets forth in detail the rights and obligations of the respective parties to the agreement. This is an area which is not clearly set forth in the present Commission rule and the Association feels that this has caused considerable confusion and uncertainty. These rights and specifications are clearly set forth in the proposed rule and are self-explanatory.

Proposed Definitions

The definition of "aggregate indebtedness" under the Association's proposed rule has been expanded to include the market value of short securities differences. In this regard, SEC Rule 17a-13, to become effective January 1, 1972, will require each subject member to conduct a quarterly "box-count" and verification of all securities not in its physical possession and to post all unresolved differences to the firm's books and records no later than seven (7) business days after the date of each such audit. Members are advised that the inclusion of short security differences in the proposed definition of "aggregate indebtedness" represents a change in present requirements since the SEC has taken the position that under Rule 15c3-1 short count differences are simply an adjustment affecting "net capital" and not a liability to be included in "aggregate indebtedness". This change is being made to give recognition to the market exposure incurred by a member when forced to cover such differences in order to meet his obligations to deliver certificates he does not have.

The proposed rule would also expand the definition of fixed assets and assets which cannot be readily converted into cash. Now included, among other things, are all unsecured receivables such as dividends, syndicate profits, commissions, accrued interest, and insurance claims, and receivables arising out of free shipments of securities sold. It should be noted that this broadened definition is consistent with existing interpretations under the SEC rule and as such involves no change in present requirements.

The proposed rule would also require deductions from net worth of certain specified percentages i. e., haircuts of the market values of all marketable U. S. Government Bonds and Municipal Obligations held in any of the proprietary accounts of a member. Under the current SEC rule, these particular securities are not subject to haircuts. This change is being made to provide a margin of safety against losses incurred by members as a result of market fluctuations in the value of such securities.

Changes are also proposed in the haircut deductions for non-convertible debt securities having a fixed rate of interest and a fixed maturity date. Under the current SEC rule, these deductions are based on a complex relationship between market value and face value. As an alternative to this complex formula approach, the Association's proposal involves haircut deductions for non-convertible debt securities which are based on a simplified maturity schedule which has been designed to take into consideration those situations in which such securities are in default as to interest or are traded flat. Although this proposal calls for a change in existing requirements, it may or may not be more comprehensive depending upon the market price of the particular security to be haircut.

Although the proposed rule specifies haircut deductions for commercial paper, restricted stock and non-marketable securities not found in SEC Rule 15c3-1, the Commission has always interpreted its rule to include these same deductions. Therefore, these proposals do not involve any change in the existing requirement.

The proposed rule would also define a number of other terms which are used in the text of the rule. The new terms defined include market maker, equity, total capital, affiliated person and immediate family.

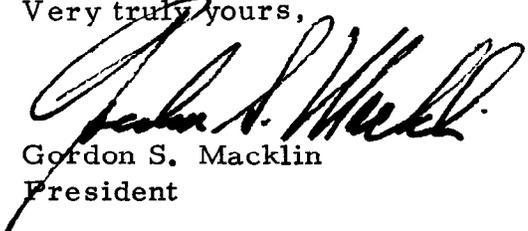
As has been noted above, following the comment period, the proposed rule must be reviewed by the Board, with a view to the comments made, finally approved by it, voted on by the membership and not disapproved by the Securities and Exchange Commission before it can become effective. After the rule becomes effective, it will apply to all new members immediately. Those members now subject to a \$2,500 minimum capital requirement will be required to maintain at least \$5,000 minimum net capital within six months of the effective date of the rule. Those members

now subject to a \$5,000 minimum capital requirement will be required to maintain at least \$15,000 minimum net capital within six months of the effective date of the rule and \$25,000 within 12 months of the effective date. Those members subject to the minimum net capital requirement for market makers will be required to maintain net capital of \$5,000 or in an amount equal to the cost of one trading unit, whichever is greater, for each security in which the member makes a market up to a maximum of \$100,000 within six months of the effective date of the rule. The minimum net capital requirement for market makers will be \$15,000 within six months of the effective date of the rule and \$25,000 within 12 months of the effective date of the rule.

With respect to compliance with the proposed "satisfactory subordination agreement" all new subordination agreements will be required to conform with the new requirements beginning three months after the effective date of the rule. All existing subordinated loans from insiders will be required to conform to the new requirements within 12 months of the effective date of the rule. With respect to existing subordinated loans from outsiders one-third of such subordination agreements will be required to conform to the new requirements within 12 months of the effective date of the rule, two-thirds of such agreements will be required to conform within 18 months and all subordinated loans from outsiders will be required to conform with the new requirements within 24 months of the effective date of the rule.

All interested persons are invited to submit their views and comments to Mr. Donald H. Burns, Secretary, National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington, D. C. 20006, on or before January 10, 1971. All communications will be considered available for inspection.

Very truly yours,



Gordon S. Macklin
President

Proposed Capital Requirements for NASD Members

General Provisions

(a) Every member shall have the net capital necessary to comply with all of the following conditions:

(1) his aggregate indebtedness to all other persons shall not exceed 2000 per centum of his net capital;

(2) he shall have and maintain net capital of not less than \$25,000; except that the minimum net capital to be maintained by a member meeting all of the following conditions shall be \$5,000;

a. his dealer transactions (as principal for his own account) are limited to the purchase, sale and redemption of redeemable shares of registered investment companies; except that a member transacting business as a sole proprietor may also effect occasional transactions in other securities for his own account with or through another registered broker-dealer;

b. his transactions as broker (agent) are limited to: (i) the sale and redemption of redeemable securities of registered investment companies; (ii) the solicitation of share accounts for savings and loan associations insured by an instrumentality of the United States; and (iii) the sale of securities for the account of a customer to obtain funds for immediate reinvestment in redeemable securities of registered investment companies; and

c. he promptly transmits all funds and delivers all securities received in connection with his activities as a broker or dealer, and does not otherwise hold funds or securities for, or owe money or securities to, customers.

(3) If he is engaged as a market maker as defined in paragraph (f)(3) of this Rule, he shall have and maintain a net capital in an amount not less than \$5,000 or the cost of one trading unit, whichever is greater, for each security in which he makes a market, except that under no circumstances shall he have a net capital of less than \$25,000 or be required to maintain a net capital of more than \$100,000 unless otherwise specified herein;

(4) As a condition for admission to membership in the Association, he shall have initial net capital of at least 120% of the net capital required to be maintained by this rule;

(5) 25% of his total capital shall be required to be in the

form of equity as defined in paragraph (f)(4) of this Rule;

(6) Without prior specific approval of the Association, the total dollar amount of subordinated capital under a "satisfactory subordination agreement" that may be contributed by all persons other than affiliated persons of the member or by members of their immediate families shall be not more than 25% of total capital; and

(7) A member changing from a \$5,000 minimum net capital requirement to a \$25,000 minimum net capital requirement must give to the Association written notice of such intention, together with a current statement of financial condition and a computation of net capital, at least ten (10) business days prior to effecting such change.

(8) If the aggregate indebtedness of a member exceeds 1200 per centum of his net capital or if his net capital is less than 120% of the minimum amount required by subparagraphs (2) or (3) above, the member shall be prepared to demonstrate to the satisfaction of the Association that his ability to discharge any and all obligations to both customers and other creditors is not impaired and that appropriate measures have or will be taken promptly to insure his firm's continued viability.

Exemptions

(b) The provisions of this rule shall not apply to any member who is exempted from the provisions of Rule 15c3-1 of the Securities and Exchange Commission.

Special Provisions

(c) As set forth below the required deductions from "net worth" of specified percentages of the market value of securities positions of a member as contained in (f)(2)c. of this Rule shall be increased or decreased under circumstances described herein:

Undue Concentration

(1) In the case of securities of a single issuer, other than U.S. Government bonds and securities registered under the Investment Company Act of 1940 (except the securities of a "closed-end company" as defined in Section 5(a)(2) thereof) held in any of the proprietary accounts of a member (trading, investment, subordinated, etc.) that have a market value which amounts to 10% or more of the combined market value of such member's total securities positions (long and short), an additional charge to "net worth" of 50% of the percentage deduction required under paragraph (f)(2)c. shall be applied to that portion of the security position which exceeds the 10% amount specified herein.

Positions Carried by Market Makers

(2) In the case of a "market maker", the percentage deductions required by paragraph (f)(2)c. shall be applied to the total market value of the long or short position, whichever is greater, as determined separately for each percentage category of securities; provided, however, that all securities, both long and short, which enter into such calculations, are acquired and carried by the member in connection with continuous bona fide market making activities.

Subordinated Loans

(d) All subordinated borrowings by a member must be made pursuant to a satisfactory "Subordination Agreement" and must be executed by the member and the lender on standard forms prescribed by the Association. Such agreement shall satisfy the following conditions:

(1) The loan agreement shall be for a fixed amount in cash, which amount shall remain fixed for the duration of the agreement, to be lent to the member by the lender and provides that the member shall on the maturity date of the agreement return the collateral provided for in subparagraph (3).

(2) The amount of the loan may be used and dealt with by the member as part of its capital and shall be subject to the risks of the business.

(3) The amount of the loan shall be adequately collateralized by:

a. An amount of cash which is not less than the amount of the loan.

b. Fully paid for securities whose market value, after giving effect to the percentage deduction required under paragraphs (f)(2)c. and d of this rule for the particular securities (Net Capital Value) is not less than the amount of the loan.

c. Cash and fully paid for securities if the total amount of the cash and the Net Capital Value of the securities is not less than the amount of the loan.

(4) Margin account equities may not be used as collateral for a subordination agreement.

(5) The Net Capital Value of the collateral must, during all periods of the agreement, be not less than the amount of the loan. If the Net Capital Value of the collateral is at any time less than the amount of

the loan, the member must immediately notify the lender, Following such notice the lender may:

a. Contribute additional collateral of cash or securities sufficient to bring the Net Capital Value of the Collateral to an amount not less than the amount of the loan; or

b. With the prior approval of the Association reduce the amount of the loan by not more than 15% provided that

- (i) the member establishes that its aggregate indebtedness would not, after such reduction, exceed 1200 per centum of its net capital;
- (ii) the effect of such reduction will not reduce the net capital of the member below the minimum amount required by this rule; and
- (iii) in the event of such reduction the right of the lender to withdraw collateral under subparagraph (15)d, hereof shall be suspended.

c. Unless such collateral is so pledged or the amount of the loan is reduced, the member must on the next business day following notice to the lender sell as much of the collateral that is necessary to increase the Net Capital Value of the collateral so that it is not less than the amount of the loan. The member may not purchase for its own account any securities subject to such a sale.

(6) The term "insider subordinated lender" shall mean any lender executing a subordination agreement pursuant to the provisions of this paragraph who is an affiliated person of the borrowing member as defined in paragraph (f)(10) of this rule or a member of the immediate family of such person as defined in paragraph (f)(11) of this rule.

(7) The term "outsider subordinated lender" shall mean any lender other than an insider subordinated lender executing a satisfactory subordination agreement pursuant to the provisions of this paragraph.

(8) The right of an insider subordinated lender to demand or receive payment or return of the amount loaned or the collateral pledged under the agreement shall be effectively subordinated to the claims and demands of all outsider subordinated lenders and all present and future creditors of the member.

(9) In the case of an insider subordination agreement, the maturity date of the indebtedness must be not less than four years from the execution date of the agreement. In the case of outsider subordination agreement, the maturity date of the indebtedness must be not less than two years from the execution date of the agreement.

(10) For the purpose of computation of net capital under this rule, 50% of the amount of the loan shall be deducted from net capital 90 days prior to the maturity date of the agreement and 100% deducted thereafter except in the case where the member can demonstrate that the lender has executed another satisfactory subordination agreement that is at least equal in amount to the agreement reaching maturity and that such new agreement will take effect simultaneously with the expiration of the matured agreement.

(11) The agreement shall not be subject to cancellation by either party and the loan shall not be repaid and the agreement shall not be terminated, rescinded or modified by mutual consent or otherwise if the effect thereof would be to render the agreement inconsistent with the conditions of this rule or to reduce the net capital of the member below the amount required by this rule.

(12) No default in the payment of interest or in the performance of any covenant or condition by the member shall have the effect of accelerating the maturity of the indebtedness.

(13) The agreement shall be binding and enforceable in accordance with its terms upon the lender, his creditors, heirs, executors, administrators, and assigns.

(14) Any notes or written instruments evidencing the indebtedness shall bear on their face an appropriate legend stating that such notes or instruments are used subject to the provisions of a subordination agreement which shall be adequately referred to and incorporated by reference.

(15) The lender shall have the right to:

a. Have and retain full legal and beneficial ownership of the securities pledged as collateral and shall have the benefit of any increases and bear the risks of any decreases in the value of such securities. The lender shall have the sole right to vote or consent with respect to the securities and shall have the sole right to any increase or distribution therefrom by payment of interest, dividends or otherwise subject however to the right of the member to receive and hold all dividends payable in securities and all partial and complete liquidating dividends. The lender shall pay all taxes, assessments or other charges upon or with respect to such securities or the income therefrom or distributions thereon, or the

gain or loss of value thereof.

b. At any time direct the sale of any or all of the securities pledged as collateral and to direct the purchase of securities with any cash included in the collateral provided, however, that the net proceeds of any such sale and the securities so purchased are held by the member as part of the collateral; and provided further that no such transaction shall be permitted if after giving effect to such transaction the Net Capital Value of the collateral would be less than the amount of the loan.

c. Pledge additional cash or securities as collateral.

d. With thirty days written notice withdraw any part of the collateral; provided that the Net Capital Value of the remaining collateral is at least equal to the amount of the loan.

(16) The member shall have the right to:

a. Deposit any cash pledged as collateral in an account or accounts in its own name in any bank or trust company.

b. Without notice to pledge, re-pledge, hypothecate or re-hypothecate, any or all of the collateral, separately or in common with other securities or property, to secure indebtedness of the member.

c. Lend to itself or others any or all of the collateral.

(17) All securities accepted as collateral pursuant to subparagraph (3) above must be held by the member in its own name or in the name of its nominee.

Temporary Subordinated Loans

(e) Temporary subordinated borrowings by a member may be made pursuant to a satisfactory "Temporary Subordination Agreement" which shall satisfy the following conditions.

(1) The member must obtain prior approval of the Association;

(2) The lender must be an affiliated person as defined in paragraph (f)(10) of this rule;

(3) The purpose of such borrowing must be for the addition of capital in connection with unusual underwritings or block clearances.

(4) Such temporary borrowings may not be made on more than three occasions in any twelve month period.

(5) The agreement shall bear a maturity date of 45 days from the execution date of the agreement.

(6) The agreement shall not be subject to cancellation by either party and the loan shall not be repaid and the agreement shall not be terminated, rescinded or modified by mutual consent or otherwise if the effect thereof would

- a. result in the member's aggregate indebtedness to exceed its net capital by an amount in excess of 1000 per centum; or
- b. reduce the net capital of the member below the minimum amount required by this rule.

(7) The "temporary subordination agreement" shall contain every other condition, covenant, right and obligation of a subordination agreement described in paragraphs (d)(1) through (17) except that in the event the Net Capital Value of the collateral pledged pursuant to a temporary subordination agreement is at any time less than the amount of the loan, the lender would not have the option of reducing the amount of the loan.

Definitions

(f) For the purpose of this rule:

(1) The term "aggregate indebtedness" shall be deemed to mean the total money liabilities of a broker or dealer arising in connection with any transaction whatsoever, including, among other things: money borrowed; money payable against securities loaned and securities "failed to receive"; the market value of securities borrowed (except for delivery against customers' sales) to the extent to which no equivalent value is paid or credited; customers' free credit balances; credit balances in customers' accounts having short positions in securities; the market value of short security differences; and equities in customers' commodities futures accounts; but excluding

a. indebtedness adequately collateralized, as hereinafter defined, by securities or spot commodities owned by the member;

b. indebtedness to other brokers or dealers adequately collateralized, as hereinafter defined, by securities or spot commodities owned by the member;

c. amounts payable against securities loaned which securities are owned by the member;

d. amounts payable against securities failed to receive which securities were purchases for the account of, and have not been sold by the member;

e. amounts segregated in accordance with the Commodity Exchange Act and the rules and regulations thereunder;

f. fixed liabilities adequately secured by real estate or any other asset which is not included in the computation of "net capital" under this rule;

g. liabilities on open contractual commitments; and

h. indebtedness subordinated to the claims of general creditors pursuant to a satisfactory subordination agreement, as hereinafter defined.

(2) The term "net capital" shall be deemed to mean the net worth of a member (that is, the excess of total assets over total liabilities), adjusted by

a. adding unrealized profits (or deducting unrealized losses) in the accounts of a broker or dealer and, if such broker or dealer is a partnership, adding equities (or deducting deficits) in accounts of partners, as hereinafter defined;

b. deducting fixed assets and assets which cannot be readily converted into cash (less any indebtedness secured thereby) including among other things, real estate; furniture and fixtures; exchange memberships; prepaid rent, insurance and expenses; good will; organization expenses; all unsecured advances and loans; all unsecured receivables (dividends, syndicate profits, commissions, accrued interest, insurance claims, etc.); receivables arising out of free shipments of securities sold; customers' unsecured notes and accounts; and deficits in customers' accounts, except in bona fide cash accounts within the meaning of Section 4(c) of Regulation T of the Board of Governors of the Federal Reserve System;

c. deducting the percentages specified below of the market value of all securities, long and short (except as indicated in subsection (c) hereof entitled "Special Provisions" in the capital proprietary and other accounts of the broker or dealer, including securities loaned to the broker or dealer pursuant to a satisfactory subordination agreement, as hereinafter defined, and if such broker or dealer is a partnership, in the accounts of partners, as hereinafter defined:

U. S. Government Bonds

(i) In the case of any security issued or guaranteed by the United States or by any agency thereof, the deduction shall be 1% unless the maturity date is less than 90 days in which case there shall be no deduction;

Municipal Obligations

(ii) In the case of any security issued or guaranteed by any State or Territory of the United States or by any political subdivision thereof, or by any authority, commission or agency of any State or Territory of the United States or political subdivision thereof, the deduction shall be as follows:

Less than two years to maturity:	2%
Two years but less than five years to maturity:	5%
Five years or more to maturity:	10%
Municipal Bond Funds - U.S. only:	10%
Any of the above which is in default as to interest:	30%

Commercial Paper

(iii) In the case of any short term promissory note issued by any industrial, commercial or finance company, and which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited, the deduction shall be 5%;

Non-Convertible Debt Securities

(iv) In the case of any non-convertible debt security having a fixed interest rate and a fixed maturity date and which is not in default, the deduction shall be as follows:

Less than five years to maturity:	5%
Five years or more to maturity:	10%
Any of the above which is in default as to interest or is traded flat:	30%

Preferred Stock

(v) In the case of cumulative, non-convertible preferred stock ranking prior to all other classes of stock of the same issuer, which is not in arrears as to dividends, the deduction shall be 20%

Convertible Bonds

(vi) In the case of a debt security not in default which has a fixed rate of interest and a fixed maturity date and which is convertible into an equity security, the deduction shall be as follows: If the market value is 90% or more of the face value, the deduction shall be 30% of the market value, but in no event shall such deduction reduce the value of such security below 80% of face value for the purposes of this section; if the market value is below the face value by more than 10% but not more than 30%, the deduction shall be a percentage of market value equal to the percentage by which the market value is below the face value; if the market value is 30% or more below the face value, the deduction shall be 30%.

Restricted Stock and Non-Marketable Securities

(vii) In the case of securities for which there is no independent market and securities which cannot be publicly offered and sold because of statutory, regulatory or contractual arrangements or other restrictions, the deduction shall be 100%.

Common Stocks, Investment Company
Shares, Rights, Warrants, and Other
Securities

(viii) On all other securities, the deduction shall be 30 percent; provided, however, that such deduction need not be made in the case of (1) a long security position which is convertible into or exchangeable for other securities within a period of 30 days, subject to no conditions other than the payment of money, and the other securities into which such security is convertible, or for which it is exchangeable, are short in the accounts of the member, or (2) a security which has been called for redemption and which is redeemable within 90 days.

d. deducting 30% of the market value of all "long" and all "short" future commodity contracts (other than those contracts representing spreads or straddles in the same commodity and those contracts offsetting or hedging any "spot" commodity positions) carried in the capital, proprietary or other accounts of the member and, if such member is a partnership, in the accounts of the partners as hereinafter defined;

e. deducting, in the case of a member who has open contractual commitments, the respective deductions as specified in subdivision c above, from the value (which shall be the market value whenever there is a market) of each net long and each net short position contemplated by an existing contractual commitment in the capital, proprietary and other accounts of the member and, if such member is a partnership, in accounts of partners, as hereinafter defined; provided, however, that this deduction with respect to any individual commitment shall be reduced by the unrealized profit, in any amount not greater than the deduction provided for in subdivision (vi) of this subparagraph, (or increased by the unrealized loss) in such commitment; and that in no event shall an unrealized profit on any closed transactions operate to increase net capital;

f. deducting an amount equal to 1-1/2% of the market values of the total long or total short futures contracts in each commodity, whichever is greater, carried for all customers;

g. excluding liabilities of the member which are subordinated to the claims of general creditors pursuant to a satisfactory subordination agreement, as hereinafter defined;

h. deducting, in the case of a member who is a sole proprietor, the excess of (i) liabilities which have not been incurred in the course of business as a broker or dealer over (ii) assets not used in the business; and

i. deducting 10% of the contract price or market price, whichever is greater, of each item in the securities failed to deliver account which is outstanding 40 to 49 calendar days; deducting 20% of the contract price or market price, whichever is greater, of each item in the securities failed to deliver account which is outstanding 50 to 59 calendar days; and deducting 30% of the contract price or market price, whichever is greater, of each item in the securities failed to deliver account which is outstanding 60 or more calendar days.

(3) The term "market maker" shall mean a dealer, who, with respect to a particular security holds himself out (by entering indications of interest in purchasing and selling in an inter-dealer quotations system or otherwise) as being willing to buy and sell for his own account on a continuous basis otherwise than on a national securities exchange.

(4) The term "equity" shall mean that portion of the capital structure of a member that is represented by capital stock and retained earnings or surplus and, if such member is a partnership or proprietorship, by all the equivalent accounts thereof.

(5) The term "total capital" shall mean equity plus capital subordinated under a satisfactory subordination agreement.

(6) The term "accounts of partners", where the broker or dealer is a partnership, shall mean accounts of partners who have agreed in writing that the equity in such accounts maintained with such partners shall be included as partnership property.

(7) The term "contractual commitments" shall include underwriting, when-issued, when-distributed and delayed delivery contracts, endorsements of puts and calls, commitments in foreign currencies, and spot (cash) commodities contracts, but shall not include uncleared regular way purchases and sales of securities and contracts in commodities futures; a series of contracts of purchase or sale of the same security conditioned, if at all, only upon issuance may be treated as an individual commitment.

(8) Indebtedness shall be deemed to be "adequately collateralized" within the meaning of this rule, when the difference between the amount of the indebtedness and the market value of the collateral is sufficient to make the loan acceptable as a fully secured loan to banks regularly making comparable loans to brokers or dealers in the community.

(9) The term "customer" shall mean every person except the broker or dealer; provided, however, that partners who maintain "accounts of partners" as herein defined shall not be deemed to be customers insofar as such accounts are concerned.

(10) The term "affiliated person" shall mean any partner, officer, director, branch manager (or any person occupying a similar status or performing a similar function), or employee of a member, and any individual, corporation, partnership association, joint stock company, business trust or unincorporated organization directly or indirectly controlling or controlled by such member.

(11) The term "immediate family" shall include parents, mother-in-law or father-in-law, husband or wife, brother or sister, brother-in-law or sister-in-law, children, or any relative to whose support the member or person associated with the member, contributes directly or indirectly.

COMPARISON OF SEC RULE 15C3-1 AND THE PROPOSED NASD NET CAPITAL RULE

	<u>Present Requirements Under SEC Rule 15c3-1</u>	<u>Proposed Requirements Under NASD Net Capital Rule</u>
1. Ratio of Aggregate Indebtedness to Net Capital	20 to 1	20 to 1
2. Minimum Net Capital Requirements		
a) Mutual Fund Retailers, etc.	\$2,500	\$5,000
b) Other Brokers and Dealers	\$5,000 (Currently) \$25,000 (Proposed)	\$25,000
c) Market Makers ^{1/}	Same as (b)	Net Capital of \$5,000 or in an amount equal to the cost of one trading unit, whichever is greater, for each security in which a member makes a market, but in no event shall such member have less than \$25,000 or be required to maintain more than \$100,000.
3. Initial Net Capital Requirement	Same as 2(a) or (b) above	120% of 2(a), (b) or (c) above.

^{1/} Section 3(w) of Regulation U of the Federal Reserve Board provides an exemption from margin regulations for bank loans to OTC market makers to purchase or carry securities which have been approved by the Federal Reserve Board as OTC margin stocks. To be eligible for this exemption, an OTC market maker must have and maintain net capital, as defined in SEC Rule 15c3-1, of \$25,000, plus \$5,000 for each stock in excess of 5, up to a maximum of \$250,000. Additionally, the FRB recently issued for comment a proposal to exempt from margin requirements credit extended by banks to "third market makers" and by banks and broker/dealers to so-called "block positioners". To qualify for this exemption a "third market maker" will be required to have and maintain net capital, as defined in SEC Rule 15c3-1, of \$250,000 for each stock in which he makes a market up to a maximum of \$1,000,000. A "block positioner" will also be able to qualify for this exemption if he has minimum net capital, as defined in SEC Rule 15c3-1 or in the capital rules of an exchange of which he is a member, if the members of such exchange are exempt from Rule 15c3-1, of \$250,000.

Present Requirements
Under SEC Rule 15c3-1

Proposed Requirements
Under NASD Net Capital Rule

4. Initial Net Capital Ratio

8 to 1 for first 12 months
of existence (Proposed)

No provision. Will be reviewed
depending upon action taken by SEC
on its proposal.

5. Equity Requirements

None

Total capital shall include not less than
25% in equity.

6. Subordinated Capital
Limitations

None

Without prior approval of the Association,
the total dollar amount of subordinated
capital that may be contributed for net
capital purposes by persons other than
associated persons of the broker-dealer
or members of their immediate families
is limited to 25% of total capital.

7. Net Capital Value of
Subordinated Securities

Subordination agreements in-
volving securities loaned are
not drawn for a fixed amount.
Net capital value fluctuates in
tandem with the market value
of the securities loaned.

No provision for reducing the
net capital value of subordi-
nated debt as it approaches
maturity.

Subordinated debt is for a fixed amount
in cash. If any such loan is collateral-
ized by securities, they must be fully
paid for and have a net capital value
(market value of collateral less required
haircuts) of not less than the face amount
of such loan. If, at any time during term
of any such loan, the net capital value
of collateral falls below the face amount
of the agreement, the borrowing member
must immediately notify the lender and
secure additional collateral sufficient
to bring the net capital value of the
collateral to an amount not less than the
amount of the loan or, under certain
conditions and with the prior approval of
the Association, reduce the amount of the

Present Requirements
Under SEC Rule 15c3-1

Proposed Requirements
Under NASD Net Capital Rule

7. Cont'd

loan by not more than 15%. If additional collateral is not provided by the lender or the amount of the loan is not reduced, the borrowing member must immediately liquidate as much of the collateral as is necessary to increase the net capital value of the collateral to an amount not less than the face amount of the loan.

For the purpose of computations of net capital under this rule, a 50% deduction from net capital shall be applied to the amount of the loan ninety (90) days prior to the maturity date of the agreement and 100 % thereafter except in the case where the member can demonstrate that the lender has executed another satisfactory subordination agreement which is at least equal in amount to the agreement approaching maturity and that such new agreement will take effect simultaneously with the expiration of the matured agreement.

8. Withdrawal of Capital

a) Equity Capital

None

No withdrawal permitted if the effect would be to reduce the amount of such capital to less than 25% of total capital.

Present Requirements
Under SEC Rule 15c3-1

Proposed Requirements
Under NASD Net Capital Rule

8. Cont'd

b) Subordinated Capital

Generally required to be committed for a term of not less than one year from date of contribution. Withdrawal or modification not permitted if the effect is to reduce the net capital of the member below amount required by items 1, 2(a) or 2(b) above.

No provision for early withdrawal. Additionally, the loan shall not be repaid and the agreement shall not be terminated, rescinded or modified by mutual consent or otherwise at maturity if the effect would be to reduce the net capital of the borrowing member below the amount required by this rule.

Outsider subordinated capital shall be contributed for a period of not less than two (2) years.^{2/}

Insider subordinated capital shall be contributed for a period of not less than four (4) years.^{2/}

^{2/} The term "outsider" shall mean all persons other than affiliated persons of a broker-dealer and members of their immediate families, i. e. insiders. Affiliated person is defined to mean any partner, officer, director, branch manager (or any person occupying a similar status or performing a similar function), or employee of a member, and any individual, corporation, partnership association, joint stock company, business trust or unincorporated organization directly or indirectly controlling or controlled by such member. The term "immediate family" includes parents, mother-in-law or father-in-law, husband or wife, brother sister, brother-in-law or sister-in-law, children or any relative to whose support the member or person associated with the member, contributes directly or indirectly.

Present Requirements
Under SEC Rule 15c3-1

Proposed Requirements
Under NASD Net Capital Rule

9. Deductions from Net Worth

a) Haircut Percentages

(1) U. S. Government Obligations	0%	Less than ninety days to maturity: 0%
		Ninety days or more to maturity: 1%
(2) Municipal Obligations	0%	Less than two years to maturity: 2%
		Two years but less than five years to maturity: 5%
		Five years or more to maturity: 10%
		Municipal Bond Funds - U.S. only: 10%
		Any of the above which is in default as to interest: 30%
(3) Commercial Paper	5%	5%
(4) Non-Convertible Debt Securities		Less than five years to maturity: 5%
		Five years or more to maturity: 10%
		Any of the above which is in default as to interest or is traded flat: 30%
Market value not less than 5% below face value:	5%	
Market value more than 5% but not more than 30% below face value:	5 to 30%	
Market value more than 30% below face value:	30%	
(5) On all other securities, the NASD haircuts are as specified in 15c3-1.		

	<u>Present Requirement Under SEC Rule 15c3-1</u>	<u>Proposed Requirements Under NASD Net Capital Rule</u>
b) Dividends, Syndicate Profits, Commissions Receivable <u>3/</u>	100%	100%
c) Short Securities Differences	100% of market value	100% of market value <u>4/</u>
d) Restricted and Control Stock Non-marketable Securities	100%	100%
11. Special Provisions		
a) Undue Concentration Penalty	0%	In the case of securities of a single issuer, other than U. S. Government Bonds and securities registered under the Investment Company Act of 1940, held in any of the proprietary accounts of a member (including trading, investment, subordinated, etc.) that have a market value of 10% or more of the combined market value of such member's total securities positions (long and short), an additional charge to "net worth" of 50% of the percentage deduction required under paragraph (c)(2)(C) shall be applied to that portion of the security position which exceeds the 10% amount specified herein.

3/ Under both 15c3-1 and the proposed NASD Net Capital Rule, mutual fund concessions receivable are deducted from net worth, except under circumstances in which a member can submit an unequivocal written statement from the custodian bank that the sums due are payable on demand.

4/ Short securities differences which are included in total liabilities for the purposes of computing "net capital" are also included as "aggregate indebtedness" under the proposed NASD Rule.

Present Requirements
Under SEC Rule 15c3-1

Proposed Requirements
Under NASD Net Capital Rule

b) Positions Carried
by Market Makers

Percentage deductions as
specified above

In the case of a "market maker", the requirements of paragraph (c)(2)(C), (haircut provision), shall be applied to the total market value of the long or short position, whichever is greater, as determined separately for each percentage category of securities; provided, however, that all securities, both long and short, which enter into such calculations, are acquired and carried by the member in connection with continuous bona fide market making activities.