

NASD

NOTICE TO MEMBERS: 78-49
Notices to Members should be
retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

December 1, 1978

TO: All NASD Members and Interested Persons

RE: New Qualification Requirements and Test Administration
System for General Securities Principals and Related Matters

ATTENTION: TRAINING DIRECTORS AND REGISTRATION PERSONNEL

The purpose of this notice is to inform the membership of the following developments in the Association's qualification examination program for principals.

- Implementation of New Qualification Examination for General Securities Principals on January 1, 1979.
- Automation of Test Administration for the New General Securities Principal Examination.
- Testing Procedures for Investment Company Products/Variable Contracts Principals and Direct Participation Programs Principals after January 1, 1979.
- New Registration and Qualification Requirements for NASD Financial and Operations Principals.

Implementation of New Qualification Examination for General Securities Principals

The Association will implement a new qualification examination for General Securities Principals on January 1, 1979. Effective that date all persons who apply for registration as General Securities Principals will be required to take and pass the new qualification examination for this category of registration. A General Securities Principal is defined as any sole proprietor, officer, partner, manager of an office of supervisory jurisdiction or director associated with the member who is actively engaged in the management of the member's general investment banking or securities business, including supervision, solicitation, conduct of business or the training of persons associated with a member for any of these functions. The new General Securities

Principal Examination will be three hours in length and will be comprised of 125 multiple-choice questions. The Association, in September, 1978, published a study outline for the General Securities Principal Qualification Examination which is available from the NASD Executive Office in Washington, D. C. and any of its fourteen district offices.

Automation of Test Administration

Administration of the General Securities Principal Examination will be accomplished in an automated manner using the Plato system of the Control Data Education Company. Plato is a large, fully dedicated time-sharing system capable of delivering a wide variety of programs to remote visual display terminals located in learning centers owned and operated by Control Data Education Company. The system has been modified to serve as a medium for delivering the types of qualification examinations utilized by the Association. Control Data learning centers are currently operating in cities where existing NASD test centers account for approximately 90% of the examinations administered each year.

The automated capabilities of the Plato system will eliminate the need to administer the General Securities Principal Examination on a fixed schedule. When enrolled on the system by the NASD, a candidate need only make an appointment at the nearest learning center to sit for an examination. All learning centers are open between the hours of 8:30 A.M. to 5:30 P.M. local time. Some learning centers are also open in the evenings and on weekends. Using Plato the Association will also be able to enter the bank of test questions for the General Securities Principal Examinations into the system and to program the computer to generate a unique examination for each candidate. Within one day of a candidate's testing date, a hard copy grade report will be generated at the Association's Executive Office and forwarded to the sponsoring member firm as well as to the state securities commissions designated on the candidate's registration application. A more detailed description of test administration on the Plato system is contained in the sections which follow.

Plato Enrollment - After receiving a candidate's registration application and appropriate fees, the Association will enroll the candidate on the Plato system. Enrollment must occur in order for a candidate to sit for an examination on the system. After a candidate has been enrolled on the system, a confirmation notice will be sent to the sponsoring member firm. This notice will identify the candidate, the qualification examination for which the candidate has been enrolled and the expiration date of the enrollment. The expiration date will be 90 calendar days from the date the enrollment is entered into the system. If a candidate does not sit for the examination during this period, he may be re-enrolled in the system upon receipt by the Association of another testing fee.

Appointment Scheduling - Along with the enrollment confirmation notice sent to the firm the Association will include a schedule of Control Data learning centers at which the examination can be taken. The candidate need only call the nearest learning center in order to make an appointment to sit for the examination. Unless otherwise requested by the candidate, appointments will be scheduled within five business days from the date the appointment request is received by Control Data. Appointments will not be made for candidates who are not enrolled on the system or for candidates requesting an appointment date which falls after the expiration date of the candidate's enrollment. The sponsoring member firm will be charged a penalty fee of \$10.00 in the event that a candidate does not appear for a scheduled appointment or cancels a scheduled appointment less than 72 hours prior to the appointed time and date. At the learning center administrator's discretion a candidate who arrives more than 15 minutes late for a scheduled appointment may not be allowed to sit for the examination if the terminal has been otherwise reserved, in which case a penalty fee of \$10.00 will also be levied. All penalty fees will be billed to member firms by the Association.

Group Reservations - Member firms or training organizations planning training classes may block reserve terminals at a learning center by calling the learning center at least one month in advance of the desired testing date. The same procedures outlined above with respect to late cancellations, no shows and late arrivals for appointment sessions will be in effect for individuals in groups.

Admission to Learning Centers - Since a candidate's enrollment on the Plato system is entered into the computer by the NASD and is available on-line to learning center administrators, it will not be necessary for candidates to present their enrollment confirmation notices at the time they appear at a learning center. However, a candidate will be required to provide two forms of identification, both of which must contain the signature of the candidate and at least one of which must contain either a physical description of the candidate or a picture. This requirement is in effect today in the Association's existing test centers. All candidates will be required to check briefcases, books, papers, study material, etc., with the learning center administrator before being seated at the terminal. Neither the NASD nor Control Data assume responsibility for any articles which are required to be left at the admission's desk in the learning center. Candidates may use pocket electronic calculators while taking an examination provided that such devices have independent power sources and no operable print mechanisms.

Examination Presentation on the System - After a candidate is seated at a terminal the actual examination will be preceded by an introductory lesson designed to familiarize the candidate with the procedures to be followed in answering and reviewing test questions. These procedures are simple and do not require any previous experience with a computer terminal or typing ability. All questions are answered by touching the appropriate location on the terminal screen itself. In addition, there is a simple procedure available to the candidate during the test and at the end of the examination for reviewing any question in the examination. At the end of the allotted time period or when a candidate voluntarily terminates a testing session, the computer will automatically score the examination and component sub-sections and display the scores on the terminal. A hard copy grade notification will be forwarded by the Association to the sponsoring firm and to the state securities commissions designated on the candidate's application on the first business day following the testing session.

Plato Learning Center Locations - The following cities are presently serviced by at least one Control Data learning center. A current list of learning center locations and telephone numbers will be included with each confirmation notice sent to candidates. Candidates located in areas serviced by Control Data learning centers must take the General Securities Principal Examination on the Plato system:

Anaheim, California	Clayton, Missouri
Los Angeles, California	St. Louis, Missouri
San Diego, California	Omaha, Nebraska
San Francisco, California	New York, New York
Sunnyvale, California	Charlotte, North Carolina
Stamford, Connecticut	Cincinnati, Ohio
District of Columbia	Cleveland, Ohio
Miami, Florida	Columbus, Ohio
Atlanta, Georgia	Lima, Ohio
Chicago, Illinois	Oklahoma City, Oklahoma
Louisville, Kentucky	Philadelphia, Pennsylvania
New Orleans, Louisiana	Pittsburgh, Pennsylvania
Baltimore, Maryland	Rapid City, South Dakota
Rockville, Maryland	Dallas, Texas
Boston, Massachusetts	Houston, Texas
Quincy, Massachusetts	San Antonio, Texas
Detroit, Michigan	Salt Lake City, Utah
Arden Hills, Minnesota	Arlington, Virginia
Bloomington, Minnesota	Seattle, Washington
Edina, Minnesota	Milwaukee, Wisconsin
Minneapolis, Minnesota	

Non-Plato Testing Locations - On a special request basis the Association will make printed General Securities Examinations available at its traditional test centers which are located in cities not serviced by a Control Data learning center. A request for an examination to be administered at one of these locations should be made at the time the candidate's application papers are submitted.

* * *

Implementation Procedures for the New General Securities Principal Examination

Effective December 26, 1978, all new applicants for registration as General Securities Principals will be enrolled for testing on the Plato system. Testing on the system will commence on January 1, 1979. Candidates who apply for registration for General Securities Principals prior to December 26, 1978, and who are holding unexpired Test Series 40 admission tickets (the current examination for principals) on January 1 will be enrolled on the Plato system for the new examination. Such candidates are advised not to take the Series 40 examination on or after January 1, 1978, since this test will not be accepted as of that date, as meeting the Association's qualification requirements for General Securities Principals. All candidates enrolled on the Plato system will receive enrollment confirmation notices and schedules of learning centers available for testing purposes.

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Limited Principals - Investment Company Products/Variable Contracts and Direct Participation Programs

Persons whose supervisory activities in the investment banking and securities business are limited to:

- Transactions involving securities of companies registered pursuant to the Investment Company Act of 1940; and/or
- Transactions involving variable contracts and insurance premium funding programs registered pursuant to the Securities Act of 1933; and/or
- Transactions involving direct participation programs

will continue to qualify by sitting for the existing principal examination (Test Series 40) after the new General Securities Principal Examination is introduced in January, 1979. The Association is currently developing study outlines and

specialized examinations programs for these categories of registration and will keep the membership informed of developments in these areas as they occur. It is currently anticipated that study outlines for the limited principal examinations will be available in December, 1978, and that the new limited principal examinations will be available in March, 1979.

* * *

Limited Principal - Financial and Operations

Effective January 1, 1979, financial and operations principals will qualify by passing the Series 27 Qualification Examination for Financial and Operations Principals only. Qualification as a Financial and Operations Principal will no longer be linked to the General Securities Principal testing requirement. In addition, a member firm will no longer be required to register a Financial and Operations Principal if:

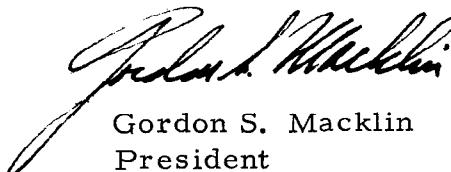
- The firm is subject to the provisions of SEC Rule 15c3-1(a)(2) specifying a minimum net capital requirement of \$5000 for brokers who do not carry customers' accounts; or
- The firm is subject to the provisions of SEC Rule 15c3-1(a)(3) specifying a minimum net capital requirement of \$2500 for brokers or dealers engaged solely in the sale of redeemable shares of registered investment companies and certain other share accounts; or
- The firm has been expressly exempted by the Securities and Exchange Commission from SEC Rule 15c3-1 pursuant to the provisions of paragraph (b)(2) thereof.

The Association intends to introduce a new Financial and Operations Principal Examination in its traditional testing centers in January, 1979. A new study outline for this examination was published in September and is available from the Association's Executive office and its fourteen district offices.

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Questions regarding this notice should be directed to Frank J. McAuliffe at (202) 833-7394, Carole Hartzog at (202) 833-7392 or David Uthe at (202) 833-7273.

Sincerely,



Gordon S. Macklin
President

NASD

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

December 1, 1978

M E M O R A N D U M

TO: All NASD Members

RE: Securities and Exchange Commission Approval of
Options "Access Firm" Rule Proposals

Effective Date of Program - February 1, 1979

SUMMARY

On November 15, 1978, the Securities and Exchange Commission approved a package of rule change proposals, originally filed by the Association in December, 1977, which are designed, among other things:

- to govern the activities of NASD member options "access firms" (i. e., members of the Association which, although engaged in listed options trading, are not members of an exchange upon which the options traded are listed); and,
- to govern member trading in conventional, over-the-counter options.

Under the "access firm" program, certain members will become subject, for the first time, to compliance with a set of specialized rules and related procedures governing their options activities. Included among these provisions are registration requirements for Registered Options Principals (ROP's) and certification requirements for Registered Options Representatives (ROR's).

BACKGROUND

On January 13, 1977, the SEC approved a rule change proposal by the Association which added a new Section 33 to Article III of the Rules of Fair Practice. Among other things, Section 33, which was initially approved by membership vote in July, 1976, prohibits members from effecting any transaction in an option contract except in accordance with the provisions of rules, regulations and procedures adopted by the Board of Governors (the Board). The Section also authorizes the Board to adopt, alter, amend, supplement or modify such rules, regulations and procedures from time to time without recourse to the membership for approval. Acting on such authority, the Board adopted and filed with the Commission, a set of rule change proposals which would provide for the quotation display of standardized options on the NASDAQ System and which would provide for the regulation of members' transactions in options. The proposals, hereafter referred to as the NASDAQ options program, contained an Appendix E to Article III, Section 33 of the Rules of Fair Practice concerning transactions in options; amendments to Schedule D of Article XVI, Section 3 of the NASD By-Laws concerning NASDAQ System rules and regulations for NASDAQ options; and amendments to Schedule C of Article I, Section 2(d) of the By-Laws concerning registration of and qualifications for ROP's and ROR's. An analysis of the provisions of the NASDAQ options program was provided to members prior to filing with the SEC in both Notice to Members No. 76-8, dated February 10, 1976, and Notice to Members No. 76-31, dated September 28, 1976. Announcement of the filing of the proposals, together with a detailed description thereof, was made in Notice to Members No. 77-5, dated January 28, 1977.

Subsequent to the filing of the NASDAQ options program proposal, the SEC, on July 18, 1977, announced the imposition of an "informal moratorium" on options expansion. The Commission stated that during the period of the moratorium it would defer consideration of any rule change proposal by a self-regulatory organization which would lead to the expansion of existing programs for the trading of standardized options or the creation of new ones until such time as it had completed an investigation of certain aspects of standardized options trading and its attendant regulation. The results of this preliminary review were in large measure responsible for the SEC announcement on October 17, 1977, that it intended, among other things, to commence an even broader options investigation. In addition to such investigation, the Commission sought public comment on whether it should adopt a temporary rule designed to prevent options expansion and whether expansionary options proposals, including the NASDAQ options program, should be the subjects of a formal SEC disapproval proceeding.

In the months following the October release, the task of performing an in-depth analysis of standardized options trading was assigned to an SEC task force entitled the Special Study of the Options Markets (the Special

Study). Their analysis of the options markets is continuing. During this period the Association, together with the other self-regulatory organizations, has continued its observance of the voluntary moratorium on options expansion. Most recently, the Board of Governors agreed, at its July meeting, to an SEC request for withdrawal of the NASDAQ options program proposal subject to resubmission after January 1, 1979, upon the occurrence of certain events connected with the completion of a report by the Special Study. Formal withdrawal of the filing was submitted to the Commission on July 26, 1978.

Notwithstanding the above, during the period in which the Special Study was preparing to begin its investigation and prior to the formal withdrawal of the NASDAQ options program, the staff of the Association and the SEC staff commenced discussions on the need to fill an existing regulatory void in the area of standardized options trading. The Association expressed concern over the apparent lack of any specialized rules to govern the activities of broker/dealers which engaged in options trading on an access basis (i. e., firms which executed transactions in listed options but which were not members of an exchange on which the options traded were listed). In this connection, the Board of Governors had made "access firm" regulation an integral part of the NASDAQ options program proposal. Operating under assurances from the Commission staff that an attempt at "access firm" regulation would not be viewed as options expansion, on December 23, 1977, the Association filed a rule change proposal with the Commission to achieve that objective. The proposal, which is described in detail hereafter, consists of the same rules which were submitted previously in the form of the NASDAQ options program with the exception of the amendments to Schedule D of the By-Laws governing the quotation display of options on the NASDAQ System. SEC approval of the "access firm" proposal will not, therefore, result in the introduction of options trading on NASDAQ.

The Association's "access firm" rules parallel in most respects the existing rules of the options exchanges and include, among others, provisions governing options positions and exercises, the opening of options accounts, the reporting of options positions, the registration of options principals and representatives and the assignment of options exercise notices and the delivery of and settlement for underlying securities upon exercise.

The rules are scheduled to become effective on February 1, 1979. This interim period between the date of this notice and the effective date of the rules is being provided in order to allow members to review the "access firm" proposal and to become familiar with its provisions. Subsequent to the effective date of the program, any member engaged in options trading on

an access basis or engaged in transactions in conventional, over-the-counter options will be expected to be in compliance with the rules of the Association as discussed hereafter.

EXPLANATION OF THE RULES

Appendix E to Article III, Section 33 of
the Rules of Fair Practice

Subsection (a) of Section 1 specifies which option transactions are subject to the provisions of Appendix E. Specifically covered are: (a)(1) transactions in exchange listed options by NASD members who are not also members of an exchange on which such options are listed; (a)(2) transactions in conventional, over-the-counter options; and, (a)(3) other matters related to options trading.

Subsection (a)(1) of Section 1 encompasses activity by options "access firms." The following offer examples of the types of activity which will be governed by the provisions of Appendix E:

- Firm A which is a sole member of the NASD trades listed options through an access arrangement with a member of an options exchange;
- Firm B which is a member of both the NASD and the New York Stock Exchange, but not a member of any options exchange, trades listed options through an access arrangement with an options exchange member; or
- Firm C which is a member of both the NASD and the Chicago Board Options Exchange (CBOE) trades standardized options, which are not listed on the CBOE, through an access arrangement with a member of another options exchange.

It should be noted that these examples are not meant to be all inclusive and that other types of options access activity will also be covered by the rules set forth in the Appendix.

In addition to the above, subsection (a) of Section 1 specifies that Sections 3 through 12 of Appendix E shall apply only to transactions in options contracts written on common stocks while Sections 13 through 24 thereof shall be applicable to transactions in options contracts written on any security.

Subsection (b) of Section 1 establishes that the provisions of the By-Laws and Rules of Fair Practice of the Association, to the extent appropriate, shall also apply to the trading of option contracts.

Subsection (c) specifies the meaning of local time as used throughout the Appendix.

Section 2 contains the definitions of terms used in Appendix E. The definitions are self-explanatory. Members should make a particular note of the definition of the term "option contract" contained in subsection 2(e). The definition, among other things, specifies that for purposes of Section 3 through 12 of Appendix E, an option to purchase or sell common stock shall be deemed to cover 100 shares of such stock at the time the contract granting such option is written. Further, if an option is granted covering some other number of shares then, for purposes of Sections 3 through 12, such option shall be deemed to constitute as many option contracts as that number of shares divided by 100. This distinction is particularly significant in the case of conventional options written on common stock where one option contract may at times cover more than 100 shares of stock. Therefore, a single conventional option contract written on, for example, 500 shares of common stock shall be considered as five option contracts for purposes of Section 3 through 12 of Appendix E.

Section 3 prohibits members from effecting a transaction for their own accounts, the accounts of their associated persons or the accounts of their public customers, which would result in such persons, acting alone or in concert with others, directly or indirectly holding an aggregate position in option contracts in excess of limits established from time to time by the Association. Such limits are currently a maximum of 1,000 option contracts of the put option class and the call option class on the same side of the market covering the same underlying security. For purposes of the position limit rule, long positions in put options are to be combined with short positions in call options and short positions in put options are to be combined with long positions in call options. Specific examples of how the position limits operate are provided in the rule. Section 3 also allows the Association, in highly unusual circumstances, to give written approval to exceed the established position limits provided that notification of such approval is also communicated to the SEC.

Section 4 establishes a limit on the number of option contracts which may be exercised by a member, person associated with a member or public customer, acting alone or in concert with others. Such limit, which will be fixed from time to time by the Association, presently stands at a maximum of 1,000 option contracts in a particular class of options within any five (5) consecutive business day period. As in the case of position limits, the Association, in highly unusual circumstances, may give written approval to exceed the established exercise limits.

Requests to exceed the position limits established pursuant to Section 3 and exercise limits established pursuant to Section 4 should be directed to the Association's Market Surveillance Section, 1735 K Street, N. W., Washington, D. C. 20006.

Section 5 establishes reporting requirements relative to option positions maintained by a member, associated persons of a member and public customers. The reports required under this Section should be filed with the Association's Market Surveillance Section.

Subsection 5(a) requires a member to file a report, on a form prescribed by the Association, with respect to each account which maintains an aggregate long, aggregate short or aggregate uncovered short position of 100 or more option contracts in any class of options. Such report is to be filed not later than the close of business on the business day following the day on which the reportable position is established. Each report must identify, among other things, the person or persons having an interest in the account and the total number of option contracts comprising the reportable position. A supply of report forms will be maintained in each of the Association's District Offices. Members should contact their appropriate District Office to obtain an adequate number of such forms. In this connection, it should be noted that position reporting is the responsibility of every NASD member whose options activities are governed by the provisions of this Appendix E. Such should be of particular concern to those members which conduct their business on a fully-disclosed basis. These firms, while not required to actually file the daily position reports themselves, are under an obligation to insure that the firms carrying their accounts are aware of the responsibility to report option positions in such accounts to the Association.

Subsection 5(b) requires members to report promptly to the Association any cases of which they have knowledge that a person or persons, acting alone or in concert with others, have exceeded or are attempting to exceed the position and exercise limits established pursuant to Sections 3 and 4 of Appendix E, respectively.

Subsection 5(c) requires each member to report monthly the uncovered short positions in any class of options held in the member's accounts, the accounts of its partners, officers, directors and employees and the accounts of its public customers. The report is to be made as of the 15th day of each month and is to be submitted no later than the second business day following the date as of which the report is made. As in the case of the daily position reports, a supply of the monthly uncovered position reports will be maintained in each of the Association's District Offices and may be obtained from those offices by members needing to file such reports. The obligation for introducing firms to insure that the firms carrying their accounts comply with Association reporting requirements with respect to such accounts applies as well to the submission of the monthly uncovered short position report.

Subsection 6(a) provides that the Association may direct the expeditious liquidation, consistent with the maintenance of an orderly market, of the options position, or a portion thereof, of any person or group of persons acting in concert whose position in option contracts exceeds the limits established pursuant to Section 3 of Appendix E. The Association may also prohibit members from effecting any opening transaction in options for the account of any person who has violated the position limit rule unless, among other things, the Association gives express approval to such opening transaction.

Subsection 6(b) provides that prior to the issuance of any directive requiring the liquidation of a position or prohibiting further opening transactions in option contracts for the account of any person, the individual to be named therein shall be informed of such fact and shall be afforded an opportunity to be heard thereon. In any case where a position liquidation is directed, the subsection provides that the hearing, if requested, shall take place within one business day of receipt of notice by the affected party. Where other prohibitions or limitations are contemplated, such hearing shall be held as promptly as possible under the circumstances. A record shall be kept in each of the above proceedings and any final determination to implement the directive in question shall be in writing and shall be supported by a statement setting forth the specific grounds on which the determination is based. Persons aggrieved by actions which the Association may take pursuant to Section 6 may make application for review to the SEC in accordance with Section 19 of the Securities Exchange Act of 1934.

Section 7 authorizes the Association to establish restrictions with respect to uncovered short positions in option contracts. It specifies that, whenever the Association determines in light of current market conditions for options and underlying securities that there exists an excessive number of uncovered short positions in option contracts of a given class, or that an excessively high percentage of outstanding short positions in option contracts of a given class are uncovered, the Association may, upon determining that such is in the public interest and necessary for the protection of investors and the maintenance of a fair and orderly market, prohibit any further opening writing transactions in option contracts of that class unless the resulting short position is covered. Further, this Section authorizes the Association to prohibit the uncovering of any existing covered short positions in option contracts of such a class.

Section 8 authorizes the Association to impose restrictions on transactions in what are commonly referred to as out-of-the-money options. Subsection 8(a) authorizes the Association to restrict opening transactions in any exchange listed call option whose exercise price is more than \$5 above the closing market price of the underlying security for such call option on the last previous day in which the underlying security was traded and the closing market price of such call option in all markets in which it was traded, was less than \$.50 per share at option on the last previous day on

which such call option was traded. The Association may also impose restrictions on opening transactions in any exchange listed put option whose exercise price is more than \$5 below the closing market price of the underlying security for such put option on the last previous day in which the underlying security was traded and the closing market price of such put option, in all markets in which it was traded, was less than \$.50 per share at option on the last previous day in which such put option was traded.

Section 8(b) establishes certain exemptions to the limitations prescribed under subsection (a) above. Subsection 8(b)(1) provides that such restrictions are not applicable to covered opening writing transactions, subsection 8(b)(2) exempts spread orders for the purchase and sale of option contracts of the same class covering the same number of shares, subsection 8(b)(3) exempts opening transactions which would, upon execution, create a spread position for option contracts of the same class covering the same number of shares, and subsection 8(b)(4) provides that such restrictions are not applicable to opening transactions for the purchase of a covered put option.

In connection with both subsection 8(b)(2) and (b)(3), the rules provide that should a person liquidate one side of his spread position and should the remaining side consist of an option(s) which, apart from the exception provided in those subsections, would have been restricted pursuant to the provisions of subsection 8(a) when the spread order was placed or when the spread was created, then such other side must also be liquidated.

Subsection 8(c) authorizes modifications to the provisions set forth under subsections (a) and (b) of Section 8 where such are determined to be necessary in the public interest or for the protection of investors and in the maintenance of a fair and orderly market in option contracts or underlying securities thereof. Any such modification would not become effective earlier than 15 minutes after it is announced by the Association nor would such remain in effect for more than two (2) business days unless ratified by a committee of the Board authorized to do so. Subsection 8(d) states that all action taken under the authority of subsection 8(c) and the reasons therefor must be reported to the designated committee not later than the business day immediately following the one on which such action is taken.

Section 9 gives the Association the authority to impose restrictions on option transactions or the exercise of option contracts in one or more series of options of any class upon a determination that such action is necessary in the interest of maintaining a fair and orderly market in option contracts, or their underlying securities, or is otherwise necessary in the public interest or for the protection of investors. For example, should trading in an underlying option security be halted by the exchange on which it is traded, the Association, if it deems such appropriate, may act to restrict members' transactions in options written on such underlying

security until such time as the trading halt is lifted. The Section further provides that no restrictions could be imposed during the ten (10) business days prior to the expiration date of a given series of options with respect to the exercise of such option contracts.

Section 10 provides that, subject to the provisions of Sections 4, 6, and 9 of Appendix E, the rights and obligations of holders and writers of option contracts issued by the Options Clearing Corporation (OCC) shall be as set forth in the rules of the OCC.

Section 11 states that open customer orders for OCC-issued option contracts held by members prior to the effective date of an adjustment to the term of a class of options by OCC shall be adjusted on the "ex-date" by the amount specified by OCC, unless otherwise instructed by the customer.

Section 12 requires members to deliver a current prospectus of the Options Clearing Corporation to each customer at or prior to the time his account is approved for trading in OCC-issued options. If the Options Clearing Corporation issues a new prospectus or supplement to the current prospectus, such must be distributed to each options customer either at the time the material is issued or, in any event, not later than the time a trade is entered on the customer's behalf. The Section specifies that where a broker or dealer enters his orders with another member in a single omnibus account, the member holding the account shall take steps to insure that such broker or dealer is furnished sufficient quantities of the current OCC prospectus to enable him to comply with the prospectus delivery requirement. In cases where an introducing broker or dealer enters orders for his customers with, or clears transactions through, a member on a fully disclosed basis, and where that member carried the accounts of such customers, Section 12 provides that the responsibility for delivering a current prospectus rests with the carrying member. The carrying member may, however, rely upon the good faith representation of the introducing firm that a current prospectus has been delivered in compliance with the rule.

In order to assist members in complying with the prospectus delivery requirements of the options access firm rules, the Association has secured a supply of OCC prospectuses which are available upon request at each of the NASD's District Offices. Members will be billed for each prospectus ordered at a rate representing the actual cost of each prospectus to the Association.

Section 13 prescribes the nature of information which is required on the confirmation furnished by a member to a customer relative to an option transaction. These provisions are essentially comparable to the requirements concerning general securities transactions. However, due to the unique features of options, some additional information is required.

Such information includes the expiration month and exercise price of the option contract, the date of expiration in the case of a conventional option contract, and whether the transaction was an opening or closing transaction. The confirmation must also, by appropriate symbols, distinguish between exchange listed option transactions and other transactions in option contracts.

Section 14 prohibits a member from entering a transaction for the sale of a call option contract for the account of any corporation which is the issuer of the underlying security of such option contract.

Section 15 prohibits any member from accepting for the purposes of covering a short position in a call option contract, delivery pursuant to the exercise of a put option contract, or an exercise notice assigned in respect of a call option contract, shares of underlying stock which may not be sold by the holder thereof except upon registration pursuant to the provisions of the Securities Act of 1933 or pursuant to SEC rules promulgated under the Securities Act of 1933, unless at the time such securities are accepted and later delivered, applicable provisions of the Securities Act of 1933 have been complied with by the holder thereof.

Section 16 requires members to send statements of account showing security and money positions and entries at least monthly to each customer in whose account there has been an entry during the proceeding month with respect to an option contract. Further, a quarterly statement of account must be forwarded to each public customer having an open option position or money balance.

Subsection 17(a) prohibits a member or person associated with a member from accepting an order from a customer for the purchase or sale (writing) of an option contract unless the customer's account has been approved for options trading in a manner consistent with the provisions of subsections 17(b) and (c).

Subsection 17(b) requires that prior to approving a customer's account for options trading, members and persons associated with members shall exercise due diligence to determine the essential facts relative to the customer, his financial situation and investment objectives. The rule further requires that a Registered Options Principal, who is a general partner or officer of the member and who is personally informed of such facts, approve or disapprove, the customer's account in writing. The rule also provides that in the case of a branch office a customer's account may be approved for options trading by the branch office manager with the stipulation that such account must be subsequently approved or disapproved by a Registered Options Principal within seven (7) business days. Members must retain information gathered on customers pursuant to this subsection and information on all account approvals and disapprovals as part of their permanent records.

Subsection 17(c) requires that within fifteen (15) days after the account of a customer has been approved for option transactions, a member must obtain a written agreement from the customer which states that the customer is aware of and agrees to be bound by, the rules and by-laws of the Association applicable to options trading. If the customer intends to engage in transactions in options issued by the Options Clearing Corporation, the customer must acknowledge in the agreement that he has received a copy of the current OCC prospectus and that he is aware of and agrees to be bound by the rules of the Options Clearing Corporation. In addition, the customer should indicate on the agreement that he is aware of and agrees not to violate the position and exercise limits established pursuant to Sections 3 and 4 respectively of Appendix E.

The Board of Governors has issued an interpretation to the above requirements for approval of customers' options accounts. Pursuant to this interpretation, in approving customers' accounts for options trading, members are urged to consider employing a separate option account approval form either in conjunction with, or as a supplement to, the standard new account approval form.

While the Association has not taken steps to design, for use by members, a standard option account agreement which will satisfy the provisions of this Section of the options "access firm" rule package, members may submit for review and comment, during the period prior to the effective date of the rules, copies of the account agreement forms which they intend to use in connection with options trading. Such agreements should be filed with the Association's Department of Regulatory Policy and Procedures, 1735 K Street, N. W., Washington, D. C. 20006.

Section 18 prohibits a member or person associated with a member from exercising discretionary authority in the options account of a customer unless the provisions of Article III, Section 15 of the Rules of Fair Practice relative to discretionary accounts and subsections (a)(1) through (a)(3) of Section 18 of Appendix E have been complied with.

Subsection 18(a)(1) requires members to obtain a written statement from a customer specifically authorizing discretionary option transactions in that customer's account. Subsection 18(a)(2) requires that the account of the customer must be accepted as a discretionary account by a general partner or officer of the member who is also a Registered Options Principal. Subsection 18(a)(3) requires a Registered Options Principal to approve every option transaction in a discretionary account. The rule provides, however, that in the case of a branch office, a discretionary option order may be approved and initialed on the date of entry by the branch office manager, provided that such approval is subsequently approved within five (5) business days by a Registered Options Principal who is a general partner or officer of the member. The requirements of subsection 18(a) do not apply to the use of discretion as to the price at which or the time

when an order given by a customer for the purchase or sale of a definite number of option contracts is executed.

Subsection 18(b) requires members to make and maintain a record of each discretionary option transaction. The record must reflect the fact that discretionary authority was exercised and must contain other pertinent data such as the name of the customer, the designation and number of option contracts, the premium and the date and time when each discretionary transaction was effected.

Subsection 18(c) prohibits members from executing discretionary option transactions which would result in the creation of an uncovered short position or the uncovering of an existing short position in option contracts in any account unless the person for whom the account is maintained has given the member specific written authorization to effect such transactions.

Subsection 19 establishes suitability requirements with respect to recommendations to customers concerning the purchase or sale of an option contract. These provisions are more stringent than the suitability requirements of Article III, Section 2 of the Rules of Fair Practice (Recommendations to Customers) and should be studied closely by all members. Subsection 19(a) requires members to make a reasonable inquiry as to a customer's investment objectives, financial situation and needs and any other information deemed necessary to assure that any recommended option transaction would not be unsuitable for such customer.

Subsection 19(b) prohibits a member from effecting on behalf of a customer an uncovered sale (writing) transaction in a call option contract or any transaction in a put option contract unless the member, after reasonable and diligent inquiry, has a reasonable basis for believing that such customer is capable of evaluating the additional risks attendant to such transactions and that such customer has the financial capability to meet reasonably foreseeable margin calls pursuant to applicable margin requirements with respect to the proposed options positions and related short positions in underlying securities.

Section 20 requires a Registered Options Principal of a member, who has been designated as the member's Senior Registered Options Principal, to supervise all accounts of customers and all orders in such accounts to the extent that such accounts and orders relate to option contracts.

The rule permits the Senior Registered Options Principal, in meeting this responsibility, to delegate supervisory authority to qualified employees of the member, including other Registered Options Principals. The Senior ROP is nevertheless still charged with the responsibility for overall supervision of a member's options activities.

Subsection 21(a) prescribes that, in Association disciplinary proceedings, a finding of violation of any provision of the rules, regulations or by-laws of the Options Clearing Corporation by a member or person associated with a member engaged in transactions involving options issued, or subject to issuance, by the Options Clearing Corporation, may be deemed conduct inconsistent with the just and equitable principles of trade and a violation of Article III, Section 1 of the Association's Rules of Fair Practice.

Subsection 21(b) states similarly that a finding of violation of any provision of the rules, regulations or by-laws of the Association by any member engaged in option transactions may likewise be deemed conduct inconsistent with just and equitable principles of trade and a violation of Article III, Section 1 of the Rules of Fair Practice.

Section 22 provides that any stock transfer or similar tax payable upon the sale, transfer or delivery of securities pursuant to the exercise of an option contract shall normally be the responsibility of the seller (writer) to whom the exercise notice is assigned in the case of a call option contract or the exercising holder in the case of a put option contract. However, in instances where the imposition of such tax can be attributed solely to the exercising holder of a call option contract or the seller of a put option contract to whom an exercise notice is assigned, payment of the tax shall become the responsibility of such persons. The rule also provides that all deliveries of securities subject to stock transfer or similar taxes must be accompanied by a sales ticket stamped in accordance with the regulations of the State imposing such tax, or if required by applicable law, such tax must be remitted by the responsible clearing member to the clearing corporation through which it customarily pays stock transfer taxes.

Section 23 establishes rules governing the use of options advertising and sale literature by member firms. Pursuant to subsection 23(a), each item of options advertising and sales literature must be approved, prior to use, by a member's Senior ROP or his designee. In addition, a separate file of all such material must be maintained by members for a period of three years from the date of each use.

Subsection 23(b) provides that, in addition to requiring the prior approval of a Senior ROP, every options advertisement must be submitted to the Association's Advertising Department, 1735 K Street, N. W., Washington, D. C. 20006, for review at least ten days prior to use or such shorter period as the Department may allow in unusual circumstances. This requirement will be waived, however, in cases where the ad in question has been submitted to and approved by a registered securities exchange having advertising standards similar to those of the Association. The Association's Advertising Department will, in the absence of highly unusual circumstances, communicate its comments to members with respect to options ads within the prescribed ten day review period.

Subsection 23(c) sets forth the standards which the Association has made applicable to members' options related communications. These standards are essentially comparable to the existing standards of the options exchanges. Subsections 23(c)(1) and 23(c)(2) are applicable to all options advertising while subsection 23(c)(3) applies only to advertisements concerning options issued by the Options Clearing Corporation. In this connection, with respect to options advertising in general, statements referring to the opportunities or advantages presented by options should be balanced by a statement of the corresponding risks involved in such activity. Further, it should never be suggested in an advertisement that speculative options strategies are suitable for most, or for small, investors. Ads for OCC issued options must meet the requirements of Rule 134 under the Securities Act of 1933, which limits such ads to general descriptions of the security being offered and of its issuer and states the name and address of the person from whom a current copy of the OCC prospectus may be obtained. The ads may also contain, among other things, a brief description of the general attributes and method of operation of OCC and/or a description of any of the options traded in different markets, including a discussion of how the price of an option is determined.

Article I, Section 2(d), Schedule C
of the By-Laws

Schedule C of the By-Laws has been amended by adding two parts pertaining to options principals and one part pertaining to options representatives. Paragraph (4) of Part I requires any member engaged in any put or call options activities, whether for the account of a public customer or for the account of the firm, to have at least one of its associated persons registered with the Association as a "Registered Options Principal." Paragraph (4) also requires each person who is actively engaged in the management of the day-to-day options activities of a member to be registered with the Association as a ROP. Further, Paragraph (4) requires members to designate a Senior Registered Options Principal and to inform the Association of that person's identity. It is important to note, in connection with the above, that all members engaged in options activities, including those firms conducting an options business on a fully-disclosed basis through another member, are required to have a Registered Options Principal.

Paragraph (5) of Part I requires that as a condition to becoming a ROP, a person associated with a member must pass an appropriate qualification examination for Registered Options Principal, or an equivalent examination acceptable to the Association. Paragraph (5) also specifies that a person shall not qualify as a ROP for both put and call option contracts unless he has passed an examination which tests for both put and call options.

Paragraph (4) of Part II requires that associated persons of members whose activities include the solicitation and/or sale of option contracts be certified as Registered Options Representatives (ROR's). This paragraph also states that as a condition to becoming a ROR, a person associated with a member must pass an appropriate certification examination for Registered Options Representative, or an equivalent examination acceptable to the Association. Paragraph (4) also specifies that a person shall not qualify as a ROR for both put and call options unless he has passed an examination which tests for both put and call options.

The above requirements for the registration of Registered Options Principals and the certification of Registered Options Representatives have been outlined in two previous notices to the membership. Notice to Members No. 77-14, dated April 22, 1977, was issued in anticipation of the effectiveness of the NASDAQ options program proposal and Notice to Members No. 78-23, dated June 16, 1978, was issued during the course of SEC consideration of these "access firm" proposals so that members would have ample opportunity to comply with the provisions of amended Schedule C in advance of their effectiveness. Both of these notices outlined the procedures which would be followed by the Association in "grandfathering" persons already qualified as ROP's or certified as ROR's and in administering examinations to persons seeking to become so qualified. Reference should be made to these notices for further information on the subject of the qualification of ROP's and ROR's.

It is important to note that members doing an options business must have a Registered Options Principal by the effective date of the "access firm" program (February 1, 1979) in order to be in compliance with Association rules in this area.

Further, with respect to the above, a separate notice will be submitted shortly to the membership which will detail, among other things, the procedures to be followed in reporting to the Association's Membership Department the identities of a member's Senior Registered Options Principal, its remaining ROP's and all of its certified ROR's.

Uniform Practice Code

The Association's Uniform Practice Code has been amended by the addition of a new Section 63 pertaining to the procedures for assignment and exercise of option contracts and the delivery of and payment for securities underlying such contracts. The procedures outlined in new Section 63 apply solely to option contracts issued by the Options Clearing Corporation.

Subsection 63(a)(1) provides that an outstanding option contract may, subject to certain restrictions imposed by the rules of the Association,

the Options Clearing Corporation or an options exchange, be exercised by the holder thereof during the time periods specified by OCC. In addition, the rule provides that an exercise notice may be tendered only through the clearing member carrying the account of the option contract holder. The subsection also states that the Association has established an exercise cut-off time of 5:30 p. m. on the business day immediately prior to the expiration date for a given series of options as the latest time which members may accept exercise instructions from their customers with respect to option contracts of that series.

Subsection 63(a)(2) sets forth four conditions under which members may make exceptions to the established exercise cut-off time and accept instructions to exercise option contracts. These include:

- cases of option contracts carried in an account maintained for another member in which only positions of customers of such other member are carried;
- remedying mistakes or errors made in good faith;
- taking appropriate action as a result of a failure to reconcile unmatched or uncomparated option transactions; or
- cases of extraordinary circumstances relating to a public customer's ability to communicate exercise instructions to a member or a member's ability to receive such instructions.

Subsection 63(b) requires members to prepare a memorandum of every exercise instruction received from customers indicating the time at which such instruction was received. Further, should a member receive and act upon an exercise instruction pursuant to an exception to the exercise cut-off time provision of the Association's rules, such member must prepare and maintain a memorandum setting forth the circumstances giving rise to such exception. This requirement is waived, however, where such exceptions are granted with respect to accounts carried for another member in which only customer positions are represented. The subsection also provides that a copy of any memorandum prepared in connection with the granting of any exception involving either appropriate action as a result of a failure to reconcile an uncomparated trade or extraordinary circumstances relating to the communication of exercise instructions must be filed with the Association's Market Surveillance Section.

Subsection 63(c)(1) requires each member to establish fixed procedures relative to the allocation of exercise notices assigned in respect of

short positions in option contracts maintained in the member's customer accounts. The particular method of allocation shall be determined by the member. However, any procedure selected must provide for fair and equitable treatment of the member's customers. Suggested allocation methods include, among others, assignment on a "first in, first out" basis or assignment on a basis of random selection. The subsection further provides that an exercise notice of block size (i. e. , 25 or more units of trading of the same class of options) may be allocated to a customer having an open short position of block size and that an exercise notice of less than block size may be allocated to a customer having a short position of less than block size.

Subsection 63(c)(2) requires each member to file its proposed allocation method with the Association for approval prior to its implementation. Further, any change in a member's approved allocation procedures must also be reported to and approved by the Association in advance of its implementation. All requests for approval of exercise assignment procedures and changes therein should be directed to the Association's Market Surveillance Section, 1735 K Street, N. W. , Washington, D.C. 20006. The subsection also requires members to provide descriptions of their exercise assignment procedures to customers upon request.

Subsection 63(c)(3) provides that where a non-clearing member clears all of its proprietary and customer option transactions through another member in a single omnibus account, exercise notices assigned by the clearing member to such account must first be allocated on a fair and equitable basis between the proprietary and customer accounts of the non-clearing member and thereafter among the customer accounts in accordance with the aforementioned provisions of subsection 63(c)(1).

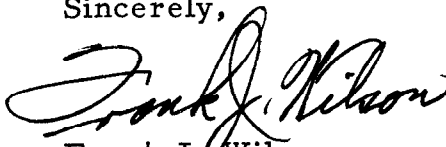
Subsection 63(d) specifies that the delivery of shares upon the exercise of an option contract and the payment of the aggregate exercise price in respect thereto shall be governed by the rules of the Options Clearing Corporation. In this connection, members are required to have customers make full cash payment of the aggregate exercise price in the case of a call option or to deposit the underlying security in the case of a put option as promptly as possible after the exercise of the option contract by a customer. Following the assignment of an exercise notice to a customer, members must require their customers as promptly as possible to deposit the underlying security in the case of a call option if such shares are not carried in the customer's account or to make full cash payment of the aggregate exercise price in the case of a put option. Where either an exercise or an assignment of an option contract involves a transaction in a margin account, the rule provides that a member shall promptly require that the customer make the appropriate margin deposit.

As has been noted, the options access firm program is scheduled to be implemented on February 1, 1979. Again, this interim period between the date of SEC approval of the rule changes and their effective date is designed to allow members to familiarize themselves with the proposals and to take steps where appropriate to effect compliance with their provisions. In order to further assist members in this undertaking, attached at the end of this notice are checklists of (1) certain procedural steps which must be taken by NASD member options access firms and those doing a conventional options business prior to implementation of the options regulation program, and (2) on-going filing and reporting requirements to which members will be subject once the program becomes effective.

In addition to the above, the Association is preparing a reprint of certain of the provisions of the access firm proposal which deal specifically with conducting an options business with the public. This material, which will be submitted shortly to each member, is intended for use by a firm's registered personnel and is designed to serve as a convenient reference and source of information on such person's obligations under Association rules in dealing with public customers engaged in options trading.

Members are urged to review this notice and each of the rule changes carefully. Should you have any questions with respect to any aspect of the options access firm program, please contact S. William Broka, Assistant Director, Regulatory Policy and Procedures at (202) 833-7247 or your appropriate NASD District Office.

Sincerely,

A handwritten signature in cursive script that reads "Frank J. Wilson". The signature is written in black ink and is positioned above the typed name.

Frank J. Wilson
Senior Vice President
Regulatory Policy and
General Counsel

Article III, Section 33, Appendix E

Section 1 - General

(a) Applicability - The Rules in this Appendix E shall be applicable (1) to the extent appropriate unless otherwise stated herein, to the conduct of accounts, the execution of transactions, and the handling of orders in exchange listed options by members who are not members of an exchange on which the option executed is listed; (2) to the extent appropriate unless otherwise stated herein, to the conduct of accounts, the execution of transactions, and the handling of orders in conventional options; and (3) other matters related to options trading.

Without limiting the generality of the foregoing, Sections 3 through 12 of this Appendix E shall apply only to transactions in options on common stock, and Sections 13 through 24 of this Appendix E shall apply to transactions in options on any security, including common stock.

(b) Except to the extent that specific sections in this Appendix govern, or unless the context otherwise requires, the provisions of the By-Laws and Rules of Fair Practice and all other interpretations and policies of the Board of Governors shall also be applicable to the trading of option contracts.

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

Section 2 - Definitions

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

(a) Options Clearing Corporation - The term "Options Clearing Corporation" means The Options Clearing Corporation, the issuer of exchange listed options.

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

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

(d) Participating Exchange - The term "participating exchange" means a national securities exchange which has qualified for participation in the Options Clearing Corporation pursuant to the provisions of Article VII of the By-Laws of the Options Clearing Corporation.

(e) Option Contract - The term "option contract" means any put, call, straddle or other option or privilege of buying a security from or selling a security to another without the holder being bound to do so, but shall not include any tender offer, registered warrant, right, convertible security or any other option in respect to which the writer is the issuer of the security which may be purchased or sold upon the exercise of the option. For purposes of Sections 3 through 12 of this Appendix E, an option to purchase or sell common stock shall be deemed to cover 100 shares of such stock at the time the contract granting such option is written. If an option is granted covering some other number of shares, then, for purposes of Section 3 through 12 of this Appendix E, it shall be deemed to constitute as many option contracts as that other number of shares divided by 100 (e.g., an option to buy or sell five hundred shares of common stock shall be considered as five option contracts).

An option contract which, when written, grants the right to purchase or sell 100 shares of common stock shall continue to be considered as one contract throughout its life, notwithstanding that, pursuant to its terms, the number of shares which it covers may be adjusted to reflect stock dividends, stock splits, reverse splits, or other similar actions by the issuer of such stock.

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

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

(h) Call - The term "call" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase the number of units of the underlying security covered by the option contract. In the case of a "call" issued by the Option Clearing Corporation, it shall mean an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Options Clearing Corporation the number of units of the underlying security covered by the option contract.

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

it shall mean an option contract under which the holder of the option has the right, in accordance with the terms of the option, to sell to the Options Clearing Corporation the number of units of the underlying security covered by the option contract.

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

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

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

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

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

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

(p) Expiration Date - The term "expiration date" of an option contract issued by the Options Clearing Corporation means the day and time fixed by the rules of the Options Clearing Corporation for the expiration of all option contracts having the same expiration month as such option contract. The term "expiration date" of all other option contracts means the date specified thereon for such.

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

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

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

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

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

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

(w) Covered - The term "covered" in respect of a short position in a call option contract means that the writer's obligation is secured by a "specific deposit" or an "escrow deposit," meeting the conditions of Rules 610(e) or 610(h), respectively, of the Rules of the Options Clearing Corporation, or the writer holds in the same account as the short position, on a unit-for-unit basis, a long position either in the underlying security or in an option contract of the same class of options where the exercise price of the option contract in such long position is equal to or less than the exercise price of the option contract in such short position. The term "covered" in respect of a short position in a put option contract means that the writer holds in the same account as the short position, on a unit-for-unit basis, a long position in an option contract of the same class of options having an exercise price equal to or greater than the exercise price of the option contract in such short position.

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

(y) Outstanding - The term "outstanding" in respect of an option contract means an option contract which has neither been the subject of a closing sale transaction nor has been exercised nor reached its expiration date.

(z) Member and Person Associated with a Member - The terms "member" and "person associated with a member" shall have the meanings as specified in Article I, Section 3 of the By-Laws of the Corporation.

(aa) Options Trading - The term "options trading" means trading (1) in any option issued by the Options Clearing Corporation, and (2) in any conventional option.

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

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

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

(ee) Spread Order - The term "spread order" means an order to buy a stated number of option contracts and to sell the same number of option contracts, or contracts representing the same number of units at option, of the same class of options.

(ff) Conventional Option - The term "conventional option" shall mean any option contract not issued, or subject to issuance, by the Options Clearing Corporation.

(gg) Beneficial Owner - The term "beneficial owner" means the person who has or shares the power to direct the voting or the disposition of securities, or who has or shares the right to receive or the power to direct the receipt of dividends or the proceeds from the sale of securities.

(hh) Aggregate Long and Aggregate Short - The terms "aggregate long" or "aggregate short" mean a person's total interest as the holder or writer of option contracts of a particular class of options.

(ii) Controls, is Controlled by or is Under Common Control With - The terms "controls," "is controlled by" and "is under common control with" shall have the meanings specified in SEC Rule 405 under the Securities Act of 1933.

(jj) Advertisement - The term "advertisement" means material published, or designed for use in, a newspaper, magazine or other periodical, radio, telephone or tape recording, motion picture, television, videotape display, signs or billboards, telephone directories (other than routine listings), or other public media.

(kk) Sales Literature - The term "sales literature" means any notice, circular, report (including research report), newsletter (including market letter), form letter or reprint or excerpt of the foregoing or of any published article, or any other promotional literature designed for use with the public which material does not meet the definition of "advertisement." A form

letter shall include one of a series of identical letters, or individually typed or prepared letters which contain essentially identical statements or repeat the same basic theme and which are sent to 25 or more persons.

(11) Unit - The term "unit" shall mean the smallest interest in a particular security which can be purchased or sold, such as one share of stock, one warrant, one bond, and so forth.

Section 3 - Position Limits

Except in highly unusual circumstances and with the prior written approval of the Corporation in each instance, no member shall effect for any account in which such member has an interest, or for the account of any partner, officer, director or employee thereof, or for the account of any customer, an opening transaction in an option contract of any class of options if the member or partner, officer, director or employee thereof, or customer, would acting alone or in concert with others, directly or indirectly, hold or control or be obligated in respect of an aggregate position in excess of either:

(1) 1000 option contracts of the put class and the call class on the same side of the market covering the same underlying security, combining for purposes of this position limit long positions in put options with short positions in call options, and short positions in put options with long positions in call options; or

(2) such other number of option contracts as may be fixed from time to time by the Corporation as the position limit for one or more classes or series of options provided that reasonable notice shall be given of each new position limit fixed by the Corporation.

The Corporation will notify the Securities and Exchange Commission at any time it approves a request to exceed the limits established pursuant to this Section.

The following examples illustrate the operation of position limits established by Section 3:

(a) Customer A, who is long 1,000 XYZ calls, may at the same time be short 1,000 XYZ calls, since long and short positions in the same class of options (i. e., in calls only, or in puts only) are on opposite sides of the market and are not aggregated for purposes of Section 3.

(b) Customer B, who is long 1,000 XYZ calls, may at the same time be long 1,000 XYZ puts. Section 3 does not require the aggregation of long call and long put (or short

call and short put) positions, since they are on opposite sides of the market.

(c) Customer C, who is long 700 XYZ calls, may not at the same time be short more than 300 XYZ puts, since the 1,000 contract limit applies to the aggregation of long call and short put positions in options covering the same underlying security. Similarly, if Customer C is also short 600 XYZ calls, he may not at the same time be long more than 400 puts, since the 1,000 contract limit applies separately to the aggregation of short call and long put positions in options covering the same underlying security.

Section 4 - Exercise Limits

Except in highly unusual circumstances and with the prior written approval of the Corporation, in each instance, no member or person associated with a member shall exercise, for any account in which such member or person associated with a member has an interest, or for the account of any partner, officer, director or employee thereof or for the account of any customer, any option contract if as a result thereof such member or partner, officer, director or employee thereof or customer, acting alone or in concert with others, directly or indirectly, has or will have exercised within any five (5) consecutive business days more than 1,000 option contracts of a particular class of options or such other limitations concerning the exercise of option contracts as may be fixed from time to time by action of the Corporation. Reasonable notice shall be given of each new limitation fixed by the Corporation.

Section 5 - Reporting of Options Positions

(a) Each member shall file with the Corporation a report with respect to each account in which the member has an interest, each account of a partner, officer, director, or employee of such member, and each customer account, which has (1) an aggregate long position, or (2) an aggregate short position, or (3) an aggregate uncovered short position, of 100 or more option contracts of any class of options.

Such report shall identify the person or persons having an interest in such account and shall identify separately the total number of option contracts of each such class comprising the long position, short position and uncovered short position, in such account. The report shall be in such form as may be prescribed by the Corporation and shall be filed no later than the close of business on the next business day following the day on which the transaction or transactions requiring the filing of such report occurred. Whenever a report shall be required to be filed with respect to an account

pursuant to this subsection, the member filing such shall file with the Corporation such additional periodic reports with respect to such account as the Corporation may from time to time prescribe.

(b) In addition to the reports required by subsection (a) of this Section, each member shall report promptly to the Corporation any instance in which such member has a reason to believe that a person, acting alone or in concert with others, has exceeded or is attempting to exceed the position limits or the exercise limits set forth in Sections 3 and 4 hereof.

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

- (1) each account in which the member has an interest,
- (2) all accounts of partners, officers, directors and employees of such member; and,
- (3) all accounts of customers.

Such report shall be made as of the 15th of each month (or more frequently if required by the Corporation) and shall be submitted not later than the second business day following the date as of which the report is made.

Section 6 - Liquidation of Positions and Restrictions on Access

(a) Whenever the Corporation determines that a person or group of persons acting in concert holds or controls, or is obligated in respect of, an aggregate position in option contracts covering any underlying security in excess of the position limitations established by Section 3 hereof, it may, when deemed necessary or appropriate in the public interest and for the protection of investors, direct:

- (1) any member or all members carrying a position in option contracts covering such underlying security for such person or persons to liquidate such position or positions, or portions thereof, as expeditiously as possible and consistent with the maintenance of an orderly market, so as to bring such person or persons into compliance with the position limitations contained in Section 3;
- (2) that such person or persons named therein not be permitted to execute an opening transaction, and that no member shall accept and/or execute

for any person or persons named in such directive, any order for an opening transaction in any option contract, unless in each instance express approval therefor is given by the Corporation, the directive is rescinded, or the directive specifies another restriction appropriate under the circumstances.

(b) Prior to the issuance of any directive provided for in subsection (a) hereof, the Corporation shall notify, in the most expeditious manner possible, such person, or group of persons of such action, the specific grounds therefor and provide them an opportunity to be heard thereon. In the absence of unusual circumstances, in the case of a directive pursuant to the provisions of subsection (a)(1) hereof, the hearing shall be held within one business day of notice. In the case of a directive pursuant to the provisions of subsection (a)(2) hereof, the hearing shall be held as promptly as possible under the circumstances. In any such proceeding a record shall be kept. A determination by the Corporation after hearing or waiver of hearing, to implement such directive shall be in writing and shall be supported by a statement setting forth the specific grounds on which the determination is based. Any person aggrieved by action taken by the Corporation pursuant to this Section may make application for review to the Securities and Exchange Commission in accordance with Section 19 of the Securities Exchange Act of 1934, as amended.

Section 7 - Limit on Uncovered Short Positions

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

Section 8 - Restrictions on Out-of-the-Money Options Transactions

(a) Subject to the provisions of subsections (b) and (c) hereof, no member or person associated with a member shall enter on behalf of a customer, on behalf of any officer, director, partner, employee or affiliate of

the member, or on behalf of the investment account of the member, any order for an opening transaction in any exchange listed call option contract if (1) the exercise price is more than \$5.00 above the closing market price of the underlying security for such call option on the last previous day in which such underlying security was traded; and (2) the closing market price of such call option, in all markets in which such call option was traded on the last previous day on which there was a trade of the call option on any exchange, was less than \$.50 per share at option; and no member or person associated with a member shall enter on behalf of a customer, on behalf of any officer, director, partner, employee or affiliate of the member, or on behalf of the investment account of the member any order for an opening transaction in any exchange listed put option contract if (1) the exercise price is more than \$5.00 below the closing market price of the underlying security for such put option on the last previous day in which such underlying security was traded; and (2) the closing market price of such put option, in all markets in which such put option was traded, on the last previous day on which day there was a trade of the put option on any exchange, was less than \$.50 per unit at option.

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

(1) The entry of an order for any opening writing transaction resulting in a covered short position or, in the case of a call option contract, a short position that is covered in the account on a unit-for-unit basis by a long position in a security immediately exchangeable or convertible without restriction, other than the payment of money, into the underlying security;

(2) The entry of a spread order for the purchase and sale of option contracts of the same class covering the same number of units. Provided that, if there is a subsequent liquidation of one side of the spread and if, apart from the exception provided in this subsection, subsection (a) would have been applicable to the other side of the spread when the order was entered, there shall be a concurrent liquidation of such other side.

(3) The entry of an order for any opening transaction which would, upon execution, create a spread position for option contracts of the same class of options covering the same number of units provided that, if there is a subsequent liquidation of one side of the spread and if, apart from the exception provided in this subsection, subsection (a) would have been applicable to the other side of the spread when the order was entered, there shall be a concurrent liquidation of such other side.

(4) The entry of an order for the purchase of a put against a long position on a unit-for-unit basis in either the underlying security or a security immediately exchangeable or convertible without restriction, other than the payment of money, into the underlying security.

(c) The Corporation may (1) interpret or modify any of the foregoing provisions of this Section 8 with respect to particular orders and transactions, and (2) make exceptions, modifications or additions to any of the foregoing provisions with respect to one or more series of options whenever the Corporation determines that such exceptions, modifications, or additions are necessary in the interest of maintaining a fair and orderly market in option contracts or in underlying securities or otherwise are necessary in the public interest or for the protection of investors; provided, however, that any such exception, modification or addition shall become effective not earlier than 15 minutes after it is announced by the Corporation and shall not remain in effect for more than two (2) business days unless ratified by a committee of the Board of Governors authorized by it to do so.

(d) All action taken under Section 8(c) and the reasons therefor shall be reported in writing to the said committee of the Board not later than the business day immediately following the one on which such action is taken.

Section 9 - Other Restrictions on Option Transactions and Exercises

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

Section 10 - Rights and Obligations of Holders and Writers

Subject to the provisions of Sections 4, 6, and 9 of this Appendix E, the rights and obligations of holders and writers of option contracts of any class of option issued by the Options Clearing Corporation shall be as set forth in the rules of the Options Clearing Corporation.

Section 11 - Open Orders on "Ex-Date"

Open orders for one or more option contracts of any class of options issued by the Options Clearing Corporation held by members prior to the effective date of an adjustment by the Options Clearing Corporation to the terms of a class of options pursuant to Article VI, Section 11 of the By-Laws of the Options Clearing Corporation shall be adjusted on the "ex-date" by such amount as the Options Clearing Corporation shall specify, unless otherwise instructed by the customer.

Section 12 - Delivery of Current Prospectus

Every member shall deliver a current prospectus to each customer at or prior to the time such customer's account is approved for trading of options issued by the Options Clearing Corporation. Thereafter, each new or revised current prospectus shall be distributed to every customer having an account approved for such trading or in the alternative, shall be distributed not later than the time a confirmation of a transaction is delivered to each customer who enters into a transaction in options issued by the Options Clearing Corporation. The Corporation will advise members when a new or revised current prospectus meeting the requirements of Section 10(a)(3) of the Securities Act of 1933 is available.

Where a broker or dealer enters his orders with another member in a single omnibus account, the member holding the account shall take reasonable steps to assure that such broker or dealer is furnished reasonable quantities of current prospectuses, as requested by him in order to enable him to comply with the requirements of Section 5 of the Securities Act of 1933.

Where an introducing broker or dealer enters orders for his customers with, or clears transactions through, a member on a fully disclosed basis and that member carries the accounts of such customers, the responsibility for delivering a current prospectus as provided in this Section shall rest with the member carrying the accounts. However, such member may rely upon the good faith representation of the introducing broker or dealer that a current prospectus has been delivered in compliance with this Section.

Section 13 - Confirmations

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

Section 14 - Transactions with Issuers

No member under any circumstances shall enter a transaction for the sale (writing) of a call option contract for the account of any corporation which is the issuer of the underlying security thereof.

Section 15 - Restricted Stock

For the purposes of covering a short position in a call option contract, delivery pursuant to the exercise of a put option contract, or satisfying an exercise notice assigned in respect of a call option contract, no member shall accept shares of an underlying stock, which may not be sold by the holder thereof except upon registration pursuant to the provisions of the Securities Act of 1933 or pursuant to SEC rules promulgated under the Securities Act of 1933, unless, at the time such securities are accepted and at any later time such securities are delivered, applicable provisions of the Securities Act of 1933 and the rules thereunder have been complied with by the holder of such securities.

Section 16 - Statements of Account

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

Section 17 - Opening of Accounts

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

(b) Diligence in Opening Accounts

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

(2) In connection with approving the account of a customer for options trading, members should seek information in particular as to whether the customer has had prior experience in trading options, whether he is aware of the nature and extent of the obligations as well as the risks attendant to options trading, whether he has accounts with other brokerage firms and the extent of any positions or commitments therein, and whether the customer has financial resources adequate to cover option positions he may intend to establish in such account.

(3) Before approving an account of a trust, pension fund, profit sharing plan or other fiduciary for options trading, a member shall obtain written evidence that the instruments under which the fiduciary is acting permit options trading.

(4) Before approving an account with respect to which trading authorization has been granted to a third person who is not an employee of the member for options trading, the member shall obtain written evidence of the agent's authority to act and that such authority specifically includes options trading.

(5) Before approving an account of an investment partnership or an investment club for options trading, the member shall obtain written evidence of the authority of the person signing the agreement required by this Section to sign such agreement on behalf of such partnership or club, as the case may be, and that such authority specifically includes options trading. Information shall also be obtained with respect to any current long or short option positions of the respective partners or members of the partnership or investment club.

(c) Account Agreement - Within 15 calendar days after a customer's account has been approved for option transactions, a member shall obtain from the customer a written agreement that the customer is aware of and agrees to be bound by the rules of the Corporation applicable to the trading of option contracts and, if he desires to engage in transactions in options issued by the Options Clearing Corporation that the customer has received a copy of the current prospectus and that he is aware of and agrees to be bound by the rules of the Options Clearing Corporation. In addition, the customer should indicate on such written agreement that he is aware of and agrees not to violate the position limits established pursuant to Section 3 and the exercise limits established pursuant to Section 4 of this Appendix E.

Interpretation of the Board of Governors

In approving customers' accounts for options trading, each member should consider employing a separate option account approval form for option customers in conjunction with, or in the case of established accounts, as a supplement

to the standard new account approval form so as to ensure the receipt of all the required information and, in the case of established customers, that such information is correct.

Section 18 - Discretionary Accounts

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

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

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

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

(c) Prohibited Transactions - No transactions shall be executed in a discretionary account which would result in an uncovered short position in option contracts or in the uncovering of any existing short position in option contracts unless the person for whom the account is maintained has specifically authorized, in writing, transactions of this nature and such transactions are effected with due regard to the provisions of Section 19 of this Appendix E.

Section 19 - Suitability

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

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

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

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

Section 20- Supervision of Accounts

Every member shall provide for the diligent supervision of all of its customer accounts, and all orders in such accounts, to the extent such accounts and orders relate to option contracts, by a general partner (in the case of a partnership) or officer (in the case of a corporation) of the member who is a Registered Options Principal and who has been specifically identified to the Corporation as the member's Senior Registered Options

Principal. A Senior Registered Options Principal, in meeting his responsibilities for supervision of customer accounts and orders, may delegate to qualified employees (including other Registered Options Principals) responsibility and authority for supervision and control of each branch office handling transactions in option contracts, provided that the Senior Registered Options Principal shall have overall authority and responsibility for establishing appropriate procedures of supervision and control over such employees.

Section 21 - Violation of By-Laws and Rules of the Corporation or the Options Clearing Corporation

(a) In Corporation disciplinary proceedings, a finding of violation of any provision of the rules, regulations or by-laws of the Options Clearing Corporation by any member or person associated with a member engaged in transactions involving options issued, or subject to issuance, by the Options Clearing Corporation, may be deemed to be conduct inconsistent with just and equitable principles of trade and a violation of Article III, Section 1 of the Corporation's Rules of Fair Practice.

(b) In Corporation disciplinary proceedings, a finding of violation of any provision of the rules, regulations or by-laws of the Corporation by any member engaged in option transactions may be deemed to be conduct inconsistent with just and equitable principles of trade and a violation of Article III, Section 1 of the Corporation's Rules of Fair Practice.

Section 22 - Stock Transfer Tax

Any stock transfer or similar tax payable in accordance with applicable laws and regulations of a taxing jurisdiction upon the sale, transfer or delivery of securities pursuant to the exercise of an option contract shall be the responsibility of the seller (writer) to whom the exercise notice is assigned in the case of a call option contract or the exercising holder in the case of a put option contract except that (1) in the case of a call option contract where the incidents of the tax are attributable solely to the exercising holder, the member representing such holder or another member which acts on its behalf as a clearing member of the Options Clearing Corporation, the tax shall be the responsibility of the exercising holder, and (2) in the case of a put option contract where the incidents of the tax are attributable solely to the seller (writer) to whom the exercise notice is assigned, the member representing such seller (writer) or another member which acts on its behalf as a clearing member of the Options Clearing Corporation, the tax shall be the responsibility of such seller (writer). Each delivery of securities subject to such tax must be accompanied by a sales ticket stamped in accordance with the regulations of the State imposing such tax, or if required by applicable law, such tax shall be remitted by the clearing member having responsibility therefor to the clearing corporation through which it

customarily pays stock transfer taxes, in accordance with the applicable rules of such clearing corporation.

Section 23 - Advertisements and Sales Literature

(a) Approval by Registered Options Principal

(1) Each item of advertising and sales literature issued by a member pertaining to options shall be approved by signature or initial, prior to use, by the Senior Registered Options Principal or his designee.

(2) A separate file of all options advertisements and sales literature, including the name(s) of person(s) who prepared them and/or approved their use shall be maintained by members for a period of three years from the date of each use.

(b) Corporation Review of Advertisements

In addition to the approval required by paragraph (a) of this Section, and in lieu of the filing requirements specified in the Advertising Interpretation of the Board of Governors contained in Article III, Section 1 of the Rules of Fair Practice, every advertisement by a member pertaining to options shall be submitted to the Corporation's Advertising Department for review at least ten days prior to use (or such shorter period as the Department may allow in exceptional circumstances), unless such advertisement is submitted to and approved by a registered securities exchange or other regulatory body having substantially the same standards with respect to options advertising as set forth in this Section. The Corporation's Advertising Department shall, within the ten-day review period specified in this paragraph (b), in the absence of highly unusual circumstances, either notify members as to its views with respect to any advertisement filed pursuant to this Section or indicate that its comments are being withheld pending further analysis or the receipt of additional information.

(c) Standards Applicable to Options Related Communications

In addition to the provisions of the Advertising Interpretation of the Board of Governors, members' public communications concerning options shall conform to the following provisions:

(1) As there may be special risks attendant to some option transactions and certain option transactions involve complex investment strategies, these factors should be reflected in any communication which includes any discussion of the uses or advantages of options. Therefore, any statement referring to the opportunities or advantages presented by options should be balanced by a statement of the corresponding risks. The risk statement should reflect the same degree of specificity as the statement

of opportunities, and broad generalities should be avoided. Thus, a statement such as, "by purchasing options, an investor has an opportunity to earn profits while limiting his risk of loss," should be balanced by a statement such as, "Of course, an options investor may lose the entire amount committed to options in a relatively short period of time."

(2) It should not be suggested that speculative options strategies are suitable for most investors, or for small investors.

(3) Options issued by the Options Clearing Corporation (OCC options) are securities registered under the Securities Act of 1933, and they are the subject of a currently effective registration statement. Section 5 of the Securities Act prohibits the use of any written material or radio or television advertisements (or other material constituting a "prospectus" as defined in the Act) relating to a registered security unless certain conditions are met. With respect to communications concerning OCC options, the following rules shall apply:

a. Except as provided in paragraph b. below, no written material with respect to OCC options may be sent to any person unless prior to or at the same time with the written material a current prospectus is sent to such person.

b. Advertisements may be used (and copies of the advertisements may be sent to persons who have not received a current prospectus) if the material meets the requirements of Rule 134 under the Securities Act of 1933, as that Rule has been interpreted as applying to OCC options. Under Rule 134, advertisements are limited to general descriptions of the security being offered and of its issuer. In the case of OCC options, advertisements under this Rule must have the following characteristics: (i) The advertisement should state the name and address of the person from whom a current prospectus may be obtained (this would usually be the member sponsoring the advertisement); (ii) The text of the advertisement may contain a brief description of OCC options, including a statement that the issuer of every OCC option is the Options Clearing Corporation. The text may also contain a brief description of the general attributes and method of operation of the Options Clearing Corporation and/or a description of any of the options traded in different markets, including a discussion of how the price of an option is determined; (iii) The advertisement may include any statement or legend required by any state law or administrative authority; (iv) Advertising designs and devices including borders, scrolls, arrows, pointers, multiple and combined logos and unusual type faces and lettering as well as attention-getting headlines and photographs and other graphics may be used, provided such material is not misleading.

Article I, Section 2(d), Schedule C

Part I, Paragraph (4)

Registered Options Principals; Requirements for New and Existing Members

Every member of the Corporation which is engaged in, or which intends to engage in transactions in put or call options with the public, or for its own account, shall have at least one Registered Options Principal who shall have satisfied the requirements of Part I, Paragraph (5) hereof. Each such member shall also designate a Senior Registered Options Principal and identify such person to the Corporation. A member which has a Registered Options Principal qualified in either put or call options shall not engage in both put and call option transactions until such time as it has a Registered Options Principal qualified in both such options. Every person engaged in the management of the day-to-day options activities of a member shall also be registered as a Registered Options Principal. In the event any Registered Options Principal ceases to act in such capacity, such fact shall be reported promptly to the Corporation together with a brief statement of the reasons therefor.

Part I, Paragraph (5)

Registered Options Principal

(a) Each person required by Part I, Paragraph (4) hereof to be a Registered Options Principal shall pass the appropriate qualification examination for Registered Options Principal, or an equivalent examination acceptable to the Corporation, for the purpose of demonstrating an adequate knowledge of options trading generally, the rules of the Corporation applicable to trading of option contracts and the rules of the Options Clearing Corporation, and be registered as such before engaging in the duties or accepting the responsibilities of a Registered Options Principal.

(b) A person shall not qualify as a Registered Options Principal for both put and call options unless he has passed an examination testing him with respect to both put and call options.

Part II, Paragraph (4)

Registered Options Representative

Each person associated with a member whose activities in the investment banking or securities business include the solicitation and/or sale of option contracts shall be required to be certified as a Registered Options Representative and to pass an appropriate certification examination for such

or an equivalent examination acceptable to the Corporation. Registered Options Representatives qualified in either put or call options shall not engage in both put and call option transactions until such time as they are qualified in both such options. Members shall be required to report to the Corporation the names of any associated persons certified as Registered Options Representatives pursuant to an examination approved by the Corporation. Registered Options Representatives of members that are members of a national securities exchange which has standards of approval acceptable to the Corporation may be deemed to be approved by and certified with the Corporation, so long as such Representatives are approved by and registered with such exchange.

* * *

Uniform Practice Code

Section 63 - Tendering Procedures for Exercise of Options

(a) Exercise of Option Contracts

(1) Subject to the restrictions established pursuant to Section 4 of Appendix E to Article III, Section 33 of the Corporation's Rules of Fair Practice, and such other restrictions which may be imposed by the Corporation, the Options Clearing Corporation or an options exchange pursuant to appropriate rules, an outstanding exchange listed option contract may be exercised during the time period specified in the rules of the Options Clearing Corporation. An exercise notice may be tendered to the Options Clearing Corporation only by the clearing member in whose account the option contract is carried. Exercise instructions of their customers relating to exchange listed option contracts shall not be accepted by members after 5:30 p. m. Eastern Time on the business day immediately prior to the expiration date of any option contract. Exercise instructions in respect of such option contracts carried in any proprietary account of a member shall similarly not be accepted by any other member with whom such member maintains an account after 5:30 p. m. Eastern Time on the business day immediately prior to the expiration date of any option contract.

(2) Notwithstanding the provisions of subsections (a)(1) hereof, members may receive and act on exercise instructions after the cut-off time for the acceptance of exercise instructions but prior to 5:00 p. m. Eastern Time on the expiration date of an option contract:

a. in the case of option contracts carried in an account maintained for another member in which only positions of customers of such other member are carried;

b. in order to remedy mistakes or errors made in good faith;

c. to take appropriate action as the result of a failure to reconcile unmatched option transactions; or

d. where extraordinary circumstances relating to a public customer's ability to communicate exercise instructions to the member (or the member's ability to receive exercise instructions) prior to such cut-off time warrant such action.

(3) This subsection (a) is intended as a means of providing for relatively uniform procedures in respect of exercise instructions and not to alter or affect in any way the expiration times for an option contract which are fixed in accordance with the rules of the Options Clearing Corporation or any other provisions of an option contract, and the exercise prior to expiration of an option contract in contravention of this subsection (a) shall neither affect the validity of such exercise nor modify or otherwise affect any right or obligation of any holder or writer of any option contract of such series of options.

(b) Each member shall prepare a memorandum of every exercise instruction received from a customer showing the time such instruction was received. Such memoranda shall be subject to the requirements of SEC Rules 17a-3(a)(6) and 17A-4(b) under the Securities Exchange Act of 1934. In the event a member receives and acts on an exercise instruction pursuant to an exception set forth in clauses b., c. or d. of subsection (a) hereof, the member shall maintain a memorandum setting forth the circumstances giving rise to such exception. If the member is relying on clause b. or clause d. as the basis for an exception, it shall promptly file a copy of the memorandum with the Corporation.

(c) Allocation of Exercise Assignment Notices

(1) Each member shall establish fixed procedures for the allocation to customers of exercise notices assigned in respect of a short position in option contracts in such member's customer accounts. Such allocation shall be on a "first in, first out" basis, on a basis of random selection or another allocation method that is fair and equitable to the customers of such member; provided, however, that such method of allocation may provide that an exercise notice of block size will to the extent possible, be allocated to a customer or customers having an open short position in options of block size and that an exercise notice of less than block size will, to the extent possible, be allocated to a customer having a short position of less than block size; and provided further that such method of allocation may provide that a member shall allocate an exercise notice to a customer based upon the form of margin deposited by such customer if directed to do so by

the Clearing Corporation. For purposes of this subsection (d), an exercise notice or a short position with respect to 25 or more units of trading of the same class of options shall be deemed to be of "block size."

(2) Each member shall report its proposed method of allocation to the Corporation and obtain the Corporation's prior approval thereof, and no member shall change its method of allocation unless the change has been reported to and been approved by the Corporation. Each member shall, upon the request of a customer, furnish to such customer a description of the method used by it in assigning exercise notices to the accounts of customers.

(3) When a non-clearing member clears all of its transactions, both proprietary and customer transactions, through another member in a single omnibus account, exercise notices allocated to the non-clearing member's omnibus account shall first be allocated on a fair and equitable basis between the proprietary and customer accounts of the non-clearing member and then allocated among the customer accounts in accordance with this subsection (c).

(d) Delivery and Payment

Delivery of the shares of an underlying security upon the exercise of an option contract and payment of the aggregate exercise price in respect thereto, shall be effected in accordance with the rules of the Options Clearing Corporation. As promptly as practicable after the exercise of an option contract by a customer, the member shall require the customer to make full cash payment of the aggregate exercise price in the case of a call option contract or to deposit the underlying stock in the case of a put option contract, or, in either case, to make the required margin deposit in respect thereto if such transaction is effected in a margin account, in accordance with the applicable regulations of the Federal Reserve Board and Section 30 of the Corporation's Rules of Fair Practice. As promptly as practicable after the assignment to a customer of an exercise notice, the member shall require the customer to deposit the underlying stock in the case of a call option contract if the shares of the underlying security are not carried in the customer's account, or to make full cash payment of the aggregate exercise price in the case of a put option contract, or, in either case, to make the required margin deposit in respect thereof, if such transaction is effected in a margin account, in accordance with Section 30 of the Corporation's Rules of Fair Practice and the applicable regulations of the Federal Reserve Board.

MEMBER PRE-PROGRAM CHECKLIST

Procedural Steps to be Taken Prior to Effective Date
of
Options Access Firm Program (February 1, 1979)

- _____ Qualification of Registered Options Principal(s) and Certification of Registered Options Representatives (Reference: Part I, Paragraphs (4) and (5) and Part II, Paragraph (4) of Article I, Section 2(d), Schedule C of the By-Laws)
- _____ Designation of Senior Registered Options Principal (Reference: Part I, Paragraph (4) of Article I, Section 2(d), Schedule C of the By-Laws)
- _____ Approval of Exercise Notice Assignment Procedure (Reference: Section 63(c), Uniform Practice Code)
- _____ Acquisition of an Adequate Supply of Daily and Monthly Position Report Forms (Reference: Section 5 of Appendix E to Section 33 of the Rules of Fair Practice)
- _____ Acquisition of an Adequate Supply of Current OCC Prospectuses (Reference: Section 12 of Appendix E to Section 33 of the Rules of Fair Practice)

ACCESS FIRM PROGRAM ON-GOING FILING
AND REPORTING REQUIREMENTS

Continuing Responsibilities of Members Following Implementation
of the
Options Access Firm Program (Effective February 1, 1979)

- _____ Daily Reporting of Accounts With Aggregate Long, Aggregate Short of Aggregate Uncovered Short Positions of 100 or More Option Contracts (Reference: Section 5 of Appendix E to Section 33 of the Rules of Fair Practice)
- _____ Monthly Reporting of Accounts with Uncovered Short Positions (Reference: Section 5 of Appendix E to Section 33 of the Rules of Fair Practice)
- _____ Requests to Exceed Position or Exercise Limits (Reference: Sections 3 and 4 of Appendix E to Section 33 of the Rules of Fair Practice)
- _____ Reports of Persons Attempting to Exceed Position or Exercise Limits (Reference: Section 5 of Appendix E to Section 33 of the Rules of Fair Practice)
- _____ Pre-Filing of Options Advertisements (Reference: Section 23 of Appendix E to Section 33 of the Rules of Fair Practice)
- _____ Notification of Registered Options Principals Who Cease to Act in Such Capacity (Reference: Part I, Paragraph (4) of Article I, Section 2(d), Schedule C of the By-Laws)
- _____ Approval of Amendments to Exercise Assignment Procedure (Reference: Section 63(c), Uniform Practice Code)
- _____ Copies of Memoranda Relating to Exceptions Made to Exercise Cut-Off Procedures (Section 63(b), Uniform Practice Code)

NOTICE TO MEMBERS: 78-51
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

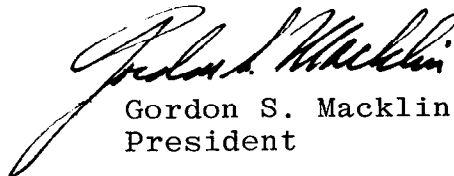
December 7, 1978

TO: All NASD Members
RE: 1979 Schedule of Holidays

Listed below is the NASD 1979 Schedule of Holidays.

January 1, Monday	New Year's
February 19, Monday	Washington's Birthday
April 13, Friday	Good Friday
May 28, Monday	Memorial Day
July 4, Wednesday	Independence Day
September 3, Monday	Labor Day
November 22, Thursday	Thanksgiving
December 25, Tuesday	Christmas

Sincerely,



Gordon S. Macklin
President

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

December 8, 1978

TO: All NASD Members and Municipal Securities Bank Dealers
Attention: All Operations Personnel

RE: Holiday Trade Date - Settlement Date Schedule

Securities markets and the NASDAQ System will be closed on Monday, December 25, 1978, and Monday, January 1, 1979, in observance of the Christmas and New Year's Holidays. "Regular-Way" transactions made on the business days immediately preceding those days will be subject to the schedule below.

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


<u>Trade Date</u>	<u>Settlement Date</u>	<u>*Regulation T Date</u>
December 18, 1978	December 26, 1978	December 28, 1978
19	27	29
20	28	January 2, 1979
21	29	3
22	January 2, 1979	4
December 25, 1978	Securities Markets Closed	
26	January 3, 1979	January 5, 1979
27	4	8
28	5	9
29	8	10
January 1, 1979	Securities Markets Closed	
2	January 9, 1979	January 11, 1979

*Pursuant to Section 4(c)(2) of Regulation T of the Federal Reserve Board, a broker-dealer must promptly cancel or otherwise liquidate a customer purchase transaction in a cash account if full payment is not received within seven (7) days of the date of purchase. The date upon which members must take such action for the trades is shown in the column entitled "Regulation T Date."

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

Questions concerning the application of these settlement dates to a particular situation should be directed to the Uniform Practice Department of the NASD at (212) 422-8841.

Sincerely,



Gordon S. Macklin
President

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

December 29, 1978

TO: All NASD Members and Interested Persons

RE: Preliminary Study Outlines for New Qualifications Examinations

ATTENTION: TRAINING DIRECTORS AND REGISTRATION PERSONNEL

The Association's Committee on Qualification Examinations would like to make available at this time preliminary versions of the following study outlines for two of its proposed qualification examinations for limited principals:

Investment Company Products/Variable Contracts Principal
Qualification Examination Study Outline (Test Series 26)

Direct Participation Programs Principal Qualification
Examination Study Outline (Test Series 39)

These outlines are being made available in preliminary form to provide the membership with sufficient time to develop training programs in the subject matter covered in the examinations. It is not expected that the substance of these outlines will change significantly before publication of the final outlines and implementation of the limited principal examinations in April, 1979. The Association welcomes all member comment on the standards contained in these preliminary outlines as an aid in improving its qualification program.

The Investment Company Products/Variable Contracts Principal Qualification Examination will be the minimum testing requirement for persons registering as principals whose supervisory responsibilities are limited solely to transactions involving securities of companies registered pursuant to the Investment Company Act of 1940 and variable contracts products and insurance premium funding programs registered pursuant to the Securities Act of 1933.

The Direct Participation Programs Principal Qualification Examination will be the minimum testing requirement for persons registering as principals whose supervisory responsibilities are limited solely to direct participation programs. For purposes of this requirement, direct participation programs shall mean programs which provide for flow-through tax consequences regardless of the structure of the legal entity or vehicle for distribution including, but not limited to, oil and gas programs, real estate programs, agricultural programs,

cattle programs, condominium securities, Subchapter S corporate offerings and all other programs of a similar nature, regardless of the industry represented by the program, or any combination thereof. Excluded from this definition are real estate investment trusts, tax qualified pension and profit sharing plans pursuant to Sections 401 and 403(a) of the Internal Revenue Code and individual retirement plans under Section 408 of that Code, tax sheltered annuities pursuant to the provisions of Section 403(b) of the Internal Revenue Code and any company including separate accounts registered pursuant to the Investment Company Act of 1940.

Any person registering as a principal who has supervisory responsibilities in both of the above areas must either pass both limited principal examinations or pass the General Securities Principal Examination. Any person qualified as a General Securities Principal will be qualified to function as a principal with respect to investment company products, variable contracts and direct participation programs.

The preliminary outlines for the two limited principal examinations named above are available from the Association's Qualifications Department located in the NASD Executive Office in Washington, D.C. The Committee on Qualifications would greatly appreciate receiving member comments on the content of these outlines and asks that such comment be addressed to Frank J. McAuliffe, Director of the Qualifications Department.

Questions regarding this notice may be directed to David Uthe at (202) 833-7273 with respect to the Investment Company Products/Variable Contracts Principal Qualification Examination Study Outline and to Carole Hartzog at (202) 833-7392 with respect to the Direct Participation Programs Principal Qualification Examination Study Outline.

Sincerely,



John J. Wall

Senior Vice President
Compliance

NOTICE TO MEMBERS: (78-54)
Notices to Members should be
retained for future reference.

NASD

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

December 29, 1978

M E M O R A N D U M

TO: All NASD Members

RE: Interim Treatment for Conventional Option Positions
and Exercises

Notice to Members No. 78-50, dated December 1, 1978, informed the membership that on November 15, 1978, the Securities and Exchange Commission approved the Association's options "access firm" rule change proposals. As noted, the access firm program has been designed to fill a regulatory void in the area of options trading by subjecting certain NASD member firms to compliance for the first time with a set of specialized options rules. Affected by the program are those members conducting an options business on an "access" basis (i. e., they are not members of an exchange on which the options they trade are listed) and those members doing a business in conventional (OTC) options. The program is scheduled to be implemented on February 1, 1979.

Under Section 3 of Appendix E to Article III, Section 33 of the Rules of Fair Practice, the number of option contracts which a member, its associated persons or its public customers may position will be limited to a maximum of 1,000 contracts of the put class and the call class on the same side of the market. In other words, no account may take a long or short position in a call option class, a long or short position in a put option class or a combined position of long calls and short puts or long puts and short calls which exceeds 1,000 contracts. For purposes of this rule, positions in a class of options issued by the Options Clearing Corporation (OCC) would be aggregated with positions in conventional, or over-the-counter, options written on the same underlying security and thereafter measured against the 1,000 contract position limit. For example, if a member is long 500 IBM call options issued by OCC, it

could be long no more than 500 conventional IBM calls or short no more than 500 conventional IBM puts in order to remain in compliance with the Association's position limit rule.

Section 4 of Appendix E will limit the number of option contracts which may be exercised by a member, its associated persons or its public customers to a maximum of 1,000 contracts of a particular class of options during any period of five consecutive business days.

In response to the proposed implementation of the access firm program on February 1, 1979, questions have been raised concerning the problem of compliance with the position and exercise limit rules, specifically in instances where long or short conventional option positions presently held are in excess of the 1,000 contract limit either alone or when aggregated with present positions in OCC options. In one such case, a member stated that it had a substantial position in conventional options, expiring in June 1979, and could not liquidate such position or a portion thereof in order to satisfy NASD rules without imposing undue hardship on itself and its customers.

In this connection, the Association has determined to establish an interim period after implementation of the access firm program during which existing conventional option positions would not be considered in ascertaining member compliance with both Sections 3 and 4 of Appendix E. Such a "grace period" for conventional option positions and exercises will be applied in the following manner:

- Members holding or obligated with respect to conventional options as of December 1, 1978 (the date of the Notice to Members announcing SEC approval of the access firm program), will be permitted to retain or exercise such options until their expiration date without regard to the restrictions on option positions and exercises prescribed by Association rules; and,
- Members which established OCC issued and/or conventional option positions in excess of the maximum permitted by the Association after December 1, 1978, and which still held such positions on or after February 1, 1979, will be requested to liquidate all or a portion of such positions in order to conform with NASD rules. Members will also be prohibited, after February 1, 1979, from effecting any new


transaction in OCC issued or conventional options which, when aggregated with their existing positions on that date, would result in a violation of the Association's position limit rule.

By instituting such a procedure, the Association hopes to avoid imposing any hardship on members which had established positions in excess of permissible amounts prior to the announcement of the proposed position and exercise limits. At the same time, by making the exemption available to positions which existed on December 1, 1978, the Association hopes to prevent members from taking advantage of any interim period in the enforcement of these limits to establish positions in excess of those which will be permitted after the access firm program is implemented.

It should be noted, however, that the provision for interim treatment of conventional option positions is not intended to alter in any manner the Association's ability under Sections 3 and 4 of Appendix E to provide written approval to exceed the position and exercise limits in highly unusual circumstances. Any such requests from members would continue to be reviewed by the Association on a case-by-case basis with notification of any approval granted also forwarded to the SEC.

Should you have any questions with respect to this notice or any aspect of the Association's options access firm program, please contact S. William Broka, Assistant Director, Regulatory Policy and Procedures, at (202) 833-7247.

Sincerely,



Frank J. Wilson
Senior Vice President
Regulatory Policy and
General Counsel