NASD
National Association of Securities Dealers, Inc.
1735 K St., N.W. • Washington, D.C. 20006 • (202) 728-8000

notice to members 84-31

June 11, 1984

TO: All NASD Members

RE: First Interwest Securities Corp.
7800 E. Union Avenue, Suite 900
Denver, Colorado 80237

ATTN: Operations Officer, Cashier, Fail-Control Department

On June 7, 1984, the United States District Court for the District of Colorado appointed a SIPC Trustee for the above captioned firm.

Members may use the "immediate close-out" procedures as provided in Section 59(i) of the NASD's Uniform Practice Code to close-out open OTC contracts. Also, MSRB Rule G-12 (h)(iv) provides that members may use the above procedures to close-out transactions in municipal securities.

Questions regarding the firm should be directed to:

SIPC Trustee

Glen E. Keller, Jr., Esquire
Davis, Graham & Stubbs
2600 Colorado National Building
950 Seventeenth Street
P.O. Box 185
Denver, Colorado 80201
Telephone: (303) 892-9400

NASD
National Association of Securities Dealers, Inc.
1735 K St., N.W. • Washington, D.C. 20006 • (202) 728-8000

notice to members 84-32

June 11, 1984

TO: All NASD Members

RE: June S. Jones Co.
225 S. W. Broadway
Portland, Oregon

ATTN: Operations Officer, Cashier, Fail-Control Department

On June 6, 1984, the United States District Court for the District of Oregon appointed a SIPC Trustee for the above captioned firm.

Members may use the "immediate close-out" procedures as provided in Section 59(i) of the NASD's Uniform Practice Code to close-out open OTC contracts. Also, MSRB Rule G-12 (h)(iv) provides that members may use the above procedures to close-out transactions in municipal securities.

Questions regarding the firm should be directed to:

SIPC Trustee

Richard H. Huntington, Esquire
Stoel, Rives, Boley, Fraser & Wyse
900 S. W. Fifth Avenue
Portland, Oregon 97204
Telephone: (503) 224-3380

NASD
National Association of Securities Dealers, Inc.
1735 K St., N.W. • Washington, D.C. 20006 • (202) 728-8000

notice to members 84-33

June 13, 1984

TO: All NASD Members and Municipal Securities Bank Dealers

ATTN: All Operations Personnel

RE: Independence Day Trade Date-Settlement Date Schedule

Securities markets and the NASDAQ System will be closed on Wednesday, June 4, 1984, in observance of Independence Day. "Regular Way" transactions made on the business days noted below will be subject to the following schedule.

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

Trade Date		Settlement Date		Regulation T Date*	
June	26	July	3	July	6
	27		5		9
	28		6		10
	29		9		11
July	2		10		12
	3		11		13
	4	Markets Closed			—
	5		12		16

The foregoing settlement dates should be used by brokers, dealers and municipal securities dealers for purposes of clearing and settling transactions pursuant to the Association's Uniform Practice Code and Municipal Securities Rulemaking Board Rule G-12 on Uniform Practice. Questions regarding the application of these settlement dates to a particular situation may be directed to the Uniform Practice Department of the NASD at (212) 839-6256.

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* 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) business days of the date of purchase or, pursuant to Section 4(c)(6), make application to extend the time period specified. The date by which members must take such action is shown in the column entitled "Regulation T Date."

NASD
National Association of Securities Dealers, Inc.
1735 K St., N.W. • Washington, D.C. 20006 • (202) 728-8000

notice to members 84-34

June 15, 1984

TO: All NASD Members and Other Interested Persons

RE: Implementation of the NASAA/CRD Temporary Agent Transfer Program (TAT) Via the Central Registration Depository—Need to File Broker-Dealer Undertaking

BACKGROUND

The securities industry, in late 1983, asked the North American Securities Administrators Association (NASAA) to review the registration delays resulting from agent transfers between broker-dealers. After extensive deliberations by the NASAA/CRD Committee and its NASD advisors, a Temporary Agent Transfer program was developed by the Committee and approved by the NASAA membership at its spring meeting on April 28, 1984.

The NASD Board endorsed the Temporary Agent Transfer concept at its November, 1983 meeting. This endorsement together with the NASAA membership approval has paved the way for the implementation of this new program.

Historically, it has taken a considerable amount of time to transfer the registration of a representative from one firm to another. Although the Central Registration Depository (CRD) has significantly reduced the overall time to effect a transfer, there are outside factors which have continued to impede a timely transfer, i.e., the U.S. mail. From the regulatory perspective, termination requirements create delays in those state jurisdictions which require the filing of a U-5 before permitting approval of a transfer to occur. Both administrative delays as well as the lack of timely submissions by terminating firms amplify this problem.

Factors such as these have led to unreasonable delays and burdens on the individual representatives which preclude them from conducting business during the interim period.

Given the technological advances made by the CRD, a new program is being implemented to correct the long standing problem. This program, known as The NASAA/CRD Temporary Agent Transfer (TAT), will become effective on July 2, 1984 via the CRD. Prior to a Firm's participation in this program, a "Broker-Dealer Undertaking" must be submitted with the CRD.

PROGRAM DESCRIPTION

The Temporary Agent Transfer program will permit the immediate transfer of an agent upon telephone or Firm Access Query System (FAQS) notification to the CRD. The TAT program will replace the NASD's conditional approval process and will be effective for NASD registration as well as participating State jurisdictions.

Participation in the TAT program does require the execution and one time filing of the enclosed "Broker-Dealer Undertaking" with the CRD which outlines the terms, limitations and conditions of the program. The components of the TAT program and the CRD role are substantially as follows:

- Eligibility

  * Applicants and broker-dealers must be currently registered with the NASD and each jurisdiction where temporary transfer of registration is requested.

  * Applicants must be currently qualified by examination and registered in the category which is requested in the transfer.

  * Applicants must have terminated their employment and registration with a terminating broker-dealer, without disciplinary reasons, within the preceding seven (7) calendar days of the transfer request.

  * Applicants may only sell securities for the firm to which temporary transfer is made.

  * Applicants must submit to the employing broker-dealer a complete signed Form U-4 that has no affirmative responses to the disciplinary questions contained on the form.

  * The broker-dealer must have sufficient funds on deposit with the CRD to pay the required registration fees generated by the applicant transfer request.

  * All temporary registrations effected through the TAT program expire twenty-one (21) calendar days after issuance unless the temporary registration is made permanent by receipt of a properly completed and executed Form U-4 for the applicant.

- Member Firm Responsibilities

  * The broker-dealer must review the Form U-4 submitted by the agent to determine if it is complete and signed by the individual.

* The broker-dealer must take appropriate steps to verify the information contained on the form.

* The broker-dealer must contact the terminating firm and verify that the individual terminated without disciplinary reasons within the preceding seven (7) calendar days.

* The broker-dealer must submit the complete signed Form U-4 to the CRD within the twenty-one (21) day temporary registration period.

* The broker-dealer must promptly withdraw the temporary registration by submitting a Form U-5 to the CRD if there is a material change in the application which would have resulted in the individual being ineligible for the temporary registration. Registration must then be pursued through the filing of a Form U-4 and fees in the normal fashion.

* The broker-dealer must properly supervise each person subject to a temporary transfer to prevent the unauthorized offer and sale of securities in jurisdictions where no temporary registration is in effect and in the event that the twenty-one (21) day temporary registration expires without receiving a permanent registration.

THE ROLE OF THE CRD

By the implementation of this new program, the CRD will be changing a few basic operating principles. First is the processing of Form U-5 Termination Notices. An integral part of the TAT program involves the tracking of terminations. Upon issuance of a temporary registration, the CRD will not only send confirmation to the new firm but it will also send a notice to the terminating firm to advise them of the individual's termination and the need for the prompt filing of a Form U-5. Should the required U-5 not be received within thirty (30) days of the issuance of the temporary registration, the system will automatically debit the firm's CRD account for a "late U-5 fee" as provided for in the NASD By-Laws. When this is done both the firm and the applicable State Jurisdictions will be notified through the system. This tracking system will not only apply to the TAT program but for all terminations. When a transfer is processed in the normal fashion via the filing of a Form U-4, the terminating broker-dealer will be notified of the termination and will be subject to the same thirty (30) day filing period.

The second major element to this new program is that all temporary registrations will expire unless a complete U-4 is <u>received</u> by the CRD within the twenty-one (21) day period. Those U-4 forms received after the twenty-first day, when the temporary registration expires, will again cause full fees to be deducted from the firm's BD account upon processing of the Form U-4.

The word "complete" is defined as having all data requested on the form present and in such a manner so as not to cause a "deficiency" condition to be generated by the CRD system. Further, the form must be manually signed, notarized and be accompanied by a photograph and fingerprint card unless exempted by Rule 17f-2. Should the form be received and processed with deficiencies, amendment filings to correct the deficiency conditions must be received by the twenty-first day or the temporary registration will expire. Members using the TAT program are therefore advised and encouraged to take every precaution to ensure each form submitted for a person subject to the TAT program is truly "complete" and filed promptly.

Allowances have been made by the CRD system to expire only the temporary transfers for those forms received after the twenty-first day. The program bases its comparison on the date received, not the date the form is processed.

Upon filing an executed Broker-Dealer Undertaking, a copy of which is attached, the member will designate a TAT password which must be used each time a request for a temporary transfer either by telephone or through a FAQS terminal is made. This password will be communicated to the appropriate party at the firm and thereafter the security of its use rests with the member. Telephone requests for temporary transfers should be directed to the CRD Communications Center at 202-728-8800. Those Members who are participating in the FAQS program will be sent an update for their FAQS manual which will fully describe the procedures. System entry of the TAT assigned password will be required for execution of a transfer through the FAQS system.

Further communications relating to the implementation of this program will be addressed in upcoming issues of the Q&R Report. Shortly after July 2, 1984, a Q&R issue will list any States that elect to not participate in the TAT program.

A description of the TAT program and a Broker-Dealer Undertaking are enclosed in order to provide each member with the complete program definition. If your firm intends to join, an executed Broker-Dealer Undertaking for participation in the TAT program should be forwarded to Craig Thompson, Assistant Director, Special Registration Review, 1735 K Street, N.W., Washington, D.C. 20006.

Questions related to the TAT program may be addressed to the CRD Communications Center at 202-728-8800.

Sincerely,

John T. Wall
Executive Vice President
Member and Market Services

Attachments

NASAA/CRD TEMPORARY AGENT TRANSFER PROGRAM

APRIL 28, 1984

I. INTRODUCTION

The North American Securities Administrators Association, Inc. (hereinafter "NASAA") has deemed it to be in the public interest and consistent with the goals of investor protection to provide an efficient, expedient, and uniform temporary agent transfer program for securities sales agents (hereinafter "agent") transferring from a registered broker-dealer (hereinafter "terminating broker-dealer") to another registered broker-dealer (hereinafter "employing broker-dealer"). The implementation of the temporary agent transfer program will permit an immediate transfer of an agent upon telephone or FAQS notification to the Central Registration Depository System (hereinafter "CRD").

II. DISCUSSION

The basic premise underlying agent registration on the CRD is a requirement to file a uniform application for securities industry registration form (hereinafter "Form U-4") for entry into the CRD and a uniform termination of securities industry registration form (hereinafter "Form U-5") to exit the CRD System. This system functions efficiently for the initial registration of an agent but it is occasionally burdensome for the transfer of an agent from a terminating broker-dealer to an employing broker-dealer.

There are many problems associated with the requirements of the filing of Form U-5 prior to registering an agent with an employing broker-dealer. The filing of Form U-5, required to be signed and submitted by the terminating broker-dealer, is often delayed for administrative reasons and is sometimes intentionally withheld by the terminating broker-dealer so that the agent will not be able to service former clients. This tactic provides unreasonable delays and burdens on the agent and does not allow the agent to conduct business during the interim processing period.

The employing broker-dealer, attempting to aid the new agent during this period often violates state law by allowing the agent to offer and sell securities prior to the effective date of the registration. This is not an acceptable method of agent transfer. With the technological advances made by the CRD a new program must be implemented to correct what is an apparent deficiency in the registration process.

It is imperative that Form U-5 be promptly filed by the terminating broker-dealer in order for the CRD and the states to have the reason for termination and whether disciplinary proceedings may have been the reason for the termination. This procedure is needed in order to maintain up-to-date records on registered agents and to provide a mechanism for disciplinary reporting. The NASAA/CRD Committee is currently working with the National Association of Securities Dealers (hereinafter "NASD") to provide for uniform interpretations and procedures for the filing of Form U-5.

The NASAA/CRD Committee met in Savannah, Georgia, on November 17-18, 1983, to consider a temporary agent transfer program. Tentative drafts were submitted by the committee chairman and the NASD representatives. The basic concept was agreed upon and further discussed in a telephone conference on December 2, 1983.

On December 20, 1983, a proposal for a temporary agent transfer program was submitted to the NASAA membership. On January 21, 1984, the NASAA Board of Directors approved the general concept of the program and authorized the distribution of the proposal for comment and a public hearing.

On February 28, 1984, a public hearing was held in the World Trade Center in New York City. The following persons testified at the hearing: James McCormick, NASD Registration Committee; Michael Kiey, SIA State Regulation Committee; Ray Vass, SIA Legal and Compliance Section; and Nancy Lopez, Association of Registration Managers.

This proposal incorporates certain changes approved by the NASAA/CRD Committee as a result of the aforementioned hearing. The program was approved by the NASAA membership on April 28, 1984, at its annual spring meeting in Washington, D.C. The system implementation date is scheduled for July 1, 1984.

The NASAA Forms Revision Committee is currently considering certain changes to Forms U-4 and U-5 that may allow the program to be amended, at a later date, to confirm further requests made at the public hearing.

Generally speaking, the NASAA/CRD temporary agent transfer program involves a participating broker-dealer completing the Broker-Dealer Undertaking for participation in the NASAA/CRD temporary agent transfer program; a telephone or FAQS notification to the CRD for an agent who terminates, without disciplinary reasons, his employment and registration with the terminating broker-dealer the preceding seven (7) calendar days; the timely filing of a completed and signed Form U-4; the timely filing of Form U-5; and the issuance of a twenty-one (21) day temporary registration.

III. TEMPORARY AGENT TRANSFER PROGRAM

The NASAA/CRD temporary agent transfer program shall be applicable in all CRD states unless a state notifies the CRD, in writing, that it does not desire to participate in the NASAA/CRD temporary agent transfer program. The program shall be subject to the terms, conditions and limitations described in this report and the Broker-Dealer Undertaking for participation in the NASAA/CRD temporary agent transfer program.

A. **AGENT** In order to qualify for temporary agent transfer, the agent must:

1. Have terminated employment and registration with the terminating broker-dealer, without disciplinary reasons and within the preceding seven (7) calendar days;

2. Have no disciplinary history that would require disclosure on Form U-4;

3. Complete, sign and submit to the employing broker-dealer a Form U-4 that has "no" answers to questions 27, 28 and 29;

4. Have been properly registered in each jurisdiction where registration is requested; and

5. Be qualified by examination for the type of registration requested.

B. **PARTICIPATING BROKER-DEALER** A broker-dealer participating in the temporary agent transfer program must:

1. Execute and file with the CRD the Broker-Dealer Undertaking for participation in the NASAA/CRD temporary agent program;

2. Have sufficient funds on deposit with the CRD to pay the required regulatory fees;

3. Preview the Form U-4 submitted by the agent to determine that it is complete (except for fingerprints and photographs), signed by the agent, and ready for submission to the CRD;

4. Take appropriate steps to verify the statements in the Form U-4 and inquire into the past record and reputation of the agent.

5. Contact the terminating broker-dealer to verify that the agent terminated employment and registration with said broker-dealer within the preceding seven (7) calendar days, without disciplinary reasons.

6. Have an authorized person contact the CRD by telephone or FAQS and report, confirm, or verify the required information, to allow issuance of a NASAA/CRD temporary registration;

7. Submit the completed and properly signed Form U-4 to the CRD prior to the expiration of the twenty-one (21) day temporary registration.

8. Promptly notify the CRD upon any material changes in the application or information submitted to the CRD on behalf of an agent;

9. Promptly notify the CRD upon receipt of any material changes in the application or information submitted to the CRD on behalf of an agent, and in the event such information would have resulted in the agent being ineligible for the temporary registration, the broker-dealer will, during the pendency of the temporary registration, immediately withdraw the agent's registra-

tion by submitting a Form U-5 to the CRD terminating the registration in each state where the agent was the subject of a temporary registration. A new application and registration fee will be required to further consider such applicant for registration.

10. Promptly file Form U-5 for all terminated agents;

11. Furnish information to an employing broker-dealer concerning a terminated agent, including but not limited to the answers to be submitted for questions 13 and 14 on Form U-5, and

12. Properly supervise each agent subject to a temporary registration in order to prevent the unauthorized offer and sale of securities in the event the temporary registration expires after twenty-one (21) days.

C. **THE CENTRAL REGISTRATION DEPOSITORY** In order to properly administer the CRD record keeping functions, the NASD will:

1. Process all temporary agent transfer requests;

2. Provide adequate password security (see Exhibit "B") for identifying participating broker-dealers authorized to request temporary agent transfers;

3. Establish procedures to receive and edit the required information to effectuate a temporary agent transfer;

4. Provide specific edit procedures for verification of information regarding disciplinary history, previous employment, registration history, and regulatory fees, and for timely notices to the broker-dealer of filing deficiencies;

5. Collect and disburse regulatory fees;

6. Send a notice of temporary agent registration to the employing broker-dealer reflecting a twenty-one (21) day expiration date;

7. Send a notice to the terminating broker-dealer demanding the prompt filing of Form U-5;

8. Notify each CRD state, via the on-line accounting system, of each temporary registration processed for its jurisdiction;

9. Provide each CRD state with the capability of terminating a temporary agent registration;

10. Notify each CRD state, via the mail command, of the expiration of the temporary agent registration for the

failure of the employing broker-dealer to file a completed and non-deficient Form U-4;

11. Process each complete Form U-4 received within twenty-one (21) calendar days of the temporary agent registration and approve the permanent registration in accordance with automatic approval criteria established by the CRD System; however, each state may elect to terminate such registration according to its specific registration criteria;

12. Send a notice to the employing broker-dealer of the effectiveness of the permanent registration (the effective date shall be the date of the temporary registration), subject to termination by an individual CRD state;

13. Notify the respective CRD states when a deficient Form U-4 is received on a temporary agent registration and allow the state to take whatever action it deems appropriate including approval, denial, or postponement. In the absence of an approval or denial by a jurisdiction, each temporary registration will expire on its expiration date unless a completed and non-deficient Form U-4 is filed with the CRD;

14. Notify the employing broker-dealer when a deficient Form U-4 is received on an applicant subject to a temporary agent registration;

15. Process a Form U-4 received after the temporary registration has expired in accordance with the requirements of a new registration and collect and disburse the required regulatory fees incident to such registration;

16. Notify each CRD state when a Form U-5 is not received at the time a temporary registration is made permanent; and

17. Notify each CRD state when the NASD administers a penalty against a participating broker-dealer registered in such state for failing to timely file Form U-5.

D. **CRD STATES** Each CRD state participating in the temporary agent transfer program:

1. Will accept automatic approval of a temporary and permanent agent registration, as set forth in Section C, providing a completed and non-deficient Form U-4 is received by the CRD prior to the expiration of the temporary agent registration; however, each jurisdiction shall maintain the right to terminate such registration according to its individual requirements;

2. May terminate a temporary and permanent registration at any time, in accordance with its individual regulatory requirements;

3. Will take whatever action it deems necessary and appropriate against participating broker-dealers for their failure to timely file Forms U-4 and promptly file Forms U-5 or for violating any other provision of the NASAA/CRD undertaking for participation in the temporary agent transfer program;

4. May suspend the temporary agent transfer program privileges of a participating broker/dealer, provided, however, that the enforcement of this sanction rests solely with the individual states and not be technologically enforced by the CRD System; and

5. Will have the right to withdraw from the temporary agent transfer program upon written notice to the CRD System and the president of the North American Securities Administrators Association, Inc.

IV. CONCLUSIONS

The agent transfer problem is one of the most common criticisms of state securities regulation. It is a problem that can be solved by NASAA, the NASD, the CRD System, and the securities industry. This efficient and expedient agent transfer program is based on sound logic, and it is reasonable in light of investor protection, industry regulation, and regulatory efficiency. This program will not deter any state from its mandated regulatory responsibilities but will actually assist the regulatory program by providing timely information and reports.

V. NASAA CRD COMMITTEE MEMBERS

H. Wayne Howell, Chairman
Georgia Securities Division
Suite 802, West Tower
2 Martin Luther King Jr. Drive
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404/656-7810

Peggy Peters, Vice Chairman
Texas Securities Commission
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512/474-2233

Nancy Diana, Secretary
Pennsylvania Securities Commission
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Nancy Jones
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#1 Capitol Mall, 4B, 206
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501/371-1101

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Deputy Securities Commissioner
816 Keenan Building
Columbia, South Carolina 29201
803/758-2833

NASD
National Association of Securities Dealers, Inc.
1735 K St., N.W. • Washington, D.C. 20006 • (202) 728-8000

notice to members 84-35

June 28, 1984

TO: All NASD Members and Level 2 and Level 3 Subscribers

RE: NMS Securities to Surpass 1,000 Mark on July 10, 1984

With the 49 issues joining NASDAQ's National Market System on Tuesday, July 10, there will be over 1,000 issues trading under real-time trading reporting. These 49 issues meet the SEC's voluntary designation criteria.

The securities scheduled to join NMS in July are:

SYMBOL	COMPANY	LOCATION
AELNA	AEL Industries, Inc. (Cl A)	Montgomeryville, PA
AMWI	Air Midwest, Inc.	Wichita, KS
AFCO	American First Corporation	Oklahoma City, OK
AMMG	American Magnetics Corporation	Sherman Oaks, CA
AMPD	Ampad Corporation	Holyoke, MA
ATCO	Atcor, Inc.	Harvey, IL
BFXC	BFI Communications Systems, Inc.	Utica, NY
BFCS	Boston Five Cents Savings Bank FSB	Boston, MA
CDIC	Cardinal Distribution, Inc.	Columbus, OH
CCON	Circon Corporation	Santa Barbara, CA
CLRS	Claire's Stores, Inc.	Hialeah, FL
CDPI	Columbia Data Products, Inc.	Columbia, MD
DHULZ	Dorchester Hugoton, Ltd.	Dallas, TX
DBHI	Dow B. Hickam, Inc.	Sugar Land, TX
EDCM	Educom Corporation	Philadelphia, PA
FCOM	First Commerce Corporation	New Orleans, LA
FSBF	First Savings Bank of Florida FSB	Tarpon Springs, FL
GOTLF	Gotaas-Larsen Shipping Corporation	Hamilton, Bermuda
GRPH	Graphic Industries, Inc.	Atlanta, GA
GBCO	Gulf Broadcast Company	Dallas, TX

SYMBOL	COMPANY	LOCATION
HDCO	Hadco Corporation	Salem, NH
HRTG	Heritage Bancorporation	Jamesburg, NJ
JBHT	Hunt (J.B.) Transport Services, Inc.	Lowell, AR
HRCLY	Huntingdon Research Centre, PLC	Cambridgeshire, England
INAC	Inacomp Computer Centers, Inc.	Troy, MI
IHPI	Independence Health Plan, Inc.	Southfield, MI
IMET	Intermetrics, Inc.	Cambridge, MA
KTCC	Key Tronic Corporation	Spokane, WA
KIDS	L.J.N. Toys, Ltd.	New York, NY
LAWS	Lawson Products, Inc.	Des Plaines, IL
MACG	MacGregor Sporting Goods, Inc.	East Rutherford, NJ
MBOX	Math Box, Inc. (The)	Rockville, MD
MCBK	Merchants Cooperative Bank	Boston, MA
MERB	Merrill Bankshares Company	Bangor, ME
MGRE	Merry-Go-Round Enterprises, Inc.	Towson, MD
MINY	Miniscribe Corporation	Longmont, CO
NAUGW	Naugles, Inc. (Wts)	Fullerton, CA
NTLB	National Lumber & Supply, Inc.	Santa Ana, CA
OGIL	Ogilvy & Mather International Inc.	New York, NY
PBEN	Puritan-Bennett Corporation	Overland Park, KS
PTCI	Pullman Transportation Company, Inc.	Chicago, IL
RSYS	Restaurant Systems, Inc.	Atlanta, GA
RNIC	Robinson Nugent, Inc.	New Albany, IN
SCIE	Scientific Computers, Inc.	Minnetonka, MN
SWIX	Shelby Williams Industries, Inc.	Chicago, IL
SFDS	Smithfield Foods, Inc.	Arlington, VA
STHMK	Stanhome Inc.	Westfield, MA
WSTM	Western Micro Technology Inc.	Cupertino, CA
ZITL	Zitel Corporation	San Jose, CA

Any questions regarding this notice should be directed to Donald Bosic, Assistant Director, NASDAQ Operations, at (202) 728-8043. Questions pertaining to trade reporting rules should be directed to Steve Hickman at (202) 728-8202.

Sincerely,

Gordon S. Macklin
President

NASD
National Association of Securities Dealers, Inc.
1735 K St., N.W. • Washington, D.C. 20006 • (202) 728-8000
notice to members 84-36

July 18, 1984

To: All NASD Members and Other Interested Persons

Re: Request for Comments on Possible Amendments to Venture Capital Restrictions

COMMENT PERIOD CLOSES ON: AUGUST 17, 1984

The National Association of Securities Dealers, Inc. ("Association" or "NASD") is requesting comments on possible amendments to restrictions which apply to venture capital investments by NASD members and certain of their control persons. 1/ The proposed amendments, which are discussed in concept below, generally would liberalize the present restrictions.

Present Requirements

Currently, the Interpretation of the Board of Governors — Review of Corporate Financing ("Corporate Financing Interpretation") under Article III, Section 1 of the NASD Rules of Fair Practice states in part as follows:

> No member or officer, director, general partner or controlling shareholder of a member which participates in the initial public offering of an issuer's securities and which beneficially owns any securities of said issuer at the time of filing of the offering shall sell those securities during the offering or sell, transfer, assign or hypothecate those securities for one year following the effective date of the offering. 2/

These restrictions (hereinafter the "Venture Capital Restrictions") were added to the Corporate Financing Interpretation on May 31, 1983. A similar provision is contained in the proposed Corporate Financing Rule which, if approved by the Securities and Exchange Commission ("SEC" or "Commission") will replace the Corporate Financing Interpretation. 3/

1/ The Association is also publishing today several interpretations of the present restrictions on venture capital. See NASD Notice to Members 84-37 (July 18, 1984) ("Notice 84-37"). A discussion of the background of the restrictions is included in NASD Notice to Members 83-43 (Aug. 17, 1983).

2/ NASD Manual (CCH) p. 2033.

3/ See, NASD Notice to Members 83-24 (May 19, 1983); SEC File No. SR-NASD-83-27.

One of the principal concerns leading to adoption of the Venture Capital Restrictions was the potential conflict of interest which may exist when a broker/dealer or its control persons set the public offering price and perform a due diligence investigation for an initial public offering at the same time the firm or persons are selling their own holdings in the company. In this situation, the economic incentive of the firm or persons may be contrary to the financial interests of public investors because, instead of seeking to identify and disclose any adverse information on the issuer and to establish a fair public offering price, the firm or persons arguably would have an incentive to set a high price and adhere to less stringent disclosure standards. The Venture Capital Restrictions, however, are not limited to firms and persons performing pricing and due diligence functions, but apply to any broker/dealer (and its control persons) which participate in any manner in an initial public offering. 4/ For example, a director of a broker/dealer which is acting only as a selling group member for a de minimis portion of an offering is prohibited from selling his holdings as part of the offering or for one year thereafter. Many have suggested that the current approach of the Venture Capital Restrictions is unduly broad and imposes an onerous burden on firms and persons who have no influence on the pricing or due diligence for an offering.

The Association's Board of Governors ("Board") and Corporate Financing Committee ("Committee") have carefully considered the present scope of the Venture Capital Restrictions and have concluded that those provisions are unduly expansive and impose unnecessary burdens upon certain broker/dealers and persons without apparent commensurate public benefit. The Association is therefore requesting comments on several proposed amendments to the Restrictions which would narrow their application to situations in which a more specifically identifiable conflict exists.

Proposed Amendments to Venture Capital Restrictions

The Association is proposing to amend the Venture Capital Restrictions to exempt offerings in which a qualified independent underwriter performs pricing and due diligence functions. Additional amendments have been proposed by others. These proposals are discussed below and comments are requested on each.

Participation of Independent Underwriter — The Committee has given particular attention to the conflicts which were intended to be addressed by the Venture Capital Restrictions and the scope of restriction appropriate to assure protection of the public offering process. The potential conflict which exists when a broker/dealer or its control persons seek to sell their holdings while setting an offering price and performing due diligence is not unlike the conflict which exists when a broker/dealer issues its own securities or underwrites securities of an affiliate. Since the early 1970s, the latter conflict has been regulated by Schedule E to Article IV, Section 2 of the NASD By-Laws ("Schedule E"). 5/ Under Schedule E, a broker/dealer which controls, is controlled by, or is under common control with an issuer generally cannot participate in that issuer's initial public offering unless the price is no higher than that recommended by a qualified independent underwriter who also is responsible for the exercise of usual due diligence. 6/ A qualified independent underwriter must participate in preparing the offering materials and assume underwriter liability pursuant to the Securities Act of

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4/ As explained in Notice 84-37, the restrictions also apply to "downstream" and "sister" subsidiaries of a broker/dealer and control persons' immediate family members.

5/ NASD Manual (CCH) p. 1101-3.

6/ Schedule E, Section 3(c)(1), NASD Manual (CCH) p. 1101-6.

1933. Broker/dealers are required to satisfy specified criteria relating to experience and profitability in order to qualify as independent underwriters [7]

The Committee believes Schedule E has worked effectively to protect investors from underwriters' potential conflicts of interest and that participation by a qualified independent underwriter could effectively address potential conflicts in situations covered by the Venture Capital Restrictions. Accordingly, the Association is today proposing an amendment to the Venture Capital Restrictions to exempt from the Restrictions any offering in which the price is established by a qualified independent underwriter which exercises the usual standards of due diligence and undertakes underwriter liability pursuant to the Securities Act of 1933. To qualify as an independent underwriter, [8] a broker/dealer must have been actively engaged in the underwriting of public offerings for five years, have been profitable for three of those five years, and be managed by persons with five years experience in the securities business. The Board and Committee have concluded that the participation of an independent underwriter should effectively alleviate any conflicts of interest on the part of firms or persons who participate in distributing an initial public offering while selling their holdings.

While the Board and Committee believe that a good approach to correcting difficulties in the Venture Capital Restrictions lies in exempting offerings in which there is an independent underwriter, we recognize that other approaches may be equally effective. The Association therefore encourages commentators to come forward with suggestions for other amendments. Certain other approaches have already been proposed and are under consideration.

Holding Period — Some have suggested that the Association reinstitute the approach followed for many years prior to adoption of the Venture Capital Restrictions whereby limitations on participation in initial public offerings were inapplicable to securities owned for a specified period prior to the offering. This approach rests on the premise that persons who have had capital at risk for a substantial period should not be penalized by a prohibition against the sale of their holdings as part of the initial public offering or for some period thereafter. As an alternative, a pre-offering holding period could be combined with a shortened post-offering holding period.

Others have suggested that participating broker/dealers and their control persons be permitted to sell their holdings in a manner similar to that available under SEC Rule 144. [9] Thus, firms and persons could begin selling their holdings 90 days after completion of the initial public offering but would be subject to the limitations contained in Rule 144 regarding the amount of securities which can be sold. One attraction of this approach lies in the familiarity of the SEC staff, the securities bar, and the industry with the concepts and mechanics of Rule 144.

Irrespective of the basis for a holding period, the resulting exemption should be clear as to whether securities can be sold as part of the initial offering or only in subsequent offerings or into a trading market. Some suggest prohibiting any sales in an initial public offering by participating broker/dealers or their control persons, irrespective of their satisfaction of a holding period. The earlier NASD rule was

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7/ Schedule E, Section 2(k), NASD Manual (CCH) pp.1101-5 and 1101-6.

8/ The criteria for an independent underwriter in Schedule E include a prohibition against affiliation with the issuer. For purposes of the Venture Capital Restrictions, a prohibition against affiliation with any selling shareholder may be appropriate.

9/ 17 CFR Section 230.144.

interpreted to permit one to register shares which had been held for an appropriate period.

De Minimis Transactions — Others have suggested that one of the most burdensome inequities of the Venture Capital Restrictions would be alleviated by exempting any broker/dealer whose participation in an offering constitutes a de minimis percentage of the overall offering amount. Similarly, an exemption could be provided for sales of holdings in de minimis amounts. In either case, the exemption could be stated as either a percentage of the offering size or a dollar amount or some combination of both.

Multiple Exemptions — Several persons have emphasized the need for flexibility in structuring initial public offerings and have recommended that any amendments to the Venture Capital Restrictions should provide more than one type of exemption. For example, all of the exemptive approaches discussed above could be incorporated into the rule as alternatives to be utilized under various circumstances.

Comment Procedure

The NASD solicits comments on each of the proposals described above. There are undoubtedly other approaches which could effectively deal with the potential conflicts addressed by the Venture Capital Restrictions. The Association welcomes any comments or suggestions concerning such alternative approaches.

All comments should be in writing and should be addressed to the following:

James M. Cangiano
Secretary
National Association of Securities Dealers, Inc.
1735 K Street, N.W.
Washington, D.C. 20006

Comments must be received by August 17, 1984 to be assured of consideration. All comments received will be made available for public inspection.

All comments received during this comment period will be reviewed by the Corporate Financing Committee and changes to the proposed amendments will be recommended as deemed appropriate. If the Board approves amendments to the Corporate Financing Interpretation, those amendments must be filed with, and approved by, the SEC before they become effective. 10/

Sincerely,

Gordon S. Macklin
President

10/ In addition to these procedures, any amendments to the proposed Corporate Financing Rule would require a vote of the NASD membership.

NASD
National Association of Securities Dealers, Inc.
1735 K St., N.W. • Washington, D.C. 20006 • (202) 728-8000

notice to members 84-37

July 18, 1984

TO: All NASD Members and Other Interested Persons

RE: Interpretation of Venture Capital Restrictions

The National Association of Securities Dealers, Inc. ("Association" or "NASD") is publishing interpretations of restrictions which apply to venture capital investments by NASD members and certain of their control persons. 1/ These restrictions (hereinafter the "Venture Capital Restrictions") were added to the Interpretation of the Board of Governors — Review of Corporate Financing ("Corporate Financing Interpretation") under Article III, Section 1 of the NASD Rules of Fair Practice on May 31, 1983. 2/ The text of the Venture Capital Restrictions is as follows:

> No member or officer, director, general partner or controlling shareholder of a member which participates in the initial public offering of an issuer's securities and which beneficially owns any securities of said issuer at the time of filing of the offering shall sell those securities during the offering or sell, transfer, assign or hypothecate those securities for one year following the effective date of the offering. 3/

A similar provision is contained in the proposed Corporate Financing Rule which, if approved by the Securities and Exchange Commission ("SEC" or "Commission"), will replace the Corporate Financing Interpretation. 4/

1/ The Association is also publishing today proposed amendments to the restrictions on venture capital which, if adopted, would substantially alter those restrictions and, therefore, the interpretations contained herein. See NASD Notice to Members 84-36 (July 18, 1984).

2/ See NASD Notice to Members 83-43 (Aug. 17, 1983).

3/ NASD Manual (CCH) p. 2033. A discussion of the background of the Venture Capital Restrictions is included in NASD Notice to Members 83-43 (Aug. 17, 1983).

4/ See NASD Notice to Members 83-24 (May 19, 1983); SEC File No. SR-NASD-83-27.

Interpretations

Shortly after adoption of the Venture Capital Restrictions, several interpretive questions arose regarding the applicability of the Restrictions in various fact situations. These questions have now been considered by the Association's Corporate Financing Committee ("Committee") and Board of Governors ("Board") in conjunction with discussions with the SEC staff and their views are described herein. The following interpretations do not exclude application of the Venture Capital Restrictions in other fact situations. In addition, it should be noted that these interpretations relate to the present language of the Venture Capital Restrictions and will not necessarily apply if the language is revised.

Sister Subsidiaries — Numerous questions have arisen concerning the applicability of the Venture Capital Restrictions to "sister" subsidiaries of a broker/dealer, i.e., corporations or partnerships which are controlled by the entity which controls the broker/dealer. The Association has taken the position from the outset that the Restrictions apply to "downstream" subsidiaries of a broker/dealer, i.e., corporations or partnerships controlled by the broker/dealer, because profits realized on securities held by such subsidiaries are assumed to inure to the economic benefit of the broker/dealer. Securities owned by downstream subsidiaries are therefore viewed as beneficially owned by the broker/dealer.

It has been less clear whether securities owned by sister subsidiaries should be viewed as beneficially owned by a broker/dealer. Some maintain that the conflict addressed by the Venture Capital Restrictions, the potential conflict of interest in setting price and performing due diligence, is present only when a participating broker/dealer or its officers, directors, or general partners stand to benefit from the contemplated public offering. Others maintain, however, that similar conflicts are present when a controlling shareholder of a participating broker/dealer stands to realize a benefit and that such a shareholder should be seen as benefiting from sales of securities held by a subsidiary it controls.

On the basis of a review of the language and discussions with the SEC staff, the Association's Committee and Board have concluded that the Venture Capital Restriction should apply equally to securities which are beneficially owned by sister subsidiaries of broker/dealers and securities which are directly owned by such broker/dealers. A controlling shareholder realizes direct or indirect economic benefit from profits earned by the controlled entity and securities owned by a sister subsidiary of a broker/dealer will be viewed as beneficially owned by the controlling shareholder of the broker/dealer and therefore subject to the Venture Capital Restrictions.

For purposes of determining whether an entity is a sister subsidiary, a downstream subsidiary, or a controlling shareholder, the Association will look to the definition of "affiliate" contained in Schedule E to Article IV, Section 2 of the NASD By-Laws. 5/ Under that definition, any corporation or partnership which controls, is controlled by, of is under common control with, a broker/dealer is an

5/ NASD Manual (CCH) p. 1101-3.

affiliate. The definition creates a presumption of control whenever one entity beneficially owns 10 percent or more of the outstanding voting securities of another.

Immediate Family Members — The Venture Capital Restrictions apply to securities which are beneficially owned by an officer, director, general partner, or controlling shareholder of a broker/dealer participating in an initial public offering. The SEC staff has raised questions concerning the status of immediate family members of these persons, arguing that one could evade the Restrictions by placing securities in the name of a family member and in fact realize directly or indirectly the economic benefit of an unreasonably high public offering price. Others maintain that the concept of beneficial ownership is broad enough to encompass situations of this nature.

In deference to the Commission staff, however, and in order to more specifically define the scope of benefical ownership, the Association's Board and Committee have concluded that the Venture Capital Restrictions should apply to immediate family members of officers, directors, general partners, and controlling shareholders of a broker/dealer participating in an initial public offering.

For purposes of of the Venture Capital Restrictions, "immediate family" shall have the same meaning as in the Interpretation of the Board of Governors on Free-Riding and Withholding under Article III, Section 1 of the NASD Rules of Fair Practice. 6/

Managed Accounts — Questions have arisen as to whether securities held in accounts managed by a broker/dealer should be viewed as beneficially owned by the broker/dealer for purposes of the Venture Capital Restrictions. The principal purpose of the Venture Capital Restrictions is to alleviate conflicts which could exist when a firm or individual setting the price of an initial public offering stands to profit from an unreasonably high price. That conflict is not present unless the firm or individual is entitled to receive profit realized upon sale of the securities.

The Association's Board and Committee have concluded, therefore, that the Venture Capital Restrictions do not apply to securities held in managed accounts (including securities held in the name of a broker/dealer) so long as no participating broker/dealer or officer, director, general partner, or controlling shareholder of such a broker/dealer beneficially owns the securities. Where a portion of the securities in an account are beneficially owned by a restricted firm or person, that portion of the account's position is subject to the Venture Capital Restrictions. The Restrictions can be satisified in such instances either by delivering securities in-kind to the restricted parties so as to remove restrictions on the remaining holdings, or by implementing procedures to assure that no restricted party receives any economic benefit from the sale of the unrestricted portion of the holdings.

The Association is informed that it is not uncommon for certain types of investment partnerships to provide compensation to the account manager in the

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6/ NASD Manual (CCH) p. 2045.

form of a participation in account profits after certain conditions are satisfied. For purposes of the Venture Capital Restrictions, the Association will not view such compensation arrangements as providing the account manager with a beneficial ownership interest in the account.

Securities Issued By Broker/Dealers — A literal application of the Venture Capital Restrictions to distributions by a broker/dealer of its own securities might result in a finding that the broker/dealer could not sell such securities because it beneficially owned them at the time the offering was filed. This result was obviously not intended. While there is little dispute as to the application of the Restrictions to sales by a broker/dealer firm, questions have arisen concerning sales by officers, directors, general partners, or controlling shareholders of a broker/dealer when the broker/dealer issues securities. Some argue that application of the Restrictions is unduly onerous when an otherwise restricted person proposes to sell a relatively small portion of securities which he or she has owned for several years. The SEC staff has expressed some concern, however, about potential conflicts when an individual proposes to sell a large portion of recently acquired securities while actively participating in the pricing of a broker/dealer's new offering. The Association has been reviewing such situations on a case-by-case basis.

* * * *

We are hopeful that these interpretations will serve to clarify the application of the Venture Capital Restrictions. The Committee will continue to address further interpretive questions which arise.

Sincerely,

Gordon S. Macklin
President

NASD
National Association of Securities Dealers, Inc.
1735 K St., N.W. • Washington, D.C. 20006 • (202) 728-8000

notice to members 84-38

July 13, 1984

TO: All NASD Members and Level 2 and Level 3 Subscribers

RE: Five Securities Mandated to Join NMS August 7, 1984

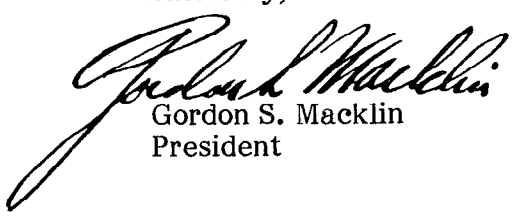
An additional five securities will join the NASDAQ National Market System on Tuesday, August 7, 1984. These securities have met the NMS mandatory designation requirements as of the end of the second quarter and, as required by SEC Rule 11Aa2-1, automatically are added to the National Market System within 45 days of the quarter ending date.

The five securities joining NMS on Tuesday, August 7, are:

Symbol	Company	Location
CAMP	California Amplifier, Inc.	Newbury Park, CA
DFSL	Dallas Federal Savings and Loan Association	Dallas, TX
DRAM	Micron Technology, Inc.	Boise, ID
RTRSY	Reuters Holdings PLC	London, England
VMXI	VMX, Inc.	Richardson, TX

Any questions regarding this notice should be directed to Donald Bosic, Assistant Director, NASDAQ Operations, at (202) 728-8043. Questions pertaining to trading reporting rules should be directed to Steve Hickman at (202) 728-8202.

Sincerely,



Gordon S. Macklin
President

NASD
National Association of Securities Dealers, Inc.
1735 K St., N.W. • Washington, D.C. 20006 • (202) 728-8000

notice to members 84-39

July 25, 1984

TO: All NASD Members and Other Interested Persons

RE: Quarterly Checklist of Notices to Members

Following is a list of NASD Notices to Members issued during the second quarter of 1984. Requests for copies of any notice should be accompanied by a self-addressed label and may be directed to: NASD Administrative Services, 1735 K Street, N.W., Washington, D.C. 20006.

Notice Number	Date	Topic
84-21	April 3, 1984	Adoption of a New Rule of Fair Practice and Other Amendments Regulating Activities of Members Experiencing Financial or Operational Difficulties
84-22	April 12, 1984	Ten Securities Mandated to Join NMS on May 8, 1984
84-23	April 27, 1984	National Market System Grows to 935 Securities with 50 Additions on May 15
84-24	May 3, 1984	Memorial Day Trade Date-Settlement Date Schedule
84-25	May 3, 1984	Quarterly Checklist of Notices to Members
84-26	May 11, 1984	Request for Comment on Proposed Criteria for NASDAQ NMS Designation

84-27	May 15, 1984	SEC Request for Comments on NASDAQ Options Proposal
84-28	May 22, 1984	Amendments to Appendix F Concerning Sales Incentives for Direct Participation Programs
84-29	May 29, 1984	Forty-Six Securities Mandated to Join NMS on June 19, 1984
84-30	May 29, 1984	Monthly Statistical Report Subscription Service
84-31	June 11, 1984	SIPC Trustee Appointed for First Interwest Securities Corp., Denver, Colorado
84-32	June 11, 1984	SIPC Trustee Appointed for June S. Jones Co., Portland, Oregon
84-33	June 13, 1984	Independence Day Trade Date-Settlement Date Schedule
84-34	June 15, 1984	Implementation of the NASAA/CRD Temporary Agent Transfer Program (TAT) Via the Central Registration Depository-Need to File Broker-Dealer Undertaking
84-35	June 28, 1984	NMS Securities to Surpass 1,000 Mark on July 10, 1984

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NASD
National Association of Securities Dealers, Inc.
1735 K St., N.W. • Washington, D.C. 20006 • (202) 728-8000

notice to members 84-40

July 26, 1984

TO: All NASD Members

RE: Compensation Arrangements With Respect to Sale of Mutual Fund Shares

The Association has been receiving an increased number of inquiries regarding the application of Article III, Section 26 of the Rules of Fair Practice to certain compensation arrangements, and proposed arrangements, between principal underwriters and dealers in open-end management investment company shares (mutual funds) and unit investment trusts. These inquiries are primarily related to subsection (k) of the rule (the Anti-Reciprocal Rule) and subsection (1) of the rule, which addresses dealer concessions and other forms of compensation.

The Anti-Reciprocal Rule

Subsection (k) of Section 26 prohibits members from favoring or disfavoring the distribution of shares of any particular investment company or group of investment companies on the basis of brokerage commissions received or expected by such member from any source. As outlined below, there are a number of additional specific prohibitions contained in the rule.

As originally adopted in 1973, the Anti-Reciprocal Rule prohibited members from seeking orders for the execution of portfolio transactions on the basis of their sales of investment company shares. Principal underwriter members were similarly prohibited from participating or influencing the investment company to consider sales of investment company shares as a qualifying or disqualifying factor in the selection of a broker-dealer to execute portfolio transactions.

The rule was amended in 1981 to specify that, subject to certain restrictions, it does not prohibit members from seeking or granting brokerage commissions in connection with the sale of investment company shares, and that it does not prohibit members from selling shares of investment companies which follow a disclosed policy of considering sales of their shares as a factor in the selection of broker-dealers to execute portfolio transactions, subject to best execution.

It appears from the nature of the inquiries recently received that some members may view the 1981 amendments as having altered the specific standards of the rule more extensively than was actually the case. Members should understand that the rule still prohibits:

(1) demands or solicitation of promises of brokerage commissions by dealers as a condition to the sale of fund shares;

(2) offers or promises of brokerage commissions by principal underwriters as a condition to the sale of fund shares or the requesting or arranging for the direction of a specific amount or percentage of brokerage commissions conditioned upon sales or promises of sales of fund shares;

(3) the suggesting, encouraging or sponsoring of any dealer's incentive or sales contest by a principal underwriter, which incentive is known to be based upon, or financed by, portfolio brokerage commissions;

(4) the providing of any kind of special compensation or incentive to sales personnel for the sale of shares of specific investment companies based upon portfolio brokerage commissions received or expected. This prohibition includes contests, bonuses, preferred lists, or commission credits; and,

(5) allowing registered representatives, branch managers, or other sales personnel to share in portfolio brokerage commissions received by the member from an investment company whose shares are sold by the member, if such commissions are directed by or identified with, the investment company. This includes directly assigning the individual to handle the accounts or the transaction, as well as indirect methods of accomplishing such participation.

The following examples represent a condensation of specific situations recently reviewed by the Association's Investment Companies Committee, which situations are inconsistent with the rule:

- a request by a dealer, or an offer or agreement by a principal underwriter, for a specified percentage of portfolio brokerage commissions relative to the dealer's sale of fund shares;

- a request by a dealer, or an offer or agreement by a principal underwriter, that portfolio business be placed to finance all or part of the dealer's sales contest;

- a request by a dealer, or the offer by a principal underwriter, that portfolio brokerage commissions be placed as a condition to signing a sales agreement;

- a request by a registered representative, or an offer or agreement by a principal underwriter, that portfolio orders be placed in recognition of the representative's prior or future sales of fund shares; and,

- a request by a dealer, or the offer or agreement by a principal underwriter, that portfolio brokerage commissions be placed on the understanding that this would result in placement of the funds on the dealer's preferred list.

On a separate point, concern has been expressed that the language of the Anti-Reciprocal Rule could connote the Association's intention to prohibit the allocation of brokerage transactions of investment companies other than the specific investment company whose shares are sold by the broker-dealer. This issue relates to the broad question of the degree to which investment companies under common management may be viewed as a group, rather than considering each company as independent. In this respect, the language of the Anti-Reciprocal Rule should not be construed as a statement of views on this broader issue nor as interpreting the provisions of the Investment Company Act of 1940 or any other statute.

Similarly, a number of questions have been raised which relate to a broker-dealer's qualifications to execute institutional transactions. It should be understood that the Anti-Reciprocal Rule is premised on the principle of "best execution" but it does not purport to define the term or to specify the essential ingredients of an investment company's fiduciary obligations in this respect. Therefore, except as they relate to requirements for qualification examinations, net capital, recordkeeping, or similar questions involving a broker-dealer's status to execute transactions, the Association does not intend to respond to inquiries which seek to define the circumstances under which a broker-dealer is "qualified" to execute, or participate in, institutional securities transactions.

Dealer Concessions

Subsection (1) of Section 26 addresses requirements with respect to the payment of dealer concessions and other compensation (including distribution fees paid pursuant to SEC Rule 12b-1 under the Investment Company Act of 1940). This rule was also amended in 1981 to allow, among other things, non-uniform dealer concessions which are specifically disclosed in a fund's prospectus, and non-cash concessions or compensation if the dealer is given an option to receive the cash equivalent value of a non-cash concession. The rule also specifies certain items which will not be considered to be of material value and therefore are not dealer concessions which must be disclosed in the fund's prospectus.

Recent inquiries with respect to the dealer concession aspect of the rule also reflect that some members may not clearly understand certain of its basic principles.

First, no dealer concessions may be paid to individual registered representatives of another member. Dealer concessions, by definition, represent compensation earned by, and paid to, a dealer. Payments to another member's representatives may also raise questions with respect to the need to register those representatives directly with the paying member.

Secondly, those items specified in the rule as not constituting items of material value are presumed to be unconditional and not tied to any past or future sales quotas. A gift, for example, is assumed to be just that: an unconditional token remembrance. If a "gift" must be earned by sales of fund shares, it is a

dealer concession which must be disclosed in the fund's prospectus and may not be paid to an individual representative of another member even if disclosed.

On another point, non-cash concessions earned by a dealer must be confirmed by the principal underwriter, and such concessions are subject to NASD assessments on gross income, irrespective of whether the receiving member chooses to award such non-cash concessions to individual representatives, and irrespective of whether such representatives are "independent contractors."

Examples of inquiries recently received by the Association's Investment Companies Committee, which examples are considered to be inconsistent with Section 26(1), are as follows:

- payment by a principal underwriter to a dealer to offset expenses incurred in "due diligence" or in training registered representatives;

- payment by a principal underwriter of a special concession to a dealer holding a sales contest, without prospectus disclosure of the terms of the arrangement and the identity of the dealer;

- reimbursement by a principal underwriter of a dealer's "start-up costs";

- the financing or expense reimbursement by a principal underwriter of a dealer's sales contest expense without specific prospectus disclosure;

- the exclusion of the funds of a principal underwriter from qualification for a dealer's sales contest unless the underwriter pays for some portion of the contest prizes; and,

- a "business meeting" held by a mutual fund principal underwriter, at a resort hotel, for dealer representatives meeting specified sales quotas.

The foregoing examples of conduct inconsistent with Section 26 are not all-inclusive. Members are urged to familiarize all personnel with the requirements and prohibitions of this rule. Formal disciplinary actions in this area have been taken, others are under consideration, and District Business Conduct Committees have been requested to pay particular attention to this area in the future.

Questions regarding this notice should be directed to Robert L. Butler at 1735 K Street, N.W., Washington, D.C. 20006. Telephone: (202) 728-8329.

Very truly yours,

Gordon S. Macklin
President

NASD
National Association of Securities Dealers, Inc.
1735 K St., N.W. • Washington, D.C. 20006 • (202) 728-8000

notice to members 84-41

July 30, 1984

TO: All NASD Members and Level 2 and Level 3 Subscribers

RE: 40 More Securities to Join NMS on August 14

With the 40 issues joining NASDAQ's National Market System on Tuesday, August 14, there will be over 1,053 issues trading under real-time trading reporting. These 40 issues meet the SEC's voluntary designation criteria.

The securities scheduled to join NMS on Tuesday, August 14, are:

SYMBOL	COMPANY	LOCATION
ACHV	Archive Corporation	Costa Mesa, CA
CMLI	CML Group, Inc.	Acton, MA
CRMK	Cermetek Microelectronics, Inc.	Sunnyvale, CA
CHPN	Chapman Energy, Inc.	Dallas, TX
CHER	Cherry Electrical Products Corporation	Waukegan, IL
CFIB	Consolidated Fibres, Inc.	San Francisco, CA
CBRL	Cracker Barrel Old Country Store, Inc.	Lebanon, TN
DDSC	Delta Data Systems Corporation	Trevose, PA
ECILF	Electronics Corporation of Israel Ltd.	Tel Aviv, Israel
FBRX	Fibronics International, Inc.	Hyannis, MA
GTCH	GTECH Corporation	Providence, RI
GIGA	Giga-Tronics Incorporated	Pleasant Hill, CA
HNAT	Hartford National Corporation	Hartford, CT
HATH	Hathaway Corporation	Denver, CO
HWKB	Hawkeye Bancorporation	Des Moines, IA
HDON	Henredon Furniture Industries, Inc.	Morganton, NC
HIBCA	Hibernia Corporation (Cl A)	New Orleans, LA

SYMBOL	COMPANY	LOCATION
IFSIA	Interface Flooring Systems, Inc. (Cl A)	LaGrange, GA
JUNO	Juno Lighting Inc.	Des Plaines, IL
KDON	Kaydon Corporation	Muskegon, MI
MRGX	Margaux Controls, Inc.	San Jose, CA
MASX	Masco Industries, Inc.	Taylor, MI
MAXI	Maxicare Health Plans, Inc.	Hawthorne, CA
MRBK	Mercantile Bankshares Corporation	Baltimore, MD
MPAI	Mid Pacific Airlines, Inc.	Honolulu, HI
NEBS	New England Business Service, Inc.	Groton, MA
PLMX	PLM Financial Services, Inc.	San Francisco, CA
PFFS	Pacific First Federal Savings Bank	Tacoma, WA
PAYX	Paychex, Inc.	Rochester, NY
PCPI	Personal Computer Products, Inc.	San Diego, CA
RSTY	Rusty Pelican Restaurants, Inc.	Irvine, CA
SSSN	Satelite Syndicated Systems, Inc.	Tulsa, OK
SHOP	Shopsmith, Inc.	Dayton, OH
SBOS	South Boston Savings Bank	South Boston, MA
SPTR	Spec Tran Corporation	Sturbridge, MA
SPER	Sperti Drug Products, Inc.	Erlanger, KY
STFL	Stifel Financial Corporation	St. Louis, MO
TELC	Telco Systems, Inc.	Menlo Park, CA
UTBC	Union Trust Bancorp	Baltimore, MD
ZION	Zions Utah Bancorporation	Salt Lake City, UT

Any questions regarding this notice should be directed to Donald Bosic, Assistant Director, NASDAQ Operations, at (202) 728-8043. Questions pertaining to trading reporting rules should be directed to Steve Hickman at (202) 728-8202.

Sincerely,

Gordon S. Macklin
President