



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

notice to members 86-55

July 30, 1986

TO: All NASD Members, NASDAQ Issuers and Other Interested Persons

RE: Request for Comments on Proposed Revisions to Schedule D of the NASD
By-Laws

LAST DATE FOR COMMENTS: SEPTEMBER 15, 1986.

The National Association of Securities Dealers, Inc. (NASD), requests comments on proposed revisions to Schedule D of the NASD By-Laws. Schedule D governs the operations of the NASDAQ System. The text of the proposed revisions is included as Attachment I. The text of the current Schedule D is included as Attachment II.

BACKGROUND

The proposed revisions are the result of a comprehensive review of Schedule D undertaken by the NASD Board of Governors Ad Hoc Committee on Schedule D. The committee's major goal in reviewing Schedule D was to increase the Schedule's usefulness as a reference tool for NASDAQ issuers, NASDAQ market makers and other NASD members.

In addition to making certain organizational changes and editorial revisions, the committee has attempted to update Schedule D to reflect current practice and procedure and to incorporate in the Schedule material that now appears in the NASDAQ Symbol Directory and other NASD publications and notices. The Schedule will also contain a Table of Contents and a definitional section.

To facilitate review of the proposed revisions, the following is a summary of the changes made to each part.

PART I

Part I is new. It provides definitions for the terms used in Schedule D, with the exception of terms relating to options which, for the present time, will remain in the options section of Schedule D, renumbered as Part VIII.

PART II

Part II contains the qualification requirements for domestic and foreign NASDAQ securities. The major changes to these requirements are summarized as follows:

- Firm commitment offerings may be included in NASDAQ upon the effective date of the registration statement, while offerings conducted on a "best efforts" basis may be included only upon the closing of the offering.
- Annual reports filed with the NASD must contain audited financial statements prepared in accordance with generally accepted accounting principles.
- Assets that are temporary in nature or severely restricted in their use shall not be included in determining an issuer's total assets.
- Convertible debentures and redeemable preferred stock with a redemption provision under the sole control of the holder shall not be included in the calculation of an issuer's capital and surplus.
- Foreign issuers shall be required to register pursuant to Section 12(g) of the Securities Exchange Act of 1934 to be eligible for initial inclusion in the NASDAQ System.
- Minimum average daily trading volume requirements for foreign shares during the first 90 days of trading have been eliminated.
- The number of market makers required for a foreign issue's initial inclusion in NASDAQ has been reduced to two from three.
- Requirements of 100,000 shares of float and 300 shareholders for foreign issues have been added.
- NASDAQ issuers involved in bankruptcy proceedings or whose financial statements contain a disclaimer opinion may be suspended or terminated from inclusion in the NASDAQ System.

PART III

Part III is new. It contains the qualitative and quantitative qualification requirements for NASDAQ National Market System securities that are currently part of the NASD's National Market System Designation Plan. In addition to setting forth the application procedures for NASDAQ/NMS designation, this part includes the alternative Tier 2 quantitative criteria now contained in SEC Rule 11Aa2-1. The Tier 1 mandatory designation criteria are eliminated. Corporate governance criteria, which have already been approved by the NASD Board and are on file with the Securities and Exchange Commission, will be included in this part.

PARTS IV and V

Parts IV and V were formerly numbered as Parts VI and VII. No changes have been made at this time.

PART VI

Part VI, formerly Part I, contains the requirements applicable to NASDAQ market makers. This part now includes:

- Registration requirements for NASDAQ market makers.
- An explicit requirement for market makers to maintain a two-sided market.
- NASD authority to suspend the quotations of a market maker whose quotations are not reasonably related to the market and who fails to update its quotations.
- The table of maximum allowable spreads currently located in the NASDAQ Symbol Directory.

- Revised procedures for withdrawing quotations. Currently, market makers are permitted to withdraw their quotations as long as they obtain excused withdrawal status prior to re-entering quotations. The revised procedures require a market maker to obtain excused withdrawal status prior to withdrawing quotations. New limits are also placed on the length of excused withdrawals. Excused withdrawals based on illness, vacations or physical circumstances beyond the market maker's control may be granted for up to five days, unless extended. Excused withdrawals based on a firm's investment banking activities may be granted for up to 60 days.

PART VII

Part VII, formerly Part III, contains the requirements applicable to market makers participating in the Consolidated Quotations Service (CQS). The changes made to this part parallel those made to new Part VI with respect to NASDAQ market makers. This part now includes:

- Registration procedures for market makers participating in CQS.
- An explicit statement of the requirement of SEC Rule 11Ac1-1 that quotations in reported securities be firm for a normal unit of trading or for the size displayed.
- A requirement that quotations displayed in both CQS and the NASDAQ System be identical.

- Revised procedures for withdrawing quotations in CQS securities. Market makers will be required to obtain excused withdrawal status prior to withdrawing quotations in CQS securities. New limits are also placed on the length of an excused withdrawal. An excused withdrawal based on illness, vacations or physical circumstances beyond the market maker's control may be granted for up to five days. An excused withdrawal based on a firm's investment banking activities may be granted for up to 60 days.

PART VIII

Part VIII was formerly numbered as Part IV. No changes have been made at this time.

PART IX

Part IX was formerly numbered as Part V. No changes have been made at this time.

PARTS X THROUGH XIII

Parts X through XIII were formerly numbered as Parts VIII through XI. No changes have been made at this time.

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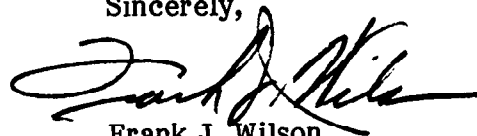
All members and other interested persons are invited to submit written comments on the proposed revisions to Schedule D. Comments should be received no later than September 15, 1986, and should be directed to:

Mr. Lynn Nellius, Secretary
National Association of Securities Dealers, Inc.
1735 K Street, N.W.
Washington, D.C. 20006

Comments received by the indicated date will be considered by the NASD Board of Governors. Any rule changes approved by the Board must be filed with and approved by the Securities and Exchange Commission before becoming effective.

Questions concerning this notice may be directed to S. William Broka, Vice President, NASDAQ Operations-Companies, at (202) 728-8050, or Mary S. Head, Senior Attorney, NASD Office of General Counsel, at (202) 728-8284.

Sincerely,



Frank J. Wilson
Executive Vice President
and General Counsel

Attachments

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* No page numbers are assigned to these parts. No changes have been made at this time so the text is not included in Attachment I. See Attachment II for current text.

PART I

DEFINITIONS

For purposes of Schedule D, unless the context requires otherwise:

- (1) "Act" means the Securities Exchange Act of 1934.
- (2) "Association" means the National Association of Securities Dealers, Inc.
- (3) "Best efforts offering" means an offering of securities by members of a selling group under an agreement that imposes no financial commitment on the members of such group to purchase any such securities except as they may elect to do so.
- (4) "CQS market maker" means a dealer registered as such that, with respect to a reported security, holds itself out as being willing to buy and sell such security for its own account on a regular and continuous basis otherwise than on a national securities exchange in amounts of less than block size.
- (5) "Capital and surplus" means total stockholders' equity as presented in accordance with generally accepted accounting principles as reflected on the issuer's statement of financial condition or a comparable statement.
- (6) "Consolidated Quotations Service" or "CQS" means the consolidated quotation collection system for listed securities implementing SEC Rule 11Ac1-1.
- (7) "Firm commitment offering" means an offering of securities by participants in a selling syndicate under an agreement that imposes a financial commitment on participants in such syndicate to purchase such securities.
- (8) "Member" means a broker or dealer admitted to membership in the Association.
- (9) "NASDAQ market maker" means a dealer registered as such that, with respect to a security, holds itself out (by entering quotations in the NASDAQ System) as being willing to buy and sell such security for its own account on a regular and continuous basis.
- (10) "NASDAQ National Market System security" or "NASDAQ/NMS security" means any authorized security that (i) substantially meets the criteria set forth in Part III, Sections 2 and 5 of this Schedule D and is subject to a transaction reporting plan approved by the Securities and Exchange Commission; (ii) is a right to purchase such security; or (iii) is a warrant to subscribe to such security, and has been so designated by the Association upon application of the issuer of the security.
- (11) "NASDAQ System" means the electronic interdealer quotation system operated by NASDAQ, Inc., a subsidiary of the Association.

(12) "Normal unit of trading" means 100 shares of a security unless, with respect to a particular security, the Association determines that a normal unit of trading shall constitute other than 100 shares. If a normal unit of trading is other than 100 shares, a special identifier shall be appended to the issue's NASDAQ symbol.

(13) "Penalty bid" means a stabilizing bid that permits the managing underwriter to reclaim a selling concession granted to a syndicate member in connection with the sale of securities in an underwritten offering when the syndicate member resells such securities to the managing underwriter.

(14) "Pre-effective stabilizing bid" means a stabilizing bid entered prior to the effective date of an offering.

(15) "Reported security," as used in Part VII, means an equity security for which quotations are entered into the Consolidated Quotations Service.

(16) "Stabilizing bid" means a bid entered for the purpose of supporting the price of a security to facilitate an offering of such security as permitted by SEC Rules 10b-6 and 10b-7.

PART II

QUALIFICATION REQUIREMENTS FOR NASDAQ SECURITIES

Sec. 1. Qualification Requirements for Domestic Securities

To qualify for inclusion in the NASDAQ System, a security shall satisfy all applicable requirements contained in subsections (a) or (b), and (c) herein.

(a) A security other than a security distributed in connection with an initial public offering shall be considered for inclusion in the NASDAQ System provided that it is:

(1) registered pursuant to Section 12(g)(1) of the Securities Exchange Act of 1934 (Act); or

(2) registered on a national securities exchange pursuant to Section 12(b) of the Act; or

(3) issued by an insurance company pursuant to Section 12(g)(2)(G) of the Act; or

(4) issued by an investment company registered under the Investment Company Act of 1940, provided that the issuer or underwriter of or any dealer in the security is not currently engaged in a distribution of such security that subjects such issuer, underwriter or dealer to the provisions of Section 22(d) of the Act, and provided further that transactions in such shares, other than redemptions or repurchases by or on behalf of the issuer, are exempted from or not subject to Rule 22c-1 adopted under the Act.

(b) (1) A new issue offered on a firm commitment basis shall be considered for inclusion on the day that its registration statement is declared effective by the Securities and Exchange Commission. A new issue offered on a best efforts basis shall be considered for inclusion upon the closing of the offering. Qualification under this paragraph shall automatically terminate 120 days after the last day of the issuer's fiscal year during which the registration statement became effective.

(2) A new issue for which a registration statement is not required to be filed with the Securities and Exchange Commission under Section 3(a) of the Securities Act of 1933 shall be considered for inclusion upon the effectiveness of its registration statement or an equivalent document filed with the appropriate regulatory authority if the offering is conducted on a firm commitment basis or, if conducted on a best efforts basis, at the closing of the offering. Qualification under this paragraph shall automatically terminate 120 days after the effective date of the offering.

(c) In addition to the requirements contained in paragraphs (a) or (b) above, and unless otherwise indicated, a security shall satisfy the following criteria for inclusion in the NASDAQ System:

(1) For initial inclusion, the issue shall have two registered and active market makers, one of which may be a market maker entering a stabilizing bid. For continued inclusion, the issue shall have one registered and active market maker.

(2) For initial inclusion, the issuer shall have total assets of at least \$2 million. For continued inclusion, the issuer shall have total assets of at least \$750,000. An issuer's total assets will be determined on the basis of a balance sheet prepared in accordance with generally accepted accounting principles. Assets that are temporary or restricted in their use will be excluded from the determination of total assets.

(3) For initial inclusion, the issuer shall have capital and surplus of at least \$1 million. For continued inclusion, the issuer shall have capital and surplus of at least \$375,000. Only issues of common and preferred stock will be included in capital and surplus. Debentures and redeemable securities with the redemption provision within the sole control of the holder will be excluded from the determination of capital and surplus.

(4) In the case of a convertible debt security, for initial inclusion, there shall be a principal amount outstanding of at least \$10 million. For continued inclusion, there shall be a principal amount outstanding of at least \$5 million.

(5) The issuer shall have, in the case of common stock, at least 300 holders of the security. An account of a member that is beneficially owned by a customer (as defined in Article II, Section 1(f) of the NASD Rules of Fair Practice) will be considered a holder of a security upon appropriate verification by the member.

(6) In the case of common stock, there shall be at least 100,000 publicly held shares. Shares held directly or indirectly by any officer or

director of the issuer and by any person who is the beneficial owner of more than 10 percent of the total shares outstanding are not considered to be publicly held.

(7) In the case of rights and warrants, for initial inclusion only, there shall be at least 100,000 issued and the underlying security shall be included in the NASDAQ System or listed on a national securities exchange.

(8) In the case of units, all component parts shall meet the requirements for initial and continued inclusion.

(9) The security shall not currently be suspended from trading by the Securities and Exchange Commission pursuant to Section 12(k) of the Act.

(10) The issuer shall certify, at or before the time of qualification, that all applicable inclusion criteria have been satisfied.

(11) The issuer shall pay the NASDAQ Issuer Quotation Fee, described in Part IV.

(12) The issuer shall file with the Association three copies of all reports and other documents filed or required to be filed with the Securities and Exchange Commission. Issuers that are not required to file reports with the Securities and Exchange Commission shall file with the Association three copies of reports required to be filed with the appropriate regulatory authority. All required reports shall be filed with the Association on or before the date they are required to be filed with the Securities and Exchange Commission or appropriate regulatory authority. Annual reports filed with the Association shall contain audited financial statements.

(13) The issuer shall make prompt disclosure to the public of any material information that may affect the value of the securities or influence investors' decisions.

(14) The issuer shall comply with any obligation of any person regarding filing or disclosure of information material to the issuer or the security, whether such obligation arises under the federal securities laws and the regulations promulgated thereunder or other applicable federal or state statutes or rules.

Sec. 2. Qualification Requirements for Foreign Securities and American Depositary Receipts

To qualify for inclusion in the NASDAQ System, a security of a foreign issuer, an American Depositary Receipt (ADR) or similar security issued in respect of a security of a foreign issuer shall satisfy the requirements of paragraphs (a), (b) or (c), and (d) and (e) herein.

(a) A security of a foreign issuer, an American Depositary Receipt (ADR) or similar security issued in respect of a security of a foreign issuer, other than a newly issued security, shall be considered for inclusion provided that it is registered pursuant to Section 12(g) of the Act.

(b) A new issue of foreign securities conducted on a firm commitment basis shall be considered for inclusion on the day that its registration statement is declared effective by the Securities and Exchange Commission. A new issue of foreign securities conducted on a "best efforts" basis shall be considered for inclusion upon the closing of the offering. Qualification under this paragraph shall automatically terminate 120 days after the last day of the issuer's fiscal year during which the registration statement became effective.

(c) A foreign issuer whose securities or underlying ADRs were included in the NASDAQ System on or before October 5, 1983, and whose securities are exempt from registration under Section 12(g) of the Act pursuant to SEC Rule 12g3-2(b), shall continue to be included in the NASDAQ System, provided that all applicable requirements of SEC Rule 12g3-2(b) are met.

(d) Notwithstanding its exemption from registration pursuant to SEC Rule 12g3-2(b), a foreign security or ADR shall not be qualified for inclusion in the NASDAQ System if:

(1) the issuer of the security or of the security underlying the ADR fails to make available to its shareholders and the Association on a timely basis an annual balance sheet and statement of operations prepared in accordance with the generally accepted accounting practices of the issuer's country of domicile, including certification, if applicable; or

(2) the principal marketplace of the issuer's securities fails to coordinate regulatory activities with the Association in a manner sufficient to assure a fair and orderly market in the security and protection of investors and the public interest.

(e) In addition to the requirements contained in subsections (a), (b) or (c), and (d), the security shall satisfy the following criteria for inclusion in the NASDAQ System:

(1) For initial inclusion, the issue shall have two registered and active market makers, one of which may be a market maker entering a stabilizing bid. For continued inclusion, the issue shall have one registered and active market maker.

(2) For initial inclusion, the issuer shall have total assets of at least U.S. \$2 million. For continued inclusion, the issuer shall have total assets of at least U.S. \$750,000. An issuer's total assets will be determined on the basis of a balance sheet prepared in accordance with U.S. generally accepted accounting principles or those accompanied by detailed schedules quantifying the differences between U.S. accounting principles and those of the issuer's country of domicile. Assets that are temporary or restricted in their use will be excluded from the determination of total assets.

(3) For initial inclusion, the issuer shall have capital and surplus of at least U.S. \$1 million. For continued inclusion, the issuer shall have capital and surplus of at least U.S. \$375,000. Only issues of common, preferred or equivalent stock will be included in capital and surplus. Debentures and redeemable securities with a redemption provision under the sole control of the holder will be excluded from the determination of capital and surplus.

(4) In the case of a convertible debt security, for initial inclusion, there shall be a principal amount outstanding of at least U.S. \$10 million; for continued inclusion, there shall be a principal amount outstanding of at least U.S. \$5 million.

(5) In the case of foreign shares, the issuer shall have at least 300 holders of the security. An account of a member that is beneficially owned by a customer (as defined in Article II, Section 1(f) of the NASD Rules of Fair Practice) will be considered a holder of a security upon appropriate verification by the member.

(6) In the case of foreign shares, the issuer shall have at least 100,000 publicly held shares. Shares held directly or indirectly by any officer or director of the issuer and by any person who is the beneficial owner of more than 10 percent of the total shares outstanding are not considered to be publicly held.

(7) In the case of rights, warrants and ADRs, for initial inclusion only, at least 100,000 shall be issued.

(8) In the case of rights and warrants, the underlying security shall be included in the NASDAQ System or listed on a national securities exchange.

(9) In the case of units, all component parts shall meet the requirements for initial and continued inclusion.

(10) The security shall not currently be suspended from trading by the Securities and Exchange Commission pursuant to Section 12(k) of the Act or by the appropriate regulatory authorities of the issuer's country of domicile.

(11) The issuer shall certify, at or before the time of qualification, that all applicable inclusion criteria have been satisfied.

(12) The issuer shall pay the NASDAQ Issuer Quotation Fee, described in Part IV.

(13) The issuer shall file with the Association three copies of all reports required to be filed with the Securities and Exchange Commission. All required reports must be filed with the Association on or before the date they are required to be filed with the Securities and Exchange Commission.

(14) The issuer shall make prompt disclosure to the public in the United States through international wire services or similar disclosure media of any material information that may affect the value of the securities or influence investors' decisions.

(15) The issuer shall comply with any obligation of any person regarding filing or disclosure of information material to the issuer or the security, whether the obligation arises under the securities laws of the United States or the issuer's country of domicile, or other applicable federal or state statutes or rules.

Sec. 3. Suspension or Termination of Inclusion of a Security and Exceptions to Inclusion Criteria ^{1/}

(a) The Association may, pursuant to procedures set forth in the NASD Code of Procedure, apply additional or more stringent criteria for the initial or continued inclusion of a particular security or suspend or terminate the inclusion of an otherwise qualified security if:

(1) an issuer files for protection under any provision of the federal bankruptcy laws;

(2) an issuer's independent accountants issue a disclaimer opinion on financial statements required to be certified; or

(3) the Association deems it necessary to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade or to protect investors and the public interest.

(b) If the Association determines that a security's inclusion shall be suspended or terminated because of its noncompliance with the provisions of Sections (1) or (2) hereof, or by the operation of subsection (3)(a) hereof, the Association shall so notify the issuer prior to suspension or termination or as soon as practicable thereafter.

(c) The Association may request any additional information or documentation, public or nonpublic, deemed necessary to make a determination regarding a security's initial or continued inclusion, including, but not limited to, any material provided to or received from the Securities and Exchange Commission or other appropriate regulatory authority. Information requested pursuant to this paragraph shall be submitted within a reasonable period.

(d) The Association may make exceptions to the application of the criteria contained in Sections (1) or (2) hereof, where it is deemed appropriate.

(e) A security that has been suspended shall be required, prior to re-inclusion, to comply with the requirements for continued inclusion. A security that has been terminated shall be required, prior to re-inclusion, to comply with the requirements for initial inclusion.

(f) Securities issued in connection with the merger or consolidation of at least one issuer of qualifying securities shall be promptly included in the NASDAQ System, provided the conditions of subsections (1)(c) or (2)(e) hereof for securities that have already been included are satisfied.

^{1/} The NASD is currently considering a proposal that would authorize the initiation of trading halts in the over-the-counter market in NASDAQ and listed securities to permit the release and dissemination of material news.

Sec. 4. Use of the NASDAQ System on a Test Basis

Notwithstanding the eligibility standards set forth in Part II of Schedule D, the Association may at any time authorize the use of the NASDAQ System on a test basis for whatever studies it considers necessary.

PART III

DESIGNATION OF NASDAQ NATIONAL MARKET SYSTEM SECURITIES

Sec. 1. Applications for Designation

(a) Application for designation shall be on a form supplied by the Association and signed by a corporate officer of the issuer. Compliance with the designation criteria will be determined on the basis of information filed with the appropriate regulatory authority and the records of the Association as of the application date. The Association may require the issuer to submit such other information as is relevant to a determination of designation as a national market system security.

(b) Designation of a security shall be declared effective within a reasonable time after determination of qualification. The effective date of designation shall be determined by the Association giving due regard to the requirements of the NASDAQ System, the media and market makers. Effectiveness of designation may be delayed upon written request by the issuer. An issuer that has been determined to be qualified but is pending effectiveness shall not be required to meet the designation criteria prior to effectiveness.

(c) The Association may make exceptions to the criteria contained in this Part III where it deems appropriate.

Sec. 2. Quantitative Designation Criteria

In order to be designated, an issue shall be required to substantially meet the criteria set forth in paragraph (a), (b) or (c) below.

Initial public offerings (IPOs) are eligible for immediate inclusion in NASDAQ/NMS upon prior application and with the written consent of the managing underwriter that immediate inclusion is desired. All other qualifying issues, excepting special situations, are included on regularly scheduled phase-in dates.

(a) Alternative 1

(1) The issuer of the security had annual net income of at least \$300,000 in the most recently completed fiscal year or in two of the last three most recently completed fiscal years.

(2) There are at least 350,000 publicly held shares.

(3) The market value of publicly held shares is at least \$2 million.

(4) The price per share on each of the five business days prior to the date of application by the issuer is \$3 or more.

(5) At least two dealers act as NASDAQ market makers with respect to the security on each of the five business days preceding the date of application by the issuer.

(b) Alternative 2

(1) The issuer of the security has capital and surplus of at least \$8 million.

(2) There are at least 800,000 publicly held shares.

(3) The market value of publicly held shares is at least \$8 million.

(4) At least two dealers act as NASDAQ market makers with respect to the security on each of the five business days preceding the date of application by the issuer.

(5) The issuer has a four-year operating history.

(c) Warrants

(1) The warrants substantially meet the above criteria provided, however, that they shall not be required to meet the criteria set forth in paragraph 1(B).

(2) Immediately after the distribution, there are at least 450,000 warrants outstanding.

(d) The computations required by paragraph (a)(1) and (b)(1) shall be taken from the issuer's most recent financial information filed with the Association. The computations required in paragraphs (a)(2), (a)(3), (b)(2) and (b)(3) shall be as of the date of application of the issuer. Determinations of beneficial ownership for purposes of paragraphs (a)(2) and (b)(2) shall be made in accordance with SEC Rule 13d-3. In the case of American Depositary Receipts, the computations required by paragraphs (a)(1) and (b)(1) shall relate to the foreign issuer and not to any depositary or any other person deemed to be an issuer for purposes of Form S-12 under the Securities Act of 1933.

Sec. 3. Registration Standards

In addition to meeting the quantitative criteria for NASDAQ/NMS inclusion, the issue must also be:

(a) registered under Section 12(g)(1) of the Securities Exchange Act of 1934 (Act); or

(b) issued by an insurance company meeting the conditions of Section 12(g)(2)(G) of the Act; or

(c) registered under the Securities Act of 1933 and issued by a closed-end investment management company registered under Section 8 of the Investment Company Act of 1940; or

(d) an American Depositary Receipt issued against the equity security of a foreign issuer if such equity security is registered pursuant to Section 12 of the Act; or

(e) registered under Section 12(b) of the Act and listed on a national securities exchange, or admitted to unlisted trading privileges on an exchange, provided that:

(1) no rule, stated policy or practice of such exchange shall prohibit or condition, or be construed to prohibit or condition, or otherwise limit, directly or indirectly, the ability of any member to effect any transaction in such security otherwise than on such exchange; and

(2) such exchange shall permit NASDAQ market makers telephone access to exchange trading facilities with respect to transactions in NMS securities to the same extent that exchange market makers are permitted access to NASDAQ market makers; and

(3) transaction reports in such security are not collected, processed and made available pursuant to the plan submitted to the Securities and Exchange Commission pursuant to Rule 11Aa3-1 under the Securities Exchange Act of 1934, as amended, (the "CTA Plan") which was declared effective as of May 17, 1974.

(f) Foreign securities and American Depositary Receipts where either the issuer is required to file reports pursuant to Section 15(d) of the Act or the security is exempt from registration under Section 12(g) of the Act by reason of the applicability of Rule 12g3-2(b) are not eligible for designation in NASDAQ/NMS.

Sec. 4. Quantitative Maintenance Criteria

After designation as a NASDAQ National Market System security, a security must substantially meet the criteria set forth below to continue to be designated as a national market system security. Failure to meet any of the maintenance criteria may result in the termination of an issue's designation in NASDAQ/NMS upon notice by the Association.

(a) Common Stock, Preferred Stock, Shares or Certificates of Beneficial Interest of Trusts and Limited Partnership Interests in Foreign or Domestic Issues

(1) 200,000 shares publicly held.

(2) Market value of publicly held shares of \$2 million.

(3) Either annual net income of \$200,000 for the previous fiscal year or in two of the last three fiscal years or net worth of at least \$1 million.

(b) Rights and Warrants — Common stock of the issuer must continue to be designated.

(c) Market Makers — At least two authorized NASDAQ market makers.

(d) Bankruptcy and/or Liquidation

Should an issuer file under any of the sections of the Bankruptcy Act or announce that liquidation has been authorized by its board of directors and that it is committed to proceed, its securities shall not remain designated unless it is determined that the public interest and the protection of investors would be served by continued designation.

(e) Termination Procedure

(1) An issuer that is subject to termination of its designation may request a review by a Committee of the NASD Board of Governors. If a review is requested, the issuer is entitled to submit materials and arguments in connection with such review.

(2) The Committee may grant or deny continued designation on the basis of the written submission by the issuer and whatever other data it deems relevant.

(3) Determinations by the Committee may be appealed to the NASD Board of Governors by any aggrieved person. An appeal to the Board shall not operate as a stay of the decision of the Committee.

Sec. 5. Non-Quantitative Designation Criteria

(This section is identical to the language in a proposed rule on corporate governance currently pending approval by the SEC.)

PART IV

NASDAQ ISSUER QUOTATION FEES

No change.

PART V

**PUBLICATION AND DISSEMINATION OF QUOTATIONS
TO THE NEWS MEDIA**

No change.

PART VI

REQUIREMENTS APPLICABLE TO NASDAQ MARKET MAKERS

Sec. 1. Registration as a NASDAQ Market Maker

(a) Quotations and quotation sizes may be entered into the NASDAQ System only by an NASD member registered as a NASDAQ market maker or other entity approved by the Association to function in a market-making capacity.

(b) An NASD member seeking registration as a NASDAQ market maker shall file an application with the Association. The application shall certify the member's good standing with the Association and shall demonstrate compliance with the net capital and other financial responsibility provisions of the Securities Exchange Act of 1934. A member's registration as a NASDAQ market maker shall become effective upon receipt by the member of the notice of approval of registration from the Association.

(c) A NASDAQ market maker may become registered in a newly authorized issue by contacting NASDAQ Operations-Members. If registration is requested within five business days after the issue is authorized, and the requirements of paragraph (b) above are satisfied, registration shall become effective at the time the registration request is entered.

(d) A NASDAQ market maker may become registered in an issue already included in the NASDAQ System by entering a registration request via a NASDAQ terminal. If registration is requested in an issue included in NASDAQ for more than five days, and the requirements of paragraph (b) above are satisfied, registration shall become effective at the opening of the NASDAQ System on the second business day after the registration request is entered.

(e) A NASDAQ market maker's registration in an issue shall be terminated by the Association should the market maker fail to enter quotations in the issue within five business days after the market maker's registration in the issue becomes effective.

Sec. 2. Character of Quotations

(a) Two-Sided Quotations. For each security in which a member is registered as a market maker, the member shall be willing to buy and sell such security for its own account on a continuous basis and shall enter and maintain two-sided quotations in the NASDAQ System, subject to the procedures for excused withdrawal set forth in Section 7 below.

(b) Firm Quotations. A market maker that receives an offer to buy or sell from another member of the Association shall execute a transaction for at least a normal unit of trading at its displayed quotations as disseminated through the NASDAQ System at the time of receipt of any such offer. If a market maker displays a quotation for a size greater than a normal unit of trading, it shall, upon receipt of an offer to buy or sell from another member of the Association, execute a transaction at least at the size displayed.

(c) Quotations Reasonably Related to the Market. A market maker shall enter and maintain quotations that are reasonably related to the prevailing market. Should it appear that a market maker's quotations are no longer reasonably related to the prevailing market, the Association may require the market maker to re-enter its quotations. If a market maker whose quotations are no longer reasonably related to the prevailing market fails to re-enter its quotations, the Association may suspend the market maker's quotations in one or all securities.

(1) In the event that a market maker's ability to enter or update quotations is impaired, the market maker shall immediately contact NASDAQ Operations-Members to request the withdrawal of its quotations.

(2) In the event that a market maker's ability to enter or update quotations is impaired and the market maker elects to remain in the NASDAQ System, the market maker shall execute an offer to buy or sell received from another member of the Association at its quotations as disseminated through the NASDAQ System.

(d) Excess Spreads. A market maker shall not enter quotations into the NASDAQ System that exceed the parameters for maximum allowable spreads as may be published from time to time by the Association. ^{2/}

^{2/} The following are the current maximum allowable spreads approved by the NASD Board of Governors.

MAXIMUM ALLOWABLE SPREADS

<u>Average Spread</u>	<u>Maximum Allowable Spread</u>
1/8 or less	1/4
1/4	1/2
3/8	3/4
1/2	1
5/8	1
3/4	1 1/2
7/8	1 1/2
1	1 1/2
1 1/8	1 5/8
1 1/4	1 3/4
1 3/8	1 7/8
1 1/2	2
1 5/8	2
1 3/4	3
1 7/8	3
2	3
2 1/8	3
2 1/4	3
2 3/8	3
2 1/2	3
2 5/8	4
2 3/4	4
2 7/8	4

For an average spread of 3 or more, the maximum allowable spread is 125 percent of the average spread rounded to the next highest whole number.

(e) Locked and Crossed Markets. A market maker shall not, except under extraordinary circumstances, enter or maintain quotations in the NASDAQ System during normal business hours if:

(1) the bid quotation entered is equal to or greater than the asked quotation of another market maker entering quotations in the same security; or

(2) the asked quotation is equal to or less than the bid quotation of another market maker entering quotations in the same security.

A market maker shall, prior to entering a quotation that locks or crosses another quotation, make reasonable efforts to avoid such locked or crossed market by executing transactions with all market makers whose quotations would be locked or crossed.

Sec. 3. Stabilizing Bids

(a) Eligibility. A market maker may enter a stabilizing bid in the NASDAQ System, which will be identified with the appropriate identifier on the NASDAQ quotation display. Only one market maker in an issue may enter a stabilizing bid. A stabilizing bid will not be displayed unless one market maker, in addition to the market maker entering the stabilizing bid, is registered in the issue and enters quotations.

(b) Character. A stabilizing bid, a pre-effective stabilizing bid and a penalty bid may be entered into the NASDAQ System. A stabilizing bid must be available for all freely tradeable outstanding securities of the same class being offered.

(c) Notice to Association

(1) A market maker that wishes to enter a stabilizing bid shall so notify NASDAQ Operations-Members in writing prior to the first day on which the stabilizing bid is to appear in the NASDAQ System. The notice shall include (i) the name of the security and its NASDAQ symbol; (ii) the date on which the registration will become effective, if the security is already included in NASDAQ; (iii) whether the stabilizing bid will be a penalty bid or a penalty-free bid; and (iv) a copy of the preliminary prospectus or shelf registration statement, unless the Association determines otherwise.

(2) In the case of a pre-effective stabilizing bid, the notice shall include (i) the name of the security and its NASDAQ symbol; (ii) the contemplated effective date of the offering; (iii) whether it is contemplated that the pre-effective stabilizing bid will be converted to a stabilizing bid and, if so, whether the stabilizing bid will be a penalty bid or a penalty-free bid; and (iv) a copy of the preliminary prospectus, unless the Association determines otherwise.

(3) A market maker that has provided the written notice prescribed above shall also contact NASDAQ Operations-Members for authorization on the day the market maker wishes to enter the stabilizing bid.

(d) Dual Bids in the Same Issue. A market maker shall not enter a stabilizing bid at the same time that it is quoting any other bid or offer in the issue.

(e) Volume Reporting for Stabilizing Bids. A market maker entering a stabilizing bid shall report all purchases made on the stabilizing bid and enter "zero volume" for sales during the period in which the stabilizing bid is in effect.

Sec. 4. Reports

(a) Daily. A market maker shall report to the NASDAQ System each business day no later than 5 p.m. Eastern Time its total daily volume (purchases and sales) relating to NASDAQ securities in which it is a market maker. If the market maker has not executed transactions in a security in which it is registered as a market maker, it shall report "zero volume."

Daily volume reports shall be entered via a NASDAQ terminal. In cases of equipment malfunction or failure, volume reports shall be telephoned to NASDAQ Operations-Members.

A market maker shall also report to the NASDAQ System each business day all other data relating to securities quoted in the NASDAQ System, as the Association shall require.

(b) Monthly. A market maker shall report monthly to the NASDAQ System such data on securities quoted in the NASDAQ System, as the Association shall require.

(c) Other. A market maker shall make such other reports to the Association as may be prescribed from time to time by the Association.

Sec. 5. Normal Business Hours

A NASDAQ market maker shall be open for business as of 9:30 a.m. Eastern Time and shall close no earlier than 4 p.m. Eastern Time. Should a market maker wish to remain open for business later than 4 p.m. Eastern Time, it shall so notify NASDAQ Operations-Members via a NASDAQ terminal and shall close only on the hour or the half hour, but no later than 6:30 p.m. Eastern Time.

Sec. 6. Clearance and Settlement

(a) A market maker shall clear and settle transactions in NASDAQ securities through the facilities of a registered clearing agency where clearing facilities are located within 25 miles of the market maker.

(b) Notwithstanding its proximity to a particular clearing facility, a market maker may also clear and settle transactions through any registered clearing facility using a continuous net settlement system; enter into a correspondent clearing arrangement with a member that clears through a continuous net settlement clearing facility; settle transactions "ex-clearing" provided that both parties to the transaction agree; or use direct clearing services.

Sec. 7. Withdrawal of Quotations

(a) A market maker that wishes to withdraw quotations in a security shall contact NASDAQ Operations-Members to obtain excused withdrawal status prior to withdrawing its quotations.

(b) Excused withdrawal status based on illness, vacations or physical circumstances beyond the market maker's control may be granted for up to five business days, unless extended by NASDAQ Operations-Members. Excused withdrawal status based on investment banking activity or the advice of legal counsel, accompanied by a representation that the condition necessitating the withdrawal of quotations is not permanent in nature, may be granted for not more than 60 days. The withdrawal of quotations because of pending news, a sudden influx of orders or price changes, or to effect transactions with competitors shall not normally constitute acceptable reasons for granting excused withdrawal status.

Sec. 8. Voluntary Termination of Registration

A market maker may voluntarily terminate its registration in a security by withdrawing its quotations from the NASDAQ System. A market maker that voluntarily terminates its registration in a security may not re-register as a market maker in that security for two business days.

Sec. 9. Suspension and Termination of Quotations By Association Action

The Association may, pursuant to the procedures set forth in the NASD Code of Procedure, suspend, condition, limit, prohibit or terminate a market maker's authority to enter quotations in one or more authorized securities for violations of the applicable requirements or prohibitions contained in this Schedule.

Sec. 10. Termination of NASDAQ Service

The Association may, upon notice, terminate NASDAQ service in the event that a market maker fails to qualify under specified standards of eligibility or fails to pay promptly for services rendered by the NASDAQ System.

PART VII

CONSOLIDATED QUOTATIONS SERVICE (CQS)

Sec. 1. Registration as a CQS Market Maker

(a) Quotations and quotation sizes in reported securities may be entered into the Consolidated Quotations Service (CQS) through the NASDAQ System only by an NASD member registered with the Association as a CQS market maker.

(b) An NASD member seeking registration as a CQS market maker shall file an application with the Association. The application shall certify the member's good standing with the Association and shall demonstrate compliance with the net capital and other financial responsibility provisions of the Securities

Exchange Act of 1934. A member's registration as a CQS market maker shall become effective upon receipt by the member of the notice of approval of registration from the Association.

(c) A CQS market maker may become registered in a reported security by entering a registration request via a NASDAQ terminal. Registration shall become effective at the time the registration request is entered.

(d) An NASD member that becomes registered as a CQS market maker in an issue shall enter quotations in the issue on the effective date of the issue's authorization. If quotations are not entered on the effective date of authorization and the CQS market maker remains inactive in the issue for five business days, the CQS market maker's registration in the issue will be terminated.

Sec. 2. Obligations of CQS Market Makers

Pursuant to SEC Rule 11Ac1-1, a CQS market maker's quotations in reported securities are required to be firm for the size displayed or, if no size is displayed, for a normal unit of trading. If a market maker displays quotations in both CQS and the NASDAQ System, the market maker shall maintain identical quotations in each service.

Sec. 3. Normal Business Hours

A CQS market maker shall be open for business as of 9:30 a.m. Eastern Time and shall close no earlier than 4 p.m. Eastern Time. A CQS market maker shall designate a closing time for each security between 4 p.m. and 6:30 p.m. Eastern Time. A designated closing time may be set only on the hour or half hour. A CQS market maker whose market is closed may re-open its market as late as 6:30 p.m. Eastern Time upon appropriate notification to the Association.

Sec. 4. Withdrawal of Quotations

(a) A CQS market maker that wishes to withdraw quotations in a reported security shall contact NASDAQ Operations-Members to obtain excused withdrawal status prior to withdrawing its quotations.

(b) Excused withdrawal status based on illness, vacations or physical circumstances beyond the CQS market maker's control may be granted for up to five business days, unless extended by NASDAQ Operations-Members. Excused withdrawal status based on investment banking activity or advice of legal counsel, accompanied by a representation that the condition necessitating the withdrawal of quotations is not permanent in nature, may be granted for not more than 60 days. The withdrawal of quotations because of pending news, a sudden influx of orders or price changes, or to effect transactions with competitors shall not normally constitute acceptable reasons for granting excused withdrawal status.

Sec. 5. Voluntary Termination of Registration

A CQS market maker may voluntarily terminate its registration in an reported security by withdrawing its quotations from the NASDAQ System. A CQS market maker that voluntarily terminates its registration in a reported security may not, however, re-register as a CQS market maker in that security for two days.

Sec. 6. Suspension and Termination of Quotations by Association Action

The Association may, pursuant to the procedures set forth in the NASD Code of Procedure, suspend, condition, limit, prohibit or terminate a CQS market maker's authority to enter quotations in a reported security for violations of the applicable requirements or prohibitions of this Schedule.

PARTS VIII - XIII

No change.

Schedule D Introduction

This schedule has been prepared pursuant to Article VII, Section 1(a)(6) of the Corporation's By-Laws and is applicable to the nationwide automated quotations system, which is operated under the direction and control of the Corporation, known as the NASDAQ System, and also is applied to the publication in newspapers or other media of quotations in NASDAQ securities and over-the-counter quotations for securities not in NASDAQ. The operating agreement provides the Corporation's proprietary rights in the quotations handled by the System, and retains for the Corporation the power to decide who may obtain access to System services and data, what securities may be quoted on the System, and the charges to be collected by the operator for System services and data.

This schedule contains (a) the qualifications for registered market makers and other subscribers for System services; (b) the standards for authorized securities; (c) the schedule of charges for System services; (d) the procedures for hearing and disposition of grievances and complaints arising out of the administration and operation of the NASDAQ System; and (e) the standards governing the publication of quotations in newspapers for national and local quotations lists of NASDAQ and other over-the-counter issues.

I

QUALIFICATIONS OF USERS OF SERVICES

A. Level 1 Service

1. *Nature of Service.* This service will provide the subscriber with the highest bid and the lowest ask quotation for each authorized security for which a minimum of two registered market makers are entering quotations during the day. Provided, however, that in the case of a locked or crossed market, only the highest bid will be displayed.

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

B. Level 2 Service

1. *Nature of Service.* This service will provide the subscriber with access to the bid/ask quotations and quotation sizes of all of the registered market makers entering quotes on each of the authorized securities.

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

[Section B. 1. amended effective June 16, 1981.]

C. Level 3 Service

1. *Nature of Service.* This service will enable the registered market maker to enter bid/ask quotations and quotation sizes into the System only on the securities as to which the Corporation has authorized it to enter quotes. Subscribers to Level 3 service shall also receive Level 2 service.

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

3. Continuing Qualifications.

a) Character of quotations entered into the System.

i) A registered market maker which receives a buy or sell order must execute a trade for at least a normal unit of trading at his quotations as they appear on NASDAQ CRT screens at the time of receipt of any such buy or sell order. If a registered market maker displays a quotation which indicates that it is for a size greater than a normal unit of trading, he must execute a buy or sell order up to the size displayed.

ii) Each quotation entered or maintained by a registered market maker must be reasonably related to the prevailing market. Should it appear to the Corporation that a market maker's quotations are no longer reasonably related to the prevailing market, the Corporation may require the market maker to re-enter its quotations.

iii) *Locked and crossed markets.* A registered market maker shall not be permitted, except under extraordinary circumstances, to enter quotations into the NASDAQ System during normal business hours if (1) the bid quotation entered is equal to or greater than the ask quotation of another registered market maker entering quotations in the same security or (2) the ask quotation is equal to or less than the bid quotation of another registered market maker in the same security. A market maker has an obligation, prior to entering a quotation which locks or crosses another quotation, to make reasonable efforts to avoid such locked or crossed market by executing transactions with all market makers whose quotations would be locked or crossed. [Redesignated subparagraph (a) May 17, 1976; amended effective May 19, 1982; June 2, 1982.]

b) Stabilizing Bids in the System.

i) *Eligibility.*—Stabilizing bids may be entered by a registered market maker for display on Level 2 or Level 3 terminals. Only one market maker in an issue may appear on the System as the stabilizing market maker. Stabilizing bids will not be displayed unless one market maker in addition to the market maker entering the stabilization bid is registered in the issue.

ii) *Character*—The stabilizing bid may not be qualified by legend or delivery restrictions. A penalty stipulation may accompany the stabilizing bid provided the penalty stipulation is applicable to selling concessions only.

iii) *Notice to Corporation*—A market maker which desires to be designated as stabilizing underwriter must notify the Corporation by 5:00 P. M. E. T. on the business day prior to the day when the stabilized bid is to appear on the System.

iv) *Dual bids in the same issue*—A market maker shall not be permitted to register as a stabilizing market maker at the same time he is quoting a regular two-sided market in the issue. Therefore a market maker which desires to enter the stabilizing bid must withdraw its regular quotation from the System no later than 5:00 P.M. on the business day prior to his desired display of the stabilizing bid on the System.

v) *Volume Reporting*—The market maker entering a stabilizing bid is required to report all purchases made on the stabilized bid in the stabilized issue and to enter "0" (zero) volume for sales during the period in which such bid is in effect. If the stabilized bid is withdrawn during the day volume should be reported in the usual manner.

[Section C. 1. amended effective June 16, 1981; Section C. 3. b amended effective October 1, 1971; May 1, 1973 and August 1, 1973; redesignated subparagraph (b) May 17, 1976; amended effective March 21, 1977; amended effective June 16, 1981.]

c) *Reports.*

i) *Daily*—The registered market maker shall report to the System each business day its daily volume reports relating to securities in which it is a registered market maker in the System or in which it is a market maker entering a stabilizing bid in the manner and method the Association prescribes. The registered market maker shall also report to the System each business day all other data relating to securities quoted in the System as the Association shall require.

ii) *Monthly.* A registered market maker shall report monthly to the System such data on securities quoted in the System as the Board of Governors shall require.

[Subparagraph (d)(i) amended effective March 14, 1972; October 1, 1972 and August 1, 1973; redesignated subparagraph (c) May 17, 1976.]

d) *Normal business hours.* The registered market maker shall keep the Corporation advised as to the normal business hours (Eastern time) during which it shall enter quotes. All firms shall be open and active as of 9:30 a.m. Eastern time and no market maker shall close sooner than 4:00 p.m. Eastern time. Firms may close their hours of trading only on either the hour or the half hour. The System shall publish a "closed symbol" for the registered market maker on Level 2 and 3 terminals

when the System is operating outside such normal business hours. However, the registered market maker will be able to enter quotes outside such normal business hours, providing the System is operating, by appropriate notification to the operator of the NASDAQ System of the desire to enter quotes.

[Subparagraph (e) amended effective October 1, 1974; redesignated subparagraph (d) May 17, 1976; amended effective October 9, 1985.]

e) *Clearance and Settlement*—A registered market maker located in an area where clearing facilities are available (as determined by the Board of Governors) shall clear and settle transactions in all NASDAQ securities through the facilities of a registered clearing agency. Transactions may, however, be settled "ex-clearing" upon agreement of both parties to the transaction.

• • • *Explanation of the Board of Governors*

The Board of Governors has determined that, for purposes of this rule, clearing facilities are available if located within 25 miles of a market maker. Notwithstanding its proximity to a particular clearing facility, a market maker may clear its transactions through any registered clearing facility with continuous net settlement; enter into a correspondent clearing arrangement with a member which clears through a continuous net settlement clearing facility; or use direct mail settlement.

[Subparagraph (e) added effective April, 1982.]

4. *Initiating Service.*

a) If accepted for registration, and the market maker's terminal is timely installed, the market maker's registration shall be effective at the start of business on the second business day following receipt of his application by the Corporation. Otherwise the market maker's registration shall be effective at the start of business on the second business day following installation of the terminal.

b) A member participating in an underwriting syndicate may apply for registration as a market maker in the security prior to the close of the syndicate provided that its authorization to enter quotes thereon will not become effective until the security is authorized for quotation by the Corporation and the member is free to quote under applicable rules and regulations, and under the terms of the syndicate agreement.

c) A member who is not participating in an underwriting syndicate but who intends to make a market in the security being marketed by the syndicate as soon as it is free to be traded in the open market may apply for registration as a market maker in the security prior to the time the security may be publicly offered, provided that its authorization to enter quotes thereon will not become effective until the security is authorized for quotation by the Corporation and the member is free to quote under applicable rules and regulations.

A market maker's initial registration in a security not previously authorized may become immediately effective if a request for registration is received by the Corporation within five business days of authorization of the security.

5. *Withdrawal Procedure.*

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

b) A market maker who withdraws and then re-enters quotations during the day may do so only with the prior approval of the Corporation.

c) A market maker whose quotation in an issue is withdrawn without the approval of the Corporation at the time the NASDAQ System closes for the day shall cause his registration in such issue to be terminated subject, however, to the re-registration procedure set forth in paragraph 5 d) below.

d) The market maker may by making application to the Corporation under the procedures and requirements set forth in Schedule D re-register as a market maker in any security in which his registration is terminated pursuant to paragraph 5 c) above.

6. *Voluntary Termination.* A registered market maker may voluntarily terminate its registration as to a given security by withdrawing its quotations from the System.

7. *Suspension and Termination of Quotations by Action of the Corporation.*

The Corporation may, pursuant to the procedures set out in the Code of Procedure, suspend, condition, limit, prohibit, or terminate the registered market maker's authority to enter quotes on one or more authorized securities for violations of the applicable standards of this Schedule "D".

[Subparagraph C amended effective November 20, 1972; May 17, 1976; December 22, 1980.]

D. *Termination of Service and Failure to Promptly Pay Fines Assessed by the Trading Committee.*

1. The Corporation, upon notice, may terminate service on any level for failure of the subscriber (1) to qualify under the standards of availability specified above for such service or (2) to pay the System operator for services rendered.

2. Any member which is a respondent in a complaint of the Trading Committee pursuant to this Schedule is required to promptly pay any fine or cost imposed by the Trading Committee to the Treasurer of the Corporation. In the event that the respondent fails to do so the Trading Committee may, after ten (10) business days notice in writing to such respondent, suspend his authority to enter

quotes into or receive quotes from Levels 2 and 3 of the NASDAQ System. Or, the Committee may impose any other fitting penalties authorized by Part VII of this Schedule pursuant to the complaint procedures authorized therein.

[Subparagraph D amended effective August 1, 1973.]

II

QUALIFICATIONS FOR AUTHORIZED SECURITIES

A. Introduction

Paragraphs B.1 and C.1 define an eligible pool of securities which may be authorized for NASDAQ. Generally, this pool contains any security which is registered under the Exchange Act.* This means securities listed on national securities exchanges and a variety of over-the-counter stocks, warrants, rights and convertibles (which the Act defines as "equity" securities), and bank securities (registered not with the SEC but with the Federal Reserve System, FDIC, or the Comptroller). Beyond these registered securities, also included in the pool are certain insurance company and investment company securities, plus foreign securities and ADRs where specified information is available in the United States. And, finally, under paragraph B.2, a new domestic issue may go into the pool immediately upon its registration being declared effective by the Securities and Exchange Commission, in which case it shall be eligible to be an authorized security on the same day that its registration is declared effective.

Securities from the eligible pool will be authorized if certain other criteria—set out in paragraphs B.3 or C.3 of the Rules—are met. Generally, there will have to be at least two market makers for domestic securities or three market makers for foreign securities and American Depositary Receipts, public distribution of at least 100,000 shares, a minimum capital and surplus of \$1,000,000, and compliance with certain disclosure standards. In the case of foreign securities, the number of shares publicly held in the United States is generally not available. Therefore, foreign securities or American Depositary Receipts, providing they satisfy those standards set forth in Section C, will first receive a provisional authorization for a period of 90 calendar days. If the average daily volume reported by market makers during the 90-day provisional period is less than 500 shares per day, the authorization will be suspended. A foreign security or American Depositary Receipt so suspended will not be reconsidered for authorization for at least 90 days following the suspension. For suspension of authorization the same disclosure and public distribution criteria as for initial authorization apply, plus \$750,000-assets, and \$375,000-capital-and-surplus tests. Depending on the circumstances of each case the Corporation may make exceptions from these criteria or apply additional or more stringent criteria.

* The Exchange Act requires registration if an "equity" security has 500 or more holders of record and the issuer's total assets exceed \$1,000,000. However, an issuer may voluntarily register under the Exchange Act even though it does not meet these requirements. For a security to be eligible to be an authorized security, it must register with the SEC under the Exchange Act and must have 300 or more holders of record and the issuer's total assets must exceed \$2,000,000.

In the main the Rules can be administered on the basis of reports already filed publicly by the issuers. Hence, whenever it shall appear to the Corporation that a security is eligible to be an authorized security under paragraphs B.1, B.2 or C.1, and that none of the conditions of paragraphs B.3 or C.2 applies, the Corporation will simply declare that the security is an authorized security.

[Subparagraph A amended effective June 1, 1974 and December 17, 1974; May 17, 1976.]

B. Rules for Authorized Domestic Securities*

1. A security shall be eligible to be an authorized security if it is:
a. registered under section 12(g)(1) of the Securities Exchange Act,

b. registered on a national securities exchange in accordance with the requirements of Section 12(b) of the Securities Exchange Act.

c. issued by an insurance company meeting the conditions of section 12(g)(2)(G) of the Securities Exchange Act,

d. issued by an investment company registered under the Investment Company Act of 1940, provided that the issuer or underwriter of, or any dealer in, the security is not currently engaged in a distribution of such security which subjects such issuer, underwriter, or dealer to the provisions of Section 22(d) of that Act, and provided further that transactions in such shares, other than redemptions or repurchases by or on behalf of the issuer, are exempted from or not subject to Rule 22c-1 adopted under the Act.

[Section B. 1. d. amended effective May 17, 1976.]

2.a. A new issue shall be eligible to be an authorized security on the day that its registration statement is effective with the Securities and Exchange Commission provided that, as a result of the offering, all applicable criteria contained in paragraph 3 below are met. An authorization under this paragraph 2.a. shall automatically terminate 120 days after the last day of the issuer's fiscal year during which the registration statement became effective.

[Section B. 2. amended effective August 1, 1973, September 11, 1981.]

b. A new issue for which a registration statement is not required to be filed with the Securities and Exchange Commission under Section 3(a) of the Securities Act of 1933 shall be eligible to be an authorized security upon effectiveness of its registration statement or equivalent document filed with the appropriate regulatory authority provided that, as a result of the offering, all applicable criteria contained in paragraph 3, below are met. An authorization under this paragraph 2.b. shall automatically terminate 120 days after the effective date of the offering.

[B.2.b. adopted September 11, 1981.]

* For purposes of this Section, securities of foreign issuers or American Depositary Receipts or similar securities issued in respect of securities of foreign issuers registered under section 12(g) of the Securities Exchange Act of 1934 shall be considered "domestic" securities.

3. An eligible security shall not be authorized, and an authorized security shall be subject to suspension or termination of authorization, if:

a. it shall have been suspended from being traded over-the-counter by the Securities and Exchange Commission pursuant to section 12(k) of the Securities Exchange Act;

b. there shall have been a failure by the issuer promptly to disclose to the public through the press any material information which may affect the value of its securities or influence investors' decisions;

c. there shall have been a failure to file with the Corporation three copies of the issuer's annual and quarterly reports required to be filed with the Securities and Exchange Commission. An issuer which is not required to file an annual or quarterly report with the Securities and Exchange Commission must file with the Corporation three copies of its annual and quarterly reports required to be filed with the appropriate regulatory authority. Such reports shall be filed with the Corporation on the date they are required to be filed with the Securities and Exchange Commission or the appropriate regulatory authority.

[Section B. 3. c. added effective December 17, 1974; amended December 29, 1977; amended effective December 23, 1985.]

d. there shall have been a failure by the issuer to certify, at the time of authorization, that it is in compliance with all criteria for authorization.

[Section B. 3. d. added effective December 17, 1974.]

e. there shall have been a failure to comply with any obligation of any person regarding filing or disclosure of information material to the issuer or the security, whether the obligation arises under a federal or state statute or rule and the Corporation shall determine that the public interest requires suspension;

f. there shall have been a failure by the issuer to pay the NASDAQ Issuer Quotation Fee as specified in Part V hereof;

[Section B. 3. f. added effective June 1, 1974.]

g. in the case of a security not yet authorized, there shall be fewer than two market makers registered, one of which may be a market maker entering a stabilizing bid; in the case of an authorized security there shall be fewer than one market maker registered.

[Section B. 3. g. amended effective August 1, 1973; May 17, 1976.]

h. In a case of stock, the total number of shares publicly held shall be less than 100,000 (shares held directly or indirectly by any officer or director of the issuer and by any person who is the beneficial owner of more than 10% of the class shall ordinarily not be considered as being publicly held); in the case of rights or warrants, the total number of rights or warrants issued shall be less than 100,000 and in the case of American Depositary Receipts, the number of American Depositary Receipts registered with the Securities and Exchange Commission shall be less than 100,000. Provided, however, that the number of rights, warrants

or American Depositary Receipts shall be considered only in conjunction with initial authorization;
[Section B. 3. h. amended effective August 28, 1981; amended effective February 28, 1985.]

i. the principal amount outstanding shall be less than \$10,000,000 in the case of a convertible debt security eligible but not yet authorized or \$5,000,000 in the case of an authorized convertible debt security;

[Section B. 3. i. amended effective August 1, 1973.]

j. the issuer's total assets shall be less than \$2,000,000 in the case of an eligible security not yet authorized or \$750,000 in the case of an authorized security.

[Section B. 3. j. amended effective December 17, 1974 and August 24, 1981.]

k. the issuer's total capital and surplus shall be less than \$1,000,000 in the case of an eligible security not yet authorized or \$375,000 in the case of an authorized security.

[Section B. 3. k. amended effective August 24, 1981.]

l. the number of persons holding the security shall total less than 300 except in the case of rights, warrants or units. An account of a member of the Corporation which is beneficially owned by a customer (as defined in Article II, Section 1(f) of the Rules of Fair Practice) shall be included as a holder of such security upon appropriate verification by the member.

m. in the case of rights or warrants, the underlying security is not an authorized security or listed on a registered national securities exchange or

[Section B. 3. m. amended as of July 7, 1971, December 17, 1974 and August 28, 1981.]

n. in the case of units not yet authorized, one of the component parts of the unit fails to comply with the requirements for eligible securities not yet authorized; in the case of units already authorized, one of the component parts of the unit fails to comply with the requirements for authorized securities.

[Section B. 3. n. amended December 17, 1974 and August 28, 1981.]

C. Rules for Authorized Foreign Securities and American Depositary Receipts

1. A security shall be eligible to be an authorized security if it is:

a. issued by a foreign issuer where either the issuer is required to file reports pursuant to section 15(d) of the Securities Exchange Act or the security is exempt from registration under section 12(g) of that Act by reason of the applicability of rule 12g3-2(b) promulgated by the Securities and Exchange Commission, or

b. an American Depositary Receipt or similar security issued in respect of a security authorized under subdivision (a) of this paragraph 1.

2. Notwithstanding a security's exemption from registration pursuant to Rule 12g3-2(b), a security of a foreign issuer (or an ADR or similar security issued with respect thereto) shall not be eligible to be an authorized security:

a. if the issuer of such security, and in the case of ADR's the issuer of the security underlying the ADR, does not timely make available to its shareholders *one copy*, and, upon application for authorization and annually thereafter, the Corporation does not receive *three copies* of a balance sheet and statement of operations independently certified (or the equivalent) in accordance with the generally accepted accounting practices of the issuer's country of domicile; or

b. if the principal marketplace of the issuer's securities does not coordinate regulatory activities with the Corporation sufficiently to assure a fair and orderly market in the security and protection of investors and the public interest.

3. An eligible security shall not be authorized, and an authorized security shall be subject to suspension or termination of authorization, if:

a. at any time there is a failure to comply with the eligibility standards set forth in paragraphs 1 and 2 above;

b. it shall have been suspended from being traded over-the-counter by the Securities and Exchange Commission pursuant to Section 12(k) of the Securities Exchange Act and the Corporation shall determine that the public interest requires suspension or termination of authorization as an authorized security;

c. there shall have been a failure by the issuer promptly to disclose to the public by attempts to disseminate in the United States through international wire services or similar disclosure media any material information which may affect the value of its securities or influence investors' decisions;

d. there shall have been a failure to comply with any obligation of any person regarding filing or disclosure of information material to the issuer or the security, whether the obligation arises under a federal or state statute or rule and the Corporation shall determine that the public interest requires suspension;

e. there shall have been a failure by the issuer to pay the NASDAQ Issuer Quotation Fee as specified in Part V hereof;

f. in the case of a security not yet authorized, there shall be fewer than three market makers registered; in the case of an authorized security there shall be fewer than one market maker registered;

g. in the case of an authorized security, the average daily volume reported by market makers during the first 90 calendar days after authorization is less than 500 shares per day;

h. the principal amount outstanding shall be less than \$1,000,000 in the case of a convertible debt security eligible but not authorized or \$5,000,000 in the case of an authorized convertible debt security;

i. the issuer's total assets shall be less than \$2,000,000 in the case of an eligible security not yet authorized or \$750,000 in the case of an authorized security;

j. the issuer's total capital and surplus shall be less than \$1,000,000 in the case of an eligible security not yet authorized or \$375,000 in the case of an authorized security;

k. in the case of rights or warrants, the underlying security is not an authorized security.

[Section C. 2 amended effective January 27, 1983; Section C. 3 added effective January 27, 1983; amended effective December 23, 1985.]

• • • **Selected NASD Notices to Members**

83-19 Approval of Revisions to Qualification Requirements of Foreign Issues on NASDAQ
(April 27, 1983)

D. Suspension or Termination of Authorization of a Security and Exceptions to Authorization Criteria

1. a. In particular instances where the Corporation finds it appropriate to prevent fraudulent and manipulative acts and practices; to promote just and equitable principles of trade; or to protect investors or the public interest: (i) the Corporation may suspend or terminate the authorization of an otherwise authorized security or (ii) the Corporation may apply additional or more stringent criteria for the authorization of particular securities.

1. b. A finding or findings, as proscribed in (1)(a), above, shall be made by the Corporation prior to the suspension or termination of an otherwise authorized security, or the application of more stringent criteria.

2. Should the Corporation determine that the authorization of a security shall be suspended or terminated because of its noncompliance with the provisions of Sections B or C, or by the operation of paragraph D.1., it shall so notify the issuer prior to suspension or termination or as soon as practicable thereafter.

3. The Corporation may make exceptions to the application of the criteria contained in Sections B or C where it deems it appropriate.

4. A security which has been suspended shall be required, prior to reinclusion, to comply with the requirements for securities already authorized. A security which has been terminated shall be required, prior to reinclusion, to comply with the requirements of a security which has never been authorized.

5. In the case of any merger or consolidation involving at least one issuer of authorized securities, the securities issued to carry out the merger or consolidation may be promptly authorized if the conditions of paragraphs B.3 or C.2 for securities which have already been authorized shall have been met.

• • • **Selected NASD Notice to Members**

85-20 Solicitation of Comments on Proposed Corporate Governance Requirements for NASDAQ National Market System Companies
(March 28, 1985)

85-48 Qualification and Registration Requirements of Schedule C of the By-Laws
(July 17, 1985)

85-49 Solicitation of Comments on Shareholder Voting Rights for NASDAQ National Market System Companies
(July 19, 1985)

85-72 Trade Reporting Rule Changes for NASDAQ Equity Audit Trail—Phase II.
(October 30, 1985)

E. Use of System on a Test Basis

Notwithstanding the eligibility standards set forth in Part II of Schedule D, the Board of Governors may at any time and from time to time authorize the use of the system on a test basis for whatever studies it considers necessary and appropriate.

[Subparagraph "E" added effective March 29, 1971.]

NOTIFICATION TO NASD OF NEWS RELEASES

Schedule D requires NASDAQ companies to disclose promptly to the public through the press any material information which may affect the value of their securities or influence investors' decisions. The Board of Governors recommends that NASDAQ companies notify the NASD of the release of any such information no later than simultaneously with its release to the public through the press. Notification may be provided directly to the NASD Market Surveillance Department by telephone (call 202 728-8204). Information communicated orally should be confirmed promptly in writing. Where public release of information occurs after 5:30 p.m. Eastern Time, notification should be made by 9:30 a.m. of the following trading day.

The purpose of this recommendation is to assist in maintaining a stable and orderly market for NASDAQ securities. One of the methods used by the NASD to accomplish such is the institution of NASDAQ quotation halts. A quotations halt benefits current and potential shareholders by halting the display of quotations through the NASDAQ System until there has been an opportunity for the information to be disseminated to the public. This decreases the possibility of some investors acting on information known to them but which is not known to others. A quotations halt normally lasts about one to two hours after the appearance of the news on wire services, but it may last longer if a determination is made that the news has not been adequately disseminated. A quotations halt provides the public with an opportunity to evaluate the information and consider it in making investment decisions. It also alerts the marketplace to the fact that news has been released.

Upon receipt of the information from the company, the NASD, after consultation with the company, will immediately evaluate the information, estimate its potential impact on the market and determine whether a quotations halt in the security is appropriate.

Material information which might reasonably be expected to affect the value of the securities of a company or influence investors' decisions would include information regarding corporate events of an unusual and/or non-recurrent nature. The following list of events, while not an exhaustive summary of all situations in which disclosure to the NASD should be considered, may be helpful in determining whether information is material. It should also be noted that every development that might be reported to the NASD in these areas would not necessarily be deemed to warrant a quotations halt.

- a merger, acquisition or joint venture;
- a stock split or stock dividend;

[The next page is 1573-3.]

NOTIFICATION TO NASD OF NEWS RELEASES—Continued

- earnings and dividends of an unusual nature;
- the acquisition or loss of a significant contract;
- a significant new product or discovery;
- a change in control or a significant change in management;
- a call of securities for redemption;
- the public or private sale of a significant amount of additional securities;
- the purchase or sale of a significant asset;
- a significant change in capital investment plans;
- a significant labor dispute;
- establishment of a program to make purchases of the company's own shares;
- a tender offer for another company's securities; and
- an event requiring the filing of a current report under the Securities Exchange Act.

• • • Selected NASD Notice to Members

86-13 Request for Comments on Proposed Amendment to Schedule D of the NASD By-Laws to Authorize Trading Halts in NASDAQ Securities and Listed Securities Traded Over-the-Counter

(February 21, 1986)

III

CONSOLIDATED QUOTATIONS SERVICE

A. Description of Service

The Consolidated Quotations Service (CQS) provides the subscriber with access to bid/ask quotations and quotation sizes for securities listed on national stock exchanges. The CQS includes all common stocks, preferred stocks, warrants and rights registered or admitted to unlisted trading privileges on the American Stock Exchange, and the New York Stock Exchange and certain securities listed on the regional stock exchanges. The Subscriber will have access to quotations and quotation sizes in such securities from all registered CQS Third Market Makers and the American, Boston, Midwest, New York, Pacific and Philadelphia Stock Exchanges. Quotations are required by SEC Rule 11Ac1-1 to be firm for the displayed size or if no size is displayed for a normal unit of trading.

The CQS will operate between 9:00 a.m. and 6:30 p.m. Eastern Time. All quotations for marketplaces that are open will be listed according to the best bid quotation or the best ask quotation following the quotations of the open marketplaces. If a stock exchange suspends trading in a security, a "HALT" notation will be displayed along

with the last quotation. During any such suspension, quotations from marketplaces remaining open will continue to be displayed.

B. Definitions

(1) *Third Market Maker*—Any broker or dealer who holds himself out as being willing to buy and sell a reported security for his own account on a regular and continuous basis otherwise than on a national securities exchange in amounts of less than block size (including any such broker or dealer who also represents, as agent,

orders to buy or sell reported securities on behalf of any other person and communicates bids and offers to the Corporation on behalf of such other persons as well as for his own account).

(2) *Reported Security*—Any equity security as to which last sale information is reported in the consolidated transaction reporting system (Consolidated Tape).

C. Initiating Service

Every Third Market Maker shall communicate to the Corporation through the NASDAQ System his bids, offers and quotation sizes in reported securities by registering with the Corporation as a Third Market Maker. If accepted for registration, and a terminal is in place, a Third Market Maker's registration shall be effective at the start of business on the second business day following receipt of its application by the Corporation. Otherwise registration shall be effective at the start of business on the second business day following installation of the terminal.

D. Obligations of Third Market Makers

The rules and regulations with respect to the obligations of Third Market Makers in reported securities are contained in SEC Rule 11Ac1-1 which is hereby incorporated as part of this Schedule D.

E. Business Hours

A registered Third Market Maker shall be open and active as of 10:00 a.m. Eastern Time and no Third Market Maker shall close sooner than 4:00 p.m. Eastern Time. A registered Third Market Maker shall designate a closing time for each security from 4:00 p.m. to 6:30 p.m. Eastern Time, and the closed symbol will be appended to the quotation at the designated time. The designated closing time may only be on the hour or the half hour. A registered Third Market Maker may reopen its market in a security up to 6:30 p.m. Eastern Time upon appropriate notification to the Corporation.

F. Withdrawal Procedure

1. With the approval of the Corporation upon a showing that it is seriously impaired in its ability to enter quotations, a registered Third Market Maker may suspend its quotations for a specified period of time in the case of contemplated financing in the security, the presence of statutory prohibitions or restrictions, or such other reason acceptable to the Corporation.

2. A Third Market Maker who withdraws and then reenters quotations during the day may do so only with the prior approval of the Corporation.

3. A Third Market Maker whose quotations in an issue are withdrawn without the approval of the Corporation at the time CQS closed for the day shall cause its registration in such issue to be terminated subject, however, to re-registration.

4. A Third Market Maker may, by making application to the Corporation, pursuant to paragraph B re-register as a market maker

in any security in which its registration is terminated pursuant to subparagraph 3. above.

G. Voluntary Termination

A registered Third Market Maker may voluntarily terminate its registration as to a given security by withdrawing its quotations from the System.

H. Suspension and Termination of Quotations by Action of the Corporation

The Corporation may, pursuant to the procedures set out in the Code of Procedure, suspend, condition, limit, prohibit, or terminate a registered Third Market Maker's authority to enter quotations on one or more authorized securities for violations of the applicable standards of this Schedule D.

[New Section III added effective January 19, 1977; prior Section III redesignated Section V; amended effective July 26, 1978.]

IV

NASDAQ INDEX OPTIONS

Section 1

Definitions

(a) **NASDAQ Index Option Contract**—The term "NASDAQ index option contract" means an option contract which is authorized for quotation display on the NASDAQ System.

(b) **Best Bid and Asked**—The term "best bid" means the best or highest price of all the open, active bids. The term "best asked" means the best or lowest (but greater than zero) price of all the open active asks.

(c) **Unit of Trading**—The term "unit of trading" means the number of units of the underlying security designated by The Options Clearing Corporation as the subject of a single option contract. In the absence of any other designation, the unit of trading for a common stock is 100 shares.

(d) **Registered NASDAQ Index Options Market Maker**—The term "registered NASDAQ index options market maker" means a member who meets the qualifications for such as set forth in Section 3 hereof, is willing and able to serve as such in connection with NASDAQ index option contracts and who is authorized by the Corporation to do so.

(e) **Options Clearing Corporation**—The term "Options Clearing Corporation" means The Options Clearing Corporation, the issuer of options displayed on NASDAQ.

(f) **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.

(g) **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.

(h) **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 or deliver a dollar equivalent of the underlying index covered by the option contract.

(i) **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 buy a number of units of the underlying security or to receive a dollar equivalent of the underlying index 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 or index.

(k) **Type of Options**—The term "type of options" means the classification of an option contract as either a put or a call.

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

(m) **Expiration Cycle**—The term "expiration cycle" means all option contracts covering the same underlying security or index having the same expiration month, or the time period during which such options are authorized for trading.

(n) **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 or index.

(o) **Underlying Index**—The term "underlying index" means an index upon which a NASDAQ index option contract is based.

(p) **Index Group**—The term "index group" means a group of securities, whose inclusion and relative representation in the group is determined by the inclusion and relative representation of their current market values in a widely disseminated securities index specified by the Corporation.

(q) **Index Underlying Security**—The term "index underlying security" means any of the securities included in an index group underlying a class of NASDAQ index options.

(r) **NASDAQ Market Index Option**—The term "NASDAQ market index option" means an option contract issued by The Options Clearing Corporation and displayed on the NASDAQ system based upon an underlying index which has been deemed by the Securities and Exchange Commission to be a market index.

(s) **Current Index Value**—The term "current index value" means the level of a particular index (derived from the current market prices and capitalization of the underlying securities in the index group) at the close of trading on any trading day, or any multiple or fraction thereof specified by the Corporation as such value is reported by the reporting authority.

(t) **Index Multiplier**—The term "index multiplier" as used in reference to an index option contract means the dollar amount (as specified by the Corporation) by which the current index value is multiplied to arrive at the index dollar equivalent. Such term replaces the term "unit of trading" used in reference to other kinds of options.

(u) **Index Dollar Equivalent**—The term "index dollar equivalent" is the dollar amount which results when the index value is multiplied by the appropriate index multiplier.

(v) **Aggregate Current Index Value**—The term “aggregate current index value” means the value required to be delivered to the holder of a call or by the holder of a put (against payment of the aggregate exercise price) upon the valid exercise of an index option. Such value is equal to the index multiplier times the current index value on the trading day on which an exercise notice is properly tendered to The Options Clearing Corporation, or, if the day on which such notice is so tendered is not a trading day, then on the most recent trading day.

(w) **Index Option Exercise Price**—The term “index option exercise price” in respect of an index option means the specified index value which, when multiplied by the index multiplier, will yield the aggregate exercise price at which the aggregate current index value may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of such option.

(x) **Aggregate Index Option Exercise Price**—The term “aggregate index option exercise price” in respect of an index option means the exercise price of such option times the index multiplier.

(y) **Index Option Premium**—The term “index option premium” means the price of each such option (expressed in points), as agreed upon by the purchaser and seller in such transaction, times the index multiplier and the number of options subject to the transaction.

(z) **NASDAQ Index Option Market Maker**—The term “index option market maker” means a registered market maker in NASDAQ index options who is authorized to execute and lock-in orders received by the market maker via an Order Confirmation Transaction.

(aa) **Expiration Date**—The term “expiration date” of a NASDAQ 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.

(bb) **Long Position**—The term “long position” means the number of outstanding option contracts of a given series of options held by a person (purchaser).

(cc) **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).

(dd) **Opening Purchase Transaction**—The term “opening purchase transaction” means an option transaction in which the buyer’s intention is to create or increase a long position in the series of options involved in such transaction.

(ee) **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.

(ff) **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.

(gg) **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.

(hh) **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.

(ii) **Uncovered**—The term “uncovered” in respect of a short position in an option contract means the short position is not covered.

(jj) **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 has reached its expiration date.

(kk) **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 shares or units of trading at option in a different series of the same class of options.

(ll) **Straddle Order**—The term “straddle order” means an order to buy a number of call option contracts and the same number of put option contracts with respect to the same underlying security or index, or put and call option contracts representing the same number of shares or units of trading at option, and having the same exercise price and expiration date; or an order to sell a number of call option contracts and the same number of put option contracts with respect to the same underlying security or index, or put and call option contracts representing the same number of shares or units of trading at option and having the same exercise price and expiration date, (e.g., an order to buy two XYZ July 50 calls and to buy two XYZ July 50 puts is a straddle order). In the case of adjusted option contracts, a straddle order need not consist of the same number of put and call contracts if such contracts both represent the same number of shares, or units of trading at option.

(mm) **Combination Order**—The term “combination order” means an order to buy a number of call option contracts and the same number of put option contracts with respect to the same underlying security or index or put and call option contracts representing the same number of shares or units of trading at option, which contracts do not have both the same exercise price and expiration date; or an order to sell a number of call option contracts and the same number of put option contracts with respect to the same underlying security or index, or put and call option contracts representing the same number of shares, or units of trading at option, which contracts do not have both the same exercise price and expiration date (e.g., an order to buy two XYZ April 50 calls and to buy two XYZ July 40 puts is a combination order). In the case of adjusted option contracts, a

combination order need not consist of the same number of put and call contracts if such contracts represent the same number of shares or units of trading at option.

(nn) NASDAQ Index Options Service—The term "NASDAQ Index Options Service" or "Service" means the Service owned and operated by NASD Market Services Inc. which enables participants to report transactions in NASDAQ index options, to have reports of all NASDAQ index options transactions automatically forwarded to the Options Price Reporting Authority ("OPRA") for dissemination to the public and the industry, and to "lock-in" these trades by sending both sides to The Options Clearing Corporation for clearance and settlement; and to provide participants with sufficient monitoring and updating capabilities to participate in such a trading environment.

(oo) NASDAQ Index Options Participant—The term "participant" shall mean either a NASDAQ index options market maker or NASDAQ index options order entry firm registered as such with the Association for participation in the NASDAQ Index Options Service.

(pp) NASDAQ Index Options Order Entry Firm—The term "order entry firm" shall mean a member of the Association who is registered as an order entry firm for purposes of participation in the NASDAQ Index Options Service which permits the firm to enter options orders via Order Confirmation Transaction ("OCT") or Internalized Trade Transaction ("ITT").

(qq) NASDAQ Index Options Market Maker—The term "market maker" shall mean a member of the Association who is registered as a NASDAQ index options market maker and thus authorized to execute and lock-in orders received by the market maker via Order Confirmation Transaction.

(rr) Order Confirmation Transaction—The term "Order Confirmation Transaction" or "OCT" means a message entered into the NASDAQ System by an order entry firm which is directed to a market maker not simultaneously acting; as both a market maker and an order entry firm, which message contains the information specified by the Corporation as necessary for trade reporting purposes and for submission of trade detail to The Options Clearing Corporation.

(ss) Internalized Trade Transaction—The term "Internalized Trade Transaction" or "ITT" means an OCT entered into the NASDAQ system by a participant containing the terms of a transaction executed by the participant as principal where the participant is also the order entry firm.

(tt) Cabinet Transaction—The term "cabinet transaction" means a transaction in a NASDAQ index option executed at a price of \$1.00 per contract for the purpose of opening or closing a position in an index option having a nominal market value.

Section 2 NASDAQ Index Options Services Available

(a) Level 2 NASDAQ Index Options Service

(1) Nature of Service—This service will provide the subscriber with access to the quotations of all of the registered NASDAQ index options market makers entering quotes on each of the NASDAQ index options, in addition to the last reported sale for each NASDAQ index option, the most recent index computation for the underlying index, daily high and low, daily volume, time of last sale and inside quotations.

(2) Availability—This service is available only to persons approved and authorized by the Corporation for retrieval of NASDAQ index options quotation and last sale data.

(b) Level 3 NASDAQ Index Options Service

(1) Nature of Service—This service will enable a registered NASDAQ index options market maker to enter quotations into the System only on the NASDAQ index options as to which the Corporation has authorized it to enter quotes pursuant to the procedures set forth in Section 3 hereof. A subscriber to Level 3 NASDAQ index options service shall also receive Level 2 NASDAQ Index Options Service.

(2) Availability—Level 3 NASDAQ Index Options Service is available to any member which, upon application, is approved and authorized by the Corporation to participate in the NASDAQ System as a registered NASDAQ index options market maker.

Section 3

Registration, Qualification and Other General Requirements Applicable to All NASDAQ Index Options Market Makers

(a) Registration of NASDAQ Index Options Market Makers—Prior to acting as a market maker in NASDAQ index options, a member must make application to the Corporation on a form prescribed by the Corporation and become registered as such with it. In connection with such application, a member must submit to the Corporation such financial and other information as required by the Corporation to determine if such member meets the qualifications of a registered NASDAQ index options market maker specified herein. Such other information will include those classes and series of NASDAQ options in which such member desires to be registered as an index options market maker.

(b) Participation in the NASDAQ Index Options Service shall be mandatory for all NASDAQ index options market makers. Accordingly, a NASDAQ index options market maker's registration as such shall be conditioned upon the member's initial and continuing compliance with the following requirements:

(1) Execution of a NASDAQ Index Options Service participant application agreement with the Corporation;

(2) maintenance of the physical security of the equipment located on the premises of the NASDAQ index options market maker to prevent the unauthorized entry of information into the NASDAQ Index Options Service;

(3) acceptance and settlement of each NASD index option trade that the Service identifies as having been effected by such NASDAQ index options market maker, or if settlement is to be made through another clearing member, guarantee of the acceptance and settlement of such identified trade by the clearing member on the regularly scheduled settlement date;

(4) membership in The Options Clearing Corporation, or a clearing arrangement with such member; and

(5) compliance with all applicable rules and operating procedures of the Corporation and the Securities and Exchange Commission.

(c) NASDAQ index options market makers shall be under a continuing obligation to inform the Corporation of non-compliance with any of the registration requirements set forth above.

(d) Obligation to Honor Trades—If a NASDAQ index options market maker, or clearing member acting on his behalf, is reported by the Service to clearing at the close of any trading day, or shown by the activity reports generated

by the Service as constituting a side of a trade, such market maker, or clearing member acting on his behalf, shall honor such trade on the scheduled settlement date.

(e) Compliance with Rules and Registration Requirements—Failure by NASDAQ index options market makers to comply with any of the rules or registration requirements applicable to the Service identified herein shall subject such participants to censure, fine, suspension or revocation of its registration as NASDAQ index options market maker and/or order entry firm or any other fitting penalty under the Rules of Fair Practice of the Association.

(f) Market Maker Financial Requirements—A registered NASDAQ index options market maker shall continuously maintain net capital of at least \$50,000 computed in accordance with the provisions of paragraph (c) (2) of Rule 15c3-1 under the Securities Exchange Act of 1934, as amended, plus \$5,000 per options series up to a maximum requirement of \$150,000.

(g) Normal Business Hours—A registered NASDAQ index options market maker shall keep the Corporation advised as to the normal business hours during which it shall enter quotations. All firms should be open and active between the hours of 9:30 a.m. and 4:10 p.m. (Eastern Time). The system shall publish a "close symbol" for a registered NASDAQ index options market maker on Level 2 and Level 3 terminals at the close of such firm's normal business hours.

[Amended effective October 9, 1985.]

(h) Initiation of Service—Upon initial application, the registration of a NASDAQ index options market maker in a NASDAQ index options series shall be effective at the start of business on the second business day following receipt of his registration application by the Corporation; provided, however, said registration is accepted by the Corporation. If said initial registration is received for a NASDAQ index options series which has not previously been authorized by the Corporation, the registered NASDAQ index options market maker's registration shall be effective at the start of business on the first day that the NASDAQ options series is authorized for quotation by the Corporation; provided, however, said registration is accepted by the Corporation. A NASDAQ index options market maker shall commence market making and participation in the Service by initially contacting the NASDAQ Operations Center to obtain authorization for the trading of a particular NASDAQ index options series and identifying those terminals on which the Service information is to be displayed and thereafter by an appropriate keyboard entry which obligates him to execute transactions for at least one contract at the market maker's displayed quotations so long as the market maker remains active. All entries shall be made in accordance with the requirements set forth in the User Guide.

(i) Withdrawal Procedure for NASDAQ Index Options Market Makers.

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

(2) In the event of a malfunction in the NASDAQ index options market maker's equipment rendering on-line communications with the Service inoperable, the NASDAQ index options market maker is obligated to immediately contact the NASDAQ Operations Center by telephone to request withdrawal from the Service. NASDAQ operational personnel will in turn

enter the withdrawal notification from a supervisory terminal. Such manual intervention, however, will take a certain period of time for completion and any transaction occurring prior to the effectiveness of the withdrawal shall remain the responsibility of the withdrawing market maker.

(3) A registered NASDAQ index options market maker who suspends its quotations in a NASDAQ index options series pursuant to paragraph (1) and (2) above may not re-enter quotations in such series during the same trading day without the prior approval of the Corporation.

(j) Voluntary Termination—A registered NASDAQ index options market maker may voluntarily terminate its registration as to any NASDAQ options series by withdrawing its quotations from the Service without prior approval of the Corporation, subject to the conditions set forth in Sections 5 and 6 hereof. Such NASDAQ index options market maker may, by making application to the Corporation under the procedures and requirements set forth in this Section, re-register as a NASDAQ index options market maker in a NASDAQ options series in which his registration is terminated.

(k) A NASDAQ index options market maker withdrawing option quotations from the NASDAQ Index Options Service for any reason has a specific obligation to monitor his status to assure that a withdrawal has in fact occurred. Any transaction occurring prior to the effectiveness of the withdrawal shall remain the responsibility of the withdrawing market maker.

(l) Suspension and Termination of a Registered NASDAQ Index Options Market Maker's Authority to Enter Quotations by Action of the Corporation—The Corporation may, pursuant to provisions specified in the Code of Procedure, suspend, condition or terminate a registered index options market maker's authority to enter quotations on one or more series of NASDAQ index options for violations of the applicable rules of this Schedule D.

(m) Termination of Service on the Failure to Promptly Pay Fines and Assessments

(1) The Corporation, upon notice, may terminate service on any level of NASDAQ index options service for failure of a subscriber to maintain the standards of availability specified in this Section 3 for such service or to pay the Service operator for services rendered.

(2) Any member which is a respondent in a complaint pursuant to this Schedule D is required promptly to pay any fine or costs imposed to the Treasurer of the Corporation. In the event that the respondent fails to do so, the Corporation may, after ten business days notice in writing to such respondent, suspend his authority to enter options quotations into or receive options quotations from Level 2 and 3 of the NASDAQ Index Options Service.

Section 4

Character of Index Options Quotations Entered Into the NASDAQ Index Options Service by All NASDAQ Index Options Market Makers

(a) All bids or offers for NASDAQ index options shall be for at least one option contract or the minimum unit of trading.

(b) All bids and offers for NASDAQ index options shall be expressed in terms of the applicable index multiplier (e.g., a bid of five for a NASDAQ index option having an index multiplier of \$100 shall represent a bid to pay a premium of \$500 for an option contract).

paragraph (g) above in those option series 10 or more points in the money to allow market makers to make bid/ask differentials as wide as the quotation in the primary market as determined by the inside quotation displayed in the NASDAQ System. Such waiver shall not automatically carry over from one day to the next.

Section 5

Commitment Rules Applicable to Options Market Makers in NASDAQ Index Options

(a) Commitment Rule for Index Options Market Makers—A market maker in a NASDAQ index option, unless excused from entering quotations pursuant to Section 3(i) of Schedule D, Part IV, shall, during normal options business hours, continuously quote all options series in such index option through the expiration of the longest term index options authorized for trading at the time the member commences such market making. Failure to abide by this commitment shall cause the index options market maker to be subject to the sanctions contained in Section 6 hereof.

The following examples illustrate the commitment rule for index option market makers established by this Section 5.

1. Member A is authorized as a NASDAQ index options market maker prior to the expiration of January NASDAQ-100 Index™ Options. Member A is thus obligated to continuously quote all series of NASDAQ-100 put and call options authorized for trading in the January, February and March expirations through the expiration of the March options.
2. Member B is authorized as a market maker in NASDAQ-100 Index™ Options at the time these options are authorized for the NASDAQ Options Program, but prior to the commencement of trading in these index options. The first authorized expiration cycle in NASDAQ-100 Index™ options will consist of options expiring in April, May and June with trading to commence in March. Member B would be obligated to continuously quote all authorized NASDAQ-100 option series from the commencement of trading in such options in March through the expiration of June NASDAQ-100 Index™ options.

Section 6

Sanctions Applicable to NASDAQ Index Options Market Makers

(a) Sanctions Applicable to Index Options Market Makers

- (1) A registered NASDAQ market maker in index options whose quotation for any option series in which the member is a market maker is withdrawn without the approval of the Corporation shall, at or before the daily close of the NASDAQ Index Options Service, have its registration terminated in all NASDAQ index option series covering the same underlying index as that for which option quotations were suspended by the member, subject, however, to the re-registration procedures set forth in paragraph (2) below.
- (2) A NASDAQ index options market maker in index options whose registration in options classes is terminated pursuant to paragraph (a)(1) above may, by making application to the Corporation

(c) All bids or offers for a NASDAQ index option contract for which The Options Clearing Corporation has established an adjusted unit of trading in accordance with paragraphs (c) and (d) of Section 11 of Article VI of the OCC's By-Laws shall be expressed in terms of dollars per the appropriate fractional part of the total securities and/or other property constituting such adjusted unit of trading.

(d) A registered NASDAQ index options market maker who receives a buy or sell order must execute a trade for at least one contract at his quotation as they appear on the NASDAQ CRT screen at the time of receipt of any such buy or sell order. Each quotation entered by a registered NASDAQ index options market maker must be reasonably related to the prevailing market.

(e) A registered NASDAQ index options market maker will be permitted to enter a one-sided quotation (0-1/16) with respect to those options which have no present market value.

(f) Crossed Markets—A registered NASDAQ index options market maker shall not be permitted, except under extraordinary circumstances, to enter quotations into the NASDAQ Index Options Service if (1) the bid quotation entered is greater than the ask quotation of another registered market maker in the same options series or (2) the asked quotation is less than the bid quotation of another registered market maker in the same options series.

(g) Quote Spread Parameters—A registered NASDAQ index options market maker shall not be permitted, except under extraordinary circumstances, to enter index option quotations into the NASDAQ Index Options Service if the spread between the market maker's bid and ask exceeds the following parameters:

- (1) ¼ of \$1, if the member's bid price is \$.50 or less;
- (2) ½ of \$1, if the bid price is more than \$.50 but does not exceed \$10;
- (3) ¾ of \$1, if the bid price is more than \$10 but does not exceed \$20;
- (4) \$1, if the bid price is more than \$20;

or

providing, however, that the allowable quote spread differentials for the longest term options series open for trading in each option class shall be twice the amounts stated in (1) through (4) above.

(h) Except under extraordinary circumstances, a registered NASDAQ index options market maker shall not be permitted to enter on an intra-day basis a bid quotation more than \$1 lower and/or an offering more than \$1 higher than the last reported transaction for the particular index option contract. However, this standard shall not ordinarily apply if the price per share (or other unit of trading of the underlying index value has changed since the last preceding transaction for the particular option contract, in which event a market maker may then bid no lower than or offer no more than \$1 plus the aggregate change in the price per unit of trading) of the underlying index value since the time of the last preceding transaction for the particular index option contract. Nothing in this paragraph shall alter the maximum bid-ask differential established by paragraph (g) above.

(i) Whenever, in the judgment of the Corporation, the interest of maintaining a fair and orderly market so requires, the Corporation may waive the requirements of paragraph (h) above on a case by case basis.

(j) When unusual trading conditions exist, and the interest of maintaining a fair and orderly market, the Corporation may waive the requirements of

under the procedures and requirements set forth in Section 3 of Schedule D, Part IV, re-register as a NASDAQ index options market maker in any NASDAQ index options series in the options classes in which his registration was terminated pursuant to paragraph (a)(1) above providing, however, that the Corporation shall not grant effectiveness to such registration until the near-term options and those in the following expiration cycle have expired.

The following example illustrates the sanction for index options market makers established by paragraph (a) above.

Market Maker A, without approval of the Corporation, withdraws quotations from the NASDAQ Index Options Service for a series of NASDAQ-100 Index™ options causing the member's registration in all NASDAQ-100 Index™ options series to be terminated pursuant to paragraph (a)(1) above.

At the time market maker A's registration is terminated, January, February and March NASDAQ-100 Index™ options are trading. Pursuant to paragraph (a)(2) above, any application by member A to again register as a market maker in NASDAQ-100 Index™ options would not be granted effectiveness by the Corporation until the expiration of the February NASDAQ-100 Index™ options.

(3) A registered market maker in NASDAQ index options who withdraws index options quotations from the NASDAQ Index Options Service in any options series without prior authorization during the 15 business days preceding the expiration of the near-term options on the same underlying index may be deemed to be in violation of Article III, Section I of the Rules of Fair Practice of the Association.

Section 7

Requirements Applicable to NASDAQ Index Options Order Entry Firms

(a) Participation in NASDAQ Index Options Service as an order entry firm requires current registration as such with the Corporation. Such registration shall be conditioned upon the order entry firm's initial and continuing compliance with the following requirements:

- (1) Execution of a NASDAQ Index Options Service participant application agreement with the Corporation;
- (2) membership in, or a clearing arrangement with a member of The Options Clearing Corporation;
- (3) compliance with all applicable rules and operating procedures of the Corporation and the Securities and Exchange Commission;
- (4) maintenance of the physical security of the equipment located on the premises of the NASDAQ index options order entry firm to prevent the unauthorized entry of information into NASDAQ Index Options Service; and,
- (5)(a) acceptance and settlement of each trade that the Service identifies as having been effected by such NASDAQ index options order

entry firm or, if settlement is to be made through another clearing member, guarantee of the acceptance and settlement of such identified trade by the clearing member on the regularly scheduled settlement date.

(b) The registration required hereunder will apply solely to the qualification of a participant to participate in the NASDAQ Index Options Service. Such registration shall not be conditioned upon registration in any particular eligible or active NASDAQ index options contracts.

(c) Each participant shall be under a continuing obligation to inform the Corporation of non-compliance with any of the registration requirements set forth above.

(d) Upon the effectiveness of registration as a NASDAQ index options order entry firm, the participant may commence activity for entry of orders, as applicable. The operating hours of NASDAQ Index Options Service are currently 9:30 a.m. and 4:10 p.m. (Eastern Time), but may be modified by the Corporation. The extent of participation in the System by a NASDAQ index options order entry firm shall be determined solely by the firm in the exercise of its ability to enter orders into the system. [Amended effective October 9, 1985.]

(e) Market orders shall not be permitted in the NASDAQ Index Options Service. All orders entered into the Service other than accommodation transactions shall be priced and all orders shall be directed to a specified NASDAQ index options market maker. NASDAQ index options order entry firms will be immediately notified on the terminal screen and printer, if requested of the execution or rejection of an order entered into via OCT.

(f) If a NASDAQ index options order entry firm or clearing member acting on his behalf, is reported by the Service to clearing at the close of any trading day, or shown by the activity reports generated by the Service as constituting a side of a NASDAQ index option trade, such order entry firm or clearing member acting on his behalf, shall honor such trade on the scheduled settlement date.

(g) Failure by a NASDAQ index options order entry firm to comply with any of the rules or registration requirements applicable to the Service identified herein shall subject such participant to censure, fine, suspension or revocation of its registration as a NASDAQ index options order entry and/or market maker firm or any other fitting sanction under the Rules of Fair Practice of the Association.

Section 8

Transaction Reporting and Other Reporting Requirements

(a) All NASDAQ index options participants, upon becoming so registered and qualified, shall have access to, and be required to utilize, the Order Confirmation Transaction ("OCT") and Internalized Trade Transaction ("ITT") trade reporting systems established by the Corporation for NASDAQ index options transactions. Such trade reporting systems are designed to "lock-in" all NASDAQ index options transactions. Thus these systems serve trade comparison and clearing functions as well as trade reporting functions, and require the participation of both the order entry and the market making firms in the reporting process. Because these procedures, which are detailed in the User Guide, vary from those applying to transaction reporting in other NASDAQ securities, it is imperative that all NASDAQ index options participants become familiar with and comply with the pro-

(h) Trade Tickets—All trade tickets on transactions in NASDAQ index options and authorized underlying securities must indicate the time the order was received and the time the order was executed or canceled.

Section 9

Authorization of NASDAQ Index Option Market Making

(a) The Corporation shall not authorize index option market making in any options series unless, at the time such market making activity is to commence, there are a minimum of five registered NASDAQ index options market makers in the index option.

(b) Once market making has commenced in any class of NASDAQ index options, the Corporation shall withdraw approval of further market making activity with respect to any succeeding options series to be opened in that NASDAQ index option if there are fewer than three registered market makers in the index option.

(c) Whenever the Corporation shall withdraw its approval for index option market making activity in a particular NASDAQ index options series pursuant to paragraph (b) above, it shall not reinstate such market making until the provisions of paragraph (a) above have been satisfied.

Section 10

NASDAQ Index Option Contracts Authorized for Trading

The Corporation may from time to time approve for display on NASDAQ put option contracts and call option contracts in respect of underlying indexes which have been selected by the Corporation and approved for trading. All such option contracts shall be designated as to the type of option, the underlying index, the expiration month and the exercise price. Only quotations in respect to option contracts in a class or series of options approved by the Corporation and currently open for display on the Service may be quoted by a registered NASDAQ index options market maker on the NASDAQ Index Options Service.

Section 11

Series of NASDAQ Index Options Open for Trading

(a) NASDAQ Index Options—After a particular class of index options has been approved for display on the Service and quotation thereon by registered NASDAQ index options market makers, the Corporation shall from time to time open for trading series of options therein. Prior to the opening of trading in any series of options the Corporation shall fix the expiration month and exercise price of options contracts included in each such series.

(1) Expiration Months—At the commencement of trading in a particular class of NASDAQ index options, series of options having three different expiration months will normally be opened. Such expirations shall occur in consecutive months. The first such expiration will occur in the month following the month in which such options are introduced, the second expiration will occur in the month following the first, and the third expiration will occur in the month following the second. Additional series of index options of the same class may be opened for trading at or about the time a prior series

visions of this Section 8. Failure on the part of a NASDAQ index options participant to comply with NASDAQ index options reporting provisions may subject participants to censure, fine, suspension or revocation of registration as a NASDAQ index options market maker and/or order entry firm or any other fitting sanction under the Rules of Fair Practice of the Association.

(b) Order Confirmation Transaction (OCT)—NASDAQ index options order entry firms shall enter an OCT into the Service promptly upon the execution of their order. Upon the acceptance by a market maker of an OCT, the Service shall automatically forward a trade report to the Options Price Reporting Authority ("OPRA"). NASDAQ index options market makers shall accept an OCT via terminal entry within two minutes as specified by the Corporation, or the OCT shall be "timed-out", in which case the Service will notify the order entry firm of the market maker's non-acceptance of the order. The order entry firm will also be notified if the market maker affirmatively rejects the order via terminal entry. If the market maker wishes to subsequently confirm an OCT which has been timed-out or rejected, a new OCT must be entered into the Service by the order entry firm with a late trade indicator. Once accepted, an OCT may only be canceled or corrected by mutual consent of the market maker and order entry firm.

(c) Unsolicited Orders—NASDAQ index options market makers are not obligated to accept an OCT which is unsolicited but, if they choose to do so, must accept the order within two minutes of its receipt as specified by the Corporation. Upon the acceptance of an unsolicited OCT order by a NASDAQ index options market maker, the system will automatically forward a trade report to OPRA. Once accepted by the market maker, the OCT may only be canceled or corrected with the mutual consent of the market maker and the order entry firm.

(d) Internalized Trade Transaction (ITT)—NASDAQ Index Options Service participants shall, where appropriate, enter an ITT message into the Service within two minutes of the execution of an internalized trade. Upon the entry of an ITT message, the Service shall automatically forward a trade report to OPRA. An ITT may be subsequently canceled or corrected by the member.

(e) A NASDAQ index options order entry firm shall transmit OCT and ITT for transactions in NASDAQ index options other than cabinet transactions at the price recorded on the trade ticket exclusive of commission, taxes or other charges.

(f) NASDAQ index options participants may effect cabinet transactions in any class of options contracts authorized for trading via the Service at a price of \$1.00 per contract, providing such price is reasonably related to the prevailing market for the option. In reporting cabinet transactions, participants shall designate these transactions as such with the appropriate indicator on OCT or ITT entered into the Service. Cabinet transactions will not be disseminated to OPRA but will be reported to OCC for clearance.

(g) Weekly and/or Monthly Reports—A member shall report weekly and/or monthly to the Corporation such data on NASDAQ index options quoted in the Service as the Board of Governors shall require. Such report shall be on a form prescribed by the Corporation.

expires and the expiration month of each such series will normally be approximately three months following the opening of such series.
(2) Exercise Prices—The procedures for fixing the exercise or strike price of each series of index options opened for trading shall be as follows:

- a. Strike prices shall be fixed at an index value which is an integer.
- b. Regardless of the value of an index, the interval between strike prices will be \$5.00.
- c. New series of index option contracts may be added up to the fifth business day prior to expiration.
- d. When new series of index option contracts within a new expiration cycle are opened for trading, two strike prices above and two strike prices below the current index value may be added.
- e. When the value of the index underlying a class of index options reaches a strike price, the Corporation may add one or more additional strike prices such that there are at least two strike prices above and two strike prices below the strike price which has been reached.
- f. In unusual market conditions, the Corporation may add additional series of index option contracts up to three strike prices above and three strike prices below the current index price.

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

(c) Contract Adjustments—Index option contracts shall be subject to adjustments in accordance with the rules of The Options Clearing Corporation.

(d) Puts and Calls—When calls are first opened for trading on an underlying index stock group, the Corporation may open a series of puts corresponding to each series of calls open or to be opened for trading on the same underlying index stock group.

Section 12
Unit of Trading

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

Section 13
Suspension of Authorization of NASDAQ Index Option Contracts

(a) The Corporation shall have the authority to suspend trading in NASDAQ index option contracts by either one or more market maker or all market makers where it deems it necessary and appropriate:

- (1) to prevent fraudulent and manipulative acts and practices;
- (2) to promote just and equitable principles of trade; or,
- (3) to prevent excessive speculation and promote the likelihood of a competitive and orderly market.

(b) The Corporation shall suspend trading in NASDAQ index options contracts by all market makers:

- (1) if the underlying index is not being computed or disseminated;
- or,
- (2) if trading is halted or suspended in underlying stocks that collectively contribute (1) 20 percent of the current index group value (in the case of index stock groups comprised of more than 50 stocks); and (2) 10 percent of the current index group value (in the case of index stock groups comprised of 50 or fewer stocks).

Section 14
Trade Comparison Procedures for NASDAQ Index Options

(a) Scope and Applicability—All transactions in NASDAQ index options shall be reported to the Corporation pursuant to reporting procedures established by the Corporation. The Corporation shall report all compared transactions to The Options Clearing Corporation for clearance and settlement. All compared transactions in NASDAQ options which are cleared and settled through the facilities of The Options Clearing Corporation shall be subject to the rules of The Options Clearing Corporation.

(b) Responsibility of Clearing Members—Every member which is a member of The Options Clearing Corporation (a "clearing member") shall be responsible for the clearance and settlement of every NASDAQ index option transaction to which it is a party and for each NASDAQ index option transaction of a member for which it acts as correspondent and/or clearing agent pursuant to agreement. Unless specifically authorized by The Options Clearing Corporation, no member shall be permitted to have more than one such agreement with a clearing member in effect at any time.

(c) Reporting of Clearing Information

(1) Filing of Trade Information—Each NASDAQ index option participant shall individually report each transaction in a NASDAQ index option, for which it has a responsibility to report, each business day to the Corporation via OCT or ITT in the manner specified by the Corporation.

(2) The Corporation will provide each NASDAQ index options participant with the opportunity to review on trade date OCT and ITT transactions to which the participant is a party.

All OCT orders which are accepted by the contra party and all ITT which have not been canceled shall be considered to be compared trades, i.e., trades where the trade information agrees as to the identity of the other party to the transaction, the type of option contract, the underlying index, the exercise price, the expiration month, the number of options contracts, the amount of the premium, the designation of the parties as purchaser and writer, respectively, and the trade date, if other than the date of submission.

(3) Verification of NASDAQ Index Options Transactions—Each participant shall promptly review each OCT or ITT execution report received and report corrected trade information to the Corporation as soon as possible, but in any event, not later than the hour which shall be from time to time

prescribed by the Corporation. It shall be the sole responsibility of participants to review the accuracy of all reports promptly upon receipt, and the Corporation shall not assume any responsibility for reviewing such reports for accuracy or for making any corrections not reported by a participant.

(4) Reporting of Compared Trades to The Options Clearing Corporation—On each business day, at or prior to such time as may be prescribed by The Options Clearing Corporation, the Corporation shall furnish The Options Clearing Corporation a report of each clearing member's compared trades as reported to the Corporation on that day. Only those trades which have been confirmed by both parties shall be furnished by the Corporation to The Options Clearing Corporation, and the Corporation shall assume no responsibility with respect to any unaccepted order nor for any delays or errors in the reporting of trades.

Section 15

Clearance and Settlement Procedures for NASDAQ Index Options

(a) Failure to Pay Premium—Whenever The Options Clearing Corporation shall reject a NASDAQ index option transaction because of the failure of a clearing member acting on behalf of the purchaser to pay the premium due thereon as required by the rules of The Options Clearing Corporation, the member acting as or on behalf of the seller (writer) shall have the right either to cancel the transaction by giving notices thereof to the defaulting clearing member or to enter into either a new opening writing transaction or closing sale transaction, as the case may be, in respect of the same NASDAQ index option contract that was the subject of the rejected NASDAQ index option transaction, charging any loss resulting therefrom (including any commissions paid or payable in connection with such new transaction) to the defaulting clearing member. Such action shall be taken on the day the NASDAQ index option transaction was rejected by The Options Clearing Corporation, unless the Corporation shall extend such time.

In the event the rejected transaction involves a NASDAQ index option contract of a series in which trading has been terminated or suspended before a new NASDAQ index option transaction can be affected to establish the amount of any loss, the member acting as or on behalf of the seller shall have a claim against the defaulting clearing member for the amount of the premium due thereon.

(b) Index Option Contracts of Suspended Members—When announcement is made of the suspension from membership in the Corporation of a member, other than a clearing member of The Options Clearing Corporation (a "non-clearing member"), pursuant to the By-Laws of the Corporation, all open short positions in option contracts of such member and all open positions that are secured in full by a specific deposit or evidenced by an escrow receipt in accordance with the rules of The Options Clearing Corporation, shall be closed out without unnecessary delay by all members carrying such positions for the account of the suspended non-clearing member; provided, however, that upon any such suspension, the Corporation may, in its discretion and where it determines that such is necessary for the protection of investors, suspend the mandatory close-out provisions hereof and may, in its discretion and where it determines that such is neces-

sary for the protection of investors, reinstate such provisions at such time as it may determine. No temporary suspension of the mandatory close-out provisions hereof shall relieve any suspended non-clearing member of its obligations or of any damages incurred by members carrying positions for the account of such suspended non-clearing member. Should an open short position or an open position resulting from an exercise of an option contract not be closed when required by this Section, the price for the purpose of determining claims shall be fixed by the price current at the time when such position should have been closed under this Section. When a member of The Options Clearing Corporation is suspended pursuant to the provisions of the By-Laws, the positions of such clearing member shall be closed out in accordance with the rules of The Options Clearing Corporation.

Section 16

Rules of General Applicability

The provisions of Part X of Schedule D to Article XVI of the By-Laws shall, to the extent not inconsistent with the provisions hereof, apply to NASDAQ index options.

[Part IV added effective September 13, 1985.]

V

SCHEDULE OF CHARGES

A. System Services

1. NASDAQ Level 1 Service

The charge to be paid by the subscriber for each terminal receiving NASDAQ Level 1 Service is \$8.75 per month.

2. NASDAQ Level 2/3 Service

The charge to be paid by the subscriber for each terminal receiving NASDAQ Level 2 or NASDAQ Level 3 Service shall be \$150 per month and \$0.01 per quotation request, plus equipment related charges as detailed in Parts B, C and D below. Equipment related charges include an installation charge, a terminal charge and conversion, removal and relocation charges.

3. Consolidated Quotation Service

The charge to be paid by the subscriber for each terminal receiving Consolidated Quotation Service shall be \$50 per month and \$0.01 per quotation request plus the monthly charges established by the NYSE and AMEX for receiving last sale information and bid/ask quotations plus equipment related charges as detailed in Parts B, C and D below. Equipment related charges include an installation charge, a terminal charge and conversion, removal and relocation charges.

4. Computer Assisted Execution Service

The charges to be paid by members receiving the Computer Assisted Execution Service ("CAES") shall consist of a fixed service charge and a per share transaction charge applicable to each side of a transaction plus equipment related charges.

a. Service Charges¹

¹ Service charges will not become effective until one year after the date CAES is expanded to include NASDAQ/NMS securities.

i. \$100 per month for each terminal receiving CAES

ii. \$500 per month for a computer interface between CAES and a member's computer system.

b. Transaction Charges

i. \$003 per share shall be paid by the member which enters an order executed through CAES to buy or sell a NASDAQ or listed security.

ii. \$004 per share shall be paid by the member which receives an order executed through CAES to buy or sell a NASDAQ security.

iii. \$006 per share shall be paid by the member which receives an order executed through CAES to buy or sell a listed security.

5. *NASDAQ/National Market System Last Sale Information*

a. The charge to be paid by the subscriber for each terminal receiving NASDAQ/National Market System Last Sale Information supplied by a vendor shall be determined by the number of securities designated by the Corporation as NASDAQ/National Market System securities pursuant to the following schedule.

<i>Number of Designated Securities</i>	<i>Charge per terminal per month</i>
250 or less	\$ 2.50
251 to 500	\$ 5.00
501 to 1,000	\$ 7.50
1001 or more	\$10.00*

b. The rate for each month shall be determined by the number of designated securities at the start of business on the first day of that month.

6. *Trade Acceptance and Reconciliation Service*

The service charge to be paid by the subscriber for terminals receiving Trade Acceptance and Reconciliation Service (TARS) shall be \$100 per month for each TARS dedicated terminal providing both query and update capability, \$50 per month for each shared terminal providing query and update capability for TARS as well as other services and \$25 per month for each terminal providing query only capability. In addition, subscribers shall be charged \$25 for each query/response or correction message plus equipment related charges as detailed in Parts B, C and D below. Charges shall be billed to subscribers on a monthly basis and message charges shall be waived for those subscribers averaging 10 or less trades per day during any month.

7. *Computer-to-Computer Interface Service*

The charge to be paid by the subscriber to enable it to report transactions via its computer system shall be \$1,200 per month.

8. *Limited Usage Service*

The charges to be paid by a subscriber for access to NASDAQ Level 1 Service (for securities other than National Market System securities) and NASDAQ/National Market System Last Sale Service through an authorized portable quotation device capable of receiving quotations for not more than forty securities at a time shall be \$6.00 per month per device.

* On July 13, 1984, the Association's Board of Governors voted to indefinitely defer the increase in the charge from \$7.50 to \$10.00.

9. *Non-Professional Services*

(a) The charge to be paid by non-professional subscribers for access to NASDAQ Level 1 Service or NASDAQ/National Market System Last Sale Information Service through the services of an authorized vendor shall be \$6.00 per month.

(b) A "non-professional" is a natural person who is neither:

i. registered or qualified in any capacity with the Securities and Exchange Commission, the Commodities Futures Trading Commission, any state securities agency, any securities exchange or association, or any commodities or futures contract market or association;

ii. engaged as an "investment adviser" as that term is defined in Section 201(11) of the Investment Advisors Act of 1940 (whether or not registered or qualified under that Act); nor

iii. employed by a bank or other organization exempt from registration under federal or state securities laws to perform functions that would require registration or qualification if such functions were performed for an organization not so exempt.

(c) The Corporation may waive all or part of the foregoing charges with respect to the services offered by a vendor.

[Section A amended effective March 21, 1985.]

B. **Equipment Charges**

The charge for using NASDAQ terminal equipment shall be \$180 per month for the first terminal and \$125 per month for each additional terminal where all terminals are located on the same premises.

C. **Special Options**

1. Receive only Printer

Permits subscriber to use NASDAQ Level 3 terminals to enter quotations simultaneously into an internal computer system.

2. Local Posting

Permits subscriber to process Level 1 data directly into its computer system for its own analysis. Subscriber is responsible for line and modem charges and separate charges for any terminal display.

3. Dual Keyboard

Permits subscriber to process Level 1 data, directly into its computer system for its own analysis. Subscriber is responsible for line and modem charges and separate charges for any terminal display.

4. Level 1 Data Stream

Permits subscriber to process Level 1 data, directly into its computer system for its own analysis. Subscriber is responsible for line and modem charges and separate charges for any terminal display.

D. **Installation, Removal or Relocation**

Upon installation, removal, relocation of terminal and related equipment, or combination thereof, the subscriber shall pay charges incurred by NASD or its subsidiaries, on behalf of the subscriber for the work being performed by the maintenance organization retained by NASD or its subsidiaries. A minimum charge of \$80 per site visit will be imposed upon the subscriber for any service provided under this Part.

E. Other Services

1. Daily Reports to Newspapers

Reports for regular public release, such as a list of closing quotations or market summary information for newspaper publication, shall be produced in a format acceptable to most publishers without charge. Should such information be transmitted to another location at the request of any firm, a charge may be imposed for such services by the Corporation.

2. Other Requests for Data

The Corporation may impose and collect compensatory charges for data from the System, supplied upon request, where there is no provision elsewhere in this Part IV for charges for such service or sale.

3. Correspondents

The charge for registration and display of a correspondent firm for a registered market maker shall be \$3.50 per month for each correspondent displayed per security.

F. Partial Month Charges

The charges for the month of commencement or termination of service will be a pro rata share of the full monthly charge computed by dividing the number of business days the service was provided during that month by a standard 20 business day month.

G. Late Fees

All NASDAQ charges which are past due for 60 days or more shall be subject to a late fee of 10% of the amount past due.

H. Mutual Fund Quotation Program

Funds included in the Mutual Fund Quotation Program shall be assessed an annual fee of \$150 per fund authorized for the News Media Lists and \$100 per fund authorized for the Supplemental List. Funds authorized during the course of an annual billing period shall receive a proration of these fees but no credit or refund shall accrue to funds terminated during an annual billing period.

I. Minor Modifications in Charges

In order to compensate for minor variations in annual net income, the Board of Governors may increase or decrease the total charges in this Schedule by 10% from the base charges as adopted on August 28, 1979 upon filing such change with the Commission pursuant to Section 19(b)(3) of the Act.

[Section A.5. added effective October 6, 1982; amended effective July 24, 1984; Section A.6. added effective October 16, 1982; Section A.7. added effective March 1, 1983; Section A.8. added effective January 3, 1984; amended effective July 30, 1985; renumbered as Part V effective September 13, 1985.]

VI

NASDAQ ISSUER QUOTATION FEE

A. Entry Fee

1. The issuer of each security which is authorized for inclusion in the NASDAQ System shall pay to the Corporation upon entry into the NASDAQ System an entry fee to be computed as follows with a maximum entry fee during any 24 month period of \$5,000 per issuer:

- a. Stock Issues—\$1,000 or \$.001 per share outstanding, whichever is higher;
- b. Investment Company Shares—\$1,000 or \$.001 per share outstanding, whichever is higher;
- c. Warrant Issues—\$1,000 or \$.001 per warrant outstanding, whichever is higher;
- d. Unit Issues
 - i) Where one or more of the component securities in the unit is an authorized security in the NASDAQ System—\$1,000;
 - ii) Where the component securities in the unit are not authorized securities in the NASDAQ System—\$1,000 or \$.001 per unit initially issued, whichever is higher;
- e. Shares of Beneficial Interest—\$1,000 or \$.001 per share outstanding, whichever is higher;
- f. Convertible Debentures—\$1,000 or \$50 per million dollars face amount of debentures outstanding, whichever is higher;
- g. Securities of Foreign Issuers and American Depository Receipts—\$1,000.

2. The entry fee shall be waived for those securities reentering the NASDAQ System for which an entry fee for the same security has been paid to the Corporation during the twenty-four month period prior to reentry. For purposes of calculating the above-mentioned twenty-four (24) month period the date of reentry shall be the date of receipt of the application for reentry into the NASDAQ System.

3. In the case of a merger, consolidation, or reorganization involving at least one issuer of an authorized security, the entry fee shall be waived for the security issued to carry out such merger, consolidation or re-organization provided that such security is promptly authorized for inclusion in the NASDAQ System.

4. Except for Unit Issues, Securities of Foreign Issuers, and American Depository Receipts the entry fee shall be based on the total outstanding securities of the class to be included in the NASDAQ System as shown on the issuer's most recent Form 10-K filed with the SEC or in the case of new issues, as shown in the appropriate prospectus. In the case of issuers which are not required to file a Form 10K with the Commission, the entry fee shall be based on the annual report required to be filed with the appropriate regulatory authority.

B. Annual Fee

1. The issuer of each security which is authorized for inclusion in the NASDAQ System shall pay annually to the Corporation an

annual fee for each such security to be computed as follows with a maximum annual fee of \$4,000 per issuer:

- a. Stock Issues—\$250 or \$.0005 per share outstanding, whichever is higher;
- b. Investment Company Shares—\$250 or \$.0005 per share outstanding, whichever is higher;
- c. Warrant Issues—\$250 or \$.0005 per warrant outstanding, whichever is higher;
- d. Unit Issues
 - i) Where one or more of the component securities in the unit is an authorized security in the NASDAQ System—\$250;
 - ii) Where the component securities in the unit are not authorized securities in the NASDAQ System—\$250 or \$.0005 per unit initially issued, whichever is higher;
- e. Shares of Beneficial Interest—\$250 or \$.0005 per share outstanding, whichever is higher;
- f. Convertible Debentures—\$250 or \$25 per million dollars face amount of debentures outstanding, whichever is higher;
- g. Securities of Foreign Issuers and American Depository Receipts—\$250.

2. Except for Unit Issues, Securities of Foreign Issuers, and American Depository Receipts, the annual fee shall be based on the total amount of outstanding securities of the class included in the NASDAQ System as shown on the issuer's most recent Form 10-K annual report filed with the SEC. In the case of issuers which are not required to file a Form 10-K with the Commission, the annual fee shall be based on the annual report required to be filed with the appropriate regulatory authority.

3. If an authorized security is removed from the NASDAQ System, that portion of the annual fee for such security attributable to the months following the date of removal shall be refunded upon request.

C. Interim Inclusion Fee

1. In the case of a new issue which is authorized for inclusion in the NASDAQ System and for which an application has been made for listing on a national securities exchange pursuant to Section 12(b) of the Securities Exchange Act of 1934, such issuer shall pay to the Corporation upon entry into the NASDAQ System an Interim Inclusion Fee to be computed as follows with a maximum Interim Inclusion Fee of \$1,000:

- a) Stock Issues—\$200 or \$.0005 per share outstanding, whichever is higher;
- b) Warrant Issues—\$200 or \$.0005 per warrant outstanding, whichever is higher;
- c) Unit Issues
 - i) where one or more of the component securities in the unit is an authorized security in the NASDAQ System—\$200;

ii) where the component securities in the unit are not authorized securities in the NASDAQ System—\$200 or \$.0005 per unit initially issued, whichever is higher;

- d) Shares of Beneficial Interest—\$200 or \$.0005 per share outstanding, whichever is higher;
- e) Convertible Debentures—\$200 or \$25 per million dollars face amount of debentures outstanding, whichever is higher;
- f) Securities of Foreign Issuers and American Depository Receipts—\$200.

2. In the event the issue is not accepted for listing on a national securities exchange within 60 calendar days of inclusion in the NASDAQ System, the entry and annual fees set forth in Sections A and B above shall apply and the Interim Inclusion Fee shall be credited toward the entry and annual fees.

[Part III added effective June 1, 1977; redesignated as Part V effective January 19, 1977; Section c amended effective December 29, 1977; Part V renumbered as Part VI effective September 13, 1985; amended effective March 1, 1986.]

VII

PUBLICATION AND DISSEMINATION OF QUOTATIONS TO THE NEWS MEDIA

The Information Committee shall recommend lists of quotations of NASDAQ securities for dissemination by the news media. The criteria for such lists shall be determined by the Information Committee in light of the space available for publication and the information desired by the news media and the investing public.

The criteria shall be based on a combination of the following:

- A. securities outstanding;
- B. market value of securities outstanding;
- C. price;
- D. net worth of the issuer;
- E. net income of the issuer;
- F. operating history of the issuer;
- G. dollar value of securities traded.

The Information Committee may, under appropriate circumstances, grant exceptions to its established criteria if it determines that it is in the public interest to do so.

Criteria for Inclusion in Quotation Lists

I. Bankruptcy and/or Liquidation

A security shall not be included in the National List if the issuer shall have filed under any of the sections of the Bankruptcy Act or announced that liquidation has been authorized by its Board of Directors and that the company is committed to proceed.

Criteria for Inclusion in Quotation Lists—Continued

II. Composition of the Lists

There shall be two recommended lists of NASDAQ securities provided to the media: the "National List" and the "Additional List". Inclusion on the lists shall be determined semi-annually on the basis of information available to the Association on the selection date. All quotations released shall be Level I quotations.

III. National List

A. Domestic Common Stock

1. Initial Inclusion Criteria

The financial criteria for domestic common stock are separated into two alternative categories detailed below. Issuers which meet either one of the alternative criteria will be included in the National List regardless of their dollar volume. Alternative No. 1 includes a net income requirement while Alternative No. 2 has no income requirement but establishes higher financial requirements for those development companies which have no operating income:

Alternative No. 1

1. 350,000 Publicly Held Shares
2. Market Value of Publicly Held Shares of \$2,000,000
3. Minimum Bid Price of \$3.00
4. Net Income of \$300,000 in the previous fiscal year or in two of the last three fiscal years.

Alternative No. 2

1. 800,000 Publicly Held Shares
2. Market Value of Publicly Held Shares of \$8,000,000
3. Net Worth of \$8,000,000
4. Incorporated for 4 Years

2. Maintenance Criteria

Upon inclusion in the National List under either of the alternative sets of initial inclusion criteria, issuers must satisfy the maintenance criteria set forth below to remain eligible for inclusion in the National List.

1. 200,000 Publicly Held Shares
2. Market Value of Publicly Held Shares of \$2,000,000
3. Either Annual Net Income of \$200,000 for the previous fiscal year or in two of the last three fiscal years or Net Worth of at least \$1,000,000.

B. Foreign Securities

Foreign issues and American Depository Receipts. (ADR's) registered pursuant to Section 12(g) under the Securities Exchange Act of 1934, as well as issues for which all relevant information has been filed with the Securities and Exchange Commission pursuant

to Rule 12g3-2, shall meet the same criteria as domestic common stock except that the publicly held shares requirement for ADR's shall be determined by the number of ADR's outstanding.

C. Warrants

Common stock of issuer must be in the National List and all criteria for domestic common stock apply except that the publicly held shares requirement is replaced with 450,000 warrants publicly held at the time of the initial distribution.

D. Convertible Debentures

Common stock of issuer must be in the National List and \$100 million of the issue must be outstanding.

E. Units

All criteria for domestic common stock apply except that the publicly held shares requirement is replaced with 350,000 publicly held units at time of initial distribution.

F. Rights

Automatically included if common stock of issuer is quoted in the National List.

G. Preferred Stock, Shares or Certificates of Beneficial Interest of Trusts, Limited Partnership Interests, Real Estate Investment Trusts and Closed End Funds
Same criteria as domestic common stock.

H. New Issues

Securities that meet the above criteria immediately following an initial distribution or secondary offering will be added to the National List on the day of the distribution.

IV. Additional List

All positions in the Additional List will be filled on the basis of dollar value of average weekly volume.*
Amended effective July, 1982.

[Part VI renumbered as Part VII effective September 13, 1985.]

VIII

LOCAL QUOTATIONS PROGRAM

The NASD Local Quotations Program is a service of the Association designed to provide a source of quotations to the media for securities of particular interest to specific communities. All quotations shall be inter-dealer quotations, represent the market for the security and, except for unusual circumstances, contain both bid and asked quotations. Nominal and "asked only" quotations shall not be released.

A. Authority of the NASDAQ Committee

The Local Quotations Program is administered by the Information Committee of the Corporation. It shall appoint the members of the Local Quotations Committees, consider requests for exceptions from the national inclusion standards set forth in Section C of this Part VII, and review and establish procedures for the administration of the program.

B. Role of the Local Quotations Committees

The various Local Quotations Committees shall be designated by the Information Committee and their members appointed by it. The Local Quotations Committees shall select securities to be included on their local quotations list, supervise the administration of the local quotation program, and develop local inclusion standards.

C. National Inclusion Standards

1. All securities of companies included in NASDAQ shall be eligible for inclusion in Local Quotations Lists.
2. The following inclusion standards shall apply to securities not included in NASDAQ:

* Explanation of Average Weekly Volume.—To monitor security volume data in NASDAQ, a statistical moving average method called exponential averaging is used and is recomputed weekly. This technique gives more weight to the most current volume and less weight to the most distant past. For example, at present the weighting parameter is chosen to give 10% weight to the most current volume and less than 1% weight to the volume that occurred 23 weeks ago. Thus, the significance of the reported volume as maintained for more than 6 months is virtually nil.

a. Compliance with one of the following:

- i. The bid price for a security shall be at least \$2.00, or
 - ii. the issuer reports total assets not less than \$2,000,000 and capital and surplus not less than \$1,000,000 and may continue to be included so long as it continues to report total assets not less than \$750,000 and capital and surplus not less than \$375,000.
- b. The issuer shall make prompt and full disclosure of all material corporate developments.
- c. The issuer shall annually submit to its shareholders a balance sheet and income statement.
- d. CUSIP numbers shall be imprinted on all stock certificates of the issuer.

[C. 2. a. amended August 24, 1981.]

D. Local Inclusion Standards

Whether an issue is selected to be included on a local quotations list shall depend upon considerations of sufficient shareholder interest, reflected by the number of shareholders residing in the area, or other fair and reasonable standards. Local Quotations Committees may, in response to local market conditions or space limitations, impose additional inclusion requirements, or inclusion requirements greater than the national requirements set forth in Section C, for its local quotations list. It shall file such increased standards with the Information Committee.

[Part VII renumbered as Part VIII effective September 13, 1985.]

IX

PROCEDURES FOR ACCESS TO THE NASDAQ SYSTEM BY NON-NASDAQ MARKET MAKERS

These procedures permit a registered NASDAQ market maker, upon approval by the Corporation, to enter quotations into the NASDAQ System on behalf of another market maker who does not subscribe to Level 3 NASDAQ service.

A. Definitions

1. An "access market maker" is a member of the Association who does not subscribe to Level 3 NASDAQ service, but is or intends to be a market maker in a security for which quotations are displayed on the NASDAQ System.
 2. An "entering subscriber" is a registered NASDAQ market maker who has entered into an arrangement with an access market maker to enter quotations in the NASDAQ System on behalf of such access market maker.
- B. The entering subscriber may enter quotations in the NASDAQ System on behalf of an access market maker only upon submission and approval by the Association of the following:

1. A fully executed copy of the access arrangement agreement which shall contain all agreements and conditions concerning the access arrangement.
2. An application for registration as an access market maker for each security.

C. Access market makers and entering subscribers shall be limited to one access arrangement in each security.

D. Quotations displayed by the entering subscriber on behalf of the access market maker shall be accompanied by the entering subscriber's market maker identifier and a special symbol designating that an access arrangement exists. The identity of the access market maker must be made available by the entering subscriber upon request.

E. All transactions resulting from the display of quotations in the NASDAQ System by the entering subscriber shall be executed by the entering subscriber and he shall be responsible for the transaction. Both the entering subscriber and the access market maker shall be subject to and be responsible for compliance with the provisions of Schedule D.

F. Access market makers shall pay to the Corporation an access fee of \$70 per month for the first security and \$52.50 per month for each additional security which is subject to an approved access arrangement.

[Part VIII renumbered as Part IX effective September 13, 1985.]

X

REPORTING TRANSACTIONS IN NASDAQ NATIONAL MARKET SYSTEM DESIGNATED SECURITIES

This Part has been adopted pursuant to Article VII of the Corporation's By-Laws and applies to the reporting by all members of transactions in NASDAQ/National Market System securities ("designated securities") through the Transaction Reporting System. These securities have been designated pursuant to the "National Market System Securities Designation Plan with Respect to NASDAQ Securities" ("Plan") which has been approved by the Securities and Exchange Commission pursuant to Rule 11Aa2-1.

Section 1—Definitions

(a) Terms used in this Part shall have the meaning as defined in the Association's By-Laws and Rules of Fair Practice, Rule 11Aa2-1 and the Plan, unless otherwise defined herein.

(b) "Transaction Reporting System" means the transaction reporting system for the reporting and dissemination of last sale reports in designated securities.

(c) "Registered Reporting Market Maker" means a member of the Association which is registered as a NASDAQ market maker in a particular designated security. A member is a Registered Reporting Market Maker in only those designated securities for which it is registered as a NASDAQ market maker. A member shall cease being a Registered Reporting Market Maker in a designated security when it has withdrawn or voluntarily terminated its quotations in that security or when its quotations have been suspended or terminated by action of the Corporation.

(d) "Non-Registered Reporting Member" means a member of the Association which is not a Registered Reporting Market Maker.

Section 2—Transaction Reporting

(a) When and How Transaction Reported

(1) Registered Reporting Market Makers shall transmit through the Transaction Reporting System, within 90 seconds after execution, last sale reports of transactions in designated securities executed during the hours of the Transac-

tion Reporting System. Transactions not reported within 90 seconds after execution shall be designated as late.

(2) Non-Registered Reporting Members shall transmit through the Transaction Reporting System, or if such System is unavailable, via Telex, TWX or telephone to the NASDAQ Department in New York City, within 90 seconds after execution, last sale reports of transactions in designated securities executed during the trading hours of the Transaction Reporting System unless all of the following criteria are met:

(A) The aggregate number of shares of designated securities which the member executed and is required to report during the trading day does not exceed 1,000 shares; and

(B) The total dollar amount of shares of designated securities which the member executed and is required to report during the trading day does not exceed \$25,000; and

(C) The member's transactions in designated securities have not exceeded the limits of (A) or (B) above on five or more of the previous ten trading days.

Transactions not reported within 90 seconds after execution shall be designated as late. If the member has reason to believe its transactions in a given day will exceed the above limits, it shall report all transactions in designated securities within 90 seconds after execution; in addition, if the member exceeds the above limits at any time during the trading day, it shall immediately report and designate as late any unreported transactions in designated securities executed earlier that day.

(3) Non-Registered Reporting Members shall report weekly to the NASDAQ Department in New York City, on a form designated by the Board of Governors, last sale reports of transactions in designated securities which are not required by paragraph (2) to be reported within 90 seconds after execution.

(4) All Members shall report weekly to the NASDAQ Department in New York City, on a form designated by the Board of Governors, last sale reports of transactions in designated securities executed outside the trading hours of the Transaction Reporting System.

(5) All trade tickets for transactions in designated securities shall be time-stamped at the time of execution.

(b) Which Party Reports Transaction

(1) In transactions between two Registered Reporting Market Makers, only the member representing the sell side shall report.

(2) In transactions between a Registered Reporting Market Maker and a Non-Registered Reporting Member, only the Registered Reporting Market Maker shall report.

(3) In transactions between two Non-Registered Reporting Members, only the Member representing the sell side shall report.

(4) In transactions between a member and a customer, the member shall report.

(c) Information To Be Reported

Each last sale report shall contain the following information:

(1) NASDAQ symbol of the designated security;

(2) Number of shares (odd lots shall not be reported);

(3) Price of the transaction as required by paragraph (d) below;

(4) A symbol indicating whether the transaction is a buy, sell, or cross.

(d) Procedures for Reporting Price and Volume

Members which are required to report pursuant to paragraph (b) above shall transmit last sale reports for all purchases and sales in designated securities, in the following manner:

(1) For agency transactions, report the number of shares and the price excluding the commission charged.

Example: SELL as agent 100 shares at 40
less a commission of \$12.50;
REPORT 100 shares at 40.

(2) For dual agency transactions, report the number of shares only once, and report the price excluding the commission charged.

Example: SELL as agent 100 shares at 40
less a commission of \$12.50;
BUY as agent 100 shares at 40 plus
a commission of \$12.50;
REPORT 100 shares at 40.

(3) For principal transactions, except as provided below, report each purchase and sale transaction separately and report the number of shares and the price. For principal transactions which are executed at a price which includes a mark-up, mark-down or service charge, the price reported shall exclude the mark-up, mark-down or service charge. Such reported price shall be reasonably related to the prevailing market, taking into consideration all relevant circumstances including, but not limited to, market conditions with respect to the security, the number of shares involved in the transaction, the published bids and offers with size at the time of the execution (including the reporting firm's own quotation), the cost of execution and the expenses involved in clearing the transaction.

Example: BUY as principal 100 shares from another member at 40 (no mark-down included).
REPORT 100 shares at 40.

Example: BUY as principal 100 shares from a customer at 39 $\frac{7}{8}$, which includes a $\frac{1}{8}$ mark-down from prevailing market at 40;
REPORT 100 shares at 40.

Example: SELL as principal 100 shares to a customer at 40 $\frac{7}{8}$, which includes a $\frac{1}{8}$ mark-up from the prevailing market of 40;
REPORT 100 shares at 40.

Example: BUY as principal 10,000 shares from a customer at 39 $\frac{3}{4}$, which includes a $\frac{1}{4}$ mark-down or service charge from the prevailing market of 40;
REPORT 10,000 shares at 40.

Exception:

A "riskless" principal transaction in which a member that is not a market maker in the security after having received from a customer an order to buy, purchases the security as principal from another member or customer to satisfy the order to buy or, after having received from a customer an order to sell, sells the security as principal to another member or customer to satisfy the order to sell, shall be reported as one transaction in the same manner as an agency transaction, excluding the mark-up or mark-down.

Example: SELL as principal 100 shares to another member at 40 to fill an existing order;

BUY as principal 100 shares from a customer at 40 minus a mark-down of \$12.50;
REPORT 100 shares at 40.

(e) Transactions Not Required To Be Reported

The following types of transactions shall not be reported:

(1) transactions executed through the Computer Assisted Execution System ("CAES");

(2) odd-lot transactions;

(3) transactions which are part of a primary distribution by an issuer or of a registered secondary distribution (other than "shelf distributions") or of an unregistered secondary distribution;

(4) transactions made in reliance on Section 4(2) of the Securities Act of 1933;

(5) transactions where the buyer and seller have agreed to trade at a price substantially unrelated to the current market for the security, e.g., to enable the seller to make a gift;

(6) purchases or sales of securities effected upon the exercise of an option pursuant to the terms thereof or the exercise of any other right to acquire securities at a preestablished consideration unrelated to the current market.

(f) Aggregation of Transaction Reports

(1) Under the following conditions, individual executions of orders in a security at the same price may be aggregated, for transaction reporting purposes, into a single transaction report.

(A) Orders received prior to the opening of the reporting member's market in the security and simultaneously executed at the opening. Also, orders received during a trading or quotation halt in the security and executed simultaneously when trading or quotations resume. In no event shall a member delay its opening or resumption of quotations for the purpose of aggregating transactions.

Example: A firm receives, prior to its market opening, several market orders to sell which total 10,000 shares. All such orders are simultaneously executed at the opening at a reported price of 40. REPORT 10,000 shares at 40.

(B) Simultaneous executions by the member of customer transactions at the same price, e.g., a number of limit orders being executed at the same time when a limit price has been reached.

Example: A firm has several customer limit orders to sell which total 10,000 shares at a limit price of 40. That price is reached and all such orders are executed simultaneously. REPORT 10,000 shares at 40.

(C) Orders relayed to the trading department of the reporting member for simultaneous execution at the same price.

Example: A firm purchases a block of 50,000 shares from an institution at a reported price of 40. REPORT 50,000 at 40.

Subsequently, one of the firm's branch offices transmits to the firm's trading department for execution customer buy orders in the security totalling 12,500 shares at a reported price of 40. REPORT 12,500 at 40. Subsequently, another branch office transmits to the firm's trading department for execution customer buy orders totalling 15,000 shares in the security at a reported price of 40. REPORT 15,000 at 40.

Example: Due to a major change in market conditions, a firm's trading department receives from a branch office for execution customer market orders to sell totalling 10,000 shares. All are executed at a reported price of 40. REPORT 10,000 at 40.

(D) Orders received or initiated by the reporting member which are impractical to report individually and are executed at the same price within 60 seconds of execution of the initial transaction; provided however, that no individual order of 10,000 shares or more may be aggregated in a transaction report and that the aggregated transaction report shall be made within 90 seconds of the initial execution reported therein. Furthermore, it is not permissible for a member to withhold reporting a trade in anticipation of aggregating the transaction with other transactions.

Examples: A reporting member receives and executes the following orders at the following times and desires to aggregate reports to the maximum extent permitted under this rule.

First Example

11:01:00 500 shares at 40
11:01:05 500 shares at 40
11:01:10 9,000 shares at 40
11:01:15 500 shares at 40

REPORT: 10,500 shares at 40 within ninety seconds of 11:01.

Second Example

11:01:00 100 shares at 40
11:01:10 11,000 shares at 40
11:01:30 300 shares at 40

REPORT: 400 shares within ninety seconds of 11:01 and 11,000 shares within ninety seconds of 11:01:10 (individual transactions of 10,000 shares or more must be reported separately).

Third Example

11:01:00 100 shares at 40
11:01:15 500 shares at 40
11:01:30 200 shares at 40
11:02:30 400 shares at 40

REPORT: 800 shares at 40 within ninety seconds of 11:01 and 400 shares at 40 within ninety seconds of 11:02:30 (the last trade is not

within sixty seconds of the first and must, therefore, be reported separately).

(2) The reporting member shall identify aggregated transaction reports and order tickets of aggregated trades in a manner directed by the Corporation. [Amended effective August 3, 1984; renumbered as Part X effective September 13, 1985.]

• • • **Selected NASD Notices to Members**

83-1 Explanation of Real-Time Transaction Reporting Under Schedule D of the By-Laws in NASDAQ NMS Securities (January 6, 1983)

XI

MUTUAL FUND QUOTATION PROGRAM

A. Description

The Mutual Fund Quotation Program collects and disseminates through the NASDAQ System prices for both mutual funds and money market funds.

B. Eligibility Requirements

To be eligible for participation in the Mutual Fund Quotation Program, a fund shall:

1. be registered with the Securities and Exchange Commission as an open-end management investment company pursuant to the Investment Company Act of 1940,
2. execute the agreement specified by the Corporation relating to the fund's obligations under the Program,
3. pay, and continue to pay, the fees as set forth in Part IV of Schedule D, and
4. submit quotations through an automatic quotation system operated by the Corporation.

C. News Media Lists

1. a. An eligible fund shall be authorized for inclusion in the News Media Lists released by the Corporation if it has at least 1,000 shareholders or \$25 million in net assets.
b. Compliance with Subsection C.1.a. shall be certified by the fund to the Corporation at the time of initial application for inclusion in the Lists.
2. a. An authorized fund shall remain included in the News Media Lists if it has either 750 shareholders or \$15 million in net assets.
b. Compliance with Subsection C.2.a. shall be certified to the Corporation upon written request by the Corporation.

D. Supplemental List

An eligible fund shall be authorized for inclusion in the Supplemental List released to vendors of NASDAQ Level 1 Service if the fund has at

least 300 shareholders at the time of initial application for inclusion in the Supplemental List.

E. Determination of Number of Shareholders

For the purposes of this Part X, the number of shareholders of a fund shall be measured by the sum of record holders, as reported by the fund to the Securities and Exchange Commission, and the number of accounts of members of the Corporation beneficially owned by customers (as defined in Article II, Section 1(f) of the Rules of Fair Practice); provided, however, that an account with more than one beneficial owner shall be considered one account.

[Part XI adopted effective July 30, 1985.]