



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

notice to members 87-14

March 2, 1987

TO: All NASD Members and Other Interested Persons

RE: Request for Comments on Proposed Amendments to Article I, Section (c) of the NASD By-Laws and Schedule C to the NASD By-Laws Relating to the Definition of the Term "Branch Office"

LAST DATE FOR COMMENT IS APRIL 15, 1987.

EXECUTIVE SUMMARY

The NASD requests comments on proposed amendments to Article I, Section (c) of the NASD By-Laws and Schedule C to the NASD By-Laws that would clarify that branch offices of NASD member firms located outside the United States fall within the definition of "branch office."

The amendments would delete the phrase "located in the United States" from the definition of "branch office" contained in both Article I, Section (c) of the By-Laws and in the Explanation of the Board of Governors — "Distinction Between Branch Office and Office of Supervisory Jurisdiction; Appointment of Executive Representative; Standards for Determining Branch Offices," following Schedule C to the By-Laws.

The text of the amendments is attached.

BACKGROUND AND SUMMARY OF AMENDMENTS

The NASD is concerned that there exists among the membership some confusion concerning the status of member firms' offices located outside the United States. This confusion may result from the fact that, although the offices and associated persons are subject to NASD jurisdiction, the offices are excluded from the definition of "branch office."

The NASD Board of Governors believes that the restrictive language now contained in the NASD By-Laws and Schedule C is inconsistent with the current environment of increasing internationalization of the securities markets and that such restrictive language serves no useful purpose. The Board, upon the recommendation of the Qualifications Committee, is therefore proposing to delete the restriction, making the definition applicable to all branch offices, wherever located.

If the proposed changes are adopted, branch offices located outside the United States will be assigned to existing NASD districts for purposes of examinations, elections and other district-level functions. These proposed changes are not intended to affect the availability of the "foreign associate" category of registration for persons associated with foreign branch offices.

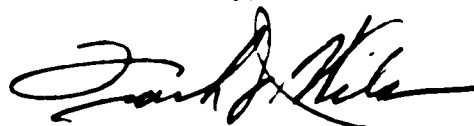
The NASD encourages all members and other interested persons to comment on the proposed amendments. Comments should be directed to:

Mr. Lynn Nellius
Secretary
National Association of Securities Dealers, Inc.
1735 K Street, N.W.
Washington, D.C. 20006-1506

Comments must be received no later than April 15, 1987. Comments received by this date will be considered by the NASD Qualifications Committee and Board of Governors. Any changes to the NASD By-Laws that are approved by the Board must be voted upon by the membership, and filed with and approved by the Securities and Exchange Commission before becoming effective.

Questions concerning this notice may be directed to Eugene Bleier, Attorney, NASD Office of General Counsel, at (202) 728-8287.

Sincerely,



Frank J. Wilson
Executive Vice President
and General Counsel

Attachment

PROPOSED AMENDMENT TO NASD BY-LAWS*

ARTICLE I

Definitions

(c) "branch office" means an office [located in the United States] which is owned or controlled by a member, and which is engaged in the investment banking or securities business;

* * *

PROPOSED AMENDMENT TO SCHEDULE C TO THE BY-LAWS*

• • • Explanation of the Board of Governors

**Distinction Between Branch Office and Office of
Supervisory Jurisdiction; Appointment of Executive
Representative; Standards for Determining Branch Offices**

. . . The term "branch office" defined in Article I of the By-Laws means any office, including a corporate subsidiary of a member, [located in the United States and] other than the main office which is owned or controlled by a member and engaged in the investment banking or securities business.

* Deleted language is bracketed.

NASD

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

notice to members 87-15

March 6, 1987

IMPORTANT MAIL VOTE OFFICERS, PARTNERS AND PROPRIETORS

TO: All NASD Members

RE: Proposed Amendments to Article III, Sections 21(b) and 41 of the NASD Rules of Fair Practice and the Interpretation of the Board of Governors Concerning Short Sales

LAST VOTING DATE IS APRIL 5, 1987.

EXECUTIVE SUMMARY

NASD members are invited to vote on proposed amendments to Article III, Sections 21(b) and 41 of the NASD Rules of Fair Practice. The NASD Board of Governors has reviewed the applicability of recent regulation of short-sale practices by NASD members to various types of securities and believes its appropriate to propose certain amendments.

The proposed amendment to Article III, Section 21(b) would exclude corporate debt securities from the requirement to mark customer order tickets "long" or "short."

The proposed amendment to Article III, Section 41 would exclude convertible debentures from the requirement to report to the NASD on a monthly basis aggregate short positions in NASDAQ securities in all customer and proprietary firm accounts.

The proposed amendments have been approved by the NASD Board of Governors and now require membership approval. Prior to becoming effective, the proposed amendments must also be approved by the Securities and Exchange Commission. The text of the proposed amendments is attached as Exhibit 1.

BACKGROUND

During the past year, the NASD Board of Governors adopted rules providing for additional regulation of short-sale practices in the over-the-counter market. Article III, Section 21 of the NASD Rules of Fair Practice was amended to require the marking of customer order tickets "long" or "short" in all over-the-counter transactions.

Amendments to the Board of Governors' Interpretation on Prompt Receipt and Delivery of Securities were also adopted creating separate procedures for the acceptance of "long" and "short" orders from customers and establishing new requirements for accepting customer short-sale orders.

In addition, the NASD adopted Article III, Section 41 of the NASD Rules of Fair Practice, which requires members to maintain a record of aggregate short positions in NASDAQ securities in all customer and proprietary firm accounts and to report such information to the NASD on a monthly basis.

Since the new short-sale requirements became effective, questions have arisen regarding the applicability of the new rules to various types of securities. As a result, the Board reviewed the new requirements to determine whether they should be applicable to all securities traded over-the-counter, all securities included in the NASDAQ System, only straight equity over-the-counter or NASDAQ securities, or any other category of securities. Based on this review, the Board has approved certain amendments to the NASD short-sale rules.

SUMMARY OF PROPOSED AMENDMENTS

Article III, Section 21(b)

Article III, Section 21(b) of the NASD Rules of Fair Practice currently requires that customer order tickets in all transactions be marked "long" or "short." The proposed amendment would exclude corporate bonds from this requirement. Thus, order tickets in over-the-counter transactions in securities, other than corporate debt securities, will be required to be marked "long" or "short." However, municipal or government securities are not subject to the NASD short-sale rules.

Interpretation of the Board of Governors on Prompt Receipt and Delivery of Securities

Recent amendments to the Interpretation of the Board of Governors on Prompt Receipt and Delivery of Securities (Interpretation) established separate procedures for the acceptance of "long" and "short" orders from customers and new

requirements for acceptance of customer short-sale orders. The Board has approved an amendment to the Interpretation that will exclude corporate bonds from the short-sale requirements established by the Interpretation.

Pursuant to Article VII of the NASD By-Laws, amendments to an Interpretation of the Board of Governors do not require a membership vote. The text of the proposed amendment to the Interpretation is attached as Exhibit 2 for informational purposes only.

Article III, Section 41

Article III, Section 41 of the NASD Rules of Fair Practice currently requires members to maintain a record of aggregate short positions in all NASDAQ securities in all customer and proprietary firm accounts and to report these totals to the NASD on a monthly basis. The proposed amendment would exclude convertible debentures from this reporting requirement. Aggregate short positions in common shares, rights and warrants included in the NASDAQ System will be required to be reported.

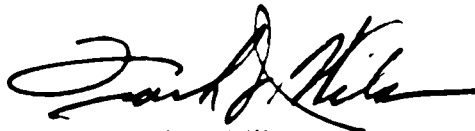
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The Board believes that the proposed amendments to Article III, Sections 21(b) and 41 of the NASD Rules of Fair Practice are necessary and appropriate and recommends that members vote their approval.

Please mark the attached ballot according to your convictions and return it in the enclosed, stamped envelope to "The Corporation Trust Company." Ballots must be postmarked no later than April 5, 1987.

Questions concerning this notice may be directed to T. Grant Callery, NASD Office of General Counsel, at (202) 728-8285.

Sincerely,



Frank J. Wilson
Executive Vice President
and General Counsel

Attachments

PROPOSED AMENDMENTS TO NASD RULES OF FAIR PRACTICE*

Article III

Sec. 21

Marking of Customer Order Tickets

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(b) A person associated with a member shall indicate on the memorandum for each customer order for the sale of any security whether the order is "long" or "short," except that this requirement shall not apply to transactions in corporate debt securities. An order shall be marked "long" only if (1) the customer's account is "long" the security involved or (2) the member is informed that the customer owns the security and will deliver it as soon as possible without undue inconvenience or expense.

Sec. 41

Reporting of Aggregate "Short" Positions

Each member shall maintain a record of total "short" positions in all customer and proprietary firm accounts in common shares, rights and warrants [securities] included in the NASDAQ System and shall regularly report such information to the Corporation in such a manner as may be prescribed by the Corporation. Reports shall be made as of the close on the settlement date falling on the 15th of each month, or, where the 15th is a non-settlement date, on the preceding settlement date. Reports shall be received by the Corporation no later than the second business day after the reporting settlement date.

* New language is underlined; deleted language is bracketed.

**PROPOSED AMENDMENT TO THE
INTERPRETATION OF THE BOARD OF GOVERNORS***

Prompt Receipt and Delivery Of Securities

It shall be deemed a violation of Article III, Section 1 of the Rules of Fair Practice for a member to violate the provisions of the following interpretation thereof:

(a) **Purchases:** No member or person associated with a member shall accept a customer's purchase order for any security unless it has first ascertained that the customer placing the order or its agent agrees to receive securities against payment in an amount equal to any execution, even though such an execution may represent the purchase of only a part of a larger order.

(b) **Sales:**

(1) **Long Sales**

No member or person associated with a member shall accept a long sale order for any customer in any security unless:

(A) the member has possession of the security;

(B) the customer is long in his account with the member;

(C) reasonable assurance is received by the member or a person associated with the member from the customer that the security will be delivered to it in good deliverable form within five (5) business days following the execution of the order; or

(D) the security is on deposit in good deliverable form with a member of the Association or an organization subject to state or federal banking regulations and instructions have been forwarded to the depository to deliver the securities against payment.

(2) **Short Sales**

No member or person associated with a member shall accept a "short" sale order for any customer in any security unless the member makes an affirmative determination that it will receive delivery of the security from the customer or borrow the security on behalf of the customer for delivery by settlement date. This requirement shall not apply, however, to transactions in corporate debt securities.

* New language is underlined.

(3) Public Offering

In the case of a public offering of securities, paragraph (b)(1)(c) hereof shall not apply during the period from the commencement of the public offering until seven (7) business days following the date of settlement between the underwriter and the issuer of the securities; provided, however, that the member believes in good faith that the customer has purchased the securities.

(4) Notation of Order

To satisfy the requirements of "reasonable assurance" contained in subparagraph (1)(c) above, each member or person associated with a member shall make a notation on the memorandum for each customer order at the time the order is taken reflecting the customer's representation as to the present location of the securities, whether they are in good deliverable form, and the customer's ability to deliver the securities to the member within five (5) business days.

NASD

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

notice to members 87-16

March 10, 1987

TO: All NASD Members and Other Interested Persons

RE: Request for Comments on Proposed Amendments to Article IV, Sections 3 and 4 of the NASD By-Laws and Article IV, Section 5 of the NASD Rules of Fair Practice

LAST DATE FOR COMMENT: April 9, 1987.

EXECUTIVE SUMMARY

The NASD requests comments on proposed amendments to Article IV, Sections 3 and 4 of the NASD By-Laws and Article IV, Section 5 of the NASD Rules of Fair Practice. The amendments to the By-Laws would codify certain internal procedures presently employed by the NASD in processing terminations for cause. The amendment to the Rules of Fair Practice would clarify the obligation of persons who remain subject to the NASD's jurisdiction to respond to requests for information made by the NASD.

The texts of the proposed amendments are attached as Exhibit 1 and Exhibit 2.

BACKGROUND

A significant aspect of the NASD's self-regulatory activity involves the investigation of terminations for cause to determine whether the circumstances leading to the termination involved violations of the NASD's rules. To ensure adequate time to investigate such matters fully and to bring disciplinary action where appropriate, the NASD's practice has been to place a hold on terminations for cause when the Uniform Termination Notice For Securities Industry Registration (Form U-5) indicates the possibility of misconduct. The effect of the hold is to prevent the termination from becoming effective and thus postpone the commencement of the one-year period within which, under Article IV, Section 4 of

the By-Laws, an individual no longer associated with a member firm remains subject to the NASD's jurisdiction to file a complaint. As currently proposed, the amendments to Article IV, Section 4 of the By-Laws would not extend the jurisdictional period; however, the NASD also invites comments concerning the advisability of increasing the jurisdictional period from one year to two years.

The investigation of a termination for cause necessarily involves obtaining information from the terminated individual, typically by means of a request for information pursuant to Article IV, Section 5 of the Rules of Fair Practice. The NASD has consistently taken the position that an individual who remains subject to the filing of a complaint pursuant to Article IV, Section 4 of the By-Laws, or whose termination is subject to a hold, remains a "person associated with a member" for purposes of the individual's obligation to provide information requested by the NASD pursuant to Article IV, Section 5. Further, the NASD regards the failure to respond to Article IV, Section 5 requests as violations of Article III, Section 1 of the Rules of Fair Practice. The NASD's ability to require such persons to provide information regarding the circumstances of their termination and to impose sanctions for failure to do so is essential to the discharge of its regulatory obligations.

As a result of a significant number of recent disciplinary actions involving failure to provide information regarding a termination for cause in response to the NASD's requests made pursuant to Article IV, Section 5, the NASD Board of Governors has determined that it is appropriate to publish these amendments for comment.

SUMMARY OF PROPOSED AMENDMENTS

Article IV of the NASD By-Laws

Section 3

The proposed amendment to Article IV, Section 3 of the NASD By-Laws would codify the NASD's current practice of placing a hold on a termination for cause when the Form U-5 indicates that the circumstances surrounding the termination may have involved actionable misconduct. The proposed amendment would also codify the NASD's position that a hold may be placed retroactively; that is, where a termination is permitted to become effective, the NASD may rescind the effective termination date based upon the subsequent receipt of an amended Form U-5 that discloses previously undiscovered misconduct.

Section 4

Presently, Article IV, Section 4 of the NASD By-Laws provides that the NASD retains, for a period of one year following the effective date of termination, jurisdiction to bring a disciplinary action against a person formerly associated with a member alleging misconduct that occurred during the period of association. The proposed amendment to Section 4 would codify the NASD's practice of placing a hold on a termination for cause and specify that a hold, by preventing the termination from taking effect, extends the one-year jurisdictional period. The amendment would also provide that failure of a person to respond to a request for information pursuant to Article IV, Section 5 of the Rules of Fair Practice during the

period that such person is subject to the NASD's jurisdiction to file a complaint may be charged as a violation of the NASD's rules, notwithstanding that such failure occurred after the person was associated with an NASD member.

Article IV, Section 5 of the NASD Rules of Fair Practice

The proposed amendment would codify the NASD's position that the obligation to respond to a request for information made by the NASD pursuant to Article IV, Section 5 extends to persons who remain subject to the NASD's jurisdiction to file a complaint. The NASD believes it essential that persons whose terminations are being investigated for possible misconduct be under an obligation to provide information necessary to enable the staff to determine whether a complaint is warranted.

In addition, the amendment would provide that "failure" to respond to an Article IV, Section 5 request constitutes a violation of the NASD's rules, rather than a "refusal" as is presently provided. The amendment would also provide that a request for information is properly made if sent to a person's last address of record with the NASD.

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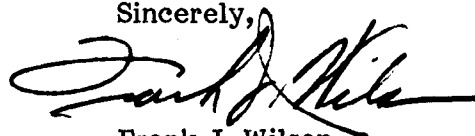
The NASD encourages all members and other interested persons to comment on the proposed amendments. Comments should be directed to:

Mr. Lynn Nellius
Secretary
National Association of Securities Dealers, Inc.
1735 K Street, N.W.
Washington, D.C. 20006-1506

Comments must be received no later than April 9, 1987. All comments will be made available for public inspection. Comments received by this date will be considered by the NASD's National Business Conduct Committee and the NASD Board of Governors. If the proposed amendments are approved by the Board, they will be submitted to the membership for a vote. If approved by the membership, the amendments must be filed with and approved by the Securities and Exchange Commission before becoming effective.

Questions concerning this notice may be directed to Jacqueline D. Whelan, Attorney, NASD Office of the General Counsel, at (202) 728-8270.

Sincerely,



Frank J. Wilson
Executive Vice President
and General Counsel

Attachments

PROPOSED AMENDMENTS TO NASD BY-LAWS*

ARTICLE IV

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Notification by Member to Corporation of Termination

Sec. 3. Following the termination of the association with a member of a person who is registered with it, such member shall promptly, but in no event later than thirty (30) calendar days after such termination, give written notice to the Association on a form designated by the Board of Governors of the termination of such association. A member who does not submit such notification in writing within the time period prescribed shall be assessed a late filing fee as specified by the Board of Governors. Termination of registration of such person associated with a member shall not take effect so long as any complaint or action is pending against a member and to which complaint or action such person associated with a member is also a respondent, or so long as any complaint or action is pending against such person individually or so long as any examination of the member or person associated with such member is in process. The Corporation may in its discretion determine that termination of registration of such person associated with a member shall not take effect where the written notice thereof discloses that such person engaged or may have engaged in conduct that may constitute a violation of any statute, rule or regulation governing such person's activities while associated with a member. The Corporation, however, may in its discretion declare the termination effective at any time; provided, however, that if, during the period that such person remains

* New text is underlined.

subject to the Corporation's jurisdiction to file a complaint under the Code of Procedure as provided in Section 4 of this Article IV, the Corporation shall receive notice that such person engaged or may have engaged in conduct that may constitute a violation of any statute, rule or regulation governing such person's activities while associated with a member, the Corporation may in its discretion declare the termination ineffective as of the date the Corporation first received notice of the termination.

Retention of Jurisdiction

Sec. 4. A person whose association with a member has been terminated and is no longer associated with any member of the Corporation shall continue to be subject to the filing of a complaint under the Code of Procedure based upon conduct which commenced prior to the termination or upon such person's failure, while subject to the Corporation's jurisdiction as provided herein, to provide information requested by the Corporation pursuant to Article IV, Section 5 of the NASD Rules of Fair Practice, but any such complaint shall be filed within one (1) year after the effective date of termination of registration pursuant to Section 3 above or, in the case of an unregistered person, within one (1) year after the date upon which such person ceased to be associated with the member. In the event that the Corporation shall determine pursuant to Section 3 above that the termination of a person's association with a member shall not take effect, such person shall continue to be subject to the filing of a complaint as provided herein until, and for one (1) year following, the Corporation's determination to permit the termination to take effect.

PROPOSED AMENDMENT TO NASD RULES OF FAIR PRACTICE*

ARTICLE IV

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**Reports and Inspection of Books for Purpose of
Investigating Complaints**

Sec. 5. For the purpose of any investigation, or determination as to filing of a complaint or any hearing of any complaint against any member of the Corporation or any person associated with a member made or held in accordance with the Code of Procedure, any Local Business Conduct Committee, any District Business Conduct Committee, or the Board of Governors, or any duly authorized member or members of any such Committee or Board or any duly authorized agent or agents of any such Committee or Board shall have the right (1) to require any member of the Corporation, ~~[or] person associated with a member,~~ or person no longer associated with a member where such person is subject to the Corporation's jurisdiction pursuant to Article IV, Section 4 of the By-Laws, to report orally or in writing with regard to any matter involved in any such investigation or hearing, and (2) to investigate the books, records and accounts of any such member with relation to any matter involved in any such investigation or hearing. No member, ~~[or] person associated with a member,~~ or person no longer associated with a member, where such person is subject to the Corporation's jurisdiction pursuant to Article IV, Section 4 of the By-Laws, shall ~~[refuse]~~ fail to make any report as required in this Section, or ~~[refuse]~~ fail to permit any inspection of books, records and accounts as may be validly called for under this Section. Any notice requiring an oral or

* New text is underlined; deleted text is bracketed.

written report or calling for an inspection of books, records and accounts pursuant to this Section shall be deemed to have been received by the member or person to whom it is directed by the mailing thereof to the last known address of such member or person as reflected on the Corporation's records.

NASD

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

notice to members 87-17

March 11, 1987

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

RE: NASDAQ National Market System Grows to 2,802 Securities With 20 Voluntary Additions on March 17, 1987

On Tuesday, March 17, 1987, 20 issues are scheduled to join the NASDAQ National Market System, bringing the total number of issues in NASDAQ/NMS to 2,802. These 20 issues, which will begin trading under real-time trade reporting, are entering NASDAQ/NMS pursuant to the Securities and Exchange Commission's criteria for voluntary designation.

The 20 issues scheduled to join NASDAQ/NMS on Tuesday, March 17, 1987, are:

Symbol*	Company	Location
ALFB	Abraham Lincoln Federal Savings Bank	Dresher, PA
JAIL	Adtec, Inc.	San Antonio, TX
ASBI	Ameriana Savings Bank, F.S.B.	New Castle, IN
BMTC	Bryn Mawr Bank Corporation	Bryn Mawr, PA
CAMD	California Micro Devices Corporation	Milpitas, CA
CHANF	Chandler Insurance Company, Ltd.	Grand Cayman, Cayman Islands
CSBA	County Savings Bank	Santa Barbara, CA
ECTL	Elcotel, Inc.	Sarasota, FL
VIRO	Enviropact, Inc.	Miami, FL
EVGN	Evergreen Bancorp, Inc.	Glens Falls, NY
EXLN	Excelan, Inc.	San Jose, CA

* NASDAQ symbols are proprietary to the National Association of Securities Dealers, Inc.

Symbol*	Company	Location
FAME	Flamemaster Corporation (The)	Sun Valley, CA
NBIO	North American Biologicals, Inc.	Miami, FL
OLOG	Offshore Logistics, Inc.	Lafayette, LA
OBAT	Olympic International Bank and Trust Company	Boston, MA
PRMD	Pro-Med Capital, Inc.	North Miami Beach, FL
RFSB	Reisterstown Federal Savings Bank	Reisterstown, MD
RNRC	Riverside National Bank	Riverside, CA
WSTNA	Roy F. Weston, Inc. (Cl A)	West Chester, PA
UMBIZ	Universal Medical Buildings, L.P.	Milwaukee, WI

The following issues may be included in NASDAQ/NMS prior to the next regularly scheduled phase-in date:

Pending Additions

Symbol*	Company	Location
ABKG	Allied Bankshares, Inc.	Thomson, GA
ABKR	Anchor Savings Bank	Northport, NY
FURS	Antonovich, Inc.	New York, NY
BRMK	Brinkman Instruments, Inc.	Westbury, NY
CAFS	Cardinal Federal Savings & Loan Association	Owensboro, KY
MMRH	MMR Holding Corporation	Baton Rouge, LA
OFBS	Oriental Federal Savings Bank	Homacao, PR
PLAB	Photronic Labs, Inc.	Brookfield Center, CT
SBFS	Southstate Bank for Savings	Brockton, MA
YCSL	Yorkridge-Calvert Savings & Loan Association	Baltimore, MD

NASDAQ/NMS Interim Additions

Symbol*	Security	Date of Entry
AMRE	AMRE, Inc.	2/26/87
ELEX	Elexis Corporation	2/27/87
MSBI	Montclair Savings Bank	3/05/87
TMAX	Telematics International, Inc.	3/05/87

The following changes to the list of NASDAQ/NMS securities occurred since February 20, 1987:

NASDAQ/NMS Symbol* And/Or Name Changes

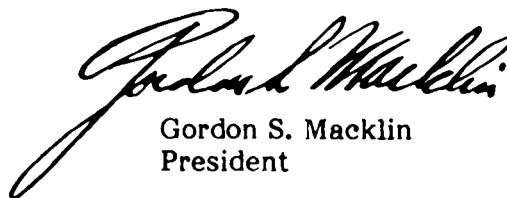
New/Old Symbol*	New/Old Security	Date of Change
TCII/TCII	Technology for Communications International, Inc./Technology for Communications International	2/25/87
FPNJ/FPNJ	First Peoples Financial Corp./First Peoples Bank of New Jersey	3/03/87
AZIC/QNTL	Arizona Instrument Corporation/Quintel Corporation	3/06/87

NASDAQ/NMS Deletions

Symbol*	Security	Date
CALIW	Calumet Industries, Inc. (Wts)	2/23/87
HOSPW	Hosposable Products, Inc. (Wts)	2/23/87
NUCPO	New Century Entertainment Corporation (Ser B Pfd)	2/23/87
ABXFF	American Barrick Resources Corporation	2/25/87
CTSK	Computer Task Group, Incorporated	2/26/87
JFRY	Jeffrey Martin, Inc.	2/27/87
CFDY	Citizens Fidelity Corporation	3/02/87

Any questions regarding this notice should be directed to Kit Milholland, Senior Analyst, NASDAQ Operations, at (202) 728-8281. Questions pertaining to trade reporting rules should be directed to Leon Bastien, Assistant Director, NASD Market Surveillance, at (202) 728-8192.

Sincerely,



Gordon S. Macklin
President



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

notice to members 87-18

March 25, 1987

TO: All NASD Members and Municipal Securities Bank Dealers
 ATTN: All Operations Personnel
 RE: Holiday Settlement Schedule

Securities markets and the NASDAQ System will be closed on Good Friday, April 17, 1987. "Regular way" transactions made on the business days immediately preceding that day will be subject to the following schedule.

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

<u>Trade Date</u>		<u>Settlement Date</u>		<u>Regulation T Date*</u>	
April	9	April	16	April	21
	10		20		22
	13		21		23
	14		22		24
	15		23		27
	16		24		28
	17	MARKETS CLOSED			—
	20		27		29

* Pursuant to Sections 220.8(b)(1) and (4) of Regulation T of the Federal Reserve Board, a broker-dealer must promptly cancel or otherwise liquidate a customer purchase transaction in a cash account if full payment is not received within seven (7) business days of the date of purchase or, pursuant to Section 220.8(d)(1), make application to extend the time period specified. The date by which members must take such action is shown in the column entitled "Regulation T Date."

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

Questions regarding the application of these settlement dates to a particular situation may be directed to the NASD's Uniform Practice Department at (212) 839-6256.

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

notice to members 87-19

March 27, 1987

TO: All NASD Members and Other Interested Persons

RE: Federal Regulation of Government Securities Brokers and Dealers Under
the Government Securities Act of 1986

EXECUTIVE SUMMARY

On October 28, 1986, President Reagan signed the Government Securities Act of 1986 (Act) which provides for the federal regulation of government securities brokers and dealers. The new legislation, which becomes effective on July 25, 1987, creates new Section 15C under the Securities Exchange Act of 1934 (Exchange Act) entitled "Government Securities Brokers and Dealers." The new section provides for various conforming amendments to the Exchange Act, the Investment Company Act of 1940 and the Investment Advisers Act of 1940.

When implemented, the regulations under the Act will assure that all brokers and dealers in government securities are subject to a system of regulation and enforcement.

While the Act's provisions apply to brokers, dealers and financial institutions, ^{1/} this notice only addresses the applicability of the Act to brokers and dealers.

Registration Requirements

Section 15C(a)(1)(A) under the new legislation requires a government securities broker or dealer (GSBD), other than a currently registered broker or

^{1/} A "financial institution" is defined as a bank, a foreign bank or a federally insured savings and loan association.

dealer, to register with the Securities and Exchange Commission (SEC). In addition to SEC registration, a GSBDB must become a member of a national securities exchange or the NASD by July 25, 1987.

Under Section 15C(a)(1)(B), a GSBDB that is currently registered as a broker or dealer is required to file written notice of its status with the SEC by July 25, 1987. Form BD is being revised to incorporate a GSBDB status category and is expected to be available by the end of April 1987. Therefore, affected NASD members will have sufficient time to meet the notification deadline.

A GSBDB that is not currently regulated and is required under the new legislation to register with the SEC is not precluded from registering as a broker or dealer under Section 15(b) of the Exchange Act, which relates to general securities brokers and dealers. A GSBDB that registers under new Section 15C(a)(1)(A) will be limited to conducting a government securities business only.

The NASD will guarantee completion of membership processing before July 25, 1987, to GSBDBs submitting complete applications prior to April 15, 1987. If the NASD receives applications after April 15, it will make every effort to complete processing prior to July 25, but cannot guarantee it. After July 25, 1987, only registered GSBDBs will be permitted to conduct a government securities business.

Rules Applicable to Transactions in Government Securities

Section 15C(b)(1) under the new legislation authorizes the Secretary of the Treasury (Secretary or Treasury) to propose and adopt rules governing transactions in government securities. ^{2/} These rules will address financial responsibility matters, including, but not limited to, capital adequacy standards, acceptance of custody and use of customers' securities, carrying and use of customers' deposits or credit balances, and transfer and control of government securities subject to repurchase agreements and similar transactions. Government securities brokers and dealers will also be required to file periodic financial reports as well as audited annual financial statements certified by an independent public accountant.

Section 15C(d)(1) authorizes the SEC to inspect the books and records of GSBDBs registered with the SEC and to enforce the rules adopted under Section 15C. For GSBDBs that are also NASD members, the NASD will have responsibility for enforcing compliance with the applicable provisions of Section 15C and the rules and regulations promulgated thereunder. The NASD's authority in this area is provided through an amendment to Section 15A of the Exchange Act, which governs registered securities associations. The amendment to Section 15A provides that a registered securities association may adopt and implement rules to: (1) enforce compliance by its members with the provisions of Section 15C; (2) provide that its members will be appropriately disciplined for violations of Section 15C; (3) provide

^{2/} The Treasury's rulemaking authority expires on October 1, 1991. In 1990, the Treasury, the SEC and the Federal Reserve Board will report to the Congress on extension of the Treasury's authority.

for reasonable examination of the books and records of registered brokers and dealers; and (4) prohibit fraudulent, misleading, deceptive and false advertising.

In promulgating these rules, the Secretary is also authorized under the legislation to consider the adequacy of rules already applicable to GSBDs. In this connection, Sections 15C(a)(4) and (b)(3) permit the Secretary to exempt GSBDs from the provisions of Section 15C in areas in which such brokers and dealers are already adequately regulated.

Treasury Department's Proposed Regulations

On February 25, 1987, the Treasury published proposed regulations for GSBDs. Under the Government Securities Act, temporary regulations must take effect by May 26, 1987, and final regulations by July 25, 1987. As proposed, the regulations would apply to Section 15C registrants but would exempt GSBDs registered under Section 15 or 15B that remain subject to the SEC's financial responsibility rules; e.g., Rule 15c3-1, capital requirement; Rule 15c3-3, protection of customers' securities and balances; Rule 17a-3, recordkeeping requirements; and Rule 17a-5, financial reportings.

The Treasury's proposal relating to capital, customer protection, recordkeeping and reporting requirements adopts and incorporates much, and in some categories all, of the relevant existing SEC rules by cross references to SEC regulations. However, one area of significant difference relates to the capital requirement. Treasury does not use the SEC net capital and haircut provisions of Rule 15c3-1 for GSBDs. Instead, it has incorporated into its proposal the capital adequacy guideline recommended by the Federal Reserve Bank of New York, ^{3/} with some modifications.

Members who have unregistered GSBD affiliates are urged to study the proposal carefully to determine the actions necessary to comply with the regulations within the time frames specified.

Persons Subject to Statutory Disqualifications

Section 15C(c)(1) under the new legislation charges the SEC to censure, place limitations on the activities of, suspend for a period not to exceed 12 months, or revoke the registration of a GSBD if it determines, on the record and after notice and opportunity for hearing, that such broker or dealer is or has associated with it any person who is subject to a statutory disqualification, as defined under Section 15(b)(4) of the Exchange Act. The SEC may also impose similar sanctions on any person subject to a statutory disqualification who is associated or seeking association with a GSBD. The Act also gives the NASD the authority to deny or condition membership or association with a member based upon the existence of a statutory disqualification. A GSBD applicant seeking broker-dealer registration and NASD membership that employs an individual subject to a statutory disqualification

^{3/} The Federal Reserve Bank of New York, Capital Adequacy Guideline for U. S. Government Securities Dealers (May 20, 1985).

may be required to undergo a proceeding before the SEC or an appropriate NASD committee before registration or membership becomes effective.

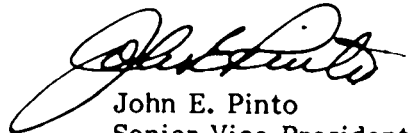
Important: Potential GSBDS that employ statutorily disqualified individuals should begin membership and registration application processing as soon as possible since delays may occur. ^{4/}

* * * *

Attached is a copy of the Treasury Department's summary that accompanied its February 25, 1987, proposal. A copy of the full text of the proposal can be obtained from the Government Securities Regulation Project, Room 4417, Main Treasury Building, Washington, D. C. 20220, or by calling (202) 566-2278.

Questions concerning this notice may be addressed to either your local NASD District Office, or to Walter J. Robertson, Associate Director, NASD Surveillance, (202) 728-8236 or to Thomas R. Cassella, Vice President, NASD Financial Responsibility, (202) 728-8237.

Sincerely,



John E. Pinto
Senior Vice President
Compliance

Attachment

^{4/} The acts and events constituting a statutory disqualification are enumerated in Sections 3(a)(39) and 15(b)(4) of the Exchange Act. Included among the class of disqualified persons are individuals subject to SEC and self-regulatory organization bars, persons convicted of certain enumerated crimes and persons subject to securities-related orders of injunction. This listing is not complete and members and their counsel should refer to the cited sections of the Exchange Act for more detail.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE
February 23, 1987

CONTACT: Arthur Siddon
566-5252

Treasury Issues Proposed Regulations Under the Government Securities Act

The Treasury Department today released proposed regulations under the Government Securities Act of 1986. The regulations, which for the first time would establish a system of identification and regulation of entities that deal solely in government securities and other exempted securities, will be published in the Federal Register on February 25 for 30 days of public comment. Under the Government Securities Act, temporary regulations must take effect on May 26, 1987 and final regulations on July 25, 1987. The proposed regulations affect all brokers and dealers in government securities, including those newly required to register under the Government Securities Act, registered broker-dealers, and some financial institutions.

The proposed regulations include a financial responsibility requirement for currently unregulated government securities brokers and dealers that is based on the capital adequacy guidelines published in May, 1985 by the Federal Reserve Bank of New York. SEC-registered broker-dealers and financial institutions would not be subject to any additional capital requirement. The proposal also would require newly registered government securities brokers and dealers to follow SEC rules concerning possession or control of customer securities, recordkeeping and reporting, with modifications designed to enhance the knowledge and protection of all parties to repurchase transactions. Many of the repurchase agreement modifications would also apply to government securities brokers or dealers that are registered broker-dealers or financial institutions. The proposal also includes regulations concerning the custodial holdings of government securities by banks and other depository institutions.

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The Treasury believes that these regulations, when implemented, will fairly and fully meet the mandate of the Government Securities Act, and will assure that all brokers and dealers in government securities are subject to a system of federal regulation and enforcement. While no regulations can guarantee against losses caused by fraud, the protections included in these regulations, combined with their vigorous enforcement by the SEC, federal financial institution regulators and self-regulatory organizations, should minimize such occurrences.

In developing the proposed regulations, the Treasury consulted with a broad range of interested parties. However, since the Government Securities Act provided only four months in which to develop the proposal, it is clear that some affected parties may not have been consulted. The Treasury especially urges smaller government securities brokers and dealers and investors to take this opportunity to provide their comments.

Reprints of the proposal (one set per firm) may be obtained from the Government Securities Regulation Project, Room 4417, Main Treasury Building, Washington, D.C. 20220 or call (202) 566-2278. Written comments should be submitted to the same address.

Summary of Treasury Proposed Regulations
Under the Government Securities Act of 1986

Coverage

These proposed regulations cover all brokers and dealers in government securities, including SEC-registered broker-dealers and financial institution brokers and dealers.^{1/} However, exemptions and special provisions throughout the regulations are designed to lessen the burden on these already regulated entities by avoiding duplicative regulation. The government securities involved extend beyond Treasury securities to, among other things, securities issued or guaranteed by agencies and government sponsored corporations and off-exchange options, puts, calls, etc. on those securities.

Dates

The proposed regulations carry a 30-day public comment period. Under the Government Securities Act of 1986 ("GSA"), regulations become effective as temporary regulations on May 26 and as final regulations on July 25, 1987.

Exemptions

Many entities, particularly financial institutions, that do not hold themselves out as government securities brokers or dealers engage in government securities transactions that would make them brokers or dealers under traditional definitions. In recognition of the fact that these institutions are already subject to governmental supervision, the regulations contain exemptions from registration and from the regulatory requirements for financial institutions whose only government securities activities are: (i) issuing or redeeming Savings Bonds or forwarding Savings Bond transactions; (ii) submitting tenders for the account of

^{1/} The SEC is responsible for interpreting the terms "government securities broker" and "government securities dealer," and for registering currently unregulated government securities brokers or dealers. SEC-registered broker-dealers and financial institution government securities brokers and dealers will be required to notify their regulators of their status as government securities brokers or dealers on or before July 25, 1987. The SEC and Federal Reserve will publish proposals on Wednesday, February 25, concerning registration and notice.

customers at Treasury auctions; (iii) transactions in a fiduciary capacity; (iv) doing repurchase and a limited number of reverse repurchase transactions; and (v) doing a limited number of actively solicited brokerage transactions or doing all such transactions through a broker or dealer on a fully disclosed network basis.

Other Savings Bond issuing and paying agents and forwarders are also exempt if they have no other government securities business. Corporate credit unions doing repurchase transactions with other credit unions are also exempt. Proposed regulations to be published shortly by the SEC are expected to limit the number of entities regulated by the Commodity Futures Trading Commission who will be subject to these regulations.

It is difficult to predict the number of entities that will register as government securities brokers or dealers (in contrast to full-line broker-dealers) and, therefore, be subject to all the requirements in these regulations. Further exemptions, classifications and modifications of rules may be provided to applicants who demonstrate full application of the rules is not necessary in the public interest and for the protection of investors.

Financial Responsibility

Currently unregulated government securities brokers and dealers who register under Section 15C of the Securities Exchange Act would be required to have liquid capital in excess of 120% of measured market risk. The system for measuring market risk involves a series of risk assessment factors (called "haircuts") based on current market conditions that take into account both the risks of fixed-rate financing and risk-reduction available through hedging. This standard is similar to the voluntary capital adequacy guidelines published by the Federal Reserve Bank of New York. It builds upon but is different than the SEC's Rule 15c3-1 in both the ratio requirement and the risk assessment factors.

SEC-registered broker-dealers and financial institution government securities brokers and dealers would be required only to follow the capital standards to which they are already subject.

Possession or Control of Customer Securities

Generally, the proposal follows the SEC requirements for custody and safekeeping of customer funds and balances. The proposed regulations also contain rules dealing specifically with securities that are the subject of repurchase transactions.

Under the proposed regulations, all master repurchase agreements with customers will have to be in writing, with specific transactions (including substitutions) confirmed in writing. In addition, a dealer must maintain possession or control of securities subject to hold-in-custody repurchase agreements both over night and during the trading day unless (i) the total amount of outstanding repurchase transactions with a customer is \$5,000,000 or more and (ii) the customer has specifically consented to such use. These requirements applicable to securities subject to hold-in-custody repurchase agreements are designed to provide greater assurance for the smaller institutional or fiduciary investors, such as local governments, that their interest in such securities are dealt with appropriately, while maintaining flexibility for the larger investors that are more accustomed to assessing the risks and benefits of such transactions.

Recordkeeping and Reporting

Newly registered government securities brokers and dealers will be required to follow SEC recordkeeping and audit rules, with minor modifications related to repurchase transactions. The reporting forms are the SEC's FOCUS reports modified to reflect the different capital requirements. Only the repurchase transaction modifications, which are identical to those proposed by the SEC in September 1986, would apply to SEC-registered broker-dealers.

For the most part, financial institution brokers and dealers would not be required to keep records other than those now required by the financial institution supervisory agencies. However, position records would be required (as is now the case for bank municipal securities dealers), as would annual counts of securities held for customers within the bank's broker or dealer function.

Custody of Government Securities by Depository Institutions

Subchapter B of the proposed regulations implements Title II of the GSA by proposing regulations to safeguard customer securities held by a depository institution other than in a fiduciary capacity or in a trust department.

The regulations would require that such securities be kept in an account separate from the depository institution's proprietary accounts, free from lien, that records be kept for each customer, and that the securities be periodically counted and the counts reconciled to bank records.