June 1, 1988

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

RE: NASDAQ National Market System Totals 2,950 Securities With 10 Additions on June 7, 1988

On Tuesday, June 7, 1988, the following 10 issues are scheduled to join the NASDAQ National Market System, bringing the total number of issues in NASDAQ/NMS to 2,950:

Symbol*	Company	Location
CPAK	CPAC, Inc.	Leicester, NY
CBKI	Community Banks, Inc.	Millersburg, PA
CFER	ConferTech International, Inc.	Golden, CO
CBNEV	Constitution Bancorp of New England, Inc. (WI)	Bridgeport, CT
EDAT	Electronic Data Technologies	Las Vegas, NV
FSFC	First Security Financial Corporation	Salisbury, NC
FSAK	Franklin Savings Association	Ottawa, KS
KCSG	KCS Group, Inc.	Bridgewater, NJ
LECT	Lectec Corporation	Minnetonka, MN
PFDC	Peoples Federal Savings Bank of DeKalb County	Auburn, IN

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

NASDAQ/NMS Pending Additions

The following issues have filed for inclusion in NASDAQ/NMS upon effectiveness of their registration statements with the SEC or other appropriate regulatory authority. Their inclusion may commence prior to the next regularly scheduled phase-in date.

Symbol*	Company	Location
CLDR	Cliffs Drilling Company	Houston, TX
EGGS	Egghead, Inc.	Bothwell, WA
HVDK	Harvard Knitwear, Inc.	Brooklyn, NY

NASDAQ/NMS Interim Additions

The registration statements of the following issues were declared effective by the SEC or other appropriate regulatory authority. The issues commenced trading in NASDAQ/NMS since May 9, 1988.

Symbol*	Security	Date of Entry
BFSI	BFS Bankorp, Inc.	5/11/88
RESP	Respironics, Inc.	5/12/88
BMRG	BMR Financial Group, Inc.	5/17/88
FRMG	FirstMiss Gold, Inc.	5/18/88
RELY	Relational Technology, Inc.	5/18/88
RCHFA	Richfood Holdings, Inc. (Cl A)	5/18/88

NASDAQ/NMS Symbol* and/or Name Changes

The following changes to the list of NASDAQ/NMS securities occurred since May 9, 1988.

New/Old Symbol*	New/Old Security	Date of Change
FFPC/FFPC	Florida First Federal Savings Bank/First Federal Savings & Loan Association of Panama City	5/10/88
USAB/OBAT	USA Bancorp, Inc./Olympic International Bank & Trust Company	5/19/88

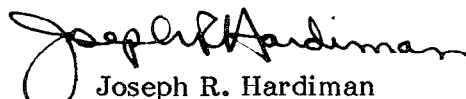| EXCG/EXCG | Exchange Bancorp, Inc./Exchange International Corporation | 5/20/88 |
FFCA/FFCA	Carolina Bancorp, Inc./First Federal of the Carolinas, F.A.	5/24/88
PVDC/PVDC	Princeville Corp./Princeville Development Corp.	5/24/88
TCII/TCII	TCI International, Inc./ Technology for Communications International, Inc.	5/25/88

NASDAQ/NMS Deletions

Symbol*	Security	Date
AWCSA	A W Computer Systems, Inc. (Cl A)	5/11/88
ALLS	Allison's Place, Inc.	5/11/88
FURSA	Antonovich, Inc. (Cl A)	5/11/88
CLGBB	Clabir Corporation (Cl B)	5/11/88
WBED	Classic Corporation	5/11/88
COMX	Comptrex Systems Corporation	5/11/88
EVGD	Evergood Products Corporation	5/11/88
FTSI	Fisher Transportation Services, Inc.	5/11/88
IBIAE	IBI Security Service, Inc. (Cl A)	5/11/88
MAVR	Maverick Restaurant Corporation	5/11/88
MOSE	Moseley Holding Corporation (The)	5/11/88
OSIX	Optical Specialties, Inc.	5/11/88
PAMC	Provident American Corporation	5/11/88
RPCO	Repco Incorporated	5/11/88
STAR	Stars To Go, Inc.	5/11/88
CODA	Step-Saver Data Systems, Inc.	5/11/88
CODAZ	Step-Saver Data Systems, Inc. (Wts)	5/11/88
STRN	Sutron Corporation	5/11/88
TVIV	Taco Viva, Inc.	5/11/88
VISC	Visual Industries, Inc.	5/11/88
CTZN	Citizens Financial Corporation	5/12/88
USMA	Union Special Corporation	5/12/88
HAMB	Hamburger Hamlets, Inc.	5/13/88
JPAC	ADMAC, Inc.	5/16/88
CFNVF	Centrafarm Group, N.V.	5/16/88
EXPO	Insteel Industries, Inc.	5/16/88
CADEW	Cade Industries, Inc. (Wts)	5/17/88

CNSB	Centennial Savings Bank, F.S.B.	5/17/88
FCLF	First Columbia Financial Corp.	5/17/88
WOWIQ	Worlds of Wonder, Inc.	5/17/88
BITX	Biotherapeutics Incorporated	5/18/88
NMED	Inmed Corporation	5/20/88
CHAT	Chatham Manufacturing Company	5/24/88
IRND	Interand Corporation	5/24/88
OTFEE	OTF Equities, Inc.	5/24/88
PFPF	Price Pfister, Inc.	5/24/88

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

Sincerely,

Joseph R. Hardiman
President

June 1, 1988

IMPORTANT MAIL VOTE

OFFICERS, PARTNERS, PROPRIETORS

TO: All NASD Members

RE: Adoption of New Schedule H to the NASD By-Laws and Proposed Amendment to Article III, Section 21 of the NASD Rules of Fair Practice.

LAST VOTING DATE IS JULY 1, 1988.

EXECUTIVE SUMMARY

NASD members are invited to vote on a proposed amendment to Article III, Section 21 of the NASD Rules of Fair Practice. The amendment would require the marking of customer order tickets to reflect the dealers contacted by members and the quotations received to determine the best inter-dealer market as required by an amendment to the NASD's "Best Execution Interpretation" which has been approved by the Securities and Exchange Commission (SEC).

In a separate but related matter, the SEC approved the NASD's adoption of new Schedule H to the NASD By-Laws, which establishes an electronic system of mandatory price and volume reporting for over-the-counter securities that are not part of the National Association of Securities Dealers Automated Quotations (NASDAQ) System.

The text of the proposed amendment to Article III, Section 21 is attached.

BACKGROUND

In letters to the NASD, dated October 8, 1985, and June 17, 1987, the SEC directed the NASD, to develop a nationwide automated market surveillance program for non-NASDAQ, over-the-counter (OTC) securities (commonly referred to as "pink sheet" stocks) and to develop a rule requiring member firms making a market in these securities to periodically report price and volume information to the NASD.

In response to the SEC's concerns, the NASD adopted proposed rule changes that provide for the routine surveillance of the non-NASDAQ, OTC securities market. The proposed rule changes, providing for a new Schedule H to the NASD By-Laws, were approved by the SEC on May 2, 1988. [1] New Schedule H defines the terms "non-NASDAQ security" and "non-NASDAQ reporting system" and establishes minimum threshold reporting requirements for non-NASDAQ, OTC securities.

EXPLANATION OF AMENDMENTS

Schedule H to the NASD By-Laws

Section 1 of new Schedule H defines the term "non-NASDAQ reporting system" to encompass any electronic price and volume reporting system operated by the NASD for non-NASDAQ securities. The term "non-NASDAQ security" is defined as any equity security that is neither included in the NASDAQ System nor traded on any national securities exchange. [2]

Section 2 of Schedule H requires members executing principal transactions in non-NASDAQ securities to provide price and volume data for both purchase and sale transactions if the member's aggregate daily volume of either sales or purchases exceeds either a minimum of 50,000 shares or $10,000. For example, if a member executes an aggregate purchase volume of 70,000 shares and has an aggregate sale volume of 20,000 shares, it will be required to report aggregate volume for both the purchases and sales, as well as price data, because the minimum threshold level was reached on the buy side of the market.

The provisions of Section 2(a) of Schedule H also require members to report the highest price at which the member sold the non-NASDAQ security meeting the minimum reporting level and the lowest price at which the member purchased the security. The price to be reported on customer transactions would be inclusive of mark-ups or mark-downs. In addition, the member would be required to indicate whether the trades that established these high and low prices represented an execution with a customer or with another broker-dealer.

Section 2(b) of Schedule H provides for daily reporting of price and volume information of principal transactions on non-NASDAQ securities executed by members. Members will have the option to report price and volume information

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[1] See File No. SR-NASD-87-55, Securities Exchange Act Release 34-25637.

[2] The NASD may implement the proposed price and volume reporting requirements in phases. A separate NASD notice to members discussing the requirements and operation of the new reporting system will be issued in the near future.

either between the hours of 4 p.m. and 6:30 p.m. Eastern Time on the trade date or between 7:30 a.m. and 9 a.m. Eastern Time on the next business day.

The new rules also amend the Interpretation of the Board of Governors—Execution of Retail Transactions in the Over-the-Counter Market (the "Best Execution Interpretation") by adding a new paragraph (D) that requires members to check a minimum of three dealers (or all dealers in a security if three or less) prior to executing any transaction on behalf of a customer in a non-NASDAQ security.

Article III, Section 21 to the Rules of Fair Practice

In order for members to demonstrate compliance with the new amendment to the Best Execution Interpretation, the NASD determined that Article III, Section 21 of the NASD Rules of Fair Practice (pertaining to the maintenance of books and records) should be amended. The proposed amendment to Section 21 would require that a member demonstrate its compliance with the Interpretation by noting on its order ticket the identities of the dealers contacted and the quotations received to determine the best inter-dealer markets as required by the amended Best Execution Interpretation.
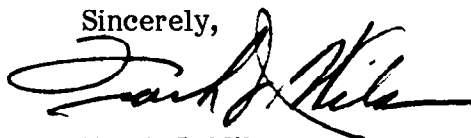
* * * *

The Board believes that the proposed amendment to Article III, Section 21 of the NASD Rules of Fair Practice is necessary and appropriate to demonstrate compliance with the amendment to the Best Execution Interpretation and to better surveil the execution of trades in the non-NASDAQ, equity securities market. The Board thus 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 July 1, 1988.

Questions concerning this notice can be directed to Eneida Rosa, NASD Office of General Counsel, at (202) 728-8284.

Sincerely,

Frank J. Wilson
Executive Vice President
and General Counsel

Attachment

PROPOSED AMENDMENT TO ARTICLE III, SECTION 21 OF THE NASD RULES

OF FAIR PRACTICE*

Books and Records

Section 21

(b) **Marking of Customer Order Tickets**

(i) A person associated with a member shall indicate on the memorandum 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 may be marked "long" if (1) the customer's account is long the security involved or (2) the customer agrees to deliver the security as soon as possible without undue inconvenience or expense.

(ii) A person associated with a member shall indicate on the memorandum for each transaction in a non-NASDAQ security, as that term is defined in Schedule H to the NASD By-Laws, the name of each dealer contacted and the quotations received to determine the best inter-dealer market.

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* New language is underlined.

June 7, 1988

TO: All NASD Members and Municipal Securities Bank Dealers

FROM: All Operations Personnel

RE: Independence Day Trade Date-Settlement Date Schedule

Securities markets and the NASDAQ System will be closed on Monday, July 4, 1988, in observance of Independence Day. "Regular way" transactions made on the business days noted below will be subject to the following schedule.

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

Trade Date		Settlement Date		Regulation T Date*	
June	24	July	1	July	6
	27		5		7
	28		6		8
	29		7		11
	30		8		12
July	1		11		13
	4	MARKETS CLOSED		—	
	5		12		14

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* 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 brokers, dealers, and municipal securities dealers for purposes of clearing and settling transactions pursuant to the NASD Uniform Practice Code and Municipal Securities Rulemaking Board Rule G-12 on Uniform Practice.

Questions regarding the application of these settlement dates to a particular situation may be directed to the NASD Uniform Practice Department at (212) 858-4341.

June 17, 1988

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

RE: NASDAQ National Market System Advances to 2,954 Securities With 14
        Additions on June 21, 1988

On Tuesday, June 21, 1988, the following 14 issues are scheduled to join the
NASDAQ National Market System (NASDAQ/NMS), bringing the total number of issues in
NASDAQ/NMS to 2,954:

Symbol*	Company	Location	SOES Execution Level**
AFPFZ	America First Participating/ Preferred Equity Mortgage L.P.	Omaha, NE	500
AMEI	American Medical Electronics, Inc.	Dallas, TX	1000
ARBC	American Republic Bancorp	Torrance, CA	200
AMGD	American Vanguard Corporation	Los Angeles, CA	500
BNBC	Broad National Bancorporation	Newark, NJ	200
CIBC	Citizens Bancorp	Riverdale, MD	500
CIBA	Citizens Bank	Murphy, NC	200
CMDT	Comdata Holdings Corporation	Nashville, TN	1000
CMRE	Comstock Resources, Inc.	Dallas, TX	1000

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

**   New rules will be implemented shortly that will require all market makers in
        NASDAQ/NMS issues to be active participants in the Small Order Execution System
        (SOES). The specific "SOES Execution Level" assigned to each new entrant in
        NASDAQ/NMS will be included in future Notices to Members.

Symbol*	Company	Location	SOES Execution Level**
EMSIF	EMS Systems Ltd.	Carrollton, TX	500
FRBK	Fairfield First Bank & Trust Company	Fairfield, CT	200
HUHO	Hughes Homes, Inc.	Tacoma, WA	1000
HUHOW	Hughes Homes, Inc. (Wts)	Tacoma, WA	200
UNRIQ	UNR Industries, Inc.	Chicago, IL	1000

NASDAQ/NMS Pending Additions

The following issues have filed for inclusion in NASDAQ/NMS upon effectiveness of their registration statements with the SEC or other appropriate regulatory authority. Their inclusion may commence prior to the next regularly scheduled phase-in date.

Symbol*	Company	Location	SOES Execution Level**
CLDRV	Cliffs Drilling Company (WI)	Houston, TX	500
CNCD	Concorde Career Colleges, Inc.	Kansas City, MO	1000
DELL	Dell Computer Corporation	Austin, TX	1000
LFSA	First Federal Savings & Loan Association of Lenawee County	Adrian, MI	500
HVDK	Harvard Knitwear, Inc.	Brooklyn, NY	500
ILCI	ILC Industries, Inc.	Bohemia, NY	1000
INDX	Index Technology Corporation	Cambridge, MA	1000
NHLI	National Health Laboratories Incorporated	LaJolla, CA	1000
NOVXL	Nova Pharmaceuticals Corporation (Cl D Wts)	Baltimore, MD	500
NOVXM	Nova Pharmaceuticals Corporation (Cl C Wts)	Baltimore, MD	500
EWSCA	E. W. Scripps Company (Cl A)	Wilmington, DE	500
STOT	Stotler Group, Inc.	Chicago, IL	1000
CALLA	Telephone Management Corporation (Cl A)	Atlanta, GA	1000

NASDAQ/NMS Interim Additions: Special Note

The following securities have commenced trading in NASDAQ/NMS since June 1, 1988. A complete list of securities trading in NASDAQ/NMS as of May 31, 1988, and their SOES Execution Levels will be provided to all NASD Members and Level 2 and 3 subscribers in a forthcoming Notice to Members.

Symbol*	Security	Date of Entry	SOES Execution Level
MSHK	Medstone International, Inc.	6/02/88	1000
CPAK	CPAC, Inc.	6/07/88	1000
CBKI	Community Banks, Inc.	6/07/88	200
CFERV	ConferTech International, Inc. (WI)	6/07/88	1000
CBNEV	Constitutional Bancorp of New England, Inc. (WI)	6/07/88	200
EGGS	Egghead, Inc.	6/07/88	1000
EDAT	Electronic Data Technologies	6/07/88	500
FSFC	First Security Financial Corp.	6/07/88	200
FSAK	Franklin Savings Association	6/07/88	500
KCSG	KCS Group, Inc.	6/07/88	1000
LECT	Lectec Corporation	6/07/88	1000
PFDC	Peoples Federal Savings Bank of DeKalb County	6/07/88	200
STLTF	Stolt Tankers & Terminal (Holdings), S.A.	6/07/88	1000
CEUFV	Centurion Gold Ltd. (WI)	6/08/88	1000
KNCI	Kinetic Concepts, Inc.	6/08/88	1000
AMFLP	American Savings & Loan Association of Florida (Pfd)	6/13/88	200

NASDAQ/NMS Symbol* and/or Name Changes

The following changes to the list of NASDAQ/NMS securities occurred since May 25, 1988.

New/Old Symbol*	New/Old Security	Date of Change
COVT/COVT	Covington Development Group, Inc./Covington Technologies, Inc.	5/27/88
OXID/HOMC	Oxidyne Group, Inc. (The)/ Homac, Inc.	5/27/88
CNBT/CNBT	Community National Bancorp, Inc./Community National Bank & Trust Company of New York	5/31/88

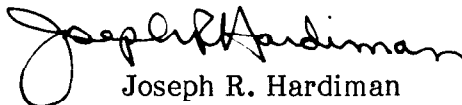| New/Old Symbol*	New/Old Security	Date of Change
ZAPSV/ZAPS	Cooper Life Sciences, Inc. (WI)/Cooper Lasersonics, Inc.	5/31/88
BMAC/BMAC	BMA Corporation/Business Men's Assurance Company of America	6/01/88
CDNC/ECAD	Cadence Design Systems, Inc./ ECAD, Inc.	6/01/88
ARAI/ARAI	Allied Research Corporation/ Allied Research Associates, Inc.	6/02/88
RFED/RFED	Roosevelt Bank, A Federal Savings Bank/Roosevelt Federal Savings & Loan Association	6/02/88
UBTC/UBTC	University Bank, National Association/University Bank & Trust Company	6/03/88
CFHC/STKN	California Financial Holding Company/Stockholm Savings & Loan Association	6/06/88
QNTX/HRIG	HRI Group, Inc./HRI Group, Inc.	6/07/88
CREB/CREB	Champion Parts, Inc./Champion Parts Rebuilders, Inc.	6/09/88
PPSA/PPSA	Prospect Park Financial Corporation/Prospect Park Savings & Loan Association	6/10/88
WYNB/ABWY	Wyoming National Bancorporation/ Affiliated Bank Corporation of Wyoming	6/10/88

NASDAQ/NMS Deletions

Symbol*	Security	Date
BGLY	Begley Corporation	5/25/88
IMSI	I.M.S. International, Inc.	5/26/88

Symbol*	Security	Date
WELLE	LivingWell, Inc.	5/27/88
ANWI	American Network, Inc.	5/31/88
HFSL	Home Owners Federal Savings & Loan Association	5/31/88
UTRK	U.S. Truck Lines Inc. of Delaware	5/31/88
CSBN	Community Savings Bank	6/03/88
DINB	Dinner Bell Foods, Inc.	6/06/88
SURE	SCOR U.S. Corporation	6/07/88
CALSF	California Gold Mines, Ltd.	6/08/88
DAYS	Days Inns Corporation	6/08/88
EFAC	Energy Factors, Inc.	6/08/88
MDWY	Midway Airlines, Inc.	6/09/88
TRCC	TRC Companies, Inc.	6/09/88

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

Sincerely,

Joseph R. Hardiman
President

June 22, 1988

TO: All NASD Members and Other Interested Persons

RE: Adoption of Amendments to the Rules of Practice and Procedures for the NASD Small Order Execution System and to Schedule D to the NASD By-Laws, Effective June 30, 1988

EXECUTIVE SUMMARY

The Securities and Exchange Commission (SEC) approved amendments to the Rules of Practice and Procedures for the Small Order Execution System (SOES) and to Schedule D to the NASD By-Laws, which will become effective June 30, 1988. The new rules significantly alter the obligations of NASDAQ market makers. Major changes to the rules:

● Prohibit a firm that withdraws, on an unexcused basis, as a NASDAQ market maker in a security from re-entering NASDAQ as a market maker in that security for 20 business days.

● Limit the acceptable reasons for an excused withdrawal from NASDAQ.

● Make SOES participation mandatory for all market makers in NASDAQ National Market System (NASDAQ/NMS) securities.

● Enable the NASD to establish different levels of maximum order-size limits for SOES orders, depending on the average daily non-block volume, bid price, and number of market makers for each security.

● Provide that SOES executions will continue in a NASDAQ/NMS security when quotes are locked or crossed, with executions occurring at the best price.

● Eliminate preferencing of market makers during a locked or crossed market situation.

> To permit market makers to become familiar with operating under the new rules and procedures for mandatory SOES, the NASD will delay imposition of the 20-business-day penalty for unexcused market-maker withdrawal until July 11, 1988 (six business days following implementation of mandatory SOES).
>
> The text of the amendments is attached.

BACKGROUND

The SEC approved significant amendments to the Rules of Practice and Procedures for SOES and Schedule D to the NASD By-Laws (which sets forth requirements applicable to NASDAQ market makers), which become effective June 30, 1988. [1]

SOES was established to permit small orders in NASDAQ securities to be executed efficiently at the best price for the public customer. Notwithstanding extraordinary volume during October 1987, SOES remained open and operating and continues to provide investors with an effective means for executing smaller orders. Because of certain problems that surfaced during the October market break, however, the NASD Trading and SOES Users Committees concluded that certain improvements should be made to the NASDAQ/NMS market to ensure that investors have access to an even more efficient and liquid market, especially during periods of high volume. The Committees concluded that the most effective way to ensure greater investor access is through enhancements to SOES and the NASDAQ System that will help alleviate the need for firms to rely on telephone contact. Therefore, the Committees recommended certain rule changes to the NASD Board of Governors, who authorized their publication for comment. Those proposals were published for comment in NASD Notice to Members 87-77 (November 20, 1987). After considering the comments received, the NASD Board of Governors approved the amendments January 18, 1988.

EXPLANATION OF AMENDMENTS

● **Mandatory Participation in SOES.** The amended rules require that every market maker in every NASDAQ/NMS security also be a SOES market maker in the security. This will ensure that an automated means of efficiently executing customer orders in every NASDAQ/NMS security will be available under any market condition.

● **Penalty for Withdrawal as a NASDAQ Market Maker.** The amendments to Schedule D prohibit a firm that withdraws from making a market in a NASDAQ security on an unexcused basis from re-entering as a market maker in that security for 20 business days. Market makers can obtain excused withdrawals only for the following reasons: (1) physical circumstances beyond a market maker's control (e.g., equipment malfunction or relocation); (2) legal or regulatory considerations (e.g.,

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[1] File No. SR-NASD-88-1, Securities Exchange Act Release No. 25791 (June 9, 1988).

compliance with Rule 10b-6 under the Securities Exchange Act of 1934); or (3) religious holidays (if notice is received by the NASD five business days in advance and is approved by the NASD).

This amendment places a significant incentive on market makers to continue their market-making activity throughout all market conditions. The NASD believes this change will ensure investors of a more liquid market even during periods of high volume.

To permit market makers to become familiar with operating under the new rules and procedures of mandatory SOES, the NASD will postpone imposition of the 20-business-day penalty for unexcused market-maker withdrawal until <u>July 11, 1988</u> (six business days following the imposition of mandatory SOES).

● **SOES Executions in Locked or Crossed Markets.** The amended SOES rules provide for automatic SOES executions in NASDAQ/NMS securities in a locked market (i.e., one in which at least one market maker publishes a quotation indicating it is willing to buy for the same price at which at least one market maker has indicated it is willing to sell) or a crossed market (i.e., one in which at least one market maker publishes a quotation indicating it is willing to buy at a higher price than the price at which another market maker has indicated it is willing to sell). Under the amended rules, SOES will continue to operate and will execute against the market maker with the best bid or offer (i.e., the market maker causing the locked or crossed market). 2/

This change should accomplish two results. First, SOES will continue to operate during periods of rapidly changing prices, notwithstanding locked or crossed markets. Secondly, market makers will have an economic incentive to keep their quotes current at all times to avoid creating a locked or crossed market.

● **Clearance and Settlement.** The amended SOES rules provide that, as participants in SOES, all NASDAQ/NMS market makers are required to clear and settle SOES transactions through a registered clearing agency using a continuous net settlement system.

● **Tiered Order Limits.** The amended SOES rules include a definition of "maximum order size" and provide guidelines that permit the NASD to establish various maximum order-size levels in SOES.

The maximum sizes for SOES orders most recently have been 1,000 shares for NASDAQ/NMS securities and 500 shares for regular NASDAQ securities. The amendments will permit different order sizes to be set for different categories of NASDAQ/NMS securities. The definition of "maximum order size" provides that in establishing the maximum order size for a SOES security, the NASD will consider average daily non-block volume, bid price, and number of market makers for each security. By using general market parameters (instead of exact criteria), the

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2/ Under the amended rules, during a locked or crossed market an order-entry firm's indication of a preference for a particular market maker will not be recognized so that no market maker will be required to execute at another dealer's locked or crossed quote. If more than one firm is locking or crossing the market, executions will be made against all such firms in rotation.

amended rules provide the NASD with the flexibility to address the volatility exhibited by the marketplace in recent months. The exact number of tier levels, the characteristics for each tier, and the securities assigned to each tier will be established and published by the NASD from time to time.

As of June 30, 1988, the maximum SOES order sizes for NASDAQ/NMS securities will be 1,000, 500, or 200 shares. The applicable maximum order size for each NASDAQ/NMS security has been established as follows.

● A 1,000-share maximum order size will be applied to those NASDAQ/NMS securities that have an average daily non-block volume of 3,000 shares or more a day, a bid price that is less than or equal to $100, and three or more market makers.

● A 500-share maximum order size will be applied to those NASDAQ/NMS securities that have an average daily non-block volume of 1,000 shares or more a day, a bid price that is less than or equal to $150, and two or more market makers.

● A 200-share maximum order size will be applied to those NASDAQ/NMS securities that have an average daily non-block volume of less than 1,000 shares or more a day, a bid price that is less than or equal to $250, and less than two market makers.

The NASD set these initial order-size tiers after extensive research and polls of all NASDAQ/NMS market makers. These tiers have been established in a manner that the NASD believes will provide public investors with the most efficient means of handling their small orders while ensuring that market makers are not required to assume unrealistic risks.

A list of all NASDAQ/NMS securities indicating the maximum order size for each security is attached.

● **Exposure Limits.** The amended rules define "exposure limit" as the number of shares specified by a market maker that it is willing to have executed for its account by SOES and define "minimum exposure limit" as an amount equal to five times the maximum order size for a security. (For example, a security that has a maximum execution, or tier, size of 1,000 shares has a minimum exposure of 5 X 1,000, or 5,000 shares, on both the buy and sell sides.) Market makers will continue to be able to establish their own exposure limits so long as those limits in NASDAQ/NMS securities are equal to or larger than the minimum exposure limits. Under the amended rules, a NASDAQ/NMS market maker is obligated to execute SOES orders aggregating at least the minimum exposure limit (or the firm's exposure limit, if higher). After a market maker's exposure is exhausted, the market maker will be permitted a grace period within which to update its quotations and thus restore its exposure limit. [4/]

If the market maker has not updated its quotations within the grace period, it will be removed from SOES as a market maker in that security and, in the case of a NASDAQ/NMS security, may not re-enter SOES for 20 business days. Initially, the

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4/ The duration of this period will be established and published by the NASD from time to time. Initially, the grace period will be five minutes.
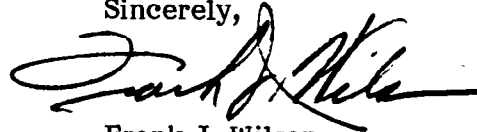
NASD will delay imposing the 20-business-day penalty until <u>July 11, 1988,</u> to allow market makers time to become familiar with the new rules and procedures of mandatory SOES.

● **Participation Obligations in SOES.** Section (c) under the SOES rules, regarding the obligations of SOES market makers and SOES order-entry firms, has also been amended. The amended rules obligate the market maker to execut individual orders in sizes equal to or smaller than the maximum order size an provide that a SOES market maker in any NASDAQ/NMS security must obligate itself to execute individual orders equal to the minimum exposure limit.

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Questions regarding this notice can be directed to either Dennis C. Hensley, NASD Vice President and Deputy General Counsel, at (202) 728-8245, or S. William Broka, Vice President, NASDAQ Operations at (202) 728-8050.

Sincerely,

Frank J. Wilson
Executive Vice President
and General Counsel

Attachments

RULES OF PRACTICE AND PROCEDURE FOR THE
SMALL ORDER EXECUTION SYSTEM

Note: New language is underlined; deleted language is in brackets.

a) DEFINITIONS

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      7. The term ["limited size" as it pertains to] "maximum order size" shall mean the maximum size of individual orders for a security [which] that may be entered into or executed through SOES. [shall mean the amount established] The maximum order size for each security shall be published from time to time by the Association.* [for application to the System, which shall initially be 500 shares or less of an active SOES security.] In establishing the maximum order size for each NASDAQ/NMS security, the Association will give consideration to the average daily non-block volume, bid price, and number of market makers for each security.

Note: Insert new subsections 8 and 9 as follows and renumber existing subsection 8 as subsection 10.

      8. The term "exposure limit" means the number of shares of a security on either side of the market specified by a market maker that it is willing to have executed for its account by SOES.

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*   In Notice to Members 88-43 (June 22, 1988) the NASD announced that the maximum order size for NASDAQ/NMS securities traded on SOES shall be 1,000, 500, or 200 shares and that the applicable maximum order size for each NASDAQ/NMS security would be determined generally by the following criteria:

  ● a 1,000-share maximum order size shall apply to NASDAQ/NMS securities on SOES with an average daily non-block volume of 3,000 shares or more a day, a bid price of less than or equal to $100, and three or more market makers;

  ● a 500-share maximum order size shall apply to NASDAQ/NMS securities on SOES with an average daily non-block volume of 1,000 shares or more a day, a bid price of less than $150, and two or more market makers;

  ● a 200-share maximum order size shall apply to NASDAQ/NMS securities with an average daily non-block volume of less than 1,000 shares a day, a bid price of less than or equal to $250, and that have less than two market makers.

  The NASD announced the maximum order size for each security in NASDAQ/NMS and noted that individual securities may be reclassified from time to time depending upon unique circumstances as determined by the Association. The NASD also announced that the maximum order size for all NASDAQ securities not in NASDAQ/NMS shall be 500 shares.

9. The term "minimum exposure limit" for a security means the aggregate number of shares of the security equal to five times the maximum order size for that security.

b) SOES PARTICIPANT REGISTRATION

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Note: Insert a new subsection 2 as follows and renumber existing subsections 2-4 as subsections 3-5.

2. Pursuant to Part VI, Section 1 of Schedule D to the By-Laws, participation as a SOES market maker is required for any NASDAQ market maker registered to make a market in a NASDAQ National Market System (NASDAQ/NMS) security.

c) PARTICIPATION OBLIGATIONS IN SOES

1. Registration -- Upon the effectiveness of registration as a [SOES] Market Maker or SOES Order Entry Firm, the SOES Participant may commence activity within SOES for exposure to orders or entry of orders, as applicable. The operating hours of SOES [are currently 10:00 a.m. to 4:00 p.m. Eastern Time, but] may be [modified] established as appropriate by the Association. A [SOES] Market Maker in a security other than a NASDAQ/NMS security may withdraw from and reenter SOES at any time, and without limitations, during the operating hours of SOES. The extent of participation in the System by a SOES Order Entry Firm shall be determined solely by the firm in the exercise of its ability to enter orders into the System.

[A. SOES Market Makers]

2. Market Makers -- (A) A SOES Market Maker shall commence participation in SOES by initially contacting the SOES Operation Center to obtain authorization for the trading of a particular SOES security and identifying those terminals on which the SOES information is to be displayed and thereafter by an appropriate keyboard entry which obligates [him to execute transactions of limited size, as herein defined, so long as the SOES Market Maker remains active in SOES] the firm, so long as it remains a market maker in SOES, (i) for any security for which it is a SOES Market Maker, to execute individual orders in sizes equal to or smaller than the maximum order size; and, (ii) for any NASDAQ/NMS security for which it is a Market Maker, to execute individual orders equal in the aggregate to the minimum exposure limit. All entries in SOES shall be made in accordance with the requirements set forth in the SOES User Guide.

(B) For each security in which a market maker is registered, the market maker may enter into SOES an exposure limit. For a NASDAQ/NMS security, that limit may be any amount equal to or larger than the minimum exposure limit. If no exposure limit is entered for a NASDAQ/NMS security, the firm's exposure limit will be the minimum exposure limit.

(C) At any time a locked or crossed market, as defined in Part VI, Section 2(e) of Schedule D to the NASD By-Laws, exists for a NASDAQ/NMS security, a market maker with a quotation for that security in the NASDAQ System that is causing the locked or crossed market may have orders representing shares equal to the minimum exposure limit or the firm's exposure limit, whichever is greater, executed by SOES for that Market Maker's account at its quoted price if that price is the best price. Those orders will be executed irrespective of any preference indicated by the Order Entry Firm.

(D) The [SOES] Market Maker may terminate his obligation by keyboard withdrawal from SOES at any time. However, the [SOES] Market Maker has the specific obligation to monitor his status in SOES 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 [SOES] Market Maker. In the case of a security that is not a NASDAQ/NMS security, a market maker whose exposure limit is exhausted will be deemed to have withdrawn from SOES and may reenter at any time pursuant to Section (c)(1) of these rules.

(E) In the case of a NASDAQ/NMS security, a Market Maker will be suspended from SOES if its exposure limit is exhausted and will be permitted a standard grace period, the duration of which will be established and published by the Association, within which to take action to restore its exposure limit. A market maker that fails to renew its exposure limit in a NASDAQ/NMS security within the allotted time will be deemed to have withdrawn as a market maker. Except as provided in (F) below, a market maker that withdraws in a NASDAQ/NMS security may not reenter SOES as a market maker in that security for twenty (20) business days.

(F) Notwithstanding the provisions of subsection (E) above, a Market Maker that obtains an excused withdrawal pursuant to Part VI, Section 7 of Schedule D to the NASD By-Laws prior to withdrawing from SOES may reenter SOES according to the conditions of its withdrawal.

(G) Article IX of the Code of Procedure shall apply to proceedings brought by Market Makers seeking review of (i) their removal from SOES pursuant to Subsection E above, (ii) the denial of an excused withdrawal pursuant to Part VI, Section 7 of Schedule D to the NASD By-Laws, or (iii) the conditions imposed on their reentry.

(H) In the event that a malfunction in the [SOES] Market Maker's equipment occurs, rendering on-line communications with SOES inoperable, the SOES Market Maker is obligated to immediately contact the SOES Operations Center by telephone to request withdrawal from SOES. For NASDAQ/NMS securities, such request must be made pursuant to Part VI, Section 7 of Schedule D to the NASD By-Laws. If withdrawal is granted, SOES operational personnel will [in turn] enter the withdrawal notification into SOES from a supervisory terminal. Such manual intervention, however, will take a certain period of time for completion and the SOES Market Maker will continue to be obligated for any transaction executed prior to the effectiveness of his withdrawal.

[B SOES Order Entry Firms]

3. SOES Order Entry Firms -- [(i)](A) All entries in SOES made by a SOES Order Entry Firm shall be made in accordance with the procedures and requirements set forth in the SOES User Guide. Orders may be entered in SOES by the SOES Order Entry Firm through either its NASDAQ terminal or computer interface. The firm will receive an immediate execution report on the terminal screen and printer, if requested, or through the computer interface, as applicable.

[(ii)](B) SOES will accept both market and limit orders for execution made by a SOES Order Entry Firm; however, limit orders not immediately executed due to price will be returned to the SOES Order Entry Firm. Orders may be preferenced to specific SOES Market Maker or may be unpreferenced, thereby resulting in execution in rotation against SOES Market Makers.

[(iii)](C) Only agency orders [of limited] no larger than the maximum order size, as defined herein, received from public customers may be entered by a SOES Order Entry Firm into SOES for execution against a SOES Market Maker. Agency orders in excess of [limited] the maximum order size may not be divided into smaller parts for purposes of meeting the size requirements for orders entered into SOES.

[(iv)](D) No member or person associated with a member shall utilize SOES for the execution of agency orders in a security in which the member is a NASDAQ Market Maker but is not a SOES Market Maker.

Note: Insert new Section d) as follows and renumber existing Sections d) and e) as Sections e) and f).

d) CLEARANCE AND SETTLEMENT

All transactions executed in SOES shall be cleared and settled through a registered clearing agency using a continuous net settlement system.

AMENDMENTS TO SCHEDULE D TO THE NASD BY-LAWS

Note: New language is underlined; deleted language is in brackets.

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PART VI

REQUIREMENTS APPLICABLE TO NASDAQ MARKET MAKERS

Sec. 1. Registration as a NASDAQ Market Maker

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(f) Unless otherwise specified by the Association, each NASDAQ Market Maker that is registered as a market maker in a NASDAQ National Market System (NASDAQ/NMS) security shall also at all time be registered as a market maker in the Small Order Execution System (SOES) with respect to that security and be subject to the Rules of Practice and Procedures for SOES.

Sec. 2. Character of Quotations

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

(2) 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. Pursuant to the provisions of paragraph (b) of this section, a market maker whose quotations are causing a locked or crossed market is required to execute transactions at its quotations as displayed through the NASDAQ System at the time of receipt of any order.

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Sec. 6. Clearance and Settlement

(a)   A market maker shall clear and settle transactions in NASDAQ securities other than securities in SOES 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 its transactions in a security that is not a SOES security through a 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 both parties to the transaction agree; or use direct clearing services.

(c) All SOES transactions shall be cleared and settled through a registered clearing agency using a continuous net settlement system.

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.   Excused withdrawals shall be granted by NASDAQ Operations only upon the demonstration of the existence of one of the circumstances set forth in paragraph (b) of this section.

(b) Excused withdrawal status based on [illness, vacation or] physical circumstances beyond a market maker's control may be granted for up to five (5) business days, unless extended by NASD Operations[-Members].   Excused withdrawal status based on [investment banking activity or the advice of legal counsel], demonstrated   legal   or   regulatory   requirements,   supported   by   appropriate documentation and accompanied by a representation that the condition necessitating the withdrawal of quotations is not permanent in nature, may, upon written request, be granted for not more than sixty (60) days. Excused withdrawal status based on religious holidays may be granted only if notice is received by the Association five business days in advance and is approved by the Association.   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 (2)] twenty (20) business days. Withdrawal from SOES participation as a market maker in a NASDAQ/NMS security shall constitute termination of registration as a market maker in that security for purposes of this section.