

September 11, 2000

Ms. Katherine A. England
Assistant Director
Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: **File No. SR-NASD-00-38, Amendment #1** - Application of Rules of the Association and Interpretive Materials thereunder to Certain Exempted Securities

Dear Ms. England:

NASD Regulation, Inc. ("NASD Regulation") hereby amends the above-referenced rule filing as follows and as reflected in the proposed rule language attached as Exhibit 1:

1. Delete NASD Rule 2300 within the list of rules that apply to exempted securities in proposed Rule 0116; Rule 2300 is the title of a section and does not contain a specific rule.
2. Replace IM-2520 with IM-2522 in the list of rules that apply to exempted securities in proposed Rule 0116; the reference to IM-2520 was an error, and the correct provision is IM-2522.
3. Several rules within the Rule 8000 series also were referenced in the Commission's approval order for SR-NASD-95-39.¹ These rules were inadvertently not included in the list in proposed Rule 0116, but should be included because these rules are applicable to transactions and business activities relating to exempted securities. The following rules are added to those listed in proposed Rule 0116: Rules 8110, 8120, 8210, 8221, 8222, 8223, 8224, 8225, 8226, 8227, 8310, IM-8310-1, IM-8310-2, 8320 and 8330. Please note that Rules 8221 through 8227 were adopted by SR-NASD-97-28, which expanded

¹ See Securities Exchange Act Release No. 37588 (Aug. 20, 1996), 61 FR 44100 (Aug. 27, 1996) (order approving File No. SR-NASD-95-39).

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upon Rule 8220.² As amended by SR-NASD-97-28, Rule 8220 is the title of that series of rules and does not contain a specific rule.

In addition, NASD Regulation is clarifying that the change in the non-cash compensation rule from Rule 2820(h) to Rule 2820(g) is as a result of an unrelated rule change. Specifically, SR-NASD-98-14, among other things, deleted paragraph (c) of Rule 2820.³ The deletion of paragraph (c) as part of SR-NASD-98-14 resulted in the renumbering of the subsequent paragraphs such that Rule 2820(h) became Rule 2820(g).

If you have any questions, please contact Stephanie M. Dumont, Office of General Counsel, NASD Regulation, Inc., at (202) 728-8176; e-mail Stephanie.Dumont@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Alden S. Adkins
Senior Vice President
and General Counsel

cc: Yvonne Fraticelli

Attachment

² See Securities Exchange Act Release No. 38908 (Aug. 7, 1997), 62 FR 43385 (Aug. 13, 1997) (order approving File No. SR-NASD-97-28).

³ See Securities Exchange Act Release No. 42043 (Oct. 20, 1999), 64 FR 58112 (Oct. 28, 1999) (order approving File No. SR-NASD-98-14).

Exhibit 1 - Proposed Rule Language

0100. GENERAL PROVISIONS

0110. Adoption and Application of Rules

0116. Application of Rules of the Association to Exempted Securities

(a) For purposes of this Rule, the terms “exempted securities” and “municipal securities” shall have the meanings specified in Sections 3(a)(12) and 3(a)(29) of the Act, respectively.

(b) Unless otherwise indicated within a particular provision, the following Rules of the Association and Interpretative Materials thereunder are applicable to transactions and business activities relating to exempted securities, except municipal securities, conducted by members and associated persons: 2110, 2120, 2210, IM-2210-1, IM-2210-2, IM-2210-3, 2250, 2270, 2310, IM-2310-2, IM-2310-3, 2320, 2330, IM-2330, 2340, 2430, 2450, 2510, 2520, IM-2522, 2770, 2780, 2820(g), 2910, 3010, 3020, 3030, 3040, 3050, 3060, 3070, 3110, IM-3110, 3120, 3130, IM-3130, 3131, 3140, 3230, 3310, IM-3310, 3320, IM-3320, 3330, 8110, 8120, 8210, 8221, 8222, 8223, 8224, 8225, 8226, 8227, 8310, IM-8310-1, IM-8310-2, 8320 and 8330.

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