

FOR YOUR INFORMATION

Year 2000 Program Addresses Challenges Faced By Automated Systems

Members Be Advised: The year 2000 will be upon us in less than two and a half years, and, to be ready, all National Association of Securities Dealers, Inc. (NASD[®]) member firms must take action now to ensure that their automated systems will continue to operate successfully. The NASD has instituted a Year 2000 (Y2K) Program to address the unique challenges this coming century poses for the Association's date-sensitive systems. The NASD urges all of its members to conduct a comprehensive Y2K project as well. All introducing and clearing firms have a responsibility to analyze the readiness of their automated regulatory and compliance systems and make the changes needed for continued successful operation. Computer failures related to Y2K problems generally will be considered neither a defense to violations of a firm's regulatory or compliance responsibilities nor a mitigation of sanctions for such violations. To read more about the NASD's Y2K Program and its various phases, please refer to *Notice To Members 97-16*, and visit the Year 2000 Web page at NASD's Web Site (www.nasd.com). Remember, the deadline is January 1, 2000, and there are no extensions!

Web Site Adds Treasury Department Connection

Investors and regulators can now use the NASD Regulation, Inc. (NASD RegulationSM) Web Site (www.nasdr.com) to consult the Treasury Department's Office of Foreign Assets Control's (OFAC) list of individuals and companies subject to economic or trade sanction. Securities firms are prohibited from dealing in securities issued from target countries and governments and must "block" or "freeze" accounts, assets, and obligations of a

large number of blocked entities and individuals from around the world.

Through its link to OFAC Web Site, (<http://www.ustreas.gov/treasury/services/fac/>), NASD Regulation is able to provide members and other interested parties with access to the information they need to help prevent money laundering and other illegal activities.

New SEC Options Haircuts Take Effect September 1, 1997

The Securities and Exchange Commission (SEC) recently adopted changes to the treatment of options and options-related inventory positions in SEC Rule 15c3-1, the Net Capital Rule. Effective September 1, 1997, broker/dealers may no longer rely on the strategy-based haircuts in Section (c)(2)(x) of the Rule or haircuts pursuant to an SEC No-Action Letter to the Securities Industry Association (SIA) dated October 23, 1985. In addition, the haircuts contained in Appendix A are modified significantly.

Instead, broker/dealers now may use approved theoretical options pricing models to determine haircuts on listed options and related positions for futures, options on futures, foreign currency, and forward contracts. For broker/dealers, especially those doing a limited options business, that do not want to use pricing models, the SEC included an "Alternative Strategy-Based Methodology" in the Rule.

Other amendments include:

- A change in the time frame, from the end of the business day to noon of the next day, within which broker/dealers must take net capital charges on the options specialist's trading positions that they carry.
- The elimination of subparagraph (a)(7) regarding requirements for

self-clearing options specialists, which are no longer applicable since the haircuts in Section (c)(2)(x) have been eliminated.

Questions concerning these changes may be directed to Samuel Luque, Jr., Associate Director, Compliance, NASD Regulation, at (202) 728-8472, or Susan DeMando, District Coordinator, Compliance, NASD Regulation, at (202) 728-8411.

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