

# FOR YOUR INFORMATION

## Clarification Of Notice To Members 98-10

*NASD Notice to Members 98-10* (January 1998) entitled "Transaction Reporting And Quotation Obligations Under the Fixed Income Pricing System (FIPS)" contained a question and answer concerning compliance officers and the need for firms to report all transactions under The Nasdaq Stock Market, Inc., Fixed Income Pricing System<sup>SM</sup> (FIPS<sup>SM</sup>), regardless of which desk trades the bonds. The original question and answer were published as:

**Question:** As a compliance officer, do I have a certain responsibility for all FIPS trades to be reported?

**Answer:** Yes, all compliance officers should be certain that every part of their firm is reporting FIPS trades. Many traders assume that, in a normal course of business, the high-yield trading desk is reporting all of the firm's FIPS transactions and the firm's obligations to the rules are being fulfilled. **This may not be completely accurate. For example, there are high grade desks that trade crossover bonds and utility desks that trade bonds that are rated BB+ or lower.** These desks may be located in different areas and/or different floors in a particular firm. The firm is obligated to report all of its FIPS transactions, regardless of the desk that trades the bonds.

It is important that all Compliance Officers and Head Traders are aware of this situation. We have found firms of all sizes who have made this error.

For clarification purposes, the following question should be substituted for the original question to more clearly reflect the information provided by the answer:

**Question:** As a compliance officer, am I required to monitor the reporting of all FIPS transactions—especially on those desks that, in the normal course of business, may not consistently trade high-yield bonds?

Questions regarding this clarification may be directed to Justin Tubiolo, Director, Fixed Income Department, The Nasdaq Stock Market, Inc., at (212) 858-4419.

## SEC Requires Electronic Link For Nasdaq Issuers

Recently, the Securities and Exchange Commission approved a proposal concerning Nasdaq<sup>®</sup> issuers who offer their shareholders a direct registration program (*see* Exchange Act Release No. 39369). Nasdaq issuers that offer a direct registration program to shareholders must now participate in an electronic link, directly or through the issuer's transfer agent, with a securities depository registered under Section 17A of the Exchange Act. The rule change is effective April 1, 1998.

The rule change facilitates the clearance and settlement of securities held in book-entry form in direct registration programs while preserving shareholders' choice to hold their securities in certificate form or in "street" name. Establishing an electronic link will foster further cooperation and coordination with the clearing and settling of securities transactions and, in general, protect shareholders and the public interest. The rule change also ensures that there is a quick and efficient means for financial intermediaries, such as broker/dealers and banks, to transfer these interests on behalf of shareholders, thus providing for a more efficient, effective, and safe procedure for the clearance and settlement of securities transactions.

Questions concerning this rule change may be directed to Dorothy L. Kennedy, Assistant Director, Nasdaq Market Operations, at (203) 385-6243, or Andrew S. Margolin, Senior Attorney, Office of General Counsel, The Nasdaq Stock Market, Inc., at (202) 728-8869.

### **Year 2000 Member Advisory**

The year 2000 will be upon us soon! All National Association of Securities Dealers, Inc. (NASD<sup>®</sup>) member firms must take action now to ensure that their automated systems will continue to operate successfully. The NASD has instituted a Year 2000 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 prepare and implement a comprehensive Year 2000 project plan as well. All member firms have a responsibility to analyze the readiness of their automated regulatory and compliance systems and make

the necessary changes for continued successful operation.

The Securities Industry Association (SIA) recently surveyed its membership regarding Year 2000 efforts and found that 77 percent of large firms (more than 6,000 employees) were in the "modifying/testing" stage, 62 percent of medium firms (500-6,000 employees) were in the "inventory and risk assessment" phase, and 44 percent of small firms (up to 499 employees) were in the "awareness" phase.

Please be aware that computer failures related to Year 2000 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. Therefore, it is of the utmost importance that members increase not only their awareness of this issue, but carry forward plans of action immediately.

To read more about the NASD's Year 2000 Program, visit the Year 2000 Web Pages at the NASD ([www.nasd.com](http://www.nasd.com)) and NASD Regulation ([www.nasdr.com](http://www.nasdr.com)) Web Sites. Other Web Sites containing Year 2000 information include: the SIA ([www.sia.com](http://www.sia.com)); a comprehensive Year 2000 Site, including links to other related information ([www.year2000.com](http://www.year2000.com)); and a Site from a noted economist focused on this issue ([www.yardeni.com](http://www.yardeni.com)). The NASD has and will continue to provide members with information through its publications and Web Sites as we all move forward with this effort.

The securities industry still has a lot of work ahead to get ready for the year 2000. Remember, the deadline is December 31, 1999, and there are no extensions!

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