

November 9, 1999

Katherine A. England  
Assistant Director  
Division of Market Regulation  
Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, D.C. 20549  
Mail-Stop 10-1

Re: SR-NASD-98-32, Amendment No. 3 - Proposed Rule Change Relating to  
Filing Requirements for Independently Prepared Research Reports

Dear Ms. England:

Pursuant to Rule 19b-4, NASD Regulation, Inc. is submitting Amendment No. 3 to the above referenced rule filing. This amendment addresses the comments of the Securities and Exchange Commission staff in response to Amendment No. 2, which was filed with the SEC on July 19, 1999. In particular, the proposed amendments have been revised to add language indicating that research reports that are excluded from the NASD's filing requirements shall be deemed to be filed with the NASD for purposes of Section 24(b) of the Investment Company Act of 1940 and SEC Rule 24b-3 thereunder. Additionally, one of the conditions has been revised to make clear that a member may not alter an excluded research report except as necessary to make the report consistent with applicable *regulatory* standards.

If you have any questions, please contact Joseph P. Savage, Counsel, Advertising/Investment Companies Regulation, NASD Regulation, Inc. (telephone: (202) 728-8233; e-mail: [savagejp@nasd.com](mailto:savagejp@nasd.com)), or me (telephone: (202) 728-8068; e-mail: [selmant@nasd.com](mailto:selmant@nasd.com)). The fax number is (202) 974-2732.

Very truly yours,

Thomas M. Selman  
Vice President

Enclosure

cc: Christine M. Richardson  
SEC Division of Market Regulation

## TEXT OF PROPOSED AMENDMENTS

Paragraph (c)(6) of Conduct Rule 2210 is amended to read as follows (please note that new text that was added to the language filed with Amendment No. 2 is italicized):

(6) The following types of material are excluded from the foregoing filing requirements and (except for research reports under paragraph (G)) the foregoing spot-check procedures:

\* \* \*

(G) any research report concerning an investment company registered under the Investment Company Act of 1940, provided that:

(i) the report is prepared by an entity that is independent of the investment company, its affiliates, and the member using the report (the “research firm”);

(ii) the report’s contents have not been materially altered by the member using the report (except as necessary to make the report consistent with applicable *regulatory* standards);

(iii) the research firm prepares and distributes reports based on similar research with respect to a substantial number of investment companies;

(iv) the research firm updates and distributes reports based on its research of the investment company with reasonable regularity in the normal course of the research firm’s business;

(v) neither the investment company, its affiliates nor the member using the research report has commissioned the research used by the research firm in preparing the report; and

(vi) if a customized report was prepared at the request of the investment company, its affiliate or a member, then the report includes only information that the research firm has already compiled and published in another report, and does not omit information in that report necessary to make the customized report fair and balanced.

*Although research reports meeting the above requirements are excluded from the foregoing filing requirements, they shall be deemed to be filed with the Association for purposes of Section 24(b) of the Investment Company Act of 1940 and Rule 24b-3 of the Securities and Exchange Commission thereunder.*