

May 30, 2000

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

Re: **File No. SR-NASD-00-08, Amendment No. 1 - Margin Rule Amendments Relating to Non-Equity Securities and Exempt Accounts**

Dear Ms. England:

NASD Regulation, Inc. (“NASD Regulation”) hereby amends the above-referenced rule filing to incorporate statements that NASD Regulation intends to include in a Notice to Members to be published upon SEC approval of the proposed rule change. The statements will be provided in substantially the form described in Attachment A and will address the credit risk analysis methodology for “exempt account” margin customers as required in proposed Rule 2520(e)(2)(H) of the above-referenced rule filing.

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

Attachment A

On June __, 2000, the Securities and Exchange Commission (“SEC”) approved amendments to NASD Rule 2520 (the “Rule”).¹ As amended, Rule 2520(e)(2)(H) requires members to establish and maintain a “written risk analysis methodology” when extending margin on “good faith” securities transactions in “exempt accounts.” This written risk methodology should include the following:

- Procedures for obtaining and reviewing the appropriate customer account documentation and the customer financial information necessary to determine exempt account status for the extension of credit under the Rule.
- Procedures and guidelines for the determination, review and approval of credit limits to customers and across all customers who qualify as exempt accounts under the Rule.
- Procedures and guidelines for monitoring credit risk exposure to the organization relating to exempt account customers.
- Procedures and guidelines for the use of stress testing of exempt accounts in order to monitor market risk exposure from exempt accounts individually and in the aggregate.
- Procedures providing for the regular review and testing of these risk management procedures by an independent unit such as internal audit, risk management or other comparable group.

¹ See Exchange Act Release No. _____