

INFORMATIONAL

OTC Bulletin Board

Update On OTC Bulletin Board Eligibility Rule

SUGGESTED ROUTING

The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.

- Corporate Finance
- Legal & Compliance
- Operations
- Trading & Market Making

KEY TOPICS

- OTC Bulletin Board
- Eligibility Rule

Executive Summary

In *Notice to Members 99-15*, the National Association of Securities Dealers, Inc. (NASD®) described amendments to NASD Rules 6530 and 6540 to limit quotations on the OTC Bulletin Board® (OTCBB) to the securities of companies that report their current financial information to the Securities and Exchange Commission (SEC), banking, or insurance regulators. In *Notice to Members 99-43*, the NASD published the effective date schedule for the implementation of the new rules. This *Notice to Members* explains revised procedures that the NASD will follow in implementing the effective date schedule.

Questions regarding this *Notice* should be directed to Liz Heese, Product Manager, Trading and Market Services, The Nasdaq Stock Market, Inc., at (202) 728-8191; or Tim Larkin, OTCBB Compliance Manager, Listing Qualifications, The Nasdaq Stock Market®, at (202) 496-2631 before September 1, 1999, or (301) 978-8093 thereafter.

Background

The OTCBB is a quotation service that displays real-time quotes, last-sale prices, and volume information in domestic and certain foreign securities. Eligible securities include national, regional, and foreign equity issues; and warrants, units, and American Depositary Receipts (ADRs) not listed on any other U.S. national securities market or exchange. Although the OTCBB is operated by the NASD, it is unlike The Nasdaq Stock Market or other listed markets where individual companies apply for listing and must meet and maintain strict listing standards; instead, individual brokerage firms or Market Makers initiate quotations for specific securities on the OTCBB. Currently, approximately 6,500

securities are quoted on the OTCBB.

On January 4, 1999, the SEC approved amendments to NASD Rules 6530 and 6540. As revised, Rule 6530 limits quotations on the OTCBB to the securities of issuers that report their current financial information to the SEC, banking, or insurance regulators and Rule 6540 prohibits a member from quoting a security on the OTCBB unless the issuer has made current filings. These amendments were discussed in *Notice to Members 99-15* and the full text of the rules appeared in that *Notice*.

In *Notice to Members 99-43*, the NASD published the schedule for the effectiveness of the new rule. That *Notice* indicated that in order to continue to be quoted on the OTCBB, securities quoted on the OTCBB as of January 4, 1999, must be in compliance with the new Eligibility Rule based upon the schedule below.¹

<u>Schedule Date</u>	<u>Issue Symbol</u>
July 1999	A - AD
August 1999	AE - AO
September 1999	AP - BI
October 1999	BJ - CT
November 1999	CU - FL
December 1999	FM - IG
January 2000	IH - MD
February 2000	ME - OR
March 2000	OS - R
April 2000	S - TN
May 2000	TO - Z
June 2000	All Banks & Insurance Companies

Effective Date Procedures

Notice to Members 99-43 also indicated that to continue to be quoted after the first trading day of the scheduled month (the "Eligibility Determination Date"), the issuer of the security must meet the requirements of the Eligibility Rule. In order to alleviate certain technical issues experienced during the implementation of the Eligibility Rule, a modified implementation schedule has been developed. Specifically, the NASD will divide the issuers in each scheduled month into two groups. The first group will have an Eligibility Determination Date at the beginning of the scheduled month and the second group will have an Eligibility Determination Date in the middle of the scheduled month. To determine whether an issuer falls into the first or second group, interested parties should refer to the OTCBB Web Site at www.otcbb.com. This modified implementation schedule will begin with the group of securities with an October Eligibility Determination Date.

The NASD will begin evaluating the compliance status of issuers that file with the SEC 30 calendar days prior to the company's scheduled Eligibility Determination Date. For banks and insurance companies

that do not file with the SEC and that are scheduled to be required to be in compliance with the Eligibility Rule during June 2000, the NASD will begin its evaluation 60 calendar days prior to the company's scheduled Eligibility Determination Date. If the NASD has no information that the issuer is compliant, it will append the issuer's symbol with a fifth character "E."² Symbol changes will appear on the OTCBB Daily List and will be reflected in the company's trading symbol four days after the date the notice appears on the OTCBB Daily List.

If the NASD does not receive any information that an issuer is eligible for continued quotation, the issuer will be removed from the system after market close on its Eligibility Determination Date. Alternatively, if the NASD receives notification that an issuer is compliant with the filing requirement, the fifth character identifier will be removed. This symbol change will be completed two business days following publication on the OTCBB Daily List.

A calendar of effective dates for each semi-monthly grouping of OTCBB securities is available on www.otcbb.com. In addition, approximately 30 days prior to the Eligibility Determination date for

each group, a list of each security in the group, and each security's eligibility status according to Nasdaq's records, is posted to www.otcbb.com. Market Makers or other parties that wish to notify the NASD of any filing that has been made which would bring an issuer into compliance should contact:

OTCBB Filings Department
9801 Washingtonian Blvd.
Gaithersburg, MD 20878-5356
(202) 496-2542
otcbbfeedback@nasd.com

Endnotes

¹This schedule is subject to change at the discretion of the NASD. The NASD will use the issue symbol as it appeared in the OTCBB quotation system on January 4, 1999, to determine where a particular issue falls in the schedule. Subsequent symbol changes will not be considered in determining an issuer's phase-in date.

²The fifth character "E" is intended to inform issuers, investors, and Market Makers that the NASD does not have information indicating that the issuer is eligible for continued quotation under the Eligibility Rule.

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