

INFORMATIONAL

Callable Common Stock

NASD Regulation Adopts New Rule Interpretation To Require Confirmation Disclosure Of Callable Common Stock

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.

- Internal Audit
- Legal & Compliance
- Operations
- Senior Management
- Trading & Market Making

KEY TOPICS

- Callable Common Stock
- IM-2110-6

Executive Summary

On April 24, 2000, NASD Regulation, Inc. (NASD RegulationSM) adopted a new interpretation of high standards of commercial honor and just and equitable principles of trade, Rule 2110, addressing transactions in callable common stock. Specifically, new Interpretative Material (IM-2110-6) states that a member that provides a confirmation pursuant to Securities and Exchange Commission (SEC) Rule 10b-10 in connection with any transaction in callable common stock shall disclose on such confirmation that the security is callable and that the customer may wish to contact the member for more information regarding the security.

Questions regarding this *Notice* may be directed to Dorothy L. Kennedy, Director, Market Operations, The Nasdaq Stock Market, Inc., at (203) 385-6243; or Gary L. Goldsholle, Associate General Counsel, Office of General Counsel, NASD Regulation, at (202) 728-8104.

Background And Summary

An issuer's common stock generally continues to trade on a market until the issuer fails to meet the market's listing requirements, combines with another company, or voluntarily delists for another market. Occasionally, common stock will be callable, that is, subject to being called away from a shareholder, either by the issuer or a third party. Typically, the price at which callable common stock is called away from a shareholder is at a premium to the then prevailing market price or pursuant to a schedule of prices announced at the time the common stock is issued.

An investor purchasing callable common stock is subject to unique risks not typically associated with ownership of common stock, even where such stock is called away at a premium. Moreover, the ability of an issuer's common stock to be called away from a shareholder generally will be a material fact to an investor. Accordingly, high standards of commercial honor and just and equitable principles of trade require that any member that provides a written confirmation for a transaction involving callable common stock must disclose on the confirmation that the security is callable and that the customer may contact the member for more information. The staff emphasizes that the disclosure of the call feature on the confirmation in no way relieves a member of its obligation to consider the callable nature of the security when complying with any applicable suitability obligations.

**Text Of IM-2110-6:
Confirmation Disclosure Of
Callable Common Stock**

Any member providing a customer confirmation pursuant to SEC Rule 10b-10 in connection with any transaction in callable common stock shall disclose on such confirmation that:

- the security is callable common stock; and
- a customer may contact the member for more information concerning the security.

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