FOR YOUR INFORMATION

SEC Limit Order Handling Rules Effective January 10, 1997

Nasdaq will be implementing the new SEC Limit Order Handling Rules on January 10, 1997. This will affect all Advanced Computerized Execution System (ACES®) market makers because ACES limit orders will not be linked to the inside market calculation and will not automatically update your quotes.

Specifically, the Limit Order Display Rule requires a market maker that receives a customer limit order priced at or better than its current quote and does not immediately execute the order, to display the order to the entire marketplace. If the order is priced better than the market maker's quote, whether or not the quote is at the inside market price, the market maker is obligated to display the order's price and size.

To ensure compliance with these rules as well as the existing limit order protection rules, ACES market makers that accept limit orders may choose to receive ACES orders by means of a "pass-thru" arrangement under which orders are sent via a Computer-to-Computer Interface (CTCI) into their in-house systems. The alternative for firms not using the CTCI approach is to manually check their limit orders in ACES against their quotes and replace their quotes with the limit order price and size when appropriate. Based on each firm's business volume and the momentum of the market, this may not be a feasible solution.

For ACES market makers with CTCI that elect to receive ACES orders into their in-house systems:

• Market makers will be responsible for reporting the trades to Automated Confirmation Transaction service (ACT℠). ACES will no longer lock-in trades or report trades to ACT automatically for trades executed in the market makers' systems;

• Order-entry firms will be responsible for reporting the order-entry side of the trade to ACT (except in the case of a QSR relationship).

This ACES "pass-thru" is currently available to all ACES market makers. Please direct any questions you may have to Jack Donlon, Director, Product Development, The Nasdaq Stock Market, Inc., at (212) 858-4327.

Correction To Disciplinary Actions For October

Jerry Manning (Registered Principal, Englewood, Colorado) was suspended from association with any NASD® member in any principal capacity. The October *Notices to Members* erroneously stated that Manning was suspended from association with any NASD member in any capacity.

SEC Approves New Telemarketing Rules

On December 2, 1996, The Securities and Exchange Commission (SEC) approved new NASD® Conduct Rule 2211 to impose time restrictions and disclosure requirements regarding telephone calls to customers by members and their associated persons. In the same release, the SEC also approved amendments to NASD Conduct Rule 3110 to require members and their associated persons to follow certain procedures regarding customer authorization of a demand draft [Securities Exchange Act Rel. No. 34-38009 (December 2, 1996)]. The new rules are effective immediately.

Rule 2211 prohibits members and their associated persons from calling an individual's residence to solicit the purchase of securities or related services at any time other than between 8 a.m. and 9 p.m. local time, without the prior consent of the person. Rule 2211 also requires members and their associated persons to promptly and clearly disclose to the called person the caller's identity, firm, telephone number or address at which the caller may be contacted, and that the purpose of the call is to solicit the purchase of securities or related services.

Exemptions from the time-of-day and disclosure requirements of Rule 2211 are available for telephone calls by an associated person (or another associated person acting at his or her direction) to a broker or dealer, or to the associated person's existing customers who maintain an active account. An "existing customer" is a customer for whom the broker or dealer, or a clearing broker or dealer on behalf of such customer, carries an account. An account is active for purposes of the new Rule if an existing customer: (i) has, within the preceding 12 months, effected a securities transaction in or made a deposit of funds or securities into the account, or (ii) has, **at any time**, effected a securities transaction in or made a deposit of funds or securities into the account, **and** the account has earned interest or dividend during the preceding 12 months. Also, in order to use this exemption, the customer account must have been under the control of the associated person making the telephone call at the time of the securities transaction or deposit of funds or securities.

Rule 3110 currently requires that members make and maintain a centralized do-not-call list of persons who do not wish to receive telephone solicitations. Rule 3110 was amended to prohibit members and associated persons from obtaining from a customer or submitting for payment a check, draft, or other form of negotiable paper drawn on a customer's checking, savings, share, or similar account (demand draft), without that person's express written authorization, and to require the retention of such authorization for three years.

A *Notice to Members* containing a complete discussion of these new rules will be published in the January 1997 *Notices to Members*. However, the Notice is currently available on NASD Regulation's Web site at *www.nasdr.com/2610.htm*.