

NASD NOTICE TO MEMBERS 98-10

Transaction Reporting And Quotation Obligations Under The Fixed Income Pricing System (FIPS)

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Executive Summary

On April 11, 1994, The Nasdaq Stock Market Inc., began operation of the Fixed Income Pricing SystemSM known as FIPSSM for members trading high-yield bonds. FIPS was created to facilitate the over-the-counter trading of high-yield, corporate debt securities rated BB+ or lower by Standard & Poor's Corporation. The goals in the creation of FIPS were similar to those which led to the creation of The Nasdaq Stock MarketSM—to increase information and transparency in the marketplace, thereby encouraging investment and growth.

Reporting Transactions (Market Place Rule 6240A and 6240B)

FIPS securities may be classified into two categories:

1. Mandatory Bonds consist of the most active top-tier FIPS securities **(currently totaling 50 bonds)**. These bonds must be reported within five minutes after trade execution.

2. Non-Mandatory Bonds are all other FIPS securities. There are approximately 1,400 bonds **which must be reported anytime during the trading day.**

The obligation to report transactions on FIPS securities depends on the role of each party in the trade. In transactions between:

- A FIPS dealer and a FIPS broker's broker—only the broker's broker reports the trade
- Two FIPS dealers—only the sell-side dealer reports the trade.
- A FIPS participant and non-participant—only the FIPS participant reports the trade.

Quotation Obligations (Market Place Rule 6230)

If you are actively trading in one or more FIPS mandatory bonds as a FIPS dealer as described in Market Place Rule 6230, **you may be obligated to enter and maintain firm quotations** into the FIPS system. The failure to quote in accordance with the FIPS rules may result in disciplinary action.

FIPS participants must continuously display firm bids/offers in the FIPS mandatory bonds in which they are actively trading. Quotations may be one- or two-sided and must be reasonably related to the prevailing market in each bond. Quotes must reflect a minimum size of 100 bonds (\$100,000 par value) and be in increments of 1/8 of a point. FIPS dealers may enter firm quotations into FIPS under their own names or through a FIPS broker. Quotes entered under a dealer's own name will be identified as such; all others will bear the name of the broker with the dealer remaining anonymous.

A FIPS broker must transmit all quotes received from FIPS dealers to the FIPS system for dissemination to all FIPS participants and to the public through market data vendors (via the Bond Quotation Dissemination Service (BQDS) data feed).

Please Note: If you are not actively trading in a particular FIPS security and only execute trades to accommodate customer orders, you still have an obligation to **report these trades** to the National Association of Securities Dealers, Inc. (NASD[®]).

Common Questions

The following questions may arise regarding the reporting of FIPS trades:

Question: If I believe that my firm is not a FIPS dealer or broker's broker,

do I have to report a trade in a FIPS security to the NASD?

Answer: Yes, all transactions in FIPS securities must be reported, subject to limited exceptions. The reporting guidelines are set forth according to mandatory or non-mandatory bond categories. This would include all firms who trade high-yield bonds for their own (inventory) account and/or who execute trades on behalf of customers. Any trade executed by a firm in a FIPS bond must be reported to the NASD.

Question: What securities are eligible for quoting in FIPS?

Answer: FIPS securities are OTC high-yield, fixed-income corporate debt securities rated BB+ or lower by Standard & Poor's Corporation. It is also possible that a non-rated issue may be a FIPS eligible security.

Question: If I am a broker/dealer who is a correspondent of a clearing firm, will my clearing firm report the trades on my behalf?

Answer: Not necessarily. The obligation to report falls on the shoulders of the firm that executes the trade, whether it be for inventory or to accommodate a customer order. Most clearing firms will not assume the responsibility to report trades they did not execute on behalf of their correspondents. **It should not be assumed** that the clearing firm is reporting your trades in FIPS securities.

Question: As a compliance officer, do I have a certain responsibility for all FIPS trades to be reported?

Answer: Yes, all compliance officers should be certain that every part of their firm is reporting FIPS trades. Many traders assume that, in a normal course of business, the high-yield trading desk is reporting all of the firm's FIPS transactions and the firm's obligations to the rules are being fulfilled. **This may not be completely accurate. For example, there are high grade desks that trade crossover bonds and utility desks that trade bonds that are rated BB+ or lower.** These desks may be located in different areas and/or different floors in a particular firm. The firm is obligated to report all of its FIPS transactions, regardless of the desk that trades the bonds.

It is important that all Compliance Officers and Head Traders are aware of this situation. We have found firms of all sizes who have made this error.

If you have any questions or concerns regarding FIPS, please contact:

Nasdaq

General Questions

Justin Tubiolo
(212) 858-4419

Technology Questions

Jim Schroder
(212) 858-4321

FIPS Service Desk

Cheryl Glowacki
(203) 385-6373

FIPS Subscriber Services

Stacey Galullo
(800) 777-5606

FIPS Literature

Joanie Rizzo
(212) 858-3975

MarketWatch

TradeWatch
(800) 211-4953
Additional Number, (301) 590-6890

NASD Regulation, Inc.

Regulatory Questions

Stephen Simmes
(301) 590-6451

For your convenience, enclosed is a portion of the bonds that may be crossover bonds. Also, please find a list of utility bonds that are rated BB+ or lower by S&P; they must be reported to the NASD.

Please note that these are partial listings. In order to ensure that you are in compliance with the reporting of all FIPS bonds, you must review the entire list. The entire list can be obtained by calling Joanie Rizzo at 212-858-3975. Many of these bonds may be traded by other trading desks.

In February 1998, this list can be obtained through our FIPS Web Site located at www.nasdaqfips.com. If a daily e-mail subscription containing the complete list of FIPS mandatory and non-mandatory issues would be of interest to your firm, please send us an e-mail at fipsfeedback@nasd.com.

FIPS Crossover Bonds

<u>Symbol</u>	<u>Name</u>	<u>Coupon</u>	<u>Maturity</u>
APSO.GA	APPLE SOUTH INC	9.75	06/01/06
ARAG.GC	ARA GROUP INC	8.5	06/01/03
BORN.GA	BORDEN INC	8.375	04/15/16
BORN.GC	BORDEN INC	9.25	06/15/19
BORN.GD	BORDEN INC	9.2	03/15/21
BORN.GE	BORDEN INC	7.875	02/15/23
BVID.GA	BLOCKBUSTER ENTERTAINMENT CORP	6.625	02/15/98
CAWS.GA	CAI WIRELESS SYSTEMS INC	12.25	09/15/02
CBBS.GA	CBS INC	7.625	01/01/02
CBBS.GB	CBS INC	7.75	06/01/99
CBBS.GC	CBS INC	7.125	11/01/23
CBBS.GD	CBS INC	8.875	06/01/22
CCVS.GC	CONT'L CABLEVISION INC	11	06/01/07
CCVS.GD	CONT'L CABLEVISION INC	8.625	08/15/03
CCVS.GE	CONT'L CABLEVISION INC	9	09/01/08
CCVS.GF	CONT'L CABLEVISION INC	8.5	09/15/01
CCVS.GG	CONT'L CABLEVISION INC	8.875	09/15/05
CCVS.GH	CONT'L CABLEVISION INC	9.5	08/01/13
CE.GA	CALIFORNIA ENERGY INC	10.25	01/15/04
CE.GB	CALIFORNIA ENERGY INC	9.875	06/30/03
CE.GC	CALENERGY CO INC	9.5	09/15/06
CE.GD	CALENERGY CO INC	7.63	10/15/07
CIT.GA	CITGO PETROLEUM CORP	7.875	05/15/06
CMCS.GB	COMCAST CORP	10.25	10/15/01
CMCS.GC	COMCAST CORP	10.625	07/15/12
CMCS.GD	COMCAST CORP	9.5	01/15/08
CMCS.GE	COMCAST CORP	9.125	10/15/06
CMCS.GF	COMCAST CORP	9.375	05/15/05
COT.GA	COLTEC INDUSTRIES INC	9.75	04/01/00
COT.GC	COLTEC INDUSTRIES INC	9.75	11/01/99
DEC.GA	DIGITAL EQUIP CORP	7.125	10/15/02
DEC.GC	DIGITAL EQUIP CORP	8.625	11/01/12
DEC.GD	DIGITAL EQUIP CORP	7.75	04/01/23
FBP.GA	FIRSTBANK PUERTO RICO	7.625	12/20/05
FUR.GA	FIRST UN RE EQUITY & MTG INVTS	8.875	10/01/03
FUSA.GA	FIRST USA BANK WILMINGTON DEL	7.65	08/01/03
GNFC.GA	G N F CORP	10.625	04/01/03
GNSF.GA	GNS FINANCE CORP	4.812	03/15/94
HNTC.GA	HUNTSMAN CORP	10.625	04/15/01
HNTC.GB	HUNTSMAN CORP	11	04/15/04
KR.GD	KROGER COMPANY	10	05/01/99
KR.GF	KROGER COMPANY	9.875	08/01/02
KR.GH	KROGER COMPANY	8.5	06/15/03
KR.GI	KROGER COMPANY	9.25	01/01/05
KR.GJ	KROGER CO DTD	8.15	07/15/06
MBN.GA	MBNA CAPITAL I	8.278	12/01/26
MBN.GB	MBNA CAPITAL I	6.518	02/01/26
MCU.GA	MAGMA COPPER COMPANY NEW	12	12/15/01
MCU.GB	MAGMA COPPER COMPANY NEW	11.5	01/15/02

<u>Symbol</u>	<u>Name</u>	<u>Coupon</u>	<u>Maturity</u>
MCU.GC	MAGMA COPPER COMPANY NEW	8.7	05/15/05
MDEP.GA	MCDERMOTT	9.375	03/15/02
MDFG.GA	MIDLAND FDG CORP I	10.33	07/23/02
MDFG.GB	MIDLAND FDG CORP I	10.33	07/23/02
NAV.GD	NAVISTAR INTL TRANSN CORP	6.25	03/01/98
NAV.GE	NAVISTAR INTL TRANSN CORP	9	06/15/04
NOE.GA	NORTH ATLANTIC ENERGY CORP	9.05	06/01/02
OI.GC	OWENS-ILL INC	11	12/01/03
OI.GI	OWENS-ILL INC	7.85	05/15/04
OI.GJ	OWENS-ILL INC	8.1	05/15/07
ORX.GC	ORYX ENERGY COMPANY	10	04/01/01
ORX.GE	ORYX ENERGY COMPANY	10	06/15/99
ORX.GF	ORYX ENERGY COMPANY	9.5	11/01/99
ORX.GG	ORYX ENERGY COMAPNY	8	10/15/03
ORX.GH	ORYX ENERGY COMPANY	8.125	10/15/05
ORX.GI	ORYX ENERGY COMPANY	8.375	07/15/04
PARA.GC	PARAMOUNT COMMUNICATIONS INC	7.5	01/15/02
PARA.GD	PARAMOUNT COMMUNICATIONS INC	8.25	08/01/22
PARA.GE	PARAMOUNT COMMUNICATIONS INC	5.875	07/15/00
PARA.GF	PARAMOUNT COMMUNICATIONS INC	7.5	07/15/23
RIGS.GA	RIGGS NATL CORP WASHINGTON DC	9.65	06/15/09
RIGS.GB	RIGGS NATL CORP WASHINGTON DC	8.5	02/01/06
SCR.GA	SEA CONTAINERS LTD	12.5	12/01/04
SCR.GB	SEA CONTAINERS LTD	9.5	07/01/03
SCR.GC	SEA CONTAINERS LTD	12.5	12/01/04
SCR.GD	SEA CONTAINERS LTD	10.5	07/01/03
TPLP.GA	TANGER PROPERTIES LP	8.75	03/11/01
TPLP.GB	TANGER PROPERTIES LP	7.875	10/24/04
TRIP.GA	TRIANGLE PACIFIC CORP DEL	10.5	08/01/03
UAL.GA	UNITED AIR LINES INC	10.25	07/15/21
UAL.GB	UNITED AIR LINES INC	9.75	08/15/21
UAL.GC	UNITED AIR LINES INC	9	12/15/03
UAL.GD	UNITED AIR LINES INC	9.125	01/15/12
UAL.GN	UNITED AIR LINES INC	10.67	05/01/04
UAL.GO	UNITED AIR LINES INC	11.21	05/01/14
UPC.GA	UNION PLANTERS CAPITAL TRUST	8.2	12/15/26
VCI.GA	VALASSIS COMMUNICATIONS INC	9.55	12/01/03
VIA.GA	VIACOM INC	8	07/07/06
VIA.GB	VIACOM INC	7.75	06/01/05
VIA.GC	VIACOM INC	6.75	01/15/03
VIA.GD	VIACOM INC	7.625	01/15/16
VICN.GA	VIACOM INT'L INC	10.25	09/15/01
VICN.GB	VIACOM INT'L INC	9.125	08/15/99
VICN.GC	VIACOM INT'L INC	8.75	05/15/01
VICN.GD	VIACOM INT'L INC	7	07/01/03
VICN.GE	VIACOM INT'L INC	7	07/01/03
VLIN.GA	VALASSIS INSERTS INC	8.875	03/15/99
VLIN.GC	VALASSIS INSERTS INC	9.375	03/15/99
WHCR.GA	WESTINGHOUSE CREDIT CORP	8.875	06/14/14
WX.GB	WESTINGHOUSE ELECTRIC CORP	8.875	06/01/01
WX.GC	WESTINGHOUSE ELECTRIC CORP	8.375	06/15/02
WX.GD	WESTINGHOUSE ELECTRIC CORP	8.625	08/01/12

<u>Symbol</u>	<u>Name</u>	<u>Coupon</u>	<u>Maturity</u>
WX.GE	WESTINGHOUSE ELECTRIC CORP	6.875	09/01/03
WX.GF	WESTINGHOUSE ELECTRIC CORP	7.875	09/01/23

FIPS Utility Bonds

<u>Symbol</u>	<u>Name</u>	<u>Coupon</u>	<u>Maturity</u>
CNLP.GA	CONN L&P CO	6.5	01/01/98
CNLP.GB	CONN L&P CO	7.25	07/01/99
CNLP.GC	CONN L&P CO	7.375	12/01/25
CNLP.GD	CONN L&P CO	5.75	07/01/00
CNLP.GE	CONN L&P CO	7.5	07/01/23
CNLP.GF	CONN L&P CO	5.5	02/01/99
CNLP.GG	CONN L&P CO	6.125	02/01/04
CNLP.GH	CONN L&P CO	8.5	06/01/24
CNLP.GI	CONN L&P CO	7.875	06/01/01
CTP.GB	CENTRAL MAINE POWER COMPANY	8.5	09/15/01
CTP.GC	CENTRAL MAINE POWER COMPANY	7.375	01/01/99
CTP.GD	CENTRAL MAINE POWER COMPANY	7.05	03/01/08
CTP.GE	CENTRAL MAINE POWER COMPANY	7.875	06/01/23
CTP.GF	CENTRAL MAINE POWER COMPANY	6.25	11/01/98
CVXP.GA	CLEVELAND ELEC ILLUM CO	8.75	11/15/05
CVXP.GC	CLEVELAND ELEC ILLUM CO	8.375	12/01/11
CVXP.GD	CLEVELAND ELEC ILLUM CO	8.375	08/01/12
CVXP.GG	CLEVELAND ELEC ILLUM CO	7.625	08/01/02
CVXP.GH	CLEVELAND ELEC ILLUM CO	9	07/01/23
CVXP.GI	CLEVELAND ELEC ILLUM CO	7.375	06/01/03
CVXP.GK	CLEVELAND ELEC ILLUM CO	9.5	05/15/05
CYAP.GA	CONN YANKEE ATOMIC PWR CO	12	06/01/00
EE.GA	EL PASO ELECTRIC COMPANY	7.25	02/01/99
EE.GB	EL PASO ELECTRIC COMPANY	7.75	05/01/01
EE.GC	EL PASO ELECTRIC COMPANY	8.25	02/01/03
EE.GD	EL PASO ELECTRIC COMPANY	8.9	02/01/06
EE.GE	EL PASO ELECTRIC COMPANY	9.4	05/01/11
GSTS.GA	GULF STS UTILS CO	9.72	07/01/98
LIL.GE	LONG ISLAND LTG COMPANY	7.3	07/15/99
LIL.GF	LONG ISLAND LTG COMPANY	8.9	07/15/19
LIL.GG	LONG ISLAND LTG COMPANY	9	11/01/22
LIL.GH	LONG ISLAND LTG COMPANY	7.3	01/15/00
LIL.GI	LONG ISLAND LTG COMPANY	7.5	03/01/07
LIL.GJ	LONG ISLAND LTG COMPANY	7	03/01/04
LIL.GK	LONG ISLAND LTG COMPANY	7.05	03/15/03
LIL.GL	LONG ISLAND LTG COMPANY	8.2	03/15/23
LIL.GM	LONG ISLAND LTG COMPANY	7.125	06/01/05
LIL.GN	LONG ISLAND LTG COMPANY	6.25	07/15/01
NMK.GC	NIAGARA MOHAWK POWER CORP	6.5	08/01/98
NMK.GD	NIAGARA MOHAWK POWER CORP	9.25	10/01/01
NMK.GE	NIAGARA MOHAWK POWER CORP	9.5	06/01/00
NMK.GF	NIAGARA MOHAWK POWER CORP	9.75	11/01/05

<u>Symbol</u>	<u>Name</u>	<u>Coupon</u>	<u>Maturity</u>
NMK.GG	NIAGARA MOHAWK POWER CORP	9.5	03/01/21
NMK.GH	NIAGARA MOHAWK POWER CORP	8.75	04/01/22
NMK.GI	NIAGARA MOHAWK POWER CORP	8	06/01/04
NMK.GJ	NIAGARA MOHAWK POWER CORP	8.5	07/01/23
NMK.GK	NIAGARA MOHAWK POWER CORP	7.375	08/01/03
NMK.GL	NIAGARA MOHAWK POWER CORP	6.875	04/01/03
NMK.GM	NIAGARA MOHAWK POWER CORP	6.625	07/01/05
NMK.GN	NIAGARA MOHAWK POWER CORP	7.875	04/01/24
NMK.GO	NIAGARA MOHAWK POWER CORP	5.875	09/01/02
NMK.GP	NIAGARA MOHAWK POWER CORP	6.875	03/01/01
NMK.GQ	NIAGARA MOHAWK POWER CORP	7.75	05/15/06
NU.GA	NORTHEAST UTILITIES	8.58	12/01/06
PNH.GB	PUBLIC SERVICE COMPANY N H	9.17	05/15/98
PNM.GB	PUBLIC SERVICE COMPANY N.MEX	7.25	04/01/99
PNM.GC	PUBLIC SERVICE COMPANY N.MEX	8.125	09/15/01
PNM.GD	PUBLIC SERVICE COMPANY N.MEX	7.5	06/15/02
PNM.GE	PUBLIC SERVICE COMPANY N.MEX	9.125	03/15/05
PNM.GF	PUBLIC SERVICE COMPANY N.MEX	8.125	06/15/07
PNM.GG	PUBLIC SERVICE COMPANY N.MEX	9	05/01/08
PPPC.GA	PENNA PWR CO	8.5	07/15/22
PPPC.GB	PENNA PWR CO	7.5	08/01/03
PPPC.GC	PENNA PWR CO	6.625	07/01/04
PPPC.GD	PENNA PWR CO	7.625	07/01/23
PPPC.GE	PENNA PWR CO	6.375	09/01/04
TEDP.GB	TOLEDO EDISON COMPANY	7.5	08/01/02
TEDP.GC	TOLEDO EDISON COMPANY	8	11/01/03
TEDP.GD	TOLEDO EDISON COMPANY	7.25	08/01/99
TEDP.GE	TOLEDO EDISON COMPANY	7.875	08/01/04
TEDP.GF	TOLEDO EDISON COMPANY	8.7	09/01/02
TEP.GA	TUCSON ELECTRIC POWER COMPANY	8.5	11/01/99
TEP.GB	TUCSON ELECTRIC POWER COMPANY	8.125	09/01/01
TEP.GC	TUCSON ELECTRIC POWER COMPANY	7.55	03/01/02
TEP.GD	TUCSON ELECTRIC POWER COMPANY	7.65	05/01/03
TEP.GE	TUCSON ELECTRIC POWER COMPANY	8.5	10/01/09
TEXN.GA	TEXAS NEW MEXICO POWER COMPANY	8.7	09/01/06
TEXN.GB	TEXAS NEW MEXICO POWER COMPANY	9.625	07/01/19
TEXN.GC	TEXAS NEW MEXICO POWER COMPANY	10	07/01/17
TEXN.GD	TEXAS NEW MEXICO POWER COMPANY	9.25	09/15/00
TEXN.GE	TEXAS NEW MEXICO POWER COMPANY	12.5	01/15/99
TEXN.GG	TEXAS NEW MEXICO POWER COMPANY	10.75	09/15/03
WMAS.GA	WEST'N MASS ELECTRIC CO	6.75	03/01/98
WMAS.GB	WEST'N MASS ELECTRIC CO	7.75	12/01/02
WMAS.GC	WEST'N MASS ELECTRIC CO	6.875	01/01/00
WMAS.GD	WEST'N MASS ELECTRIC CO	6.25	03/01/99
WMAS.GE	WEST'N MASS ELECTRIC CO	7.75	03/01/24
WMAS.GF	WEST'N MASS ELECTRIC CO	7.375	07/01/01

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