

November 18, 1998

Katherine A. England
Assistant Director
Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549
Mail Stop 10-1

Re: **File No. SR-NASD-98-86; Corrections to By-Law Cross-References**

Dear Ms. England:

Pursuant to Rule 19b-4, enclosed herewith is the above-numbered rule filing. Also enclosed is a 3-1/2" disk containing the rule filing in Word 7.0 to facilitate production of the Federal Register release.

If you have any questions, please contact Mary Dunbar, Office of General Counsel, NASD Regulation, Inc., at (202) 728-8252; e-mail dunbarm@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

John Ramsay
Vice President, Deputy General Counsel

Enclosure

File No. SR-NASD-98-86
Consists of 25 Pages

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

File No. SR-NASD-98-86

Form 19b-4

Proposed Rule Change

by

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

1. Text of Proposed Rule Change

Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 ("Act"), NASD Regulation, Inc. ("NASD Regulation") is filing with the Securities and Exchange Commission ("Commission") a proposed rule change to Rules 112, 120, 1060, 1100, 3010, 6120, and 10101 and Interpretive Material 2110-4, 2210-4, 2420-1, 2420-2, and 2440, to correct cross-references to the NASD By-Laws. Proposed new language is underlined; proposed deletions are in brackets.

0112. Effective Date

The Rules shall become effective as provided in Section 1 of Article [XII] XI of the By-Laws.

Rule 120. Definitions

* * *

(i) "Member"

The term "member" means any individual, partnership, corporation or other legal entity admitted to membership in the Association under the provisions of Articles [II and] III and IV of the By-Laws.

* * *

Rule 1060. Persons Exempt from Registration

(a) No change

(b) Member firms, and persons associated with a member, may pay to nonregistered foreign persons transaction-related compensation based upon the business of customers they direct to member firms if the following conditions are met:

(1) the member firm has assured itself that the nonregistered foreign person who will receive the compensation (the “finder”) is not required to register in the U.S. as a broker/dealer nor is subject to a disqualification as defined in Article [II] III, Section 4 of the Association’s By-Laws, and has further assured itself that the compensation arrangement does not violate applicable foreign law;

* * *

Rule 1100. Foreign Associates

(a) No change

(b) Prior to the time the exemption provided for in paragraph (a) hereof may become effective, the member desiring to employ any such person must file with the Association a form designated “Application for Classification as a Foreign Associate” for each such person and must certify that such person meets the criteria of paragraph (a), as well as that:

(1) Such person is not subject to any of the prohibitions to registration with the Association contained in Article [II] III, Section 4 of the By-Laws of the Association;

(2) Service of process for any proceeding instituted by the Association in respect to such person may be sent to an address designated by the member.

(c) In the event of the termination of the employment of a Foreign Associate, the member must notify the Association immediately by filing a notice of termination as required by Article [IV] V, Section 3 of the By-Laws.

* * *

IM-2110-4. Trading Ahead of Research Reports

The Board of Governors, under its statutory obligation to protect investors and enhance market quality, is issuing an interpretation to the Rules regarding a member firm's trading activities that occur in anticipation of a firm's issuance of a research report regarding a security. The Board of Governors is concerned with activities of member firms that purposefully establish or adjust the firm's inventory position in Nasdaq-listed securities, an exchange-listed security traded in the OTC market, or a derivative security based primarily on a specific Nasdaq or exchange-listed security in anticipation of the issuance of a research report in that same security. For example, a firm's research department may prepare a research report recommending the purchase of a particular Nasdaq-listed security. Prior to the publication and dissemination of the report, however, the trading department of the member firm might purposefully accumulate a position in that security to meet anticipated customer demand for that security. After the firm had established its position, the firm would issue the report, and thereafter fill customer orders from the member firm's inventory positions.

The Association believes that such activity is conduct which is inconsistent with just and equitable principles of trade, and not in the best interests of the investors. Thus, this interpretation prohibits a member from purposefully establishing, creating or changing the firm's inventory position in a Nasdaq-listed security, an exchange-listed security traded in the third

market, or a derivative security related to the underlying equity security, in anticipation of the issuance of a research report regarding such security by the member firm.

Rule 2110 states that:

A member in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.

In accordance with Article VII, Section 1(a)[(2)](ii) of the NASD By-Laws, the Association's Board of Governors has approved the following interpretation of Rule 2110:

* * * *

IM-2210-4. Limitations on Use of Association's Name

(a) Use of Association Name

Members may indicate membership in the Association in conformity with Article [XVI] XV, Section 2 of the NASD By-Laws in one or more of the following ways:

* * *

IM-2420-1. Transactions Between Members and Non-Members

(a) Non-members of the Association

* * *

(4) Broker or Dealer Registration Revoked by SEC

Revocation by the Commission of an Association member's registration as a broker or dealer automatically terminates the membership of such broker or dealer in the Association as of the effective date of such order. Under Article [II] III, Section 4 of the

By-Laws of the Corporation, a firm whose registration as a broker or dealer is revoked is thereby disqualified for membership in the Association, and from the effective date of such order, the membership of such broker or dealer in the Association is discontinued.

Thereafter such broker or dealer is a non-member of the Association.

(5) Membership Resigned or Canceled

The membership of a broker or dealer in the Association is automatically terminated when the Association accepts the resignation of such member or cancels its membership in the Association under the provisions of Article [II] III, Section 3; Article [III] IV, Section 5; or Article [XIV] XIII, Section 1, of the By-Laws. After the date of acceptance by the Association of the resignation of such member or the date of cancellation of membership by the Association, such broker or dealer is a non-member of the Association.

* * *

IM-2420-2. Continuing Commissions Policy

The Board of Governors has held that the payment of continuing commissions in connection with the sale of securities is not improper so long as the person receiving the commissions remains a registered representative of a member of the Association.

However, payment of compensation to registered representatives after they cease to be employed by a member of the Association -- or payment to their widows or other beneficiaries -- will not be deemed in violation of Association Rules, provided bona fide contracts call for such payment.

Also, a dealer-member may enter into a bona fide contract with another dealer-member to take over and service his accounts and, after he ceases to be a member, to pay to him or to his widow or other beneficiary continuing commissions generated on such accounts.

An arrangement for the payment of continuing commissions shall not under any circumstances be deemed to permit the solicitation of new business or the opening of new accounts by persons who are not registered. Any arrangement for payment of continuing commissions must, of course, conform with any applicable laws or regulations.

This policy recognizes the validity of contracts entered into in good faith between employers and employees at the time the employees are registered representatives of the employing members. Such a contract may vest in an employee the right to receive continuing compensation on business done in the event the employee retires and the right to designate such payments to his widow or other beneficiary.

It is not to be implied that the Board suggests that members must enter into contracts with registered representatives for continuing compensation. Nor will the Board specify or rule on the terms of such contracts.

The Board has also considered the question as to whether Rule 2830(c) requires that a sales agreement be in effect in order for a dealer-member to receive continuing commissions. The Board has concluded that the sales agreement requirement is intended to apply to new business, such as the sale of a new plan or a "wire order." It is not intended that a sales agreement be required in order for a dealer to receive commissions on direct payments by existing clients to the fund or its agent, or on automatic dividend reinvestments. (See Notice to Members 74-33, Aug. 9, 1974).

Under no circumstances shall payment of any kind be made by a member to any person who is not eligible for membership in the Association or eligible to be associated with a member because of any disqualification, as set forth in Article [II] III of the Association's By-Laws, such as revocation, expulsion, or suspension still in effect.

* * *

IM-2440. Mark-Up Policy¹

The question of fair mark-ups or spreads is one which has been raised from the earliest days of the Association. No definitive answer can be given and no interpretation can be all-inclusive for the obvious reason that what might be considered fair in one transaction could be unfair in another transaction because of different circumstances. In 1943, the Association's Board adopted what has become known as the "5% Policy" to be applied to transactions executed for customers. It was based upon studies demonstrating that the large majority of customer transactions were effected at a mark-up of 5% or less. The Policy has been reviewed by the Board of Governors on numerous occasions and each time the Board has reaffirmed the philosophy expressed in 1943. Pursuant thereto, and in accordance with Article VII, Section 1(a)[(2)](ii) of the By-Laws, the Board has adopted the following interpretation under Rule 2440.

* * *

Rule 3010. Supervision

* * *

¹ In SR-NASD-97-61, which has been published for comment by the Commission, NASD Regulation proposed to renumber IM-2440 as IM-2440-1. See Securities Exchange Act Release No. 40511 (Sept. 30, 1998); 63 FR 54169 (Oct. 8, 1998).

(e) Qualifications Investigated

Each member shall have the responsibility and duty to ascertain by investigation the good character, business reputé, qualifications, and experience of any person prior to making such a certification in the application of such person for registration with this Association. Where an applicant for registration has previously been registered with the Association, the member shall obtain from the Firm Access Query System (FAQS) or from the applicant a copy of the Uniform Termination Notice of Securities Industry Registration (Form U-5) filed with the Association by such person's most recent previous NASD member employer, together with any amendments thereto that may have been filed pursuant to Article [IV] V, Section 3 of the Association's By-Laws. The member shall obtain the Form U-5 as required by this Rule no later than sixty (60) days following the filing of the application for registration or demonstrate to the Association that it has made reasonable efforts to comply with the requirement. A member receiving a Form U-5 pursuant to this Rule shall review the Form U-5 and any amendments thereto and shall take such action as may be deemed appropriate.

* * *

6120. Participation in ACT

(a) Mandatory Participation for Clearing Agency Members

(1) Pursuant to Article VII, Section 1(a)[(6) and (7)](vi) and (vii) of the By-Laws, participation in ACT is mandatory for all brokers that are members of a clearing agency registered with the Commission pursuant to Section 17A of the Act, and for all brokers that have a clearing arrangement with such a broker.

* * *

10101. Matters Eligible for Submission

This Code of Arbitration Procedure is prescribed and adopted pursuant to Article VII, Section 1(a)[(4)](iv) of the By-Laws of the Association for the arbitration of any dispute, claim, or controversy arising out of or in connection with the business of any member of the Association, or arising out of the employment or termination of employment of associated person(s) with any member, with the exception of disputes involving the insurance business of any member which is also an insurance company:

* * *

2. Procedures of the Self-Regulatory Organization

(a) The National Association of Securities Dealers, Inc. ("NASD") Board of Governors approved the proposed rule change at its June 26, 1997, meeting, and authorized the filing of the rule change with the Commission. The Nasdaq Stock Market has been provided an opportunity to consult with respect to the proposed rule change, pursuant to the Plan of Allocation and Delegation of Functions by the NASD to its Subsidiaries. No other action by the NASD is necessary for the filing of the proposed rule change. Section 1(a)(ii) of Article VII of the NASD By-Laws permits the NASD Board of Governors to adopt amendments to NASD Rules without recourse to the membership for approval.

(b) Questions regarding this rule filing may be directed to Mary M. Dunbar, Assistant General Counsel, NASD Regulation, at (202) 728-8252.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

The purpose of the proposed rule change is to correct cross-references to the NASD By-Laws in Rules 112, 120, 1060, 1100, 3010, 6120, and 10101 and Interpretive Material 2110-4, 2210-4, 2420-1, 2420-2, and 2440. On November 14, 1997, the Commission approved substantial amendments to the NASD's corporate documents that were designed to: (1) implement a corporate restructuring developed in 1997; (2) comply with the SEC's August 8, 1996, Order making certain findings and imposing remedial sanctions; and (3) implement certain recommendations found in the Report of the NASD Select Committee on Structure and Governance to the NASD Board of Governors.² A number of articles and sections were added or removed from the NASD By-Laws, resulting in the need to renumber the By-Laws. A substantial number of corrections to By-Law cross-references in the NASD Rules were made in that rule filing. The purpose of this proposed rule change is to complete the corrections of the cross-references to the currently approved By-Laws so that all of the NASD Rules conform to the By-Laws.³

(b) Statutory Basis

NASD Regulation believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act, which requires, among other things, that the Association's rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. The

² Securities Exchange Act Release No. 39326 (Nov. 14, 1997); 62 FR 62385 (Nov. 21, 1997).

³ The Commission recently approved other changes to the NASD By-Laws. See Securities Exchange Act Release No. 40615 (Oct. 28, 1998); 63 FR 59614 (Nov. 4, 1998). None of these changes require corrections to the cross-references in the NASD Rules.

proposed rule change simply corrects cross-references to the NASD By-Laws in the NASD Rules and would not result in a substantive change in any Rule.

4. Self-Regulatory Organization's Statement on Burden on Competition

NASD Regulation does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The rule change is effective upon filing pursuant to Section 19(b)(3)(A)(i) of the Act and Section (e) of Rule 19b-4 promulgated thereunder in that it constitutes a stated policy, practice, or interpretation with respect to the meaning of an existing rule.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Exhibits

1. Completed notice of proposed rule change for publication in the Federal Register.

Pursuant to the requirements of the Securities Exchange Act of 1934, NASD Regulation has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

NASD REGULATION, INC.

BY: _____
John Ramsay, Vice President, Deputy General Counsel

Date: November 18, 1998

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-98-86)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by NASD Regulation, Inc. Relating to Correcting Cross-References in Rules to NASD By-Laws

On November __, 1998, NASD Regulation, Inc. ("NASD Regulation") filed with the Securities and Exchange Commission ("Commission") a proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), and Rule 19b-4 thereunder. The proposed rule change is described in Items I, II, and III below, which Items have been prepared by NASD Regulation. NASD Regulation has designated this proposal as one constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule under Section 19(b)(3)(A)(i) of the Act, which renders the proposal effective upon the Commission's receipt of this filing. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. SELF-REGULATORY ORGANIZATION'S STATEMENT OF THE TERMS OF SUBSTANCE OF THE PROPOSED RULE CHANGE

NASD Regulation is proposing to correct cross-references in the NASD Rules to the NASD By-Laws. Proposed new language is underlined; proposed deletions are in brackets.

0112. Effective Date

The Rules shall become effective as provided in Section 1 of Article [XII] XI of the By-Laws.

Rule 120. Definitions

* * *

(i) "Member"

The term "member" means any individual, partnership, corporation or other legal entity admitted to membership in the Association under the provisions of Articles [II and] III and IV of the By-Laws.

* * *

Rule 1060. Persons Exempt from Registration

(a) No change

(b) Member firms, and persons associated with a member, may pay to nonregistered foreign persons transaction-related compensation based upon the business of customers they direct to member firms if the following conditions are met:

(1) the member firm has assured itself that the nonregistered foreign person who will receive the compensation (the “finder”) is not required to register in the U.S. as a broker/dealer nor is subject to a disqualification as defined in Article [II] III, Section 4 of the Association’s By-Laws, and has further assured itself that the compensation arrangement does not violate applicable foreign law;

* * *

Rule 1100. Foreign Associates

(a) No change

(b) Prior to the time the exemption provided for in paragraph (a) hereof may become effective, the member desiring to employ any such person must file with the Association a form

designated “Application for Classification as a Foreign Associate” for each such person and must certify that such person meets the criteria of paragraph (a), as well as that:

(1) Such person is not subject to any of the prohibitions to registration with the Association contained in Article [II] III, Section 4 of the By-Laws of the Association;

(2) Service of process for any proceeding instituted by the Association in respect to such person may be sent to an address designated by the member.

(c) In the event of the termination of the employment of a Foreign Associate, the member must notify the Association immediately by filing a notice of termination as required by Article [IV] V , Section 3 of the By-Laws.

* * *

IM-2110-4. Trading Ahead of Research Reports

The Board of Governors, under its statutory obligation to protect investors and enhance market quality, is issuing an interpretation to the Rules regarding a member firm’s trading activities that occur in anticipation of a firm’s issuance of a research report regarding a security. The Board of Governors is concerned with activities of member firms that purposefully establish or adjust the firm’s inventory position in Nasdaq-listed securities, an exchange-listed security traded in the OTC market, or a derivative security based primarily on a specific Nasdaq or exchange-listed security in anticipation of the issuance of a research report in that same security. For example, a firm’s research department may prepare a research report recommending the purchase of a particular Nasdaq-listed security. Prior to the publication and dissemination of the report, however, the trading department of the member firm might purposefully accumulate a position in that security to meet anticipated customer demand for that security. After the firm had

established its position, the firm would issue the report, and thereafter fill customer orders from the member firm's inventory positions.

The Association believes that such activity is conduct which is inconsistent with just and equitable principles of trade, and not in the best interests of the investors. Thus, this interpretation prohibits a member from purposefully establishing, creating or changing the firm's inventory position in a Nasdaq-listed security, an exchange-listed security traded in the third market, or a derivative security related to the underlying equity security, in anticipation of the issuance of a research report regarding such security by the member firm.

Rule 2110 states that:

A member in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.

In accordance with Article VII, Section 1(a)[(2)](ii) of the NASD By-Laws, the Association's Board of Governors has approved the following interpretation of Rule 2110:

* * * *

IM-2210-4. Limitations on Use of Association's Name

(a) Use of Association Name

Members may indicate membership in the Association in conformity with Article [XVI] XV, Section 2 of the NASD By-Laws in one or more of the following ways:

* * *

IM-2420-1. Transactions Between Members and Non-Members

(a) Non-members of the Association

* * *

(4) Broker or Dealer Registration Revoked by SEC

Revocation by the Commission of an Association member's registration as a broker or dealer automatically terminates the membership of such broker or dealer in the Association as of the effective date of such order. Under Article [II] III, Section 4 of the By-Laws of the Corporation, a firm whose registration as a broker or dealer is revoked is thereby disqualified for membership in the Association, and from the effective date of such order, the membership of such broker or dealer in the Association is discontinued. Thereafter such broker or dealer is a non-member of the Association.

(5) Membership Resigned or Canceled

The membership of a broker or dealer in the Association is automatically terminated when the Association accepts the resignation of such member or cancels its membership in the Association under the provisions of Article [II] III, Section 3; Article [III] IV, Section 5; or Article [XIV] XIII, Section 1, of the By-Laws. After the date of acceptance by the Association of the resignation of such member or the date of cancellation of membership by the Association, such broker or dealer is a non-member of the Association.

* * *

The Board of Governors has held that the payment of continuing commissions in connection with the sale of securities is not improper so long as the person receiving the commissions remains a registered representative of a member of the Association.

However, payment of compensation to registered representatives after they cease to be employed by a member of the Association -- or payment to their widows or other beneficiaries -- will not be deemed in violation of Association Rules, provided bona fide contracts call for such payment.

Also, a dealer-member may enter into a bona fide contract with another dealer-member to take over and service his accounts and, after he ceases to be a member, to pay to him or to his widow or other beneficiary continuing commissions generated on such accounts.

An arrangement for the payment of continuing commissions shall not under any circumstances be deemed to permit the solicitation of new business or the opening of new accounts by persons who are not registered. Any arrangement for payment of continuing commissions must, of course, conform with any applicable laws or regulations.

This policy recognizes the validity of contracts entered into in good faith between employers and employees at the time the employees are registered representatives of the employing members. Such a contract may vest in an employee the right to receive continuing compensation on business done in the event the employee retires and the right to designate such payments to his widow or other beneficiary.

It is not to be implied that the Board suggests that members must enter into contracts with registered representatives for continuing compensation. Nor will the Board specify or rule on the terms of such contracts.

The Board has also considered the question as to whether Rule 2830(c) requires that a sales agreement be in effect in order for a dealer-member to receive continuing commissions. The Board has concluded that the sales agreement requirement is intended to apply to new business, such as the sale of a new plan or a “wire order.” It is not intended that a sales agreement be required in order for a dealer to receive commissions on direct payments by existing clients to the fund or its agent, or on automatic dividend reinvestments. (See Notice to Members 74-33, Aug. 9, 1974).

Under no circumstances shall payment of any kind be made by a member to any person who is not eligible for membership in the Association or eligible to be associated with a member because of any disqualification, as set forth in Article [II] III of the Association’s By-Laws, such as revocation, expulsion, or suspension still in effect.

* * *

IM-2440. Mark-Up Policy¹

The question of fair mark-ups or spreads is one which has been raised from the earliest days of the Association. No definitive answer can be given and no interpretation can be all-inclusive for the obvious reason that what might be considered fair in one transaction could be unfair in another transaction because of different circumstances. In 1943, the Association’s Board adopted what has become known as the “5% Policy” to be applied to transactions executed for customers. It was based upon studies demonstrating that the large majority of customer transactions were effected at a mark-up of 5% or less. The Policy has been reviewed by the Board

¹ In SR-NASD-97-61, which has been published for comment by the Commission, NASD Regulation proposed to renumber IM-2440 as IM-2440-1. See Securities Exchange Act Release No. 40511 (Sept. 30, 1998); 63 FR 54169 (Oct. 8, 1998).

of Governors on numerous occasions and each time the Board has reaffirmed the philosophy expressed in 1943. Pursuant thereto, and in accordance with Article VII, Section 1(a)(2)(ii) of the By-Laws, the Board has adopted the following interpretation under Rule 2440.

* * *

Rule 3010. Supervision

* * *

(e) Qualifications Investigated

Each member shall have the responsibility and duty to ascertain by investigation the good character, business repute, qualifications, and experience of any person prior to making such a certification in the application of such person for registration with this Association. Where an applicant for registration has previously been registered with the Association, the member shall obtain from the Firm Access Query System (FAQS) or from the applicant a copy of the Uniform Termination Notice of Securities Industry Registration (Form U-5) filed with the Association by such person's most recent previous NASD member employer, together with any amendments thereto that may have been filed pursuant to Article [IV] V, Section 3 of the Association's By-Laws. The member shall obtain the Form U-5 as required by this Rule no later than sixty (60) days following the filing of the application for registration or demonstrate to the Association that it has made reasonable efforts to comply with the requirement. A member receiving a Form U-5 pursuant to this Rule shall review the Form U-5 and any amendments thereto and shall take such action as may be deemed appropriate.

* * *

6120. Participation in ACT

(a) Mandatory Participation for Clearing Agency Members

(1) Pursuant to Article VII, Section 1(a)[(6) and (7)](vi) and (vii) of the By-Laws, participation in ACT is mandatory for all brokers that are members of a clearing agency registered with the Commission pursuant to Section 17A of the Act, and for all brokers that have a clearing arrangement with such a broker.

* * *

10101. Matters Eligible for Submission

This Code of Arbitration Procedure is prescribed and adopted pursuant to Article VII, Section 1(a)[(4)](iv) of the By-Laws of the Association for the arbitration of any dispute, claim, or controversy arising out of or in connection with the business of any member of the Association, or arising out of the employment or termination of employment of associated person(s) with any member, with the exception of disputes involving the insurance business of any member which is also an insurance company:

* * *

II. SELF-REGULATORY ORGANIZATION'S STATEMENT OF THE PURPOSE OF, AND STATUTORY BASIS FOR, THE PROPOSED RULE CHANGE

In its filing with the Commission, NASD Regulation included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in

Item IV below. NASD Regulation has prepared summaries, set forth in Sections (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(1) Purpose

The purpose of the proposed rule change is to correct cross-references to the NASD By-Laws in Rules 112, 120, 1060, 1100, 3010, 6120, and 10101 and Interpretive Material 2110-4, 2210-4, 2420-1, 2420-2, and 2440. On November 14, 1997, the Commission approved substantial amendments to the NASD's corporate documents that were designed to: (1) implement a corporate restructuring developed in 1997; (2) comply with the SEC's August 8, 1996, Order making certain findings and imposing remedial sanctions; and (3) implement certain recommendations found in the Report of the NASD Select Committee on Structure and Governance to the NASD Board of Governors.² A number of articles and sections were added or removed from the NASD By-Laws, resulting in the need to renumber the By-Laws. A substantial number of corrections to By-Law cross-references in the NASD Rules were made in that rule filing. The purpose of this proposed rule change is to complete the corrections of the cross-references to the currently approved By-Laws so that all of the NASD Rules conform to the By-Laws.³

(2) Statutory Basis

² Securities Exchange Act Release No. 39326 (Nov. 14, 1997); 62 FR 62385 (Nov. 21, 1997).

³ The Commission recently approved other changes to the NASD By-Laws. See Securities Exchange Act Release No. 40615 (Oct. 28, 1998); 63 FR 59614 (Nov. 4, 1998). None of these changes require corrections to the cross-references in the NASD Rules.

NASD Regulation believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act, which requires, among other things, that the Association's rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. The proposed rule change simply corrects cross-references to the NASD By-Laws in the NASD Rules and would not result in a substantive change in any Rule.

(B) Self-Regulatory Organization's Statement on Burden on Competition

NASD Regulation does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. DATE OF EFFECTIVENESS OF THE PROPOSED RULE CHANGE AND TIMING FOR COMMISSION ACTION

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(i) of the Act and subparagraph (e) of Rule 19b-4 thereunder in that it constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule.

At any time within 60 days of the filing of a rule change pursuant to Section 19(b)(3)(A) of the Act, the Commission may summarily abrogate the rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. SOLICITATION OF COMMENTS

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of NASD Regulation. All submissions should refer to the file number in the caption above and should be submitted by [insert date 21 days from the date of publication].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority, 17 CFR 200.30-3(a)(12).

Jonathan G. Katz
Secretary