

June 2, 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-98-23, Amendment No. 2**
Amendments to Rule 2860, Options Position Limits

Dear Ms. England:

Pursuant to Rule 19b-4, NASD Regulation, Inc. ("NASD Regulation") is hereby amending the proposed rule change as published for comment in the Federal Register and as amended by Amendment No. 1 dated April 29, 1998, as follows. The amendments proposed herein address the situation where there is no standardized equity options contract for a particular security. The current proposed rule change is deficient because the position limits for conventional equity options are established at "three times the applicable position limit established for standardized equity options overlying the security" and do not consider the circumstance where there is no standardized equity options contract. The proposed amendments adopt the same approach that was previously approved by the Securities and Exchange Commission and is currently contained in Rule 2860(b)(3). Under current rules, the position limits for conventional equity options contracts overlying a security for which there is no standardized equity options contract are 4,500 contracts, or such higher limit for which the underlying security would be able to qualify. The amendments proposed herein simply triple these limits, consistent with the approach established in the original rule filing. The proposed new language is underlined and the proposed deletions are in brackets.

(3) Position Limits

(A) Stock Options -- Except in highly unusual circumstances and with the prior written approval of the Association in each instance, no member shall effect for any account in which such member has an interest, or for the account of any partner, officer, director or employee thereof, or for the account of any customer, an opening transaction through Nasdaq, the over-the-counter market or on any exchange in a stock option contract of any class of stock options if the member

has reason to believe that as a result of such transaction the member or partner, officer, director or employee thereof, or customer would, acting alone or in concert with others, directly or indirectly, hold or control or be obligated in respect of an aggregate [standardized] equity options position in excess of:

(i) 4,500 option contracts of the put class and the call class on the same side of the market covering the same underlying security, combining for purposes of this position limit long positions in put options with short positions in call options, and short positions in put options with long positions in call options; or

(ii) 7,500 options contracts of the put class and the call class on the same side of the market covering the same underlying security, providing that the 7,500 contract position limit shall only be available for option contracts on securities which underlie [or qualify to underlie*] Nasdaq or exchange-traded options qualifying under applicable rules for a position limit of 7,500 option contracts; or

(iii) 10,500 option contracts of the put class and the call class on the same side of the market covering the same underlying security providing that the 10,500 contract position limit shall only be available for option contracts on securities which underlie [or qualify to underlie**] Nasdaq or exchange-traded options qualifying under applicable rules for a position limit of 10,500 option contracts; or

(iv) 20,000 options contracts of the put and the call class on the same side of the market covering the same underlying security, providing that the 20,000 contract position limit shall only be available for option contracts on securities which underlie [or qualify to underlie***] Nasdaq or exchange-traded options qualifying under applicable rules for a position limit of 20,000 option contracts; or

(v) 25,000 options contracts of the put and the call class on the same side of the market covering the same underlying security, providing that the 25,000 contract position limit shall only be available for option contracts on securities which underlie [or qualify to underlie****] Nasdaq or exchange-traded options qualifying under applicable rules for a position limit of 25,000 option contracts; or

(vi) such other number of stock options contracts as may be fixed from time to time by the Association as the position limit for one or more classes or series of options

[* In order for a security not subject to standardized options trading to be eligible for a higher options position limit of more than 4,500 contracts, a member must first demonstrate to the Association's Market Department that the security meets the standards for such higher options position limit and the initial listing standards for standardized options trading."]

[** See previous footnote.]

[*** See footnote to subparagraph (3)(A)(ii) above.]

[**** See footnote to subparagraph (3)(A)(ii) above.]

provided that reasonable notice shall be given of each new position limit fixed by the Association.

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(ix) Conventional Equity Options

a. For purposes of this paragraph (b), standardized equity options contracts of the put class and call class on the same side of the market overlying the same security shall not be aggregated with conventional equity options contracts or FLEX Equity Options contracts overlying the same security on the same side of the market. Conventional equity options contracts of the put class and call class on the same side of the market overlying the same security shall be subject to a [basic] position limit equal to [three times the applicable position limit established for standardized equity options overlying the security pursuant to subparagraphs (b)(3)(A)(i) through (v) above] the greater of:

1. three times the basic limit of 4,500 contracts, or

2. three times any standardized equity options position limit as set forth in subparagraph (b)(3)(A)(ii) through (v) for which the underlying security qualifies or would be able to qualify.

b. In order for a security not subject to standardized equity options trading to qualify for an options position limit of more than 4,500 contracts, a member must first demonstrate to the Association's Market Regulation Department that the underlying security meets the standards for such higher options position limit and the initial listing standards for standardized options trading. [and are eligible for the OTC Collar Exemption set forth in subparagraph (b)(3)(A)(viii) above and the Equity Option Hedge Exemption set forth in subparagraph (b)(3)(A)(vii) above.]

If you have any questions, please contact the undersigned at (202) 728-8104.

Very truly yours,

Gary L. Goldsholle
Assistant General Counsel
NASD Regulation, Inc.