

March 20, 2001

Ms. Katherine A. England
Assistant Director
Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-1001

Re: File No. SR-NASD-01-19, Reporting Requirements for Clearing Members

Dear Ms. England:

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

If you have any questions, please contact Shirley H. Weiss, Office of General Counsel, NASD Regulation, Inc., at (202) 728-8844; e-mail Shirley.Weiss@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Patrice M. Gliniecki
Vice President and
Deputy General Counsel

Enclosures

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

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

(a) Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 (“Act”), the National Association of Securities Dealers, Inc. (“NASD” or “Association”), through its wholly owned subsidiary, NASD Regulation, Inc. (“NASD Regulation”), is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to adopt a new Rule 3150 to require all members that are clearing firms to report certain data to the NASD Regulation Department of Member Regulation (“Member Regulation”) on a daily basis.

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

3100. BOOKS AND RECORDS, AND FINANCIAL CONDITION

3150. Reporting Requirements for Clearing Firms

Each member that is a clearing firm shall be required to report to the Association on a daily basis and in such format as the Association may require, prescribed data pertaining to the member and any broker-dealer for which it clears. A clearing firm may enter into an agreement with a third party pursuant to which the third party agrees to fulfill the clearing firm's obligations under this Rule. Notwithstanding the existence of such an agreement, each clearing firm remains responsible for complying with the requirements of this Rule.

2. Procedures of the Self-Regulatory Organization

(a) The proposed rule change was approved by the Board of Directors of NASD Regulation at its meeting on October 4, 2000, which authorized the filing of the rule change with the SEC. The Nasdaq Stock Market and NASD Dispute Resolution, Inc. have 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. The NASD Board of Governors had an opportunity to review the proposed rule change at its meeting on October 5, 2000. 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.

The NASD will announce the effective date of the proposed rule change in a Notice to Members to be published no later than 60 days following Commission approval. The effective date will be approximately 30 days following publication of the Notice to Members announcing Commission approval.

The proposed effective date pre-dates the actual application of the INSITE reporting requirements. The NASD expects to implement the reporting requirement in five phases, starting in the Fall of 2001. It is anticipated that the first tranche of participating firms will consist of the clearing firms that are currently involved in the pilot program as well as certain service bureaus that effect INSITE filings on behalf of their client clearing firms. It also is anticipated that the subsequent four tranches will phase into the program in approximately one-month intervals. The second and third tranches will consist of the 75 largest clearing firms and the remaining clearing firms, respectively.

The fourth and fifth tranches will consist of the large self-clearing firms and remaining self-clearing firms, respectively. The NASD will provide its member clearing firms with advance notice of the date on which their participation is expected to begin.

(b) Questions regarding this rule filing may be directed to Shirley H. Weiss, Associate General Counsel, NASD Regulation, Office of General Counsel, at (202) 728-8844.

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

(a) Purpose

NASD Regulation's Department of Member Regulation is developing a new business model regarding the surveillance and examination of NASD members. The new program is officially titled Integrated National Surveillance and Information Technology Enhancements, and is commonly referred to as INSITE. INSITE will allow NASD Regulation to concentrate its examinations on the higher-risk segments of the industry; focus the content of each examination on higher-risk topics; streamline the examination process for the examiners and members; better coordinate regulatory findings with other NASD Regulation departments; and provide specialized training to enhance and maintain examiners' competency levels.

The surveillance component of the INSITE program will produce reports that identify member "exceptions" based on historical and current comparisons of member data. The exceptions will trigger follow-up reviews and possible member examinations. In order for the surveillance component of INSITE to work, it is essential that clearing firms (both those that are self-clearing and those that clear for other firms) provide certain data to NASD Regulation on a daily basis.

Proposed Rule 3150 would establish the INSITE reporting requirement and would require members that are clearing firms to provide the necessary data directly to NASD Regulation. A clearing firm may enter into an agreement with a third party pursuant to which the third party agrees to fulfill the clearing firm's obligations under this Rule. Notwithstanding the existence of such an agreement, each clearing firm will be responsible for complying with the requirements of this Rule.

The text of proposed Rule 3150 does not specify the data that must be reported to NASD Regulation. The data elements that NASD Regulation currently expects to require its members that are clearing firms to submit to the Association pursuant to proposed Rule 3150 include items such as trade cancellations (T+1 forward) and as-of trades, aggregate net liquidating equity in each firm's proprietary accounts, and unsecured customer debits. The Association will continue to work with its clearing firm members and the SEC staff in identifying the data that is needed in order to operate the surveillance component of INSITE, and will provide its members with advance notice through the NASD Notice to Members process (or similar guidance) of any changes to the required data elements. NASD Regulation also will advise its clearing firm members of the format to be used in transmitting information pursuant to proposed Rule 3150 and the methodology by which firms shall be required to submit the information to the Association.

(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.

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.¹

6. Extension of Time Period for Commission Action

NASD Regulation does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.

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

Not applicable.

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.

¹ This proposed rule change was not published for comment by the NASD through its Notice to Members process.

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: _____
Patrice M. Gliniecki
Vice President and Deputy General Counsel

Date: March 20, 2001

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-01-19)

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Reporting Requirements for Clearing Members

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on , the National Association of Securities Dealers, Inc. (“NASD”), through its wholly owned subsidiary, NASD Regulation, Inc. (“NASD Regulation”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASD Regulation. 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 adopt a new Rule 3150 to require all members that are clearing firms to report certain data to the NASD Regulation Department of Member Regulation (“Member Regulation”) on a daily basis.

Proposed new language is in italics; proposed deletions are in brackets.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

3100. BOOKS AND RECORDS, AND FINANCIAL CONDITION

3150. Reporting Requirements for Clearing Firms

Each member that is a clearing firm shall be required to report to the Association on a daily basis and in such format as the Association may require, prescribed data pertaining to the member and any broker-dealer for which it clears. A clearing firm may enter into an agreement with a third party pursuant to which the third party agrees to fulfill the clearing firm's obligations under this Rule. Notwithstanding the existence of such an agreement, each clearing firm remains responsible for complying with the requirements of this Rule.

I. 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

NASD Regulation's Department of Member Regulation is developing a new business model regarding the surveillance and examination of NASD members. The new program is officially titled Integrated National Surveillance and Information Technology Enhancements, and is commonly referred to as INSITE. INSITE will allow NASD Regulation to concentrate its examinations on the higher-risk segments of the industry; focus the content of each examination on higher-risk topics; streamline the examination process for the examiners and members; better coordinate regulatory findings with other NASD Regulation departments; and provide specialized training to enhance and maintain examiners' competency levels.

The surveillance component of the INSITE program will produce reports that identify member "exceptions" based on historical and current comparisons of member data. The exceptions will trigger follow-up reviews and possible member examinations. In order for the surveillance component of INSITE to work, it is essential that clearing firms (both those that are self-clearing and those that clear for other firms) provide certain data to NASD Regulation on a daily basis. Proposed Rule 3150 would establish the INSITE reporting requirement and would require members that are clearing firms to provide the necessary data directly to NASD Regulation. A clearing firm may enter into an agreement with a third party pursuant to which the third party agrees to fulfill the clearing firm's obligations under this Rule. Notwithstanding the existence of such an agreement, each clearing firm will be responsible for complying with the requirements of this Rule.

The text of proposed Rule 3150 does not specify the data that must be reported to NASD Regulation. The data elements that NASD Regulation currently expects to require its members that are clearing firms to submit to the Association pursuant to proposed Rule 3150 include items such as trade cancellations (T+1 forward) and as-of trades, aggregate net liquidating equity in each firm's proprietary accounts, and unsecured customer debits. The Association will continue to work with its clearing firm members and the SEC staff in identifying the data that is needed in order to operate the surveillance component of INSITE, and will provide its members with advance notice through the NASD Notice to Members process (or similar guidance) of any changes to the required data elements. NASD Regulation also will advise its clearing firm members of the format to be used in transmitting information pursuant to proposed Rule 3150 and the methodology by which firms shall be required to submit the information to the Association.

(2) 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.

(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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- A. by order approve such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be disapproved.

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 the NASD. 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