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November 22, 2002

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-2002-166, Amendment No. 1
Margin Rule Amendments for Security Futures Contracts

Dear Ms. England:

Pursuant to our conversations with the staff of the Division of Market Regulation, NASD hereby submits Amendment No. 1 to the above-referenced rule filing.

1. In making our initial filing, we failed to include certain changes that had been made to Rule 2520 as part of a prior rule change (See SR-NASD-2000-15). Please note that this omission does not affect the substance of the proposed rule change as the correction applies to rule text that is not being amended. Nevertheless, for the purpose of clarity, we are showing the omitted text.

Paragraph (b)(4) on pages 5 and 30 should be amended as follows. The omitted text is double-underlined.

> (4) equity of at least $2,000 except that cash need not be deposited in excess of the cost of any security purchased (this equity and cost of purchase provision shall not apply to "when distributed" securities in a cash account). The minimum equity requirement for a "pattern day trader" is $25,000 pursuant to paragraph (f)(8)(B)(iv)a. of this Rule.
>
> Withdrawals of cash or securities may be made from any account which has a debit balance, "short" position or commitments, provided it is in compliance with Regulation T and Rules 400 through 406 under the Act and Rules 41.42 through 41.48 under the CEA, and after such withdrawal the equity in the account is at least the greater of $2,000 ($25,000 in the case of a "pattern day trader") or an amount sufficient to meet the maintenance margin requirements of this paragraph.

2. On pages 12 and 37, footnote 3 should read as follows. New text is double-underlined.

> [3] Two security futures contracts will be considered "identical" for this purpose if they are issued by the same clearing agency or cleared and guaranteed by the same derivatives clearing organization, have identical specifications, and would offset each other at the clearing level.

3. On pages 19 and 44, the last sentence in paragraph (F)(i) should be amended as follows. New text is double-underlined, deleted text is italicized and in brackets.

> (i) Notwithstanding the other provisions of (f)(11) and (f)(2)(J), a member may carry the account of an "approved specialist," which account is limited to bona fide specialist transactions including hedge transactions with security futures contracts upon a margin basis that is satisfactory to both parties. The amount of any deficiency between the equity in the account and haircut requirement pursuant to Rule 15c3-1 *[under the Act (Net Capital) shall be deducted in computing the Net Capital of the member under NASD's Capital Requirements]* shall be charged against the member's net capital when computing net capital under SEC Rule 15c3-1.

4. On pages 20 and 45, paragraph (G)(iv) should be revised as follows. Deleted text is italicized and in brackets.

> (vi) Security futures contracts transacted or held in a *[security]* futures account shall not be subject to any provision of this Rule.

Please contact the undersigned at (202) 728-8104 if you have any questions.

Very truly yours,

Gary L. Goldsholle