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December 20, 2002

Katherine A. England, Esq.
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-2002-134, Amendment No. 1**
Proposed Rule Change to Option Position and Exercise Limits;
NASD Rule 2860

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. These changes are clerical in nature and address typographic errors in the original rule filing.

1. On page 20, the paragraph number for the section on position limits should be (3) instead of (4).

2. On page 20, the first sentence in paragraph (3) should be revised to read:

   (A) Stock Options—Except in highly unusual circumstances, and with the prior written approval of [the [Association] <u>NASD</u> pursuant . . .

3. On page 25, the second paragraph should be revised to read:[1]

   [a. The following positions, where each option contract is "hedged" by 100 shares of stock or securities readily

[1] A corresponding change should be made on page 7.

convertible into or economically equivalent to such stock, or, in the case of an adjusted option contract, the same number of shares represented by the adjusted contract, shall be exempted from established limits contained in paragraphs (i) through (vi) above:]

4. On page 25, the third paragraph should be revised to read:[2]

[b. Except as provided under the OTC Collar Exemption contained in subparagraph (b)(3)(A)(viii), in no event . . .]

5. On page 27, please remove the word "above" from the 4th line in the third full paragraph.[3]

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

Very truly yours,

Gary L. Goldsholle

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[2] A corresponding change should be made on page 8.

[3] A corresponding change should be made on page 9.