

November 17, 2000

Mr. Jerry Carpenter
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-00-68** - Proposed Rule Change to Amend Uniform Practice Code Rule 11870(e)

Dear Mr. Carpenter:

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,

Alden S. Adkins
Senior Vice President
and 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 amend NASD Uniform Practice Code Rule 11870(e) to require that following the validation of a transfer instruction, the carrying member must complete the transfer of customer account(s) to the receiving member within three business days instead of four business days. Below is the text of the proposed rule change.

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

UNIFORM PRACTICE CODE

11870. Customer Account Transfer Contracts

(a) through (d) No change

(e) Completion of the Transfer

Within [four] three business days following the validation of a transfer instruction, the carrying member must complete the transfer of the account(s) to the receiving member. The receiving member and the carrying member must immediately establish fail-to-receive and fail-to-deliver contracts at then-current market values upon their respective books of account against the long/short positions in the customer’s account(s) that have not been physically delivered/received and the receiving/carrying member must debit/credit the related money amount. The customer’s account(s) shall thereupon be deemed transferred.

(f) through (n) No change

(b) Not applicable.

(c) Not applicable.

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.

(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

Rule 11870(e) regulates the transfer of customer accounts from one member organization to another. Such transfers are generally effected through the Automated Account Transfer Service (“ACATS”), which is a system administered by the National Securities Clearing Corporation

(“NSCC”). Since ACATS’ inception in 1985, numerous enhancements to the system have allowed for faster and more efficient transfers of customer accounts. The NSCC enhanced the ACATS system in 1999 to require carrying members to complete the transfer of accounts to the receiving member within three business days following the validation of a transfer instruction. The NYSE has already amended its Rule 412 to reduce the total post-validation transfer period from four days to three days.¹ The NASD currently expects its members to comply with the three-day requirement, notwithstanding that Rule 11870(e) has not yet been amended. NASD Regulation is now proposing to amend Rule 11870(e) to conform to the NYSE Rule 412(b)(3) requirement that post-validation transfers occur within three business days. This will make Rule 11870(e) consistent with the current NSCC and NYSE three-day requirement, which is the industry standard.

(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 NASD believes that the proposed rule change is designed to accomplish these ends by reducing the time frame allowed for the transfer of customer accounts from one member organization to another and to make NASD requirements conform to NYSE Rule 412(b)(3) and current NSCC requirements.

¹ Exchange Act Release No. 40712, 1998 SEC LEXIS 2584 (Nov. 25, 1998).

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)

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A) of the Act and paragraph (f)(6) of Rule 19b-4 thereunder,² in that the proposed rule change does not significantly affect the protection of investors or the public interest and does not impose any significant burden on competition. In accordance with Rule 19b-4(f)(6)(iii), NASD Regulation submitted written notice of its intent to file the proposed rule change along with a brief description and text of the proposed rule change prior to the date of filing. In that notice of intent, NASD Regulation also requested that the Commission waive the requirement that the rule change, by its terms, not become operative for 30 days after the date of the filing as set forth in 19b-4(f)(6)(iii), as consistent with the protection of investors and the public interest. The Commission agreed to waive that requirement. Therefore, the proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.

² 17 CFR 240.19b-4(f)(6).

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

The proposed rule change is intended to conform NASD Rule 11870(e) to NYSE 412(b)(3), which requires the carrying organization to complete the transfer of a customer's securities account(s) to the receiving organization within three business days following the validation of a transfer instruction. NASD Regulation believes that it is important that Rule 11870(e) conform to NSCC's and NYSE's three-day requirement to avoid imposing confusing or inconsistent requirements on the securities industry.

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: _____

Alden S. Adkins
Senior Vice President and General Counsel

Date: November 17, 2000

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-00-68)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to the Amendment of Rule 11870(e) to Require Carrying Members to Transfer Customer Account(s) to the Receiving Member Within Three Days After Validation of a Transfer Instruction

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ notice is hereby given that on November 17, 2000, 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. NASD Regulation has designated the proposed rule change as constituting a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 under the Act,² and the Commission has waived the requirement that the rule change, by its terms, does not become operative for 30 days after the date of the filing. Therefore, the rule is 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

NASD Regulation is proposing to amend Rule 11870(e) of the NASD Uniform Practice Code to require that following the validation of a transfer instruction, the carrying member must complete the transfer of customer account(s) to the receiving member within three business days instead of four business days. Below is the text of the proposed rule change. Proposed new language is in italics; proposed deletions are in brackets.

UNIFORM PRACTICE CODE

11870. Customer Account Transfer Contracts

(a) through (d) No change

(e) Completion of the Transfer

Within [four] three business days following the validation of a transfer instruction, the carrying member must complete the transfer of the account(s) to the receiving member. The receiving member and the carrying member must immediately establish fail-to-receive and fail-to-deliver contracts at then-current market values upon their respective books of account against the long/short positions in the customer's account(s) that have not been physically delivered/received and the receiving/carrying member must debit/credit the related money amount. The customer's account(s) shall thereupon be deemed transferred.

(f) through (n) No change

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**

Rule 11870(e) regulates the transfer of customer accounts from one member organization to another. Such transfers are generally effected through the Automated Account Transfer Service (“ACATS”), which is a system administered by the National Securities Clearing Corporation (“NSCC”). Since ACATS’ inception in 1985, numerous enhancements to the system have allowed for faster and more efficient transfers of customer accounts. The NSCC enhanced the ACATS system in 1999 to require carrying members to complete the transfer of accounts to the receiving member within three business days following the validation of a transfer instruction. The NYSE has already amended its Rule 412 to reduce the total post-validation transfer period from four days to three days.³ The NASD currently expects its members to comply with the three-day requirement, notwithstanding that Rule 11870(e) has not yet been amended. NASD Regulation is now proposing to amend Rule

³ Exchange Act Release No. 40712, 1998 SEC LEXIS 2584 (Nov. 25, 1998).

11870(e) to conform to the NYSE Rule 412(b)(3) requirement that post-validation transfers occur within three business days. This will make Rule 11870(e) consistent with the current NSCC and NYSE three-day requirement, which is the industry standard.

(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. The NASD believes that the proposed rule change is designed to accomplish these ends by reducing the time frame allowed for the transfer of customer accounts from one member organization to another and to make NASD requirements conform to NYSE Rule 412(b)(3) and current NSCC requirements.

(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 proposed rule change has been filed by the Association as a "non-controversial" rule change under Rule 19b-4(f)(6) under the Act.⁴ In accordance with Rule 19b-4(f)(6)(iii), prior to the

⁴ 17 CFR 240.19b-4(f)(6).

filing date, NASD Regulation submitted written notice of its intent to file the proposed rule change along with a brief description and text of the proposed rule change. In that notice of its intent, NASD Regulation requested that the Commission waive the requirement that the rule change, by its terms, not become operative for 30 days after the date of the filing, as consistent with the protection of investors and the public interest. The Commission agreed to waive that requirement. Accordingly, the proposed rule change will become effective upon filing pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.

At any time within 60 days of this filing, the Commission may summarily abrogate this proposal 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 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