

August 3, 1999

Katherine 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-99-36** Amendments to NASD Regulation By-Laws Relating to the Election of Chairs and Vice Chairs of the National Adjudicatory Council.

Dear Ms. England:

Pursuant to Rule 19b-4, enclosed herewith is 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 Eric Moss, Office of General Counsel, NASD Regulation, Inc., at (202) 728-8982; e-mail mosse@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Alden S. Adkins
Sr. Vice President
and General Counsel

Attachment

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

Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 (“Act”), NASD Regulation, Inc. (“NASD Regulation”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend its By-Laws to clarify that the outgoing members of the National Adjudicatory Council (“NAC”) are to select a Chair and Vice Chair from among the members who will be serving in the following year. Below is the text of the proposed rule change. Proposed new language is in *italics*; proposed deletions are in brackets.

* * *

BY-LAWS OF NASD REGULATION, INC.

* * *

ARTICLE V

NATIONAL ADJUDICATORY COUNCIL

Appointment and Authority

Sec. 5.1 No change.

Number of Members and Qualifications

Sec. 5.2 (a) No change.

(b) [As soon as practicable following the appointment of members,] *The incumbent* National Adjudicatory Council shall elect a Chair and a Vice Chair from among [its] *the* members *serving during the following term*. The Chair and Vice Chair shall have such powers and duties as may be determined from time to time by the National Adjudicatory Council. The Chair also shall serve as a Director of the NASD Regulation Board and a

Governor of the NASD Board for a one-year term as provided in the By-Laws and Restated Certificate of Incorporation of the NASD and these By-Laws. The Board, by resolution adopted by a majority of Directors then in office and after notice to the NASD Board, may remove the Chair or Vice Chair from such position at any time for refusal, failure, neglect, or inability to discharge his or her duties.

* * *

(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 July 23, 1999. The Nasdaq Stock Market has been provided an opportunity to consult with respect to the proposed rule change, pursuant to the Plan of Allocation and Delegation of Functions by NASD to Subsidiaries. Section 1(a)(2) of Article VI of the NASD By-Laws permits the NASD Board of Governors to adopt NASD Rules without recourse to the membership for approval.

(b) Questions regarding this rule filing may be directed to Eric Moss, Assistant General Counsel, NASD Regulation, Office of General Counsel, at (202) 728-8982.

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

(a) **Purpose**

On January 15, 1998, the adjudicatory functions of the National Business Conduct Committee ("NBCC") were transferred to the NAC. The NBCC operated much as the NAC operates. The current NASD Regulation By-Laws suggest that the newly elected NAC

should elect its Chair and Vice Chair. There has been only one election since the formation of the NAC, and the Chair and Vice Chair were selected from the newly elected NAC.

NASD Regulation is proposing to direct the outgoing NAC to select either a returning or a new member of the NAC to serve in these positions for the following year. NASD Regulation believes that the outgoing NAC members are particularly well suited to select the Chair and Vice Chair for the following year. This proposal is also consistent with the practice by which the Chair and Vice Chair were elected to the NBCC.

(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. NASD Regulation believes that permitting the outgoing NAC to elect the Chair and Vice chair for the following year will result in the selection of the most highly qualified candidates, who will serve important roles in reviewing disciplinary, membership and other matters for NASD Regulation.

4. Self-Regulatory Organization's Statement on Burden on Competition

NASD Regulation does not believe that the proposed rule change would 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

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)

NASD Regulation requests the Commission to find good cause pursuant to Section 19(b)(2) for approving the proposed rule change prior to the 30th day after its publication in the Federal Register. Such an accelerated approval is necessary so that the proposed election procedures may be in place prior to the November election of the NAC. NASD Regulation requests that the Commission adopt the rule change fifteen days after its publication in the Federal Register.

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

Not applicable.

9. Exhibits

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, Sr. Vice President and General Counsel

Date: August 3, 1999

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-] ; File No. SR-NASD-99-36)

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to the Election of Chairs and Vice Chairs of the National Adjudicatory Council.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”), 15 U.S.C. 78s(b)(1), 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. For the reasons discussed below, the Commission is granting accelerated approval of the proposed rule change.

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

Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 (“Act”), NASD Regulation, Inc. (“NASD Regulation”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend its By-Laws to clarify that the outgoing members of the National Adjudicatory Council (“NAC”) are to select a Chair and Vice Chair from among the members who will be serving in the following year. Below is the text of the proposed rule change. Proposed new language is in *italics*; proposed deletions are in brackets.

* * *

BY-LAWS OF NASD REGULATION, INC.

* * *

ARTICLE V

NATIONAL ADJUDICATORY COUNCIL

Appointment and Authority

Sec. 5.1 No change.

Number of Members and Qualifications

Sec. 5.2 (a) No change.

(b) [As soon as practicable following the appointment of members,] *The incumbent* National Adjudicatory Council shall elect a Chair and a Vice Chair from among [its] *the members serving during the following term.* The Chair and Vice Chair shall have such powers and duties as may be determined from time to time by the National Adjudicatory Council. The Chair also shall serve as a Director of the NASD Regulation Board and a Governor of the NASD Board for a one-year term as provided in the By-Laws and Restated Certificate of Incorporation of the NASD and these By-Laws. The Board, by resolution adopted by a majority of Directors then in office and after notice to the NASD Board, may remove the Chair or Vice Chair from such position at any time for refusal, failure, neglect, or inability to discharge his or her duties.

* * *

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

(a) Purpose

On January 15, 1998, the adjudicatory functions of the National Business Conduct Committee ("NBCC") were transferred to the NAC. The NBCC operated much as the NAC operates. The NASD Regulation By-Laws are unclear as to whether the outgoing or newly elected NAC elect a Chair and Vice Chair. There has been only one election since the formation of the NAC, and the Chair and Vice Chair were selected from the newly elected NAC. NASD Regulation is proposing to direct the outgoing NAC to select either a returning or a new member of the NAC to serve in these positions for the following year. NASD Regulation believes that the outgoing NAC members are particularly well suited to select the Chair and Vice Chair for the following year. This proposal is also consistent with the practice by which the Chair and Vice Chair were elected to the NBCC.

(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. NASD Regulation believes that permitting the outgoing NAC to elect the Chair and Vice chair for the following year will result in the selection of the most highly qualified candidates, who will serve important roles in reviewing disciplinary, membership and other matters for NASD Regulation.

(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

NASD Regulation requests the Commission to find good cause pursuant to Section 19(b)(2) for approving the proposed rule change prior to the 30th day after its publication in the Federal Register. Such an accelerated approval is necessary so that the proposed election procedures may be in place prior to the November election of the NAC. NASD Regulation requests that the Commission adopt the rule change fifteen days after its publication in the Federal Register.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority, 17 CFR 200.30-3(a)(12).

Jonathan G. Katz
Secretary