

April 28, 2003

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-2003-75 - Proposed Amendments Regarding Requests for Underwriting Activity Reports

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 Stephanie Dumont, Associate General Counsel, Office of General Counsel, Regulatory Policy and Oversight, at (202) 728-8176; e-mail stephanie.dumont@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Barbara Z. Sweeney
Senior Vice President
and Corporate Secretary

Enclosures

File No. SR-NASD-2003-75
Consists of 36 Pages
April 28, 2003

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) of the Securities Exchange Act of 1934 (“Act”), the National Association of Securities Dealers, Inc. (“NASD”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend NASD Rules to require members to request Underwriting Activity Reports (“UARs”) from NASD’s Market Regulation Department rather than NASD’s Corporate Financing Department. Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

2710. Corporate Financing Rule - Underwriting Terms and Arrangements

(a) No Change.

(b) Filing Requirements

(1) General

No member or person associated with a member shall participate in any manner in any public offering of securities subject to this Rule, Rule 2720 or Rule 2810 unless documents and information as specified herein relating to the offering have been filed with and reviewed by NASD [the Association].

(2) Means of Filing

Documents or information required by this Rule to be filed with NASD [the Association][^{*}] shall be considered to be filed only upon receipt by its Corporate Financing Department.^{*}

^{*} This Department is located at 9509 Key West Avenue, Rockville, Maryland 20850.

(3) Confidential Treatment

NASD [The Association] shall accord confidential treatment to all documents and information filed pursuant to this Rule and shall utilize such documents and information solely for the purpose of review to determine compliance with the provisions of applicable NASD [Association] Rules or for other regulatory purposes deemed appropriate by NASD [the Association].

(4) Requirement for Filing

(A) Unless filed by the issuer, the managing underwriter, or another member, a member that anticipates participating in a public offering of securities subject to this Rule shall file with NASD [the Association] the documents and information with respect to the offering specified in subparagraphs (5) and (6) below no later than one business day after the filing of any of such documents:

(i) through (iv) No Change.

(B) No offering of securities subject to this Rule shall commence unless:

(i) the documents and information specified in subparagraphs (5) and (6) below have been filed with and reviewed by NASD [the Association]; and

(ii) NASD [the Association] has provided an opinion that it has no objections to the proposed underwriting and other terms and arrangements or an opinion that the proposed underwriting and other terms and arrangements are unfair and unreasonable. If NASD's [the Association's] opinion states that the proposed underwriting and other terms and arrangements are unfair and

unreasonable, the member may file modifications to the proposed underwriting and other terms and arrangements for further review.

(C) Any member acting as a managing underwriter or in a similar capacity that has been informed of an opinion by NASD [the Association], or a determination by the appropriate standing committee of the Board of Governors, that the proposed underwriting terms and arrangements of a proposed offering are unfair or unreasonable, and the proposed terms and arrangements have not been modified to conform to the standards of fairness and reasonableness, shall notify all other members proposing to participate in the offering of that opinion or determination at a time sufficiently prior to the effective date of the offering or the commencement of sales so the other members will have an opportunity as a result of specific notice to comply with their obligation not to participate in any way in the distribution of a public offering containing arrangements, terms and conditions that [which] are unfair or unreasonable.

(5) Documents to be Filed

(A) The following documents relating to all proposed public offerings of securities that are required to be filed under subparagraph (b)(4) above shall be filed with NASD [the Association] for review:

(i) No Change.

(ii) Three copies of any proposed underwriting agreement, agreement among underwriters, selected dealers agreement, agency agreement, purchase agreement, letter of intent, consulting agreement, partnership agreement, underwriter's warrant agreement, escrow agreement, and any other document that

[which] describes the underwriting or other arrangements in connection with or related to the distribution, and the terms and conditions relating thereto; and any other information or documents that [which] may be material to or part of the said arrangements, terms and conditions and that [which] may have a bearing on NASD's [the Association's] review;

(iii) No Change.

(iv) Three copies of the final registration statement declared effective by the Commission or equivalent final offering document and a list of the members of the underwriting syndicate, if not indicated therein, and one copy of the executed form of the final underwriting documents and any other document submitted to NASD [the Association] for review.

(B) All documents that are filed with the Commission through the Commission's Electronic Data Gathering and Retrieval System shall be treated as filed with NASD [the Association].

(6) Information Required to be Filed

(A) Any person filing documents that are required to be filed under paragraph (b)(4) above shall provide the following information with respect to the offering through NASD's [the Association's] electronic filing system:

(i) through (v) No Change.

(vi) a detailed explanation and any documents related to the modification of any item of underwriting compensation subsequent to the review and approval of such compensation by NASD [the Association]; and

(vii) any other information required by NASD's [the Association's] electronic filing system.

(B) Any person filing documents pursuant to subparagraph (b)(5) above shall notify NASD [the Association] through its electronic filing system that the offering has been declared effective or approved by the Commission or other agency no later than one business day following such declaration or approval or that the offering has been withdrawn or abandoned within three business days following the withdrawal or decision to abandon the offering.

(7) Offerings Exempt from Filing

Notwithstanding the provisions of subparagraph (1) above, documents and information related to the following public offerings need not be filed with NASD [the Association] for review, unless subject to the provisions of Rule 2720. However, it shall be deemed a violation of this Rule or Rule 2810, for a member to participate in any way in such public offerings if the underwriting or other arrangements in connection with the offering are not in compliance with this Rule or Rule 2810, as applicable:

(A) through (G) No Change.

(8) No Change.

(9) Offerings Required to be Filed

Documents and information relating to all other public offerings including, but not limited to, the following must be filed with NASD [the Association] for review:

(A) through (J) No Change.

(10) Request for Underwriting Activity Report

Notwithstanding the availability of an exemption from filing under subparagraph (b)(7) of this Rule, a member acting as a manager (or in a similar capacity) of a distribution of a publicly traded subject security or reference security that is subject to SEC Rule 101 or an “actively-traded” security under SEC Rule 101 (except for a security listed on a national securities exchange) shall submit a request to the Market Regulation [Corporate Financing] Department for an Underwriting Activity Report with respect to the subject [security] and/or reference security in order to facilitate compliance with SEC Rules 101, 103, or 104, and other distribution-related NASD Rules [of the Association]. The request shall be submitted at the time a registration statement or similar offering document is filed with the Corporate Financing Department, the SEC, or other regulatory agency or, if not filed with any regulatory agency, at least two (2) business days prior to the commencement of the restricted period under SEC Rule 101. The request shall include a copy of the registration statement or similar offering document (if not previously submitted pursuant to subparagraph (b)(5) of this Rule). If no member is acting as managing underwriter of such distribution, each member that is a distribution participant or an affiliated purchaser shall submit a request for an Underwriting Activity Report, unless another member has assumed responsibility for compliance with this subparagraph. For purposes of subparagraphs (b)(10) [(11)] and (11)[(12)], SEC Rules 100, 101, 103, and 104 are rules of the Commission adopted under Regulation M and the following terms shall have the meanings as defined in SEC Rule 100: “distribution,”

“distribution participant,” “reference security,” “restricted period,” and “subject security.”

(11) Submission of Pricing Information

A member acting as a manager (or in a similar capacity) of a distribution of securities that are listed on a national securities exchange and considered a subject security or reference security that is subject to SEC Rule 101 or an “actively-traded” security under SEC Rule 101 or a distribution of any other securities that are considered “actively-traded” under SEC Rule 101 shall provide written notice to the Market Regulation Department of NASD [Regulation, Inc.], no later than the close of business the day the offering terminates, that includes the date and time of the pricing of the offering, the offering price, and the time the offering terminated, which notice may be submitted on the Underwriting Activity Report.

(c) Underwriting Compensation and Arrangements

(1) and **(2)** No Change.

(3) Items of Compensation

(A) No Change.

(B) Expenses customarily borne by an issuer, such as printing costs; SEC, “blue sky” and other registration fees; NASD [Association] filing fees; and accountant's fees, shall be excluded from underwriter's compensation whether or not paid through an underwriter.

(4) Determination of Whether Compensation Is Received in Connection with the Offering

(A) All items of value received or to be received by the underwriter and related persons during the twelve (12) month period immediately preceding the filing of the registration statement or similar document, and at the time of and subsequent to the public offering, will be examined to determine whether such items of value are underwriting compensation in connection with the offering and, if received during the six (6) month period immediately preceding the filing of the registration statement or similar document, will be presumed to be underwriting compensation received in connection with the offering, provided, however, that such presumption may be rebutted on the basis of information satisfactory to NASD [the Association] to support a finding that the receipt of an item is not in connection with the offering and shall not include cash discounts or commissions received in connection with a prior distribution of the issuer's securities.

(B) through (D) No Change.

(E) Notwithstanding the provisions of subparagraph (3)(A)(vi) above, financial consulting and advisory fees may be excluded from underwriting compensation upon a finding by NASD [the Association], on the basis of information satisfactory to it, that an ongoing relationship between the issuer and the underwriter and related person has been established at least twelve (12) months prior to the filing of the registration statement or similar document or that the relationship, if established subsequent to that time, was not entered into in connection with the offering, and that actual services have been or will be

rendered that [which] were not or will not be in connection with or related to the offering.

(5) Valuation of Non-Cash Compensation

For purposes of determining the value to be assigned to securities received as underwriting compensation, the following criteria and procedures shall be applied:

(A) No underwriter and related person may receive a security or a warrant for a security as compensation in connection with the distribution of a public offering that is different than the security to be offered to the public unless the security received as compensation has a bona fide independent market, provided, however, that:

(i) in exceptional and unusual circumstances, upon good cause shown, such arrangement may be permitted by NASD [the Association];
and

(ii) No Change.

(B) through (D) No Change.

(6) Unreasonable Terms and Arrangements

(A) No member or person associated with a member shall participate in any manner in a public offering of securities after any arrangement proposed in connection with the public offering, or the terms and conditions relating thereto, has been determined to be unfair or unreasonable pursuant to this Rule or inconsistent with any By-Law or any Rule or regulation of NASD [the Association].

(B) (i) through (iv) No Change.

(v) any “tail fee” arrangement granted to the underwriter and related persons that has a duration of more than two (2) years from the date the member's services are terminated, in the event that the offering is not completed in accordance with the agreement between the issuer and the underwriter and the issuer subsequently consummates a similar transaction, except that a member may demonstrate on the basis of information satisfactory to NASD [the Association] that an arrangement of more than two (2) years is not unfair or unreasonable under the circumstances.

(vi) through (xv) No Change.

(C) No Change.

(7) and (8) No Change.

(d) Exemptions. Pursuant to the Rule 9600 Series, NASD [the Association] may exempt a member or person associated with a member from the provisions of this Rule for good cause shown.

* * * * *

4200. Definitions

(a) For purposes of the Rule 4000 Series, unless the context requires otherwise:

(1) through (29) No Change.

(30) “Normal unit of trading” means 100 shares of a security unless, with respect to a particular security, NASD [the Association] determines that a normal unit of trading

shall constitute other than 100 shares. If a normal unit of trading is other than 100 shares, a special identifier shall be appended to the issuer's Nasdaq symbol.

(31) through (36) No Change.

(37) “Underwriting Activity Report” is a report provided by the Market Regulation Department of NASD [Corporate Financing Department of NASD Regulation, Inc.] in connection with a distribution of securities subject to SEC Rule 101 pursuant to Rule 2710(b)(11) and includes forms that are submitted by members to comply with their notification obligations under Rules 4614, 4619, and 4623.

(b) No Change.

* * * * *

6540. Requirements Applicable to Market Makers

(a) Market-maker participation in the OTCBB is voluntary and open to any NASD [Association] member firm that satisfies the financial/operational requirements applicable to member firms engaged in over-the-counter market making; subscribes to Level 3 Nasdaq Workstation service; and demonstrates compliance with (or qualifies for an exception from) SEC Rule 15c2-11 at the time of initiating (or resuming) the quotation of any OTCBB-eligible security in the Service. Rule 6740 sets forth the procedure for demonstrating compliance with SEC Rule 15c2-11.

(b) through (d)(1)(C) No Change.

(d)(1)(D) Any member that intends to be a distribution participant in a distribution of securities subject to SEC Rule 101, or is an affiliated purchaser in such distribution, and is entering quotations in an OTCBB-eligible security that is

the subject security or reference security of such distribution shall, unless another member has assumed responsibility for compliance with this paragraph:

(i) and (ii) No Change.

(iii) provide written notice to the Corporate Financing Department of NASD [Regulation, Inc.] of its intention to impose a penalty bid or to conduct syndicate covering transactions pursuant to SEC Rule 104 prior to imposing the penalty bid or engaging in the first syndicate covering transaction. Such notice shall include information as to the date the penalty bid or first syndicate covering transaction will occur; and

(iv) provide written notice to the Market Regulation Department of NASD [Regulation, Inc.] by the close of business on the day the offering terminates that includes the date and time of the pricing of the offering, the offering price, and the time the offering terminated.

(E) The written notice required by subparagraphs (d)[(b)](1)(D)(i), (iii) and (iv) of this Rule may be submitted on the Underwriting Activity Report provided by the Market Regulation Department of NASD. [Corporate Financing Department of NASD Regulation, Inc.]

(F) For purposes of subparagraph (d)[(b)](1)(D), SEC Rules 100, 101, 103 and 104 are rules of the Commission adopted under Regulation M and the following terms shall have the meanings as defined in SEC Rule 100: “affiliated purchaser,” “distribution,” “distribution participant,” “penalty bid,” “reference

security,” “restricted period,” “stabilizing,” “subject security,” and “syndicate covering transaction.”

(2) Impermissible Quotation Entries

(A) No Change.

(B) No member or person associated with a member shall enter into the Service a priced bid and/or offer, an unpriced indication of interest (including “bid wanted” or “offer wanted” indications), or a bid or offer accompanied by a modifier to reflect unsolicited customer interest in any security of an issuer that does not make filings with the [Securities and Exchange] Commission through the Electronic Data Gathering, Analysis, and Retrieval (“EDGAR”) system (or in paper format, if specifically permitted by Commission Rules) unless the member:

(i) notifies NASD [the Association] of the issuer of the security’s schedule for the filing of all periodic reports or financial reports required pursuant to the Act or regulatory authority, respectively, and the identity of the regulatory authority with which such reports are filed, or ensures that such notice is provided; and

(ii) provides to NASD [the Association] the issuer’s periodic reports required pursuant to the Act, or the issuer’s financial reports required by regulatory authority, prior to the expiration of the grace period described in Rule 6530(a)(3), or ensures that the required periodic reports are provided to NASD [the Association] within that time period.

(3) No Change.

(4) More Than One Trading Location

In cases where a market maker has more than one trading location, a fifth character, geographic indicator shall be appended to the market maker's identifier for that security. Indicators are established by NASD [the Association] and published from time to time in the Nasdaq/CQS symbol directory.

(5) No Change.

(e) 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, Inc. at its meeting on November 20, 2002, which authorized the filing of the rule change with the SEC. Counsel for The Nasdaq Stock Market and NASD Dispute Resolution 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 NASD to its Subsidiaries. The NASD Board of Governors had an opportunity to review the proposed rule change at its meeting on November 21, 2002. No other action by 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.

As further discussed below, NASD is filing the proposed rule change for immediate effectiveness. NASD will announce the proposed rule change in a Notice to Members to be published no later than 30 days after SEC notice of this filing.

(b) Questions regarding this rule filing may be directed to Stephanie Dumont, Associate General Counsel, Office of General Counsel, Regulatory Policy and Oversight, at (202) 728-8176.

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

(a) Purpose

NASD Rules currently require a member acting as the lead manager of a distribution of a publicly traded security that is subject to SEC Rule 101 of Regulation M to submit a request for a UAR to the Corporate Financing Department of NASD. A UAR, among other things, provides information to members to assist them in complying with the restricted periods of SEC Rule 101. A member must request a UAR at the time a registration statement or similar offering document is filed with the Corporate Financing Department, the Commission, or other regulatory agency or, if not filed with any regulatory agency, at least two business days prior to the commencement of the restricted period under SEC Rule 101.

Since June 2002, NASD staff has asked that members submit their requests for UARs to the Market Regulation Department rather than the Corporate Financing Department. The staff believes that the Market Regulation Department is better suited to handle member UAR requests because the Market Regulation Department has more timely access to market information. Accordingly, NASD staff is proposing amendments to NASD Rules to require that members submit a request for a UAR to the Market Regulation Department instead of the Corporate

Financing Department. The proposed rule change does not affect the substantive content of UAR requests, the manner in which a request can be submitted (e.g., via mail, e-mail, or fax), or the time period associated with a request.

Finally, NASD is adopting a new corporate structure and is seeking the merger of NASD Regulation and NASD Dispute Resolution into NASD, with the merger becoming effective upon the Commission's authorization of the operation of Nasdaq other than as a facility of NASD. To underscore this new corporate structure and renewed regulatory focus, NASD generally does not refer to itself using its full corporate name, "the Association" or "the NASD." Instead NASD uses "NASD" unless otherwise appropriate for corporate or regulatory reasons. Accordingly, the proposed rule change replaces several references to "the Association" and "the NASD" in the text of the proposed rule change with "NASD."

(b) Statutory Basis

NASD 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 NASD rules 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 believes that the proposed rule change will improve processing of UAR requests by NASD.

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

NASD 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) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A) of the Act and paragraph (f)(3) of Rule 19b-4 thereunder, in that the proposed rule change is concerned solely with administration of the self-regulatory organization. The proposed rule change only changes the department within NASD to which UAR requests must be submitted.

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.

Pursuant to the requirements of the Securities Exchange Act of 1934, NASD has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

NASD

BY: _____
Barbara Z. Sweeney, Senior Vice President and
Corporate Secretary

Date: April 28, 2003

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASD-2003-75)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Requests for Underwriting Activity Reports

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”), 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. NASD has designated the proposed rule change as is concerned solely with administration of the self regulatory organization under Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(3) thereunder,⁴ which renders the proposal effective upon receipt of this filing by the Commission.

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

NASD is proposing to amend NASD Rules to require members to submit requests for Underwriting Activity Reports (“UARs”) to NASD’s Market Regulation Department rather than NASD’s Corporate Finance Department. Below is the text of the proposed rule change.

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.

³ 15 U.S.C. § 78s(b)(3)(A)(iii).

⁴ 17 CFR § 240.19b-4(f)(3).

* * * * *

2710. Corporate Financing Rule - Underwriting Terms and Arrangements

(a) No Change.

(b) Filing Requirements

(1) General

No member or person associated with a member shall participate in any manner in any public offering of securities subject to this Rule, Rule 2720 or Rule 2810 unless documents and information as specified herein relating to the offering have been filed with and reviewed by NASD [the Association].

(2) Means of Filing

Documents or information required by this Rule to be filed with NASD [the Association][^{*}] shall be considered to be filed only upon receipt by its Corporate Financing Department.^{*}

(3) Confidential Treatment

NASD [The Association] shall accord confidential treatment to all documents and information filed pursuant to this Rule and shall utilize such documents and information solely for the purpose of review to determine compliance with the provisions of applicable NASD [Association] Rules or for other regulatory purposes deemed appropriate by NASD [the Association].

(4) Requirement for Filing

(A) Unless filed by the issuer, the managing underwriter, or another member, a member that anticipates participating in a public offering of securities subject to this Rule

^{*} This Department is located at 9509 Key West Avenue, Rockville, Maryland 20850.

shall file with NASD [the Association] the documents and information with respect to the offering specified in subparagraphs (5) and (6) below no later than one business day after the filing of any of such documents:

(i) through (iv) No Change.

(B) No offering of securities subject to this Rule shall commence unless:

(i) the documents and information specified in subparagraphs (5) and (6) below have been filed with and reviewed by NASD [the Association]; and

(ii) NASD [the Association] has provided an opinion that it has no objections to the proposed underwriting and other terms and arrangements or an opinion that the proposed underwriting and other terms and arrangements are unfair and unreasonable. If NASD's [the Association's] opinion states that the proposed underwriting and other terms and arrangements are unfair and unreasonable, the member may file modifications to the proposed underwriting and other terms and arrangements for further review.

(C) Any member acting as a managing underwriter or in a similar capacity that has been informed of an opinion by NASD [the Association], or a determination by the appropriate standing committee of the Board of Governors, that the proposed underwriting terms and arrangements of a proposed offering are unfair or unreasonable, and the proposed terms and arrangements have not been modified to conform to the standards of fairness and reasonableness, shall notify all other members proposing to participate in the offering of that opinion or determination at a time sufficiently prior to the effective date of the offering or the commencement of sales so the other members will

have an opportunity as a result of specific notice to comply with their obligation not to participate in any way in the distribution of a public offering containing arrangements, terms and conditions that [which] are unfair or unreasonable.

(5) Documents to be Filed

(A) The following documents relating to all proposed public offerings of securities that are required to be filed under subparagraph (b)(4) above shall be filed with NASD [the Association] for review:

(i) No Change.

(ii) Three copies of any proposed underwriting agreement, agreement among underwriters, selected dealers agreement, agency agreement, purchase agreement, letter of intent, consulting agreement, partnership agreement, underwriter's warrant agreement, escrow agreement, and any other document that [which] describes the underwriting or other arrangements in connection with or related to the distribution, and the terms and conditions relating thereto; and any other information or documents that [which] may be material to or part of the said arrangements, terms and conditions and that [which] may have a bearing on NASD's [the Association's] review;

(iii) No Change.

(iv) Three copies of the final registration statement declared effective by the Commission or equivalent final offering document and a list of the members of the underwriting syndicate, if not indicated therein, and one copy of the

executed form of the final underwriting documents and any other document submitted to NASD [the Association] for review.

(B) All documents that are filed with the Commission through the Commission's Electronic Data Gathering and Retrieval System shall be treated as filed with NASD [the Association].

(6) Information Required to be Filed

(A) Any person filing documents that are required to be filed under paragraph (b)(4) above shall provide the following information with respect to the offering through NASD's [the Association's] electronic filing system:

(i) through (v) No Change.

(vi) a detailed explanation and any documents related to the modification of any item of underwriting compensation subsequent to the review and approval of such compensation by NASD [the Association]; and

(vii) any other information required by NASD's [the Association's] electronic filing system.

(B) Any person filing documents pursuant to subparagraph (b)(5) above shall notify NASD [the Association] through its electronic filing system that the offering has been declared effective or approved by the Commission or other agency no later than one business day following such declaration or approval or that the offering has been withdrawn or abandoned within three business days following the withdrawal or decision to abandon the offering.

(7) Offerings Exempt from Filing

Notwithstanding the provisions of subparagraph (1) above, documents and information related to the following public offerings need not be filed with NASD [the Association] for review, unless subject to the provisions of Rule 2720. However, it shall be deemed a violation of this Rule or Rule 2810, for a member to participate in any way in such public offerings if the underwriting or other arrangements in connection with the offering are not in compliance with this Rule or Rule 2810, as applicable:

(A) through (G) No Change.

(8) No Change.

(9) Offerings Required to be Filed

Documents and information relating to all other public offerings including, but not limited to, the following must be filed with NASD [the Association] for review:

(A) through (J) No Change.

(10) Request for Underwriting Activity Report

Notwithstanding the availability of an exemption from filing under subparagraph (b)(7) of this Rule, a member acting as a manager (or in a similar capacity) of a distribution of a publicly traded subject [security] or reference security that is subject to SEC Rule 101 or an “actively-traded” security under SEC Rule 101 (except for a security listed on a national securities exchange) shall submit a request to the Market Regulation [Corporate Financing] Department for an Underwriting Activity Report with respect to the subject security and/or reference security in order to facilitate compliance with SEC Rules 101, 103, or 104, and other distribution-related NASD Rules [of the Association].

The request shall be submitted at the time a registration statement or similar offering document is filed with the Corporate Financing Department, the SEC, or other regulatory agency or, if not filed with any regulatory agency, at least two (2) business days prior to the commencement of the restricted period under SEC Rule 101. The request shall include a copy of the registration statement or similar offering document (if not previously submitted pursuant to subparagraph (b)(5) of this Rule). If no member is acting as managing underwriter of such distribution, each member that is a distribution participant or an affiliated purchaser shall submit a request for an Underwriting Activity Report, unless another member has assumed responsibility for compliance with this subparagraph. For purposes of subparagraphs (b)(10) [(11)] and (11) [(12)], SEC Rules 100, 101, 103, and 104 are rules of the Commission adopted under Regulation M and the following terms shall have the meanings as defined in SEC Rule 100: “distribution,” “distribution participant,” “reference security,” “restricted period,” and “subject security.”

(11) Submission of Pricing Information

A member acting as a manager (or in a similar capacity) of a distribution of securities that are listed on a national securities exchange and considered a subject security or reference security that is subject to SEC Rule 101 or an “actively-traded” security under SEC Rule 101 or a distribution of any other securities that are considered “actively-traded” under SEC Rule 101 shall provide written notice to the Market Regulation Department of NASD [Regulation, Inc.], no later than the close of business the day the offering terminates, that includes the date and time of the pricing of the

offering, the offering price, and the time the offering terminated, which notice may be submitted on the Underwriting Activity Report.

(c) Underwriting Compensation and Arrangements

(1) and (2) No Change.

(3) Items of Compensation

(A) No Change.

(B) Expenses customarily borne by an issuer, such as printing costs; SEC, “blue sky” and other registration fees; NASD [Association] filing fees; and accountant's fees, shall be excluded from underwriter's compensation whether or not paid through an underwriter.

(4) Determination of Whether Compensation Is Received in

Connection with the Offering

(A) All items of value received or to be received by the underwriter and related persons during the twelve (12) month period immediately preceding the filing of the registration statement or similar document, and at the time of and subsequent to the public offering, will be examined to determine whether such items of value are underwriting compensation in connection with the offering and, if received during the six (6) month period immediately preceding the filing of the registration statement or similar document, will be presumed to be underwriting compensation received in connection with the offering, provided, however, that such presumption may be rebutted on the basis of information satisfactory to NASD [the Association] to support a finding that the receipt of an item is not in

connection with the offering and shall not include cash discounts or commissions received in connection with a prior distribution of the issuer's securities.

(B) through (D) No Change.

(E) Notwithstanding the provisions of subparagraph (3)(A)(vi) above, financial consulting and advisory fees may be excluded from underwriting compensation upon a finding by NASD [the Association], on the basis of information satisfactory to it, that an ongoing relationship between the issuer and the underwriter and related person has been established at least twelve (12) months prior to the filing of the registration statement or similar document or that the relationship, if established subsequent to that time, was not entered into in connection with the offering, and that actual services have been or will be rendered that [which] were not or will not be in connection with or related to the offering.

(5) Valuation of Non-Cash Compensation

For purposes of determining the value to be assigned to securities received as underwriting compensation, the following criteria and procedures shall be applied:

(A) No underwriter and related person may receive a security or a warrant for a security as compensation in connection with the distribution of a public offering that is different than the security to be offered to the public unless the security received as compensation has a bona fide independent market, provided, however, that:

(i) in exceptional and unusual circumstances, upon good cause shown, such arrangement may be permitted by NASD [the Association]; and

(ii) No Change.

(B) through (D) No Change.

(6) Unreasonable Terms and Arrangements

(A) No member or person associated with a member shall participate in any manner in a public offering of securities after any arrangement proposed in connection with the public offering, or the terms and conditions relating thereto, has been determined to be unfair or unreasonable pursuant to this Rule or inconsistent with any By-Law or any Rule or regulation of NASD [the Association].

(B) (i) through (iv) No Change.

(v) any “tail fee” arrangement granted to the underwriter and related persons that has a duration of more than two (2) years from the date the member's services are terminated, in the event that the offering is not completed in accordance with the agreement between the issuer and the underwriter and the issuer subsequently consummates a similar transaction, except that a member may demonstrate on the basis of information satisfactory to NASD [the Association] that an arrangement of more than two (2) years is not unfair or unreasonable under the circumstances.

(vi) through (xv) No Change.

(C) No Change.

(7) and (8) No Change.

(d) Exemptions. Pursuant to the Rule 9600 Series, NASD [the Association] may exempt a member or person associated with a member from the provisions of this Rule for good cause shown.

* * * * *

4200. Definitions

(a) For purposes of the Rule 4000 Series, unless the context requires otherwise:

(1) through (29) No Change.

(30) “Normal unit of trading” means 100 shares of a security unless, with respect to a particular security, NASD [the Association] determines that a normal unit of trading shall constitute other than 100 shares. If a normal unit of trading is other than 100 shares, a special identifier shall be appended to the issuer's Nasdaq symbol.

(31) through (36) No Change.

(37) “Underwriting Activity Report” is a report provided by the Market Regulation Department of NASD [Corporate Financing Department of NASD Regulation, Inc.] in connection with a distribution of securities subject to SEC Rule 101 pursuant to Rule 2710(b)(11) and includes forms that are submitted by members to comply with their notification obligations under Rules 4614, 4619, and 4623.

(b) No Change.

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6540. Requirements Applicable to Market Makers

(a) Market-maker participation in the OTCBB is voluntary and open to any NASD [Association] member firm that satisfies the financial/operational requirements applicable to member firms engaged in over-the-counter market making; subscribes to Level 3 Nasdaq Workstation service; and demonstrates compliance with (or qualifies for an exception from) SEC Rule 15c2-11 at the time of initiating (or resuming) the quotation of any OTCBB-eligible security in the Service. Rule 6740 sets forth the procedure for demonstrating compliance with SEC Rule 15c2-11.

(b) through (d)(1)(C) No Change.

(d)(1)(D) Any member that intends to be a distribution participant in a distribution of securities subject to SEC Rule 101, or is an affiliated purchaser in such distribution, and is entering quotations in an OTCBB-eligible security that is the subject security or reference security of such distribution shall, unless another member has assumed responsibility for compliance with this paragraph:

(i) and (ii) No Change.

(iii) provide written notice to the Corporate Financing Department of NASD [Regulation, Inc.] of its intention to impose a penalty bid or to conduct syndicate covering transactions pursuant to SEC Rule 104 prior to imposing the penalty bid or engaging in the first syndicate covering transaction. Such notice shall include information as to the date the penalty bid or first syndicate covering transaction will occur; and

(iv) provide written notice to the Market Regulation Department of NASD [Regulation, Inc.] by the close of business on the day the offering terminates that includes the date and time of the pricing of the offering, the offering price, and the time the offering terminated.

(E) The written notice required by subparagraphs (d)[(b)](1)(D)(i), (iii) and (iv) of this Rule may be submitted on the Underwriting Activity Report provided by the Market Regulation Department of NASD. [Corporate Financing Department of NASD Regulation, Inc.]

(F) For purposes of subparagraph (d)[(b)](1)(D), SEC Rules 100, 101, 103 and 104 are rules of the Commission adopted under Regulation M and the following terms shall have the meanings as defined in SEC Rule 100: “affiliated purchaser,” “distribution,” “distribution participant,” “penalty bid,” “reference security,” “restricted period,” “stabilizing,” “subject security,” and “syndicate covering transaction.”

(2) Impermissible Quotation Entries

(A) No Change.

(B) No member or person associated with a member shall enter into the Service a priced bid and/or offer, an unpriced indication of interest (including “bid wanted” or “offer wanted” indications), or a bid or offer accompanied by a modifier to reflect unsolicited customer interest in any security of an issuer that does not make filings with the [Securities and Exchange] Commission through the

Electronic Data Gathering, Analysis, and Retrieval (“EDGAR”) system (or in paper format, if specifically permitted by Commission Rules) unless the member:

(i) notifies NASD [the Association] of the issuer of the security’s schedule for the filing of all periodic reports or financial reports required pursuant to the Act or regulatory authority, respectively, and the identity of the regulatory authority with which such reports are filed, or ensures that such notice is provided; and

(ii) provides to NASD [the Association] the issuer’s periodic reports required pursuant to the Act, or the issuer’s financial reports required by regulatory authority, prior to the expiration of the grace period described in Rule 6530(a)(3), or ensures that the required periodic reports are provided to NASD [the Association] within that time period.

(3) No Change.

(4) More Than One Trading Location

In cases where a market maker has more than one trading location, a fifth character, geographic indicator shall be appended to the market maker's identifier for that security. Indicators are established by NASD [the Association] and published from time to time in the Nasdaq/CQS symbol directory.

(5) No Change.

(e) No Change.

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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 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 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

NASD Rules currently require a member acting as the lead manager of a distribution of a publicly traded security that is subject to SEC Rule 101 of Regulation M to submit a request for a UAR to the Corporate Financing Department of NASD. A UAR, among other things, provides information to members to assist them in complying with the restricted periods of SEC Rule 101. A member must request a UAR at the time a registration statement or similar offering document is filed with the Corporate Financing Department, the Commission, or other regulatory agency or, if not filed with any regulatory agency, at least two business days prior to the commencement of the restricted period under SEC Rule 101.

Since June 2002, NASD staff has asked that members submit their requests for UARs to the Market Regulation Department rather than the Corporate Financing Department. The staff believes that the Market Regulation Department is better suited to handle member UAR requests because the Market Regulation Department has more timely access to market information. Accordingly, NASD staff is proposing amendments to NASD Rules to require that members

submit a request for a UAR to the Market Regulation Department instead of the Corporate Financing Department. The proposed rule change does not affect the substantive content of UAR requests, the manner in which a request can be submitted (e.g., via mail, e-mail, or fax), or the time period associated with a request.

Finally, NASD is adopting a new corporate structure and is seeking the merger of NASD Regulation and NASD Dispute Resolution into NASD, with the merger becoming effective upon the Commission's authorization of the operation of Nasdaq other than as a facility of NASD. To underscore this new corporate structure and renewed regulatory focus, NASD generally does not refer to itself using its full corporate name, "the Association" or "the NASD." Instead NASD uses "NASD" unless otherwise appropriate for corporate or regulatory reasons. Accordingly, the proposed rule change replaces several references to "the Association" and "the NASD" in the text of the proposed rule change with "NASD."

(b) Statutory Basis

NASD 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 NASD rules 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 believes that the proposed rule change will improve processing of UAR requests by NASD.

(B) Self-Regulatory Organization's Statement on Burden on Competition

NASD 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 has designated the proposed rule change as administrative under Section 19(b)(3)(A)(iii) of the Act⁵ and Rule 19b-4(f)(3) thereunder,⁶ which renders the proposal effective upon receipt of this filing by the Commission.

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, including whether the proposed rule change is consistent with the act. 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

⁵ 15 U.S.C. § 78s(b)(3)(A)(iii).

⁶ 17 CFR § 240.19b-4(f)(3).

also be available for inspection and copying at the principal office of 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).

Margaret H. McFarland
Deputy Secretary