

March 3, 2000

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-00-08** - Margin Rule Amendments Relating to Non-Equity
Securities and Exempt Accounts

Dear Ms. England:

Pursuant to Rule 19b-4, enclosed 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 Stephanie M. Dumont, Office of General Counsel, NASD Regulation, Inc., 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,

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 Rule 2520 that will revise the margin requirements relating to non-equity securities and exempt accounts. The text of the proposed rule change is set forth in Exhibit 2. Proposed new language is underlined; proposed deletions are in brackets.

(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 6, 1999, which authorized the filing of the rule change with the SEC. 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 the NASD to its Subsidiaries. The NASD Board of Governors had an opportunity to review the proposed rule change at its meeting on October 7, 1999. 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.

The NASD will announce the effective date of the proposed rule change in a Notice to Members to be published no later than 60 days following Commission approval. The effective

date will be 30 days following publication of the Notice to Members announcing Commission approval.

(b) Questions regarding this rule filing may be directed to Stephanie M. Dumont, Assistant General Counsel, NASD Regulation, Office of General Counsel, 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 Regulation is proposing amendments to Rule 2520 to revise the margin requirements for certain non-equity securities and to expand the types of non-equity securities eligible for exempt account treatment. Currently, Regulation T of the Board of Governors of the Federal Reserve System (“FRB”), which establishes initial margin requirements, provides that transactions in non-equity securities are subject to “good faith” requirements¹ when effected in a margin account. Securities that are transacted in a “good faith” account are not subject to Regulation T margin requirements,² but are subject to the margin required by the creditor in “good faith” or the percentage set by the regulatory authority where the trade occurs, whichever is greater. As a result, the margin requirements of NASD Rule 2520 do apply to non-equity positions maintained in customers’ accounts and are important in providing ongoing safety and soundness levels. In this regard, the proposed rule change provides for margin requirements for

¹ The term “good faith” in this context generally means that such transactions are subject to the requirements of the applicable self-regulatory organization and that such requirements shall be applicable for initial and maintenance margin purposes.

² In December 1997, amendments to Regulation T established “good faith” accounts, which can be used for transactions in non-equity securities in lieu of a margin or cash account.

non-equity securities that is commensurate with the risks associated with positions in such securities held by customers.

In addition, NASD Regulation is proposing several changes with regard to exempt accounts. Specifically, the proposed rule change will modify the definition of “exempt account,” including increasing the financial threshold for a customer to be considered an exempt account, and will revise margin requirements for exempt account transactions involving mortgage-related securities, major foreign sovereign debt securities, highly rated foreign debt securities and other investment grade debt securities.

Non-Equity Securities

The proposed rule change will provide for margin requirements on non-equity securities that is commensurate with the risks associated with positions in such securities held by customers. The proposed rule change will provide that the margin requirements for highly rated foreign sovereign debt securities be the amounts specified in Rule 2520 for U.S. debt securities.³ The proposed rule change will reduce the margin requirement for exempted securities⁴ other than U.S. debt securities from 15 percent to 7 percent of the current market value, and reduce the margin requirement for investment grade debt securities from 20 percent to 10 percent of the current market value. The margin requirement for all other marginable non-equity securities will remain at the greater of 20 percent of the current market value or 7 percent of the principal amount. The proposed rule change will result in margin requirements for investment grade debt securities and exempted securities other than U.S. debt securities, that are comparable to the

³ The margin required for U.S. government obligations under NASD Rule 2520 varies according to the length of time to maturity.

highest haircut percentages under the SEC’s net capital rule⁵ for proprietary positions in similar securities.

Exempt Accounts

Currently, Rule 2520 contains margin requirements specifically addressing transactions by exempt accounts in exempted securities and mortgage-related securities. These requirements are lower than those applicable to transactions in such securities effected in accounts other than exempt accounts. The proposed rule change will define “exempt account” as a member organization, non-member broker/dealer registered as a broker or dealer pursuant to the Act or “designated account,” and will increase the financial threshold for a person to be considered an exempt account to require a net worth of at least \$45 million and financial assets of \$40 million. In addition, the proposed rule change will revise the definition of designated account.⁶

The proposed rule change also will provide lower margin requirements for exempt account transactions in highly rated foreign sovereign debt, investment grade foreign sovereign debt, and other investment grade non-equity securities. The proposed rule change recognizes both the quality of the securities as well as the creditworthiness of the customer and, as such, are intended to maintain reasonable safety and soundness standards. For transactions in these types

⁴ Rule 2520(a)(6) provides that exempted securities have the meaning provided in Section 3(a)(12) of the Act.

⁵ See SEC Rule 15c3-1.

⁶ Specifically, the proposed rule change would define “designated account” to mean the account of: (1) a bank, as defined in Section 3(a)(6) of the Act; (2) a savings association, as defined in Section 3(b) of the Federal Deposit Insurance Act, the deposits of which are insured by the Federal Deposit Insurance Corporation; (3) an insurance company, as defined in Section 2(a)(17) of the Investment Company Act of 1940; (4) an investment company registered with the SEC under the Investment Company Act of 1940; (5) a state or a political subdivision thereof; or (6) a pension or profit sharing plan subject to ERISA or of an agency of the United States or of a state or a political subdivision thereof.

of securities by exempt accounts, members will be required either to collect margin equal to the marked to market losses and any percentage requirements under the rule or to take a net capital charge. Under the proposed rule change, the percentage requirements will be 3 percent of current market value for all investment grade corporate debt and for foreign sovereign debt in the lower two investment grade categories and 0.5 percent of current market value for foreign sovereign debt in the second highest investment grade category (i.e. highly rated foreign sovereign debt securities). These terms are also defined in the proposed rule change.

For the highest grade foreign sovereign debt security and mortgage-related securities, the proposed rule change will provide the same margin treatment for these securities as U.S. Government securities, in that no margin will be required and marked to the market losses need not be collected subject to the limits proposed in the rule. Currently, investment grade foreign sovereign debt is treated the same as marginable corporate debt, which requires 20 percent margin.

The proposed rule change will also limit the amount of any uncollected marked to market losses which are being deducted from a member's net capital to 5 percent for each exempt account and 25 percent for all exempt accounts combined. When marked to market losses exceeding these limits continue to exist on the fifth business day after they were incurred, the member will be required to provide the Association with written notification and will be prohibited from entering into any new transactions that would increase the amount of the excess.

Other Provisions

The proposed rule change will provide new definitional provisions, which, among other things, will define the following types of non-equity securities: highly rated foreign sovereign debt securities; investment grade debt securities; major foreign sovereign debt securities; listed

non-equity securities; and other marginable non-equity securities. The defined terms categorize certain types of non-equity securities for purposes of prescribing the applicable margin requirements. In addition, the proposed rule change will require that, as good business practice and for safety and soundness considerations, members maintain written procedures for assessing credit extended to exempt accounts.

(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 will promote the safety and soundness of member firms and are consistent with the rules and regulations of the FRB for the purpose of preventing the excessive use of credit for the purchase or carrying of securities.

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

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)

Not applicable.

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

The provisions of the proposed rule change are consistent with the proposed rule change to New York Stock Exchange ("NYSE") Rule 431 that was filed with the SEC in SR-NYSE-98-14 (July 29, 1998). Except where NASD Regulation may not agree with a specific margin proposal of another SRO, NASD Regulation generally believes it is important that the NASD's and other SRO's margin rules be consistent in order to avoid subjecting firms that are members of more than one SRO to conflicting margin requirements.

9. Exhibits

1. Completed notice of proposed rule change for publication in the Federal Register.
2. Text of Proposed Rule Change.

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: March 3, 2000

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASD- 00-08)

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Margin Rule Amendments for Non-Equity Securities and Exempt Accounts

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” or “Association”), 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.

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

NASD Regulation is proposing to amend Rule 2520 to revise the margin requirements relating to non-equity securities and exempt accounts. The text of the proposed rule change is set forth in Exhibit 2. Proposed new language is underlined; proposed deletions are in brackets.

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. The text of these statements may be

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

NASD Regulation is proposing amendments to Rule 2520 to revise the margin requirements for certain non-equity securities and to expand the types of non-equity securities eligible for exempt account treatment. Currently, Regulation T of the Board of Governors of the Federal Reserve System (“FRB”), which establishes initial margin requirements, provides that transactions in non-equity securities are subject to “good faith” requirements³ when effected in a margin account. Securities that are transacted in a “good faith” account are not subject to Regulation T margin requirements,⁴ but are subject to the margin required by the creditor in “good faith” or the percentage set by the regulatory authority where the trade occurs, whichever is greater. As a result, the margin requirements of NASD Rule 2520 do apply to non-equity positions maintained in customers’ accounts and are important in providing ongoing safety and soundness levels. In this regard, the proposed rule change provides for margin requirements for non-equity securities that is commensurate with the risks associated with positions in such securities held by customers.

³ The term “good faith” in this context generally means that such transactions are subject to the requirements of the applicable self-regulatory organization and that such requirements shall be applicable for initial and maintenance margin purposes.

⁴ In December 1997, amendments to Regulation T established “good faith” accounts, which can be used for transactions in non-equity securities in lieu of a margin or cash account.

In addition, NASD Regulation is proposing several changes with regard to exempt accounts. Specifically, the proposed rule change will modify the definition of “exempt account,” including increasing the financial threshold for a customer to be considered an exempt account, and will revise margin requirements for exempt account transactions involving mortgage-related securities, major foreign sovereign debt securities, highly rated foreign debt securities and other investment grade debt securities.

Non-Equity Securities

The proposed rule change will provide for margin requirements on non-equity securities that is commensurate with the risks associated with positions in such securities held by customers. The proposed rule change will provide that the margin requirements for highly rated foreign sovereign debt securities be the amounts specified in Rule 2520 for U.S. debt securities.⁵ The proposed rule change will reduce the margin requirement for exempted securities⁶ other than U.S. debt securities from 15 percent to 7 percent of the current market value, and reduce the margin requirement for investment grade debt securities from 20 percent to 10 percent of the current market value. The margin requirement for all other marginable non-equity securities will remain at the greater of 20 percent of the current market value or 7 percent of the principal amount. The proposed rule change will result in margin requirements for investment grade debt securities and exempted securities other than U.S. debt securities, that are comparable to the

⁵ The margin required for U.S. government obligations under NASD Rule 2520 varies according to the length of time to maturity.

⁶ Rule 2520(a)(6) provides that exempted securities have the meaning provided in Section 3(a)(12) of the Act.

highest haircut percentages under the SEC’s net capital rule⁷ for proprietary positions in similar securities.

Exempt Accounts

Currently, Rule 2520 contains margin requirements specifically addressing transactions by exempt accounts in exempted securities and mortgage-related securities. These requirements are lower than those applicable to transactions in such securities effected in accounts other than exempt accounts. The proposed rule change will define “exempt account” as a member organization, non-member broker/dealer registered as a broker or dealer pursuant to the Act or “designated account,” and will increase the financial threshold for a person to be considered an exempt account to require a net worth of at least \$45 million and financial assets of \$40 million. In addition, the proposed rule change will revise the definition of designated account.⁸

The proposed rule change also will provide lower margin requirements for exempt account transactions in highly rated foreign sovereign debt, investment grade foreign sovereign debt, and other investment grade non-equity securities. The proposed rule change recognizes both the quality of the securities as well as the creditworthiness of the customer and, as such, are intended to maintain reasonable safety and soundness standards. For transactions in these types of securities by exempt accounts, members will be required either to collect margin equal to the marked to market losses and any percentage requirements under the rule or to take a net capital

⁷ See SEC Rule 15c3-1.

⁸ Specifically, the proposed rule change would define “designated account” to mean the account of: (1) a bank, as defined in Section 3(a)(6) of the Act; (2) a savings association, as defined in Section 3(b) of the Federal Deposit Insurance Act, the deposits of which are insured by the Federal Deposit Insurance Corporation; (3) an insurance company, as defined in Section 2(a)(17) of the Investment Company Act of 1940; (4) an investment company registered with the SEC under the Investment Company Act of 1940; (5) a state or a political subdivision thereof; or (6) a pension or profit sharing plan

charge. Under the proposed rule change, the percentage requirements will be 3 percent of current market value for all investment grade corporate debt and for foreign sovereign debt in the lower two investment grade categories and 0.5 percent of current market value for foreign sovereign debt in the second highest investment grade category (i.e. highly rated foreign sovereign debt securities). These terms are also defined in the proposed rule change.

For the highest grade foreign sovereign debt security and mortgage-related securities, the proposed rule change will provide the same margin treatment for these securities as U.S. Government securities, in that no margin will be required and marked to the market losses need not be collected subject to the limits proposed in the rule. Currently, investment grade foreign sovereign debt is treated the same as marginable corporate debt, which requires 20 percent margin.

The proposed rule change will also limit the amount of any uncollected marked to market losses which are being deducted from a member's net capital to 5 percent for each exempt account and 25 percent for all exempt accounts combined. When marked to market losses exceeding these limits continue to exist on the fifth business day after they were incurred, the member will be required to provide the Association with written notification and will be prohibited from entering into any new transactions that would increase the amount of the excess.

Other Provisions

The proposed rule change will provide new definitional provisions, which, among other things, will define the following types of non-equity securities: highly rated foreign sovereign debt securities; investment grade debt securities; major foreign sovereign debt securities; listed

subject to ERISA or of an agency of the United States or of a state or a political subdivision thereof.

non-equity securities; and other marginable non-equity securities. The defined terms categorize certain types of non-equity securities for purposes of prescribing the applicable margin requirements. In addition, the proposed rule change will require that, as good business practice and for safety and soundness considerations, members maintain written procedures for assessing credit extended to exempt accounts.

(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 the proposed rule change will promote the safety and soundness of member firms and are consistent with the rules and regulations of the FRB for the purpose of preventing the excessive use of credit for the purchase or carrying of securities.

(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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds

such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- A. by order approve such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be disapproved.

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

PROPOSED AMENDMENTS TO THE MARGIN RULE

(Note: New language is underlined; deletions are in brackets)

2520. Margin Requirements

(a) Definitions

For purposes of this paragraph, the following terms shall have the meanings specified below:

(a)(1) through (a)(3) No Change

(4) The term "designated account" means the account of: [a bank, trust company, insurance company, investment trust, state or political subdivision thereof, charitable or nonprofit educational institution regulated under the laws of the United States or any state, or pension or profit sharing plan subject to ERISA or of any agency of the United States or of a state or a political subdivision thereof.]

(A) a bank (as defined in Section 3(a)(6) of the Act),

(B) a savings association (as defined in Section 3(b) of the Federal Deposit Insurance Act), the deposits of which are insured by the Federal Deposit Insurance Corporation,

(C) an insurance company (as defined in Section 2(a)(17) of the Investment Company Act of 1940),

(D) an investment company registered with the Securities and Exchange Commission (SEC) under the Investment Company Act,

(E) a state or political subdivision thereof, or

(F) a pension or profit sharing plan subject to Employee Retirement Income Security Act (ERISA) or of an agency of the United States or of a state or a political subdivision thereof.

(a)(5) through (a)(8) No Change

(9) The term "highly rated foreign sovereign debt securities" means any debt securities (including major foreign sovereign debt securities) issued or guaranteed by the government of a foreign country, its provinces, state or cities, or a supranational entity, if at the time of the extension of credit the issue, the issuer or guarantor, or any other outstanding obligation of the issuer or guarantor ranked junior to or on a parity with the issue or the guarantee is assigned a rating (implicitly or explicitly) in one of the top two rating categories by at least one nationally ranked statistical rating organization.

(10) The term "investment grade debt securities" means any debt securities (including those issued by the government of a foreign country, its provinces, states or

cities, or a supranational entity), if at the time of the extension of credit the issue, the issuer or guarantor, or any other outstanding obligation of the issuer or guarantor ranked junior to or on a parity with the issue or the guarantee is assigned a rating (implicitly or explicitly) in one of the top four rating categories by at least one nationally recognized statistical rating organization.

(11) The term “major foreign sovereign debt” means any debt securities issued or guaranteed by the government of a foreign country or a supranational entity, if at the time of the extension of credit the issue, the issuer or guarantor, or any other outstanding obligation of the issuer or guarantor ranked junior to or on a parity with the issue or the guarantee is assigned a rating (implicitly or explicitly) in the top rating category by at least one nationally recognized statistical rating organization.

(12) The term “mortgage related securities” means securities falling within the definition in Section 3(a)(41) of the Act.

(13) The term “exempt account” means a member, non-member broker/dealer registered as a broker or dealer under the Act, “designated account,” or any person having a net worth of at least forty-five million dollars and financial assets of at least forty-million dollars.

(14) The term “non-equity securities” means any securities other than equity securities as defined in Section 3(a)(11) of the Act.

(15) The term “listed non-equity securities” means any non-equity securities that: (A) are listed on a national securities exchange; or (B) have unlisted trading privileges on a national securities exchange.

(16) The term “other marginable non-equity securities” means:

(A) Any debt securities not traded on a national securities exchange meeting all of the following requirements:

(i) At the time of the original issue, a principal amount of not less than \$25,000,000 of the issue was outstanding;

(ii) The issue was registered under Section 5 of the Securities Act of 1933 and the issuer either files periodic reports pursuant to Section 13(a) or 15(d) of the Act or is an insurance company which meets all of the conditions specified in Section 12(g)(2)(G) of the Act; and

(iii) At the time of the extensions of credit, the creditor has a reasonable basis for believing that the issuer is not in default on interest or principal payments; or

(B) Any private pass-through securities (not guaranteed by any agency of the U.S. government) meeting all of the following requirements:

(i) An aggregate principal amount of not less than \$25,000,000 (which may be issued in series) was issued pursuant to a registration statement filed with the SEC under Section 5 of the Securities Act of 1933;

(ii) Current reports relating to the issue have been filed with the SEC; and

(iii) At the time of the credit extension, the creditor has a reasonable basis for believing that mortgage interest, principal payments and other distributions are being passed through as required and that the servicing agent is meeting its material obligations under the terms of the offering.

(b)(1) through (e)(1) No change

(e)(2) Exempted Securities, [Marginable Corporate Debt Securities] Non-equity Securities and Baskets

(A) Obligations of the United States and Highly Rated Foreign Sovereign Debt Securities

On net "long" or net "short" positions in obligations (including zero coupon bonds, i.e., bonds with coupons detached or non-interest bearing bonds) issued or guaranteed as to principal or interest by the United States Government or [issued or guaranteed] by corporations in which the United States has a direct or indirect interest as shall be designated for exemption by the Secretary of the Treasury, or in obligations that are highly rated foreign sovereign debt securities, the margin to be maintained shall be the percentage of the current market value of such obligations as specified in the applicable category below:

(i) Less than one year to maturity	1 percent
(ii) One year but less than three years to maturity	2 percent
(iii) Three years but less than five years to maturity	3 percent
(iv) Five years but less than ten years to maturity	4 percent
(v) Ten years but less than twenty years to maturity	5 percent[, or]
(vi) Twenty years or more to maturity	6 percent

Notwithstanding the above, on zero coupon bonds with five years or more to maturity the margin to be maintained shall not be less than 3 percent of the principal amount of the obligation.

When such obligations other than United States Treasury bills are due to mature in thirty calendar days or less, a member, at its discretion, may permit the customer to substitute another such obligation for the maturing obligation and use the margin held on the maturing obligation to reduce the margin required on

the new obligation, provided the customer has given the member irrevocable instructions to redeem the maturing obligation.

(B) All Other Exempted Securities

On any positions in exempted securities other than obligations of the United States, the margin to be maintained shall be [15]7 percent of the current market value [or 7 percent of the principal amount of such obligation, whichever amount is greater].

(C) [Non-Convertible Corporate Debt] Non-Equity Securities

On any positions in [non-convertible corporate debt] non-equity securities, [which are listed or traded on a registered national securities exchange or qualify as an "OTC margin bond," as defined in Section 220.2(t) of Regulation T of the Board of Governors of the Federal Reserve System], the margin to be maintained (except where a lesser requirement is imposed by other provisions of this Rule) shall be:

(i) 10 percent of the current market value in the case of investment grade debt securities; and

(ii) 20 percent of the current market value or 7 percent of the principal amount, whichever amount is greater, in the case of all other listed non-equity securities, and all other marginable non-equity securities as defined in paragraph (a)(16) of this Rule [except on mortgage related securities as defined in Section 3(a)(41) of the Act the margin to be maintained for an exempt account shall be 5 percent of the current market value. For purposes of this subparagraph, an exempt account shall be defined as a member, non-member broker/dealer, "designated account" or any person having net tangible assets of at least sixteen million dollars].

(D) and (E) No Change

(F) [Cash] Transactions With [Customers] Exempt Accounts Involving Certain "Good Faith" Securities

[When a customer purchases an issued exempted security from or through a member in a cash account, full payment shall be made promptly. If, however, delivery or payment therefor is not made promptly after the trade date, a deposit shall be required as if it were a margin transaction, unless it is a transaction with a "designated account."]

On any position resulting from a transaction [in issued] involving exempted securities, mortgage related securities, or major foreign sovereign debt securities [made for a member, or a non-member broker/dealer, or] made for or with [a "designated] an "exempt account," no margin need be required and any

marked to the market loss on such position need not be [marked to the market] collected. However, [where such position is not marked to the market, an amount equal to the loss at the market in such position] the amount of any uncollected marked to the market loss shall be [charged against] deducted in computing the member's net capital as provided in SEC Rule 15c3-1, subject to the limits provided in paragraph (e)(2)(H) below.

(G) Transactions With Exempt Accounts Involving Highly Rated Foreign Sovereign Debt Securities and Investment Grade Debt Securities

On any position resulting from a transaction made for or with an “exempt account” (other than a position subject to paragraph (e)(2)(F)), the margin to be maintained on highly rated foreign sovereign debt and investment grade debt securities shall be, in lieu of any greater requirements imposed under this Rule, (i) 0.5 percent of current market value in the case of highly rated foreign sovereign debt securities, and (ii) 3 percent of current market value in the case of all other investment grade debt securities. The member need not collect any such margin, provided the amount equal to the margin required shall be deducted in computing the member's net capital as provided in SEC Rule 15c3-1, subject to the limits provided in paragraph (e)(2)(H) below.

(H) Limits on Net Capital Deductions for Exempt Accounts

(i) Member organizations shall maintain a written risk analysis methodology for assessing the amount of credit extended to exempt accounts pursuant to paragraphs (e)(2)(F) and (e)(2)(G) which shall be made available to the Association upon request.

(ii) In the event that the deductions of securities positions from net capital deductions taken by a member as a result of marked to the market losses incurred under paragraphs (e)(2)(F) and (e)(2)(G) (exclusive of the percentage requirements established thereunder) exceed:

a. on any one account or group of commonly controlled accounts, 5 percent of the member's tentative net capital, or

b. on all accounts combined, 25 percent of the member's tentative net capital,

and, such excess exists on the fifth business day after it was incurred, the member shall give prompt written notice to the Association and shall not enter into any new transaction(s) subject to the provisions of paragraphs (e)(2)(F) or (e)(2)(G) that would result in an increase in the amount of such excess under, as applicable, subparagraph a. or b. above.