

July 27, 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; Response to Comment Letter

Dear Ms. England:

NASD Regulation, Inc. (“NASD Regulation”) hereby responds to the comment letter from the Bond Market Association (“BMA Comment Letter”) received by the Securities and Exchange Commission (“SEC”) in response to the publication in the *Federal Register* of Notice of Filing of SR-NASD-00-08, regarding proposed amendments to the margin requirements relating to non-equity securities and exempt accounts.¹

First, the BMA Comment Letter indicates that NASD Regulation’s proposal imposes additional requirements on NASD members that are not contained in a similar rule change proposed by the New York Stock Exchange (“NYSE”) in SR-NYSE-98-14 (July 29, 1998). Specifically, the BMA Comment Letter states that SR-NASD-00-08 requires a written risk analysis methodology for assessing the amount of credit extended to exempt accounts, that is not similarly required in SR-NYSE-98-14. However, in fact, these proposed requirements are consistent with the NYSE’s proposed rule changes. In Amendment No. 1 to SR-NYSE-98-14, dated January 4, 1999, the NYSE proposes the identical requirement as part of proposed Rule 431(e)(2)(H)(i).

Second, the BMA Comment Letter references and incorporates into its comment letter responding to SR-NASD-00-08, BMA’s comment letter sent in response to SR-NYSE-98-14. This comment letter raised an issue relating to the proposed change to the definition of “exempt account.” Specifically, the comment relates to the rule provision that will exclude some accounts from the definition, which currently are “exempt” under the existing Rule.

¹ Exchange Act Release No. 42801, 65 Fed. Reg. 34230 (May 26, 2000).

Katherine A. England, Esq.
July 27, 2000
Page 2

The intent of the proposed amendment to Rule 2520 is to increase the financial threshold from \$16 million in net tangible assets to \$45 million in net worth for accounts seeking the treatment permitted under paragraph (e)(2)(F) and proposed paragraph (e)(2)(G) of the Rule. The proposed rule change is not meant to replace and does not replace the current definition of “exempt account” contained in subsection (f)(2)(D)(iv), which would remain applicable to the margin requirement for options on U.S. government securities.

Questions were raised in the BMA’s comment letter concerning the treatment of certain “exempt” accounts with respect to the extension of credit, i.e., when an account that currently qualifies as “exempt” would not meet the criteria under the proposed amended rule based on the increase in the financial threshold. Consistent with the NYSE response to the BMA’s comment letter, NASD Regulation believes that since a customer’s exempt status is determined as of the date of the initial extension of the credit, these accounts should be “grandfathered” on their existing credit transactions. Accordingly, the new financial threshold would apply to any new credit transactions or “roll-overs” of existing credit extensions. The proposed margin treatment would only be granted for new transactions by “exempt accounts” that meet the increased standards.

If you have any questions, please feel free to contact Stephanie Dumont at (202) 728-8176.

Very truly yours,

Patrice M. Gliniecki
Vice President and
Deputy General Counsel

cc: Yvonne Fraticelli
Martin Schwartz