Barbara Z. Sweeney
Senior Vice President and
Corporate Secretary

June 28, 2002

Ms. 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-2002-87 – To Establish Effective Dates For NASD Rule 2711, Research Analysts and Reports**

Dear Ms. England:

Pursuant to Rule 19b-4, enclosed please find the above-numbered rule filing. Also enclosed is a 3-l/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 Philip A. Shaikun, Assistant General Counsel, Office of General Counsel, NASD Regulatory Policy and Oversight, at (202) 728-8451; e-mail philip.shaikun@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-2002-87
Consists of 21 Pages

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

Form 19b-4

Proposed Rule Change

by

NASD

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

1. <u>Text of Proposed Rule Change</u>

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"), NASD is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change to establish November 6, 2002 as the effective date for certain provisions of NASD Rule 2711. First, the proposed rule change would establish, subject to certain conditions, November 6, 2002 as the effective date for Rules 2711(b) and (c) for members that over the previous three years, on average, have participated in 10 or fewer investment banking transactions as manager or co-manager and generated $5 million or less in gross investment banking revenues from those transactions. Rules 2711(b) and (c), when effective, will prohibit a research analyst from being subject to the supervision or control of any employee of a member's investment banking department, and will further require legal or compliance personnel to intermediate certain communications between the research department and either the investment banking department or the company that is the subject of a research report or recommendation ("subject company").

Second, the proposed rule change would establish November 6, 2002 as the effective date for Rule 2711(h)(2) as applied to the receipt of compensation by a member's foreign affiliates from a subject company. Rule 2711(h)(2), when effective, will require a member to disclose in research reports all compensation received by it or its affiliates from a subject company for investment banking services in the past 12 months, or expected to be received in the next months.

Third, the proposed rule change would establish November 6, 2002, subject to certain conditions, as the effective date for Rule 2711(g)(3) for those research analysts who must divest holdings to comply with their firm's more restrictive policy that prohibits analyst ownership of securities they cover. Rule 2711(g)(3), when effective, will prohibit a "research analyst account" from purchasing or selling a security or option or derivative of that security, in a manner contrary to the analyst's most recent published recommendation reflected in the member's research report.

(b) See Item 1(b) of the Form 19b-4 for SR-NASD-2002-21, filed with the Commission on February 13, 2002.

(c) SR-NASD-2002-21 and SR-NASD-2002-74.

2. Procedures of the Self-Regulatory Organization

(a) The Board of Directors of NASD Regulation approved NASD Rule 2711 at its meeting on January 23, 2002, and authorized the filing of the proposed rule change with the SEC. The Board's approval permits the staff to file such additional changes and amendments to Rule 2711 as are necessary to carry out the Board's intent, and thus authorized the filing of this proposed rule change. NASD Regulation provided counsel for The Nasdaq Stock Market and NASD Dispute Resolution 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 approved Rule 2711 at its meeting on January 24, 2002. No other action by NASD is necessary for the filing of the proposed rule change.

(b) Questions regarding this rule filing may be directed to Philip A. Shaikun, Assistant General Counsel, NASD Regulatory Policy and Oversight, Office of General Counsel, at (202) 728-8451.

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

(a) Purpose

NASD is filing the proposed rule change to establish November 6, 2002, as the effective date for the following provisions of NASD Rule 2711: (1) Rules 2711(b) and (c) for members that over the previous three years, on average, have participated in 10 or fewer investment banking transactions on underwritings as manager or co-manager and generated $5 million or less in gross investment banking revenues from those transactions; (2) Rule 2711(h)(2) as applied to the receipt of compensation by a member's foreign affiliates from a subject company; and (3) Rule 2711(g)(3), subject to certain conditions, for those research analysts who must divest certain holdings to comply with their firm's more restrictive policy that prohibits analyst ownership of securities they cover.

On May 10, 2002, the Commission approved new NASD Rule 2711, which governs conflicts of interest when research analysts recommend equity securities in research reports and during public appearances.[1] The Commission approved a staggered implementation period for the rule. Most provisions of the rule become effective on July 9, 2002, including those that restrict supervision and control of research analysts by the investment banking department and those that require disclosure of investment banking compensation received from a subject company. The "gatekeeper" provisions, described below, become effective September 9, 2002, and Rule 2711(h)(1)(B) – a requirement to disclose firm ownership of subject company securities – becomes effective on November 6, 2002.

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[1] Release No. 34-45908 (May 10, 2002).

<u>Small Firms," Gatekeeper" Provisions, and Analyst Compensation</u>

The rule contains provisions that generally restrict the relationship between the research and investment banking departments, including "gatekeeper" provisions that require a legal or compliance person to intermediate certain communications between the research and investment banking departments. Rule 2711(b)(1) prohibits a research analyst from being under the control or supervision of any employee of the investment banking department. Rule 2711(b)(2) prohibits employees in the investment banking department from reviewing or approving any research reports prior to publication. Rule 2711(b)(3) creates an exception to (b)(2) to allow investment banking personnel to review a research report prior to publication to verify the factual information contained therein and to screen for potential conflicts of interest. Any permissible written communications must be made through an authorized legal or compliance official or copied to such official. Oral communications must be made through, or in the presence of, an authorized legal or compliance official and must be documented.

Similarly, Rule 2711(c) restricts communications between a member and the subject company of a research report, except that a member may submit sections of the research report to the company to verify factual accuracy and may notify the subject company of a ratings change after the "close of trading" on the business day preceding the announcement of the ratings change. Submissions to the subject company may not include the research summary, the rating or the price target, and a complete draft of the report must be provided beforehand to legal or compliance personnel. Finally, any change to a rating or price target after review by the subject company must first receive written authorization from legal or compliance.

As the Commission noted in its approval order, several commenters argued that the gatekeeper provisions would impose significant costs, especially for smaller firms that would have to hire additional personnel. Commenters also noted that personnel often wear multiple hats in smaller firms, thereby causing a greater burden to comply with the restriction on supervision and control by investment banking personnel over research analysts. These comments raised the prospect that the rules might force some firms out of business and/or reduce important sources of capital and research coverage for smaller companies.

NASD is sensitive to the burdens on small firms and, as the Commission's approval order noted, is reviewing the issue to explore possible exemptions or accommodations that can be made while preserving the purposes of the rule. To that end, NASD is proposing to delay implementation of Rules 2711(b) and (c) until November 6, 2002 for members that over the previous three years, on average, have participated in 10 or fewer investment banking transactions on underwritings as manager or co-manager and generated $5 million or less in gross investment banking revenues from those transactions. As a further condition for the delayed implementation date, those firms that meet the eligibility requirements outlined above would be required to maintain records of communications that would otherwise be subject to the gatekeeper provisions of Rules 2711(b) and (c). NASD believes that for these members, provided they comply with the conditions described, the burdens of the specific provisions outweigh the benefits to the investing public. Moreover, relief from these provisions will preserve these firms' roles as sources for capital and research for smaller local and regional issuers.

NASD requests comment on whether it should create a permanent exemption for the class of members eligible for delayed implementation as described above. In particular, NASD seeks comment as to whether the revenue and transaction thresholds are appropriate, whether an alternative approach should be fashioned to exempt a certain class of small members, or whether no such exemption would be appropriate.

Receipt of Investment Banking Compensation by Foreign Affiliates

Rule 2711(h)(2)(A)(ii) requires a member to disclose in research reports if the member or its affiliates: (a) managed or co-managed a public offering of the subject company's securities in the past 12 months; (b) received compensation for investment banking services from the subject company in the past 12 months; or (c) expects to receive or intends to seek compensation for investment banking services from the subject company in the next 3 months. NASD understands that members are setting up systems that can readily track the information required by this provision of the rule. However, certain members, particularly those with global operations and several foreign affiliates, have informed NASD that scope of their operations make it impossible to have systems in place by July 9, 2002, to track all investment banking compensation received by their foreign affiliates. For example, one firm has informed NASD that it generates over 300 global research products per day and that each of its foreign divisions are separately automated. According to this firm, mapping revenues from one division to another would require manual matching of identification numbers. The firm has undertaken to do so with respect to its United States-based affiliates, but has told NASD it requires more time to aggregate compensation from all of its foreign affiliates. NASD further understands that other members with global operations have similar challenges.

NASD recognizes that the tracking of investment banking compensation received from foreign affiliates requires significant resources and therefore believes it is appropriate to allow members additional time to set up systems to enable compliance with the rule. Accordingly, NASD is proposing to delay the implementation date for Rule 2711(h)(2)(A)(ii) until November 6, 2002, only as it relates to investment banking compensation received by members' foreign affiliates. Members would remain responsible to comply with the rule's provisions for investment banking compensation received by the member and those affiliates based in the United States. Members who delay implementation would have to disclose that their foreign affiliates may (a) have managed or co-managed a public offering of the subject company's securities in the past 12 months; (b) have received compensation for investment banking services from the subject company in the past 12 months; or (c) expects to receive or intends to seek compensation for investment banking services from the subject company in the next 3 months. Members that delay implementation of Rule 2711(h)(2)(A)(ii) must notify NASD's Corporate Financing Department in writing at 9509 Key West Avenue, Rockville, MD 20850.

Trading Against Recommendations

The rule contains provisions that restrict the personal trading by research analysts, but it does not completely prohibit ownership of securities that the analyst covers. One such restriction is found in Rule 2711(g)(3), which becomes effective on July 9, 2002. That provision prohibits a "research analyst account" from purchasing or selling a security or option or derivative of that security, in a manner contrary to the analyst's most recent published recommendation reflected in the member's research report. The rule defines "research analyst account" as any account in which a research analyst or member of the research analyst's household has a financial interest, or over which the analyst has discretion or control, except for an investment company registered under the Investment Company Act of 1940.

Several members have gone beyond the requirements of the rule and instituted internal policies that prohibit research analysts from owning securities that they cover. Most of these firms require that analysts divest themselves, over a certain period of time, of any existing holdings in securities they cover. Consequently, analysts could face the predicament of violating Rule 2711(g)(3) to comply with their firm's more restrictive policy because they could be required by their firm to divest their holdings in a security even as they maintained a buy recommendation in that security. Absent some relief from the rule, analysts would have to divest all holdings in securities they cover by July 9, 2002, or cease coverage in those securities in which they held positions.

To alleviate the described dilemma, and to allow an orderly liquidation of holdings, NASD is proposing to delay implementation of Rule 2711(g)(3) until November 6, 2002, only for analysts that meet the following conditions: (1) they are employed by a member firm that as of July 9, 2002 has adopted a policy that bans analyst ownership of securities they cover and further requires complete divestiture of existing holdings in those securities; (2) they abide by a reasonable plan of liquidation under which all shares are to be sold by November 6, 2002 and file that plan with their firm's legal or compliance department no later than July 9, 2002; (3) they receive written approval of the liquidation plan from their firm's legal or compliance department; and (4) they notify NASD's Corporate Financing Department of their delayed implementation of the provision in writing at 9509 Key West Avenue, Rockville, MD 20850.

(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'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 believes that this proposed rule change would reduce or expose conflicts of interest and thereby significantly curtail the potential for fraudulent and manipulative acts. NASD further believes that the proposed rule change will provide investors with better and more reliable information with which to make investment decisions.

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

NASD 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)

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A) of the Act and paragraph (f)(1) of Rule 19b-4 thereunder, in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule, NASD Rule 2711, previously approved by the SEC. The sole purpose of the rule change is to establish certain effective dates for rules previously approved.

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

The New York Stock Exchange ("NYSE") is expected to file with the Commission, on or around the filing date of this proposed rule change, a similar rule change proposal to establish the same effective dates for its parallel rule related to research reports and research analysts. Although the existing NYSE rule differs in the language used from NASD Rule 2711, it is intended to be substantially similar to the NASD rule.

9. Exhibits

Not applicable.

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: June 28, 2002

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASD-2002-87)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Establishing Effective Date of Rules Requiring Debt Securities Reporting and Dissemination (TRACE Rules)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on ______, 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 constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule series under paragraph (f)(1) of Rule 19b-4 under the Act,[3] which renders the proposal effective upon receipt of this filing by the Commission. 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

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"), NASD is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change to establish November 6, 2002 as the effective

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 17 CFR § 240.19b-4(f)(1).

date for certain provisions of NASD Rule 2711. First, the proposed rule change would establish November 6, 2002 as the effective date for Rules 2711(b) and (c) for members that over the previous three years, on average, have participated in 10 or fewer investment banking transactions on underwritings as manager or co-manager and generated $5 million or less in gross investment banking revenues from those transactions. Rules 2711(b) and (c), when effective, will prohibit a research analyst from being subject to the supervision or control of any employee of a member's investment banking department, and will further require legal or compliance personnel to intermediate certain communications between the research department and either the investment banking department or the company that is the subject of a research report or recommendation ("subject company").

Second, the proposed rule change would also establish November 6, 2002 as the effective date for Rule 2711(h)(2) as applied to the receipt of compensation by a member's foreign affiliates from a subject company. Rule 2711(h)(2), when effective, will require a member to disclose in research reports all compensation received by it or its affiliates from a subject company for investment banking services in the past 12 months, or expected to be received in the next months.

Third, the proposed rule change would establish November 6, 2002, subject to certain conditions, as the effective date for Rule 2711(g)(3) for those research analysts who must divest holdings to comply with their firm's more restrictive policy that prohibits analyst ownership of securities they cover. Rule 2711(g)(3), when effective, will prohibit a "research analyst account" from purchasing or selling a security or option or derivative of that security, in a manner contrary to the analyst's most recent published recommendation reflected in the member's research report.

II. SELF-REGULATORY ORGANIZATION'S STATEMENT OF THE PURPOSE OF, AND STATUTORY BASIS FOR, THE PROPOSED RULE CHANGE

In its original rule 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 is filing the proposed rule change to establish November 6, 2002, as the effective date for the following provisions of NASD Rule 2711: (1) Rules 2711(b) and (c) for members that over the previous three years, on average, have participated in 10 or fewer investment banking transactions on underwritings as manager or co-manager and generated $5 million or less in gross investment banking revenues from those transactions; (2) Rule 2711(h)(2) as applied to the receipt of compensation by a member's foreign affiliates from a subject company; and (3) Rule 2711(g)(3), subject to certain conditions, for those research analysts who must divest certain holdings to comply with their firm's more restrictive policy that prohibits analyst ownership of securities they cover.

On May 10, 2002, the Commission approved new NASD Rule 2711, which governs conflicts of interest when research analysts recommend equity securities in research reports and during public appearances.[4] The Commission approved a staggered implementation period for the rule. Most provisions of the rule become effective on July 9, 2002, including those that restrict supervision and control of research analysts by the investment banking department and those that require disclosure of investment banking compensation received from a subject company. The "gatekeeper" provisions, described below, become effective September 9, 2002, and Rule 2711(h)(1)(B) – a requirement to disclose firm ownership of subject company securities – becomes effective on November 6, 2002.

Small Firms and "Gatekeeper" Provisions

The rule contains provisions that generally restrict the relationship between the research and investment banking departments, including "gatekeeper" provisions that require a legal or compliance person to intermediate certain communications between the research and investment banking departments. Rule 2711(b)(1) prohibits a research analyst from being under the control or supervision of any employee of the investment banking department. Rule 2711(b)(2) prohibits employees in the investment banking department from reviewing or approving any research reports prior to publication. Rule 2711(b)(3) creates an exception to (b)(2) to allow investment banking personnel to review a research report prior to publication to verify the factual information contained therein and to screen for potential conflicts of interest. Any permissible written communications must be made through an authorized legal or compliance official or copied to such official. Oral communications must be made through, or in the presence of, an authorized legal or compliance official and must be documented.

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4 Release No. 34-45908 (May 10, 2002).

Similarly, Rule 2711(c) restricts communications between a member and the subject company of a research report, except that a member may submit sections of the research report to the company to verify factual accuracy and may notify the subject company of a ratings change after the "close of trading" on the business day preceding the announcement of the ratings change. Submissions to the subject company may not include the research summary, the rating or the price target, and a complete draft of the report must be provided beforehand to legal or compliance personnel. Finally, any change to a rating or price target after review by the subject company must first receive written authorization from legal or compliance.

As the Commission noted in its approval order, several commenters argued that the gatekeeper provisions would impose significant costs, especially for smaller firms that would have to hire additional personnel. Commenters also noted that personnel often wear multiple hats in smaller firms, thereby causing a greater burden to comply with the restriction on supervision and control by investment banking personnel over research analysts. These comments raised the prospect that the rules might force some firms out of business and/or reduce the research coverage of smaller companies.

NASD is sensitive to the burdens on small firms and, as the Commission's approval order noted, is reviewing the issue to explore possible exemptions or accommodations that can be made while preserving the purposes of the rule. To that end, the NASD is proposing to delay implementation of Rules 2711(b) and (c) until November 6, 2002 for members that over the previous three years, on average, have participated in 10 or fewer investment banking transactions on underwritings as manager or co-manager and generated $5 million or less in gross investment banking revenues from those transactions.

<u>Receipt of Investment Banking Compensation by Foreign Affiliates</u>

Rule 2711(h)(2)(A)(ii) requires a member to disclose in research reports if the member or its affiliates: (a) managed or co-managed a public offering of the subject company's securities in the past 12 months; (b) received compensation for investment banking services from the subject company in the past 12 months; or (c) expects to receive or intends to seek compensation for investment banking services from the subject company in the next 3 months. NASD understands that members are setting up systems that can readily track the information required by this provision of the rule. However, certain members, particularly those with global operations and several foreign affiliates, have informed NASD that scope of their operations make it impossible to have systems in place by July 9, 2002, to track all investment banking compensation received by their foreign affiliates. For example, one firm has informed NASD that it generates over 300 global research products per day and that each of its foreign divisions are separately automated. According to this firm, mapping revenues from one division to another would require manual matching of identification numbers. The firm has undertaken to do so with respect to its United States-based affiliates, but has told NASD it requires more time to aggregate compensation from all of its foreign affiliates. NASD further understands that other members with global operations have similar challenges.

NASD recognizes that the tracking of investment banking compensation received from foreign affiliates requires significant resources and therefore believes it is appropriate to allow members additional time to set up systems to enable compliance with the rule. Accordingly, NASD is proposing to delay the implementation date for Rule 2711(h)(2)(A)(ii) until November 6, 2002, only as it relates to investment banking compensation received by members' foreign affiliates. Members would remain responsible to comply with the rule's provisions for investment banking compensation received by the member and those affiliates based in the United States. Members who delay implementation would have to disclose that their foreign affiliates may (a) have managed or co-managed a public offering of the subject company's securities in the past 12 months; (b) have received compensation for investment banking services from the subject company in the past 12 months; or (c) expects to receive or intends to seek compensation for investment banking services from the subject company in the next 3 months. Members that delay implementation of Rule 2711(h)(2)(A)(ii) must notify NASD's Corporate Financing Department in writing at 9509 Key West Avenue, Rockville, MD 20850.

Trading Against Recommendations

The rule contains provisions that restrict the personal trading by research analysts, but it does not completely prohibit ownership of securities that the analyst covers. One such restriction is found in Rule 2711(g)(3), which becomes effective on July 9, 2002. That provision prohibits a "research analyst account" from purchasing or selling a security or option or derivative of that security, in a manner contrary to the analyst's most recent published recommendation reflected in the member's research report. The rule defines "research analyst account" as any account in which a research analyst or member of the research analyst's household has a financial interest, or over which the analyst has discretion or control, except for an investment company registered under the Investment Company Act of 1940.

Several members have gone beyond the requirements of the rule and instituted internal policies that prohibit research analysts from owning securities that they cover. Most of these firms require that analysts divest themselves, over a certain period of time, of any existing holdings in securities they cover. Consequently, analysts could face the predicament of violating Rule 2711(g)(3) to comply with their firm's more restrictive policy because they could be required by their firm to divest their holdings in a security even as they maintained a buy recommendation in that security. Absent some relief from the rule, analysts would have to divest all holdings in securities they cover by July 9, 2002, or cease coverage in those securities in which they held positions.

To alleviate the described dilemma, and to allow an orderly liquidation of holdings, NASD is proposing to delay implementation of Rule 2711(g)(3) until November 6, 2002, only for analysts that meet the following conditions: (1) they are employed by a member firm that as of July 9, 2002 has adopted a policy that bans analyst ownership of securities they cover and further requires complete divestiture of existing holdings in those securities; (2) they abide by a reasonable plan of liquidation under which all shares are to be sold by November 6, 2002 and file that plan with their firm's legal or compliance department no later than July 9, 2002; (3) they receive written approval of the liquidation plan from their firm's legal or compliance department; and (4) they notify NASD's Corporate Financing Department of their delayed implementation of the provision in writing at 9509 Key West Avenue, Rockville, MD 20850.

(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'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 believes that this proposed rule change would reduce or expose conflicts of interest and thereby significantly curtail the potential for fraudulent and manipulative acts. NASD further believes that the proposed rule change will provide investors with better and more reliable information with which to make investment decisions.

(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

Written comments were neither solicited nor received.

III. DATE OF EFFECTIVENESS OF THE PROPOSED RULE CHANGE AND TIMING FOR COMMISSION ACTION

The proposed rule change has been filed by NASD as a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule series under Rule 19b-4(f)(1) under the Act.[5] Consequently, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder.

At any time within 60 days of this filing, the Commission may summarily abrogate this proposal if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. SOLICITATION OF COMMENTS

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary,

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[5] 17 CFR § 240.19b-4(f)(1).

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