investors since issuers with the lower net worth of $150,000,000 will still be required to limit the amount of their equity linked note offerings to 25% of their net worth. Finally, such alternative criteria is currently in place for issuers of currency and index warrants listed on the exchange.[5]

(2) Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and is not designed to permit unfair discrimination between customers, issuers, brokers or dealers.

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

The proposed rule change will impose no burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

No written comments were solicited or received with respect to the proposed rule change.

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 no finding or (ii) as to which the Amex 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 Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Amex. All submissions should refer to the File No. SR–Amex–96–31 and should be submitted by [insert date 21 days from date of publication].

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[6]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96–21755 Filed 8–26–96; 8:45 am]

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[5] *See* Section 106 of the Amex *Company Guide.*

[6] 17 CFR 200.30–3(a)(12).

[Docket No. 34–37591; File No. SR–MSRB–96–8]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Interpretation of Rule G–37 on Political Contributions and Prohibitions on Municipal Securities Business

August 21, 1996.

On August 6, 1996, the Municipal Securities Rulemaking Board (''Board'' or ''MSRB'') filed with the Securities and Exchange Commission (''Commission'' or ''SEC'') a proposed rule change (SR–MSRB–96–8), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''), 15 U.S.C. 78s(b)(1), and Rule 19b–4 thereunder. The proposed rule change is described in Items I, II, and III below, which Items have been prepared by the Board. The Board has designated this proposal as constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the Board under Section 19(b)(3)(A) of the Act, 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

The Board is filing herewith a notice of interpretation concerning rule G–37 on political contributions and prohibitions on municipal securities business (hereafter referred to as ''the proposed rule change''). The proposed rule change is as follows:

Rule G–37: Political Contributions and Prohibitions on Municipal Securities Business

Contributions to a Non-Dealer Associated PAC and Payments to a State or Local Political Party

1. Q: Could contributions to a non-dealer associated PAC or payments to a state or local political party lead to a ban on municipal securities business with an issuer under rule G–37?

A: Rule G–37(d) prohibits a dealer and any municipal finance professional from doing any act indirectly which would result in a violation of the rule if done directly by the dealer or municipal finance professional. A dealer would violate rule G–37 by doing business with an issuer after providing money to any person or entity when the dealer knows that such money will be given to an official of an issuer who could not receive such a contribution directly from the dealer without triggering the rule's prohibition on business. For example, in certain instances, a non-dealer associated PAC or a local political party may be soliciting funds for the purpose of supporting a limited number of issuer officials. Depending upon the facts and circumstances, contributions to the PAC or payments to the political party might well result in the same prohibition on municipal securities business as would a contribution made directly to the issuer official.

2. Q: If a dealer receives a fund raising solicitation from a non-dealer associated PAC or a political party with no indication of how the collected funds will be used, can the dealer make contributions to the non-dealer associated PAC or payments to the political party without causing a ban on municipal securities business?

A: Dealers should inquire of the non-dealer associated PAC or political party how any funds received from the dealer would be used. For example, if the non-dealer associated PAC or political party is soliciting funds for the purpose of supporting a limited number of issuer officials, then, depending upon the facts and circumstances, contributions to the PAC or payments to the political party might well result in the same prohibition on municipal securities business as would a contribution made directly to the issuer official.

Two-Year Designation Period for Municipal Finance Professionals

3. Q: Rule G–37(g)(iv) states that each person designated a municipal finance professional shall retain this designation for two years after the last activity or position which gave rise to the designation. If a dealer

terminates a municipal finance professional's employment, and that person is no longer associated in any way with the dealer (including any affiliated entities of the dealer), must the dealer continue to designate that person a ''municipal finance professional'' for recordkeeping and reporting purposes under rules G–37(g)(iv) and G–8(a)(xvi)?

A: No. If a municipal finance professional is no longer employed by the dealer, and is not an ''associated person'' of the dealer, then the dealer is not required to designate that person a municipal finance professional and the dealer may cease its recordkeeping and reporting obligations with respect to that person.

4. Q: If a municipal finance professional is transferred from a firm's dealer department to another non-municipal department, such as the corporate department, must the dealer continue to designate this person a municipal finance professional for recordkeeping and reporting purposes?

A: If a municipal finance professional is transferred to another department within the same firm (such as corporate, equities, *etc.*) and remains an ''associated person'' of the dealer, the dealer must continue to designate this person a municipal finance professional for two years from the date of the last activity or position which gave rise to this designation and must continue its recordkeeping and reporting obligations under rules G–37 and G–8. It is incumbent upon each dealer to determine whether the person is an associated person pursuant to Section 3(a)(18) of the Securities Exchange Act of 1934. If so, then in addition to recordkeeping and reporting obligations, dealers should be mindful that any contributions made by this associated person during the two-year designation period (other than contributions that qualify for the rule's $250 *de minimis* exception) will subject the dealer to the rule's ban on municipal securities business for two years from the date of such contribution. Of course, the ban can only be triggered if the person previously was a municipal finance professional.

5. Q: A municipal finance professional resigns from a dealer, but still remains an associated person of the dealer (*e.g.,* by retaining a position in the dealer's holding company). May the dealer cease designating this person a municipal finance professional for purposes of the recordkeeping and reporting requirements under rules G–37 and G–8? In addition, may this person make contributions to issuer officials without causing the dealer to be banned from the municipal securities business with such issuers?

A: As noted above in Q&A number 4, if a person is no longer a municipal finance professional because he or she has left the dealer's employ, but nevertheless remains an associated person of the dealer, then the dealer must continue to designate this person a municipal finance professional for two years from the last activity or position which gave rise to such designation.

Moreover, any contributions by this associated person (other than those that qualify for the *de minimis* exception under rule G–37(b)) will subject the dealer to the rule's ban on municipal securities business for two years from the date of the contribution.

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

In its filing with the Commission, the Board 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 texts of these statements may be examined at the places specified in Item IV below. The Board 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

On April 7, 1994, the Commission approved Board rule G–37, concerning political contributions and prohibitions on municipal securities business.[1] Since that time, the Board has received numerous inquiries concerning the application of the rule. In order to assist the municipal securities industry and, in particular, brokers, dealers and municipal securities dealers in understanding and complying with the provisions of the rule, the Board published six prior notices of interpretation which set forth, in question-and-answer format, general guidance on rule G–37.[2] In prior filings with the Commission, the Board stated that it will continue to monitor the application of rule G–37, and, from time to time, will publish additional notices of interpretations, as necessary.[3] In light of questions recently received from market participants concerning the applicability of the rule to contributions to non-dealer associated political action committees and payments to state or local political parties, as well as the two-year designation period for municipal finance professionals, the Board has determined that it is necessary to provide further guidance to the municipal industry. Accordingly, the Board is publishing this seventh set of questions and answers.

The Board believes the proposed rule change is consistent with Section 15B(b)(2)(C) of the Act.[4]

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

The Board does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, because it would apply equally to all brokers, dealers and municipal securities dealers.

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

The Board has designated this proposal as constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the Board under Section 19(b)(3)(A)(i) of the Act and subparagraph (e) of Rule 19b–4 thereunder, thus rendering the proposal effective upon receipt of this filing by the Commission.

At any time within sixty days of the filing of this proposed rule change, the Commission may summarily abrogate such rule change 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

[1] Securities Exchange Act Release No. 33868 (April 7, 1994). The rule applies to contributions made on and after April 25, 1994.

[2] *See* Securities Exchange Act Release No. 34161 (June 6, 1994), 59 FR 30379 (June 14, 1994); Securities Exchange Act Release No. 34603 (Aug. 25, 1994), 59 FR 45049 (Aug. 31, 1994); Securities Exchange Act Release No. 35128 (Dec. 20, 1994), 59 FR 66989 (Dec. 28, 1994); Securities Exchange Act Release No. 35544 (March 28, 1995), 60 FR 16896 (April 3, 1995); Securities Exchange Act Release No. 35879 (June 21, 1995), 60 FR 33447 (June 28, 1995); Securities Exchange Act Release No. 36857 (Feb. 16, 1996), 61 FR 7034 (Feb. 23, 1996).

See also MSRB Reports, Vol. 14, No. 3 (June 1994) at 11–16; Vol. 14, No. 4 (August 1994) at 27–31; Vol. 14, No. 5 (December 1994) at 8; Vol. 15, No. 1 (April 1995) at 21; Vol. 15, No. 2 (July 1995) at 3–4; and Vol. 16, No. 1 (Jan. 1996) at 31. *See also* MSRB Manual (CCH) ¶ 3681.

[3] File Nos. SR–MSRB–94–6 and 94–15.

[4] Section 15B(b)(2)(C) states in the pertinent part that the rules of the Board ''shall be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in municipal securities, to remove impediments to and perfect the mechanism of a free and open market in municipal securities, and, in general, to protect investors and the public interest.''

Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submissions, 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 the filing will also be available for inspection and copying at the Board's principal offices. All submissions should refer to File No. SR–MSRB–96–8 and should be submitted by September 17, 1996.

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.

[FR Doc. 96–21816 Filed 8–26–96; 8:45 am]

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[Release No. 34–37588; File No. SR–NASD–95–39]

Self-Regulatory Organizations; National Association of Securities Dealers, Inc; Order Granting Approval to Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval to Amendment Nos. 4 and 5 to Proposed Rule Change Relating to Application of the Rules of Fair Practice to Transactions in Exempted Securities (Except Municipals) and an Interpretation of Its Suitability Rule

August 20, 1996.

I. Introduction

On September 18, 1995, the National Association of Securities Dealers, Inc. (''NASD'' or ''Association'') submitted to the Securities and Exchange Commission (''SEC'' or ''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder;[2] a proposed rule change to apply the Association's Rules of Fair Practice to transactions in exempted securities, other than municipals, and to adopt an interpretation of the Association's suitability rule as it applies to institutional customers.[3] The NASD filed Amendment No. 1 to the proposed rule change on October 17, 1995, Amendment No. 2 on January 22, 1996, and Amendment No. 3 on February 15, 1996.

The proposed rule change and Amendment No. 1 were published for comment in Securities Exchange Act Release No. 36383 (Oct. 17, 1995), 60 FR 54530 (Oct. 24, 1995). Amendment No. 2 was replaced by Amendment No. 3 before publication.[4] Amendment No. 3 was published for comment in Securities Exchange Act Release No. 36973 (Mar. 14, 1996), 61 FR 11655 (Mar. 21, 1996). On July 22, 1996 and August 14, 1996, the NASD filed Amendment Nos. 4 and 5, respectively, to the proposed rule change.[5] This order permanently approves the proposed rule change, as amended, and Amendment Nos. 4 and 5 on an accelerated basis.

II. Background

The Government Securities Act Amendments of 1993 (''GSAA'') eliminated the statutory limitations on the NASD's authority to apply sales practice rules to transactions in exempted securities, including government securities, other than municipals.[6] To implement the expanded sales practice authority granted to the NASD pursuant to the GSAA, the Association has proposed to delete the NASD Government Securities Rules and apply the NASD Rules of Fair Practice, where applicable, to exempted securities, including government securities, other than municipals.[7]

Concurrently, the NASD has proposed an interpretation of its suitability rule as it applies to members' dealings with institutional customers (''Suitability Interpretation'' or ''Interpretation''). The Interpretation would apply to all securities, except municipals, the purchase or sale of which is recommended by a broker-dealer. A draft of the proposed suitability interpretation contained in this proposed rule change was first published for comment in NASD Notice to Members 94–62 (August 1994) (''NTM 94–62'').[8] In response to this solicitation of comments, the NASD received 15 comment letters.[9] The

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[1] 15 U.S.C. Section 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] The proposed rule change (i) Amends Article I, Section 4 and 5 of the Rules of Fair Practice to apply the Rules of Fair Practice to those members registered with the SEC solely under the provisions of Section 15C of the Act and to transactions in all securities, except municipals; (ii) merges the NASD's Government Securities Rules, where applicable, into the Rules of Fair Practice, (iii) makes clarifying amendments to certain sections and Interpretations under Articles III and IV of the Rules of Fair Practice relating to the government securities business; (iv) amends certain Rules of Fair Practice and Board Interpretations to exempt transactions in government securities; (v) amends Article III, Section 2 of the Rules of Fair Practice by amendment to Subsection 2(b) and adoption of an Interpretation of the Board of Governors—Suitability Obligations to Institutional Customers; (vi) makes technical changes to NASD By-Laws, Schedules to the By-Laws, the Rules of Fair Practice and the Code of Procedure to replace references to provisions of the Government Securities Rules with references to the appropriate Rules of Fair Practice, and to delete the terms ''exempted security'' or ''exempted securities,'' or, replace these terms with the term ''municipal securities,'' as applicable; and (vii) modifies references to SEC Rules 15c3–1 and 15c3–3 to reflect SEC amendments to those rules.

[4] Amendment No. 2 responded to some of the comments received on the original proposed rule change. Amendment No. 3 expanded upon the discussion contained in Amendment No. 2 by including responses to nine comment letters received on the original proposed rule change. Amendment No. 3 to SR–NASD–95–39 completely replaced and superseded Amendment No. 2. *See* letters from Joan C. Conley, Secretary, NASD, to Mark P. Barracca, Branch Chief, SEC, dated February 15, 1996, and March 4, 1996. The Commission received seven additional comment letters after the publication of Amendment No. 3.

[5] *See* Letter from Joan C. Conley, Secretary, NASD, to Katherine A. England, Assistant Director, Division of Market Regulation, SEC, dated July 22, 1996. Pursuant to an NASD rule proposal that became effective in May 1996, the *NASD Manual* has been reorganized to make it easier to use. *See* Securities Exchange Act Release No. 36698 (Jan. 11, 1996) (Rules that were formerly organized under the ''Rules of Fair Practice'' generally are grouped under the NASD's Conduct Rules at Rules 2000–3000). Amendment No. 4 provides the new numbering of those provisions of the *NASD Manual* that are being affected by this rule proposal. A conversion chart is attached to this order as Exhibit 1. Moreover, Amendment No. 4 proposes to apply Section 50, Article III of the Rules of Fair Practice to transactions in exempted securities (except municipals). The NASD states that Section 50, Article III, which requires NASD members to report to the NASD the occurrence of certain specified events and quarterly summary statistics concerning customer complaints, would be applicable to exempted securities (except municipals). *See* Letter from John A. Ramsay, Deputy General Counsel, to Katherine A. England, Assistant Director, Division of Market Regulation, SEC, dated August 14, 1996 (''Amendment No. 5''). In Amendment No. 5, the NASD notes that actions for conduct violating ''Fair Prices and Commissions'' of Article III, Section 4, and the Mark-Up Policy may be brought under Article III, Section 1, requiring members to adhere to just and equitable principles of trade.

[6] Government Securities Act Amendments of 1993, Pub. L. No. 103–202, § 1(a), 107 Stat. 2344 (1993).

[7] The terms ''exempted securities,'' ''government securities'' and ''municipal securities'' are defined in Sections 3(a)(12), 3(a)(42) and 3(a)(29) of the Act respectfully.

[8] A copy of the NTM 94–62 is included in File No. SR–NASD–95–39 as Exhibit 2 thereto.

[9] The NASD received letters regarding NTM 94–62 from the following: (1) Brian C. Underwood, Director of Compliance, A.G. Edwards & Sons, Inc., dated September 29, 1994; (2) Alan S. Kramer, Senior Managing Director, Bear Stearns & Co. Inc., dated October 17, 1994; (3) Marjorie E. Gross, Senior Vice President & Associate General Counsel, Chemical Bank, dated September 29, 1994; (4) Marjorie E. Gross, Senior Vice President & Associate General Counsel, Chemical Bank, dated October 14, 1994; (5) F. Smith, President, Freeman Securities Company, Inc., dated September 30, 1994; (6) Wendy R. Beer, Compliance Counsel, Furman Selz,