

Regulation of Securities Markets

The Division of Market Regulation oversees the operations of the nation's securities markets and market participants. In 1999, the SEC supervised approximately 8,300 registered broker-dealers with over 80,035 branch offices and over 620,000 registered representatives. In addition, the SEC oversaw 8 active registered securities exchanges, the National Association of Securities Dealers and the over-the-counter securities market, 13 registered clearing agencies, 1,050 transfer agents, the Municipal Securities Rulemaking Board, and the Securities Investor Protection Corporation.

Broker-dealers filing FOCUS reports with the Commission had approximately \$2.4 trillion in total assets and \$161 billion in total capital for fiscal year 1999. In addition, average daily trading volume reach 799 million shares on the New York Stock Exchange and over 1.02 billion shares on the Nasdaq Stock Market in calendar year 1999.

What We Did

- Monitored industry progress in preparing for Year 2000 and worked with the self-regulatory organizations (SROs) and industry groups on a range of year 2000 issues, including testing and contingency planning.
- Reviewed over 6,900 broker-dealer and non-bank transfer agent reports on their Year 2000 preparations.

- Adopted a streamlined procedure to allow SROs to quickly begin trading new derivative securities products.
 - Approved rule changes relating to the integration of the Depository Trust Company and the National Securities Clearing Corporation.
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Securities Markets, Trading, and Significant Regulatory Issues

Alternative Trading Systems

In December 1998, the Commission adopted a new regulatory framework for alternative trading systems (ATSs).²¹ The new framework allows ATSs to choose to register as exchanges or broker-dealers and comply with additional requirements specifically designed to address their unique role in the market. Most of the rule amendments and new rules composing this framework became effective on April 21, 1999, and the remainder became effective on August 30, 1999.

We also proposed allowing registered exchanges to be for-profit and proposed certain deregulatory measures to provide registered exchanges, and other markets operated by SROs, with opportunities to better compete. These measures were adopted in December 1998.²² Specifically, we adopted a streamlined procedure to allow SROs to quickly begin trading new derivative securities products.

In addition, SROs may operate pilot trading systems for up to two years without filing for approval of the system by the Commission. During this trial two-year period, the pilot

trading system is subject to strict volume limitations. Finally, we made clear that we will work to accommodate, within the existing requirements for exchange registration, exchanges wishing to operate under a proprietary structure.

Automation Initiatives

Regulation ATS under the Exchange Act establishes recordkeeping and reporting requirements for ATSS that choose to register as broker-dealers. In 1999, our staff reviewed 42 initial operation reports, 33 notices of proposed material change, 50 quarterly activity reports, and 1 report of cessation of operations under Regulation ATS.

Order Handling Rules

The staff renewed, through March 3, 2000, nine no-action letters to electronic communications networks (ECNs) regarding the ECN Display Alternative provisions adopted as part of the Order Handling Rules. In 1999, letters were issued to Instinet Real-Time Trading Service, the Island ECN, Bloomberg Tradebook, Archipelago, the Routing and Execution DOT Interface Electronic Communications Network, the ATTAIn System, BRUT, the Strike System, and NEXTrade.²³

Matching Services

On May 7, 1999, the Commission approved an application filed by Thomson Financial Services Technology, Inc. for an exemption from registration as a clearing agency to provide an electronic trade confirmation service and a central matching service subject to certain conditions.²⁴

Integration of The Depository Trust Company and the National Securities Clearing Corporation

The Commission approved proposed rule changes relating to the integration of The Depository Trust Company (DTC) and the National Securities Clearing Corporation (NSCC).²⁵ The integration is intended to harmonize the clearance and settlement of the institutional and broker-dealer sides of trades domestically, and to provide a centralized point of entrance into the U.S. clearance and settlement infrastructure internationally. The integration should facilitate shortened settlement cycles, improved risk management, and more efficient and less costly processing. Under the terms of the integration, DTC's participants and NSCC's members elected uniform boards of directors. Subsequently, DTC and NSCC formed a holding company, The Depository Trust and Clearing Corporation (DTCC). Certain functions of both entities will be moved to DTCC, but DTC and NSCC will continue operating as separate clearing agencies.

Year 2000

The Commission monitored industry progress in preparing for Year 2000 and worked with the SROs and industry groups on a range of Year 2000 issues, including testing and contingency planning. Industry-wide Year 2000 testing was conducted in March and April 1999, and was an overwhelming success. The test showed that more than 97 percent of the almost 260,000 expected results were successfully achieved, with only 4 actual Year 2000 errors.

Pursuant to rules 17a-5 and 17Ad-18, broker-dealers and non-bank transfer agents filed their final Year 2000 readiness status reports by April 30, 1999. The largest broker-dealer and non-bank transfer agents also filed reports prepared by independent public accountants assessing their Year 2000 preparations.

In July 1999, the Commission adopted rules 15b7-3T and 17Ad-21T under the Exchange Act requiring broker-dealers

and non-bank transfer agents to achieve Year 2000 compliance for their mission-critical systems no later than August 31, 1999. Any firm that failed to meet this deadline but wished to remain in business was required to notify the SEC and certify and demonstrate how it would achieve compliance by November 15, 1999.

Toward the latter part of 1999, the SEC worked closely with the SROs and the industry to develop a comprehensive information sharing strategy that would enable them to discover and address in real-time any Year 2000 problems that might have occurred during the millennium transition.

Broker-Dealer and Transfer Agent Year 2000 Reporting Requirements

In July 1998, we amended rule 17a-5 under the Exchange Act to require certain broker-dealers to file new Form BD-Y2K with the Commission and with their designated examining authority.²⁶ We also adopted new rule 17Ad-18 under the Exchange Act to require non-bank transfer agents to file new Form TA-Y2K with the Commission.²⁷ The first forms were filed on August 31, 1998, reflecting broker-dealer and non-bank transfer agents' Year 2000 efforts as of July 15, 1998. The second and final forms were filed on April 30, 1999, reflecting the broker-dealers' and the non-bank transfer agents' efforts to prepare for the Year 2000 as of March 15, 1999. In addition, in October 1998, we amended rule 17a-5 and rule 17Ad-18 to require certain broker-dealers and certain non-bank transfer agents to file with their second Y2K form a report prepared by an independent public accountant regarding their processes for preparing for the Year 2000.²⁸ In 1998, we received 476 TA-Y2K forms and 5,850 BD-Y2K forms. In 1999, we received 529 TA-Y2K forms and 6,215 BD-Y2K forms.

In August 1999, we adopted temporary rules 15b7-3T, 17Ad-21T and 17a-9T.²⁹ Rules 15b7-3T and 17Ad-21T required

broker-dealers and non-bank transfer agents to ensure that their mission-critical computer systems were Year 2000 compliant by August 31, 1999, or to certify that any material Year 2000 problems in mission-critical systems would be fixed by November 15, 1999. Rule 17a-9T required certain broker-dealers to make and preserve a separate trade blotter and securities record or ledger for the last three business days of 1999. Rule 17Ad-21T required non-bank transfer agents to make and preserve a backup copy of all their master security holder files so that the records can be reconstructed if necessary. These temporary rules were adopted to reduce the risk to investors and the securities markets posed by broker-dealers and non-bank transfer agents that have not adequately prepared their computer systems for the millennium transition.

International Securities Exchange

On February 2, 1999, the International Securities Exchange (ISE) filed with the Commission its application for exchange registration. Notice of the application was published in the *Federal Register* on June 1, 1999.³⁰ The Commission received 21 comment letters on the application. In response to a Commission request, on September 27, 1999, the ISE filed an amendment to its application, which was published for notice and comment on October 26, 1999.³¹ The Commission received eight comments on the amendment and is considering the application.

Day Trading

The Commission published for comment a proposed rule change by the NASD that would require firms promoting a day trading strategy to: (a) approve a customer's account for day trading by making a determination that day trading is appropriate for the customer; or (b) obtain from the customer a written agreement that the account will not be used for day trading.³² In addition, the proposal would require firms to

furnish a risk disclosure statement to allow new non-institutional customers prior to opening an account.

On August 20, 1999, the Commission approved an amendment to the Philadelphia Stock Exchange's rules, to require successful completion of the NASD Series 7 Exam by associated persons of broker-dealers who trade off the floor of the PHLX.³³ This rule is designed to address concerns that certain brokerage firms registered only with PHLX were including day trader clients as associated persons without requiring them to pass the Series 7 Exam. On September 17, 1999, the Commission approved a similar rule for the Pacific Stock Exchange (PCX).³⁴ The Boston Exchange also plans to propose a similar requirement.

After-Hours Trading

In June 1999, the Commission, in conjunction with the New York Stock Exchange (NYSE) and the NASD, hosted a meeting in New York to launch an industry-wide, comprehensive examination of issues that may develop as the major securities markets move towards full-scale after-hours trading. Approximately 40 representatives from all facets of the securities industry attended the summit, during which Chairman Levitt announced the formation of four working groups: Investor Protection and Education, Clearance and Settlement and Operations Issues, Trading Conventions, and Options Markets. The working groups met periodically throughout the summer to analyze issues and offer solutions, and presented final reports to the NYSE and NASD in the fall. These reports are available at www.nyse.com and www.nasd.com.

Additionally, the Commission approved two proposed rule changes dealing with after-hours trading. SR-NASD-99-57³⁵ implemented a pilot program extending the availability of Nasdaq's trade reporting and quotation dissemination facilities until 6:30 p.m. EST, and SR-CHX-99-16³⁶

implemented an after-hours trading session from 4:30 p.m. until 6:30 p.m. EST at the Chicago Stock Exchange.

Decimal Pricing

In 1999, the Commission staff held extensive discussions with the securities industry to coordinate the move to decimal pricing in 2000. On September 8, 1999, the Commission ordered the options exchanges and members of the securities industry to participate in a study conducted by SRI Consulting, which would assess the impact on message traffic of current developments in the options industry, including decimal pricing.³⁷ The order also directed the options exchanges to formulate strategies to mitigate message traffic.

Derivatives

The Commission approved several new derivatives products designed to aid investors in risk management while strengthening market stability and integrity. These included trust issued receipts, and specifically, the HOLDRs product. Trust issued receipts are negotiable receipts issued by a trust that represent securities of issuers that have been deposited and are held on behalf of the holders of the receipts. HOLDRs, a type of trust issued receipt, are baskets of approximately 20 securities (but in varying proportions) of very highly capitalized issuers that the holder is deemed to beneficially own.

In December 1998, the Commission approved rule 19b-4(e), which provides for an expedited procedure for the trading of new derivative products. Under the rule, an SRO can start trading a new derivative product without receiving Commission approval in advance, as long as adequate trading rules, procedures, surveillance programs and listing standards that pertain to the class of securities covering the new product are in place. As of September 1999, one Amex

product had been submitted under the rule. The Commission also is working with several of the exchanges to bring up future series of HOLDRs under rule 19b-4(e).

Foreign Debt Obligations

Rule 3a12-8 permits the sale of futures on the national debt obligations of specified foreign countries. During the past year, the rule was amended to add Belgium³⁸ and Sweden.³⁹ The Commission also proposed an amendment to add Portugal to the list of exempted countries.⁴⁰

Hedge Funds

The President's Working Group on Financial Markets issued a report, *Hedge Funds, Leverage, and the Lessons of Long-Term Capital Management*. Commission staff assisted in preparation of the report. Among other things, the report recommended:

- enhanced SEC risk assessment authority, including expanded reporting, recordkeeping, and examination authority for significant unregulated affiliates of broker-dealers;
- improvements in risk management systems of securities firms and banks;
- increased disclosure by public companies of their direct material exposures to highly leveraged financial institutions; and
- public disclosure by hedge funds of comprehensive measures of market risk.

Options Market Reform

The Commission continued to work with the options exchanges to encourage the multiple trading of options and the further integration of options into the National Market System. Our staff held extensive discussions with the options exchanges regarding the need to develop communication system linkages between markets. Also, on October 19, 1999, the Commission ordered the options exchanges to develop and submit for Commission approval an inter-market linkage plan for multiply-traded options 90 days after the date the order was issued.⁴¹

NYSE Rule 500

In July 1999, the Commission issued an order approving changes to the NYSE's rule 500, which set forth the procedures a NYSE-listed company must follow in order to voluntarily withdraw its securities from listing on the NYSE.⁴² The approved changes provide that, among other things, a proposed voluntary withdrawal from listing no longer requires a supermajority of the company's shareholders but instead a majority of the company's audit committee and board of directors, as such majority is defined under applicable state law.

Filing Requirements and WEB CRD

In June 1999, the Commission approved changes proposed by NASD Regulation, Inc. to Form U-4, "The Uniform Application for Securities Industry Registration or Transfer," and to Form U-5, "The Uniform Termination Notice for Securities Industry Registration," in conjunction with the implementation of the World Wide Web-based Central Registration Depository (CRD) system.⁴³

The CRD system, which is operated and maintained by the NASD, is used by the Commission, SROs, and state

securities regulators in connection with registering and licensing broker-dealers and their registered personnel. On August 16, 1999, the old “legacy” CRD system was replaced by Web-CRD. The ability to file electronically through Web CRD is expected to further streamline and lower the costs associated with the one-stop registration process for broker-dealers and their associated persons. In connection with this transition, the Commission adopted technical amendments to the uniform forms for broker-dealer registration and withdrawal from registration, and related rules under the Exchange Act.⁴⁴

OptiMark System

On September 30, 1999, the Commission approved NASD rule changes that would establish the Nasdaq Application of the OptiMark System.⁴⁵ The Application is a computerized, screen-based trading service intended for use by NASD members and non-members. For securities listed on Nasdaq, the Application would enable its users to anonymously represent their trading interest across a full spectrum of prices and sizes by entering indications of trading interest into the OptiMark System to be compared and matched with indications of trading interest entered by other users.

Trading Practice Developments

Rule 14e-5

Regulation M-A

On October 19, 1999, the Commission adopted Regulation M-A revising the rules governing tender offers. As part of that rulemaking, rule 10b-13 (prohibiting purchases outside a tender offer) was updated, revised and redesignated as rule

14e-5. As part of the revisions, prior exemptions were codified and new exceptions were added.⁴⁶

Cross Border Release

The Commission amended its rules governing cross-border tender offers. As part of that rulemaking, the Commission adopted exceptions to rule 14e-5 to permit tender and exchange offers for the securities of foreign private issuers to be made in accordance with such issuers' home country's regulations when U.S. persons hold 10 percent or less of the class of securities sought in the offer.⁴⁷

Rule 10a-1

Concept Release

The Commission issued a concept release seeking comment on possible revisions to rule 10a-1 under the Exchange Act (Short Sale Rule). This release discusses several proposals including: suspending the uptick rule in rising markets and/or with respect to highly liquid securities; applying the rule only in certain market situations; exempting "economically neutral" hedging transactions; extending the short sale regulation to non-exchange listed securities; and eliminating the rule altogether.⁴⁸

On March 24, 1999, the PHLX received an exemption from rule 10a-1 the Short Sale Rule and interpretive guidance under the Exchange Act of rule 11a2-2(T) of the Exchange Act in connection with transactions executed through the VWAP Trading System (VTS). The exemption from rule 10a-1 will allow short sales through the VTS without complying with the "tick" provisions of the rule, subject to the conditions that: (1) persons relying on the exemption may not enter pre-arranged matching sale and purchase orders in the VTS and (2) transactions effected on the VTS shall not

be made for the purpose of creating actual, or apparent, active trading in or otherwise affecting the price of any security. Rule 11a2-2(T) permits an exchange member to effect transactions for “covered accounts” (i.e., the member’s own account, the account of an associated person, and the account over which either the member or its associated person has investment discretion) if among other things the member actually uses an independent floor broker to execute the transaction on the exchange floor. The PHLX received interpretive guidance discussing how the rule would apply to trades executed electronically through its VWAP trading system.⁴⁹

Rule 10b-18

To improve liquidity during severe market downturns, the Commission recently adopted an amendment to rule 10b-18 to suspend the rule’s timing condition after a market-wide trading suspension. Rule 10b-18’s safe harbor is now available to an issuer that bids for or purchases its common stock at the opening of trading and during the last half hour of trading in the trading session immediately following a market-wide trading suspension. The amendment requires that the issuer continue to comply with rule 10b-18’s manner, price and volume conditions.⁵⁰

Rule 15c2-11

In February 1999, the Commission proposed a narrower version of amendments to rule 15c2-11. The reproposal is part of the Commission’s continuing regulatory, inspection, enforcement, and investor education efforts that are key to deterring microcap fraud. The reproposal would: (1) increase the information that broker-dealers must review before publishing quotations for non-reporting issuers’ securities, (2) ease the rule’s recordkeeping requirements when broker-dealers have electronic access to information

about reporting issuers, and (3) give guidance to broker-dealers on the scope of the review required by the rule and provide examples of “red flags” that they should look for when reviewing issuer information.⁵¹

Rule 13e-4

The Division granted no-action relief from rule 13e-4 and exemptive relief from rule 10b-13 to the Manufacturers Life Insurance Company, in connection with purchase and sale programs conducted pursuant to demutualization plans. The relief is subject to several conditions, including that the consideration to be paid to each eligible shareholder who sells shares through the program will be determined by a uniformly applied formula based upon the market price of the subject security.⁵²

Regulation M

Rule 101—Activities by Distribution Participants

The Division granted exemptive and no-action relief from rule 101 and 102 of Regulation M, as well as rules 10a-1, 10b-10, 10b-13, 10b-17, 11d1-2, 15c1-5, 15c1-6, and section 11(d)(1) of the Exchange Act in connection with secondary market transactions in Nasdaq-100 Shares and the creation and redemption of Creation Units of Nasdaq-100 Shares. The Nasdaq-100 Trust is a unit investment trust whose objective is to provide investment results that generally correspond to the price and yield performance of the common stocks of the Nasdaq 100 Index.⁵³

Rule 104—Stabilization and Other Syndicate Activities

Class Exemption for Stabilization Activities in Japan

The Division granted a class exemption from rule 104 of Regulation M to permit underwriters to effect stabilization

transactions, in Japanese markets, in connection with global offerings of Japanese equity securities at a level permitted by Japanese Stabilization Regulations, during the Japanese subscription period. The relief is subject to several conditions, including that the Japanese subscription period will begin only after the distribution in the U.S. is completed within the meaning of rule 100 of Regulation M.⁵⁴

Broker-Dealer Issues

OTC Derivatives Dealers

President's Working Group Report on Over-the-Counter (OTC) Derivatives Markets and the Commodity Exchange Act

The President's Working Group on Financial Markets, which includes Chairman Levitt, issued recommendations on the treatment of OTC derivative products under the Commodity Exchange Act. The recommendations are intended to provide a framework for legislative action to increase legal certainty associated with such products.

In July 1999, the Division issued an order, pursuant to delegated authority, approving the request of Goldman Sachs Financial Markets, L.P. (GSFM) to operate under an alternative regulatory structure for a class of registered dealers that are active in OTC derivatives markets.⁵⁵ The alternative rules, which were adopted by the Commission on October 23, 1998, tailor market risk, credit risk, margin, and other broker-dealer regulations to the specific business of OTC derivatives dealers. Under the alternative rules, broker-dealers that have received Division approval may use value-at-risk models to calculate market risk capital charges on proprietary positions, rather than the "haircut" structure under rule 15c3-1(c)(2)(vi). GSFM is the first OTC derivatives dealer to receive such approval.

Finder's Exception from Broker-Dealer Registration

The staff denied a no-action request seeking a so-called "finder's exception" from broker-dealer registration where the writer proposed to solicit investments in real estate limited partnership interests through their accountants and commercial real estate brokers and would receive a fee if any referred investors purchased those securities.⁵⁶

Insurance Company Demutualizations

The staff addressed broker-dealer registration issues in connection with several recent insurance company demutualizations. Among these issues were: (1) what efforts an issuer may undertake to inform policyholders of the demutualization proposal and encourage eligible policyholders to vote for the plan, and (2) what restrictions should be placed on post-demutualization odd-lot round-up and sale plans and similar purchase and sale plans.⁵⁷

Municipal Securities Issues

In response to questions presented by the Municipal Securities Rulemaking Board, the staff issued a letter stating that: (1) at least some interests in local government pools and higher education trusts may be "municipal securities" for purposes of the Exchange Act, and (2) a dealer participating in the sale of these interests would be participating in a "primary offering" and thus would be subject to the requirements of rule 15c2-12 under the Exchange Act.⁵⁸ In addition, the staff continued to consider no-action requests relating to state-sponsored tuition savings plans. For instance, on July 28, 1999, the staff issued a no-action letter to the Finance Authority of Maine in connection with the distribution of interests in the Maine College Savings Fund.⁵⁹

Exemptions from Exchange Act Section 11(d)(1)

The Commission issued several orders exempting broker-dealers from the prohibition on extending credit set forth in Exchange Act section 11(d)(1). One order permitted a broker-dealer to arrange for the extension of credit by margining mutual fund shares acquired by a customer in exchange for shares the customer had owned for more than 30 days when all fund shares are offered through a broker-sponsored program.⁶⁰ Other orders exempted certain international securities offerings sold on an installment basis.⁶¹

Rule 10b-10 Issues

The staff declined to reconsider its prior interpretative advice⁶² on what constitutes an “offsetting contemporaneous transaction” under rule 10b-10(a)(2)(ii)(A). In the staff’s view, a transaction will not generally be considered a riskless principal transaction for purposes of rule 10b-10 where the transaction that restored the firm’s original position—the covering transaction—is effected on the next trading day.⁶³

The staff granted conditional exemptions from the requirements of rule 10b-10 to broker-dealer sponsors of wrap fee programs.⁶⁴ Under these exemptions, broker-dealers may confirm transactions in wrap fee programs, as well as mutual fund asset allocation programs and other individually managed account programs for which the broker-dealers provide discretionary investment advisory services, through quarterly statements rather than through separate, immediate trade confirmations for each transaction. One exemption also conditionally relieves those broker-dealers sponsoring wrap fee programs from disclosing certain information in the quarterly statements.⁶⁵

Section 3(a)(41)—Mortgage-Related Securities

The staff provided interpretive guidance on how defeasance provisions contained in many commercial mortgage loans used to securitize commercial mortgage-backed securities (CMBSs) affect the status of those securities under the Exchange Act. In the staff's view, a CMBS would be considered a "mortgage related security" as defined in section 3(a)(41) of the Exchange Act even if those defeasance provisions were exercised.⁶⁶

Arbitration Discovery Guide

The Commission approved the use of a new Discovery Guide in NASD-sponsored customer arbitrations. The Discovery Guide provides guidance on which documents should be exchanged without arbitrator or NASDR staff intervention and which documents customers and member firms or associated persons are presumptively required to produce in customer arbitrations.⁶⁷

Anti-Money Laundering Issues

In September 1999, the Departments of Treasury and Justice issued *The National Money Laundering Strategy for 1999*. The Strategy is the first of five efforts called for by the Money Laundering and Financial Crimes Strategy Act of 1998. The Commission's staff has been working closely with other government agencies in the National Money Laundering Strategy Working Group to implement the Strategy. Projects arising out of the Strategy are designed to coordinate the efforts of the various agencies working to combat money laundering throughout the United States financial system and the world.

Net Capital

In a no-action letter to the Securities Industry Association, Commission staff stated that broker-dealers may, when

computing net capital, treat certain single-rated asset-backed debt securities the same as double-rated asset-backed debt securities. To receive this favorable treatment, the single-rated securities must be rated in one of the two highest rating categories of a Nationally Recognized Statistical Rating Organization (NRSRO). They should also have an original issue par value of \$100 million or greater, and trade at spreads against U.S. Treasury securities that are substantially consistent with spreads for similar type securities rated in one of the two highest categories by at least two NRSROs. Finally, they must meet all other provisions of paragraph (c)(2)(vi)(F) of rule 15c3-1.⁶⁸

Additionally, our staff issued a no-action letter to the Chicago Board Options Exchange eliminating a four percent net capital charge on short futures options positions carried in the accounts of certain market makers or specialists. The relief is limited to a broker-dealer that: (1) is a member of the Options Clearing Corporation, (2) cross-margins customer accounts, and (3) calculates its “haircuts” on listed options positions using the theoretical Internet Margining System in accordance with subparagraph (c)(2)(x) and Appendix A of rule 15c3-1.⁶⁹

Nationally Recognized Statistical Rating System

The Commission’s staff issued a no-action letter permitting broker-dealers, when computing net capital under subparagraphs (c)(2)(vi)(E), (F), and (H) of rule 15c3-1, to consider Thompson BankWatch, Inc. to be a Nationally Recognized Statistical Rating Organization (NRSRO).⁷⁰ Previously, Thompson BankWatch was considered an NRSRO for only limited types of securities.

Lost and Stolen Securities

As of December 31, 1998, 25,444 institutions were registered in the program, a 1 percent increase of 1997.

The number of securities certificates reported as lost, stolen, missing or counterfeit decreased 39 percent from 2,007,611 in 1997 to 1,228,824 in 1998. The aggregate dollar value of these reported certificates increased 82 percent from \$11,809,945,634 in 1997 to \$21,470,024,012 in 1998. The total number of lost and stolen recovery reports received increased 5 percent from 192,586 in 1997 to 202,535 in 1998. The dollar value of recovery reports received decreased 22 percent from \$19,468,888,875 in 1997 to \$15,133,548,003 in 1998. The total number of certificates inquired about by institutions participating in the program decreased 7 percent from 8,565,639 in 1997 to 7,979,695 in 1998. In 1998, the dollar value of certificate inquiries that matched previous reports of lost, stolen, missing, or counterfeit securities certificates decreased 2 percent from \$4,961,362,068 to \$4,857,754,946.

Oversight of Self-Regulatory Organizations

National Securities Exchanges

As of September 30, 1999, there were eight active securities exchanges registered with the SEC as national securities exchanges: American Stock Exchange, Boston Stock Exchange (BSE), Chicago Board Options Exchange (CBOE), Cincinnati Stock Exchange (CSE), Chicago Stock Exchange (CHX), NYSE, PHLX, and PCX. During 1999, the Commission granted 176 exchange applications to delist equity issues and 55 applications by issuers seeking withdrawal of their issues from registration and listing on exchanges. The exchanges submitted 328 proposed rule changes during 1999. We approved 226 pending and new proposals. Seventeen were withdrawn, and 3 were rejected.

National Association of Securities Dealers, Inc.

The NASD is the only national securities association registered with the SEC and includes more than 5,500

member firms. The NASD owns and operates the Nasdaq Stock Market as a wholly-owned subsidiary. The NASD submitted 78 proposed rule changes to the SEC during the year. We approved 53, including some pending from the previous year. Five were withdrawn.

SRO Corporate Governance

The Commission approved two SRO proposals enhancing non-industry participation in the SRO governing process. Non-industry directors include representatives from large and small companies who are not directly involved in the securities business and may also include public representatives, such as senators, representatives, professors, and distinguished individuals who have no connection with the securities industry. Specifically, we approved a CBOE proposal increasing the number of non-industry directors on the Exchange's governing board as well as the Exchange's nominating committee. In addition, the Commission approved a PCX proposal to increase non-industry representation on the Exchange's governing board to at least 50 percent.

Municipal Securities Rulemaking Board

The Municipal Securities Rulemaking Board (MSRB) is the primary rulemaking authority for municipal securities dealers. In 1999, we received 11 new proposed rule changes from the MSRB. A total of 10 new and pending proposed rule changes were approved, including interpretations of rules concerning activities of financial advisers, the definition of consultants, responsibilities of managing underwriters for new issues, scheduling of examinations of municipal broker-dealers, and the development of a plan to disseminate "real-time" transaction reports in the municipal securities market.⁷¹

Tradepoint

In March 1999, we granted Tradepoint's application for exemption from registration as a national securities exchange under section 6 of the Exchange Act.⁷²

Tradepoint, a Recognized Investment Exchange under the U.K. Financial Services Act of 1986, is a screen-based electronic market for the trading of securities listed on the London Stock Exchange. Under the terms of our order Tradepoint will make its system available in the United States, primarily to institutional investors.

Clearing Agencies

At the end of 1999, 13 clearing agencies were registered with the Commission, and these clearing agencies had been granted exemptions from clearing agency registration. Registered clearing agencies submitted 86 proposed rule changes to us, and we processed 103 new and pending proposed rule changes.

Applications for Re-entry

Rule 19h-1 under the Exchange Act prescribes how the Commission reviews SRO proposals to allow persons subject to a statutory disqualification to become or remain associated with member firms. In 1999, we received 40 proposals: 29 from the NASD, 10 from the NYSE, none from the AMEX, and one from CBOE. Five filings were withdrawn.