

SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC-23225]

Allied Capital Financial Corporation (file no. 811-3811) and Allied Investment Corporation (File No. 811-2707); Notice of Proposed Deregistration

May 28, 1998.

AGENCY: Securities and Exchange Commission ("SEC").

ACTION: Notice of proposed deregistration under section 8(f) of the Investment Company Act of 1940 (the "Act").

SUMMARY OF NOTICE: The SEC proposes to declare by order on its own motion that the registrations of Allied Capital Financial Corporation ("Allied Financial") and Allied Investment Corporation ("Allied Investment") under the Act have ceased to be in effect as of January 5, 1998, the date upon which each elected to be regulated as a business development company ("BDC").

HEARING OR NOTIFICATION OF HEARING: An order will be issued unless the SEC orders a hearing. Interested persons may request a hearing by writing to the SEC's Secretary and serving the relevant registrant with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on June 23, 1998, and should be accompanied by proof of service on the registrant, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested.

Persons who wish to be notified of a hearing may request notification by writing to the SEC's Secretary.

ADDRESSES: Secretary, SEC, 450 5th Street, N.W., Washington, D.C. 20549. Allied Financial and Allied Investment, 1666 K Street, N.W., 9th Floor, Washington, D.C. 20006-2803.

FOR FURTHER INFORMATION CONTACT: Elaine M. Boggs, Senior Counsel, at (202) 942-0572, or Christine Y. Greenlees, Branch Chief, at (202) 942-0564 (Office of Investment Company Regulation, Division of Investment Management).

SUPPLEMENTARY INFORMATION:

Statement of Facts

1. Allied Financial and Allied Investment, both Maryland corporations and closed-end investment companies registered under the Act, filed Notifications of Registration under the Act on July 21, 1983 and November 23,

1976, respectively. Both companies were formed as wholly-owned subsidiaries of Allied Capital Corporation. Therefore, no public offering of Allied Financial's or Allied Investment's shares were made and they were not required to register their shares under the Securities Act of 1933.

2. Section 54(a) of the Act provides that any company that satisfies the definition of a BDC under sections 2(a)(48) (A) and (B) of the Act may elect to be subject to the provisions of sections 55 through 65 of the Act and be regulated as a BDC by filing with the SEC a notification of the election, if the company: (i) has a class of its equity securities registered under section 12 of the Securities Exchange Act of 1934 (the "Exchange Act"); or (ii) has filed a registration statement pursuant to section 12 of the Exchange Act for a class of its equity securities. On January 5, 1998, Allied Financial and Allied Investment each elected BDC status by filing a Form N-54A and a registration statement under the Exchange Act.

3. Section 8(a) of the Act, which requires registration of investment companies, does not apply to BDC's. After an existing registered investment company has filed an election to be regulated as a BDC, the SEC on its own motion will declare by order under section 8(f) that the company's registration under the Act has ceased to be in effect. The order will be effective retroactively, as of the date the SEC received the company's election. See Investment Company Act Release No. 11703 (March 26, 1981).

For the Commission, by the Division of Investment Management, under delegated authority.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98-14673 Filed 6-2-98; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 35-26878]

Filings Under the Public Utility Holding Company Act of 1935, as Amended ("Act")

May 27, 1998.

Notice is hereby given that the following filing(s) has/have been made with the Commission pursuant to provisions of the Act and rules promulgated under the Act. All interested persons are referred to the application(s) and/or declaration(s) for complete statements of the proposed transaction(s) summarized below. The

application(s) and/or declaration(s) and any amendments is/are available for public inspection through the Commission's Office of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s) should submit their views in writing by June 22, 1998, to the Secretary, Securities and Exchange Commission, Washington, D.C. 20549, and serve a copy on the relevant applicant(s) and/or declarant(s) at the address(es) specified below. Proof of service (by affidavit or, in case of an attorney at law, by certificate) should be filed with the request. Any request for hearing should identify specifically the issues of fact or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After June 22, 1998, the application(s) and/or declaration(s), as filed or as amended, may be granted and/or permitted to become effective.

NIPSCO Industries, Inc.

(70-9197)

NIPSCO Industries, Inc. ("NIPSCO"), 801 East 86th Avenue, Merrillville, Indiana 46410, an Indiana public utility holding company exempt under section 3(a)(1), under rule 2, from all provisions of the Act except section 9(a)(2), has filed an application under sections 9(a)(2) and 10 of the Act, in connection with a proposed acquisition of Bay State Gas Company ("Bay State"), a Massachusetts public utility holding company exempt under section 3(a)(2), under rule 2, from all provisions of the Act except section 9(a)(2).

NIPSCO owns all of the issued and outstanding common stock of three public utility subsidiary companies that provide electric and retail natural gas¹ service exclusively within Indiana.

¹ As of December 31, 1997, the NIPSCO gas distribution system was comprised of approximately 13,400 miles of distribution mains and 729,400 customer meters. NIPSCO currently purchases approximately 89% of its total system gas requirements from production in the on-shore and off-shore Texas and Louisiana producing areas, and approximately 8% from production in the Mid-Continent (Oklahoma and Kansas), Permian (west Texas) and San Juan (New Mexico) Basins. It is anticipated, however, that, beginning as early as 1999, with the completion of construction of new pipeline capacity from western Canada to the upper Midwest markets, NIPSCO will begin to purchase significant amounts of lower-cost gas produced in the Western Canadian Sedimentation Basin (Alberta and British Columbia). NIPSCO estimates that, by 2002, western Canadian gas could potentially account for as much as 40% of its total system supply. Currently, NIPSCO subsidiaries have contracted for "firm" transportation capacity and storage service on five different long-haul interstate

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Northern Indiana Public Service Company ("Northern Indiana"), NIPSCO's largest and dominant utility subsidiary, is a combination gas and electric utility company which operates in 30 counties in the northern part of Indiana, serving an area of about 12,000 square miles with a population of approximately 2,200,000. Northern Indiana distributes gas to approximately 662,500 residential, commercial and industrial customers and generates, purchases, transmits and sells electricity to approximately 416,300 retail and wholesale customers. Northern Indiana also provides gas transportation service to approximately 200 customers.²

Kokomo Gas and Fuel Company ("Kokomo Gas") supplies natural gas to approximately 33,500 retail customers in a six county area of north central Indiana having a population of approximately 100,000. The Kokomo Gas service territory is contiguous to Northern Indiana's gas service territory.

Northern Indiana Fuel and Light Company, Inc. ("NIFL") supplies natural gas to approximately 33,400 retail customers in five counties in the northeast corner of Indiana having a population of approximately 66,700. The NIFL service territory is also contiguous to Northern Indiana's gas service territory, and overlaps Northern Indiana's electric service territory.³

NIPSCO's three utility subsidiaries (collectively, "NIPSCO Operating Companies") are subject to regulation by the Indiana Utility Regulatory Commission as to rates, service, accounts, issuance of securities, and other matters.

NIPSCO also owns all of the outstanding common stock of

pipelines (Tennessee Gas Pipeline Company ("Tennessee Gas"), NGPL, ANR Pipeline Company, Panhandle Eastern Pipeline Company and Trunkline Gas Company).

² Northern Indiana owns and operates underground gas storage facilities located at Royal Center, Indiana, with a storage capacity of 6.75 billion cubic feet (Bcf), and a liquified natural gas plant in LaPorte County, Indiana, having a storage capacity of 4.0 Bcf, which is used for system pressure maintenance and peak season (November–March) deliveries. Northern Indiana also holds under long-term contract storage capacity totaling approximately 9.11 Bcf in the Markham, Moss Bluff and Egan salt-dome storage caverns in Texas and Louisiana. These facilities, which provide the NIPSCO system with a significant amount of "high deliverability" storage capacity are located at or near major supply "hubs" which have formed at locations where interstate pipelines serving the upper Midwest, Northeast and Southwest markets intersect.

³ NIPSCO was originally incorporated in 1987 to serve as the holding company for Northern Indiana and various non-utility subsidiaries. NIPSCO was authorized to acquire Kokomo Gas in 1992, Holding Co. Act Release No. 25470 (February 3, 1992), and NIFL in 1993, Holding Co. Act Release No. 25766 (March 25, 1993).

Crossroads Pipeline Company ("Crossroads"), a non-utility natural gas transportation company that was certificated by the Federal Energy Regulatory Commission ("FERC") in May 1995 to operate as an interstate pipeline.⁴ Crossroads owns and operates a 201-mile, 20-inch, pipeline that extends from Schererville, in northwestern Indiana, where it takes delivery from the interstate pipeline facilities of Natural Gas Pipeline Company of America ("NGPL"), to Cygnet, in northwestern Ohio, where it interconnects with facilities owned by Columbia Gas Transmission Corporation ("CGTC").⁵

NIPSCO's other principal non-utility subsidiaries include IWC Resources Corporation which owns and operates seven subsidiaries, including two regulated water utility companies, the Indianapolis Water Company and Harbour Water Corporation, which provide water service in Indianapolis, Indiana and surrounding areas;⁶ NIPSCO Development Company, Inc., which holds various investments, including investments in real estate and venture capital enterprises; NI Energy Services, Inc., which is engaged in various energy-related activities, such as retail gas marketing, energy efficient lighting sales and installations, and gas and electricity wholesale marketing; Primary Energy, Inc., which arranges energy-related projects with large industrial customers; and NIPSCO Capital Markets, Inc., which handles financing for ventures of NIPSCO and certain of its subsidiaries, other than Northern Indiana.

For the year ended December 31, 1997, the NIPSCO Operating Companies reported combined net income of \$205.3 million on combined operating utility income of \$286.2 million. Gas sales of the NIPSCO Operating Companies (including revenues from transportation only customers) of approximately \$803 million and electric sales of

⁴ See *Crossroads Pipeline Company*, 71 FERC ¶ 61,076 (April 21, 1995).

⁵ Crossroads recently announced plans to construct a 20-mile extension of its pipeline facility in Ohio to a point of interconnection with a unit of Consolidated Natural Gas Company. This extension will form a link in a chain of interstate pipeline projects that are designed to transport natural gas from the Chicago area market to eastern markets served by CNG Transmission Corp. and Transcontinental Gas Pipe Line Corp. ("Transco") by late 1999.

⁶ The other five subsidiaries of IWC Resources Corporation, and each company's principal business are: (i) Utility Data Corporation (customer billing and data processing services); (ii) IWC Services, Inc. (waste water treatment); (iii) Waterway Holdings, Inc. (real estate development); (iv) SM&P Utility Resources, Inc. (utility location and marking services); and (v) Miller Pipeline Corporation (pipeline construction).

approximately \$1 billion accounted for approximately 44% and 56%, respectively, of the NIPSCO Operating Companies' gross utility revenues of approximately \$1.8 billion for the year ended December 31, 1997. Consolidated assets of NIPSCO, its Operating Companies and its non-utility subsidiaries (collectively, "the NIPSCO System") as of December 31, 1997, were approximately \$4.9 billion, consisting of \$3.1 billion in net utility plant and associated facilities and \$1.8 billion in net non-utility plant and other non-utility assets. Consolidated operating revenues, operating income and net income for the NIPSCO System were approximately \$2.6 billion, \$410 million and \$191 million, respectively, for the year ended December 31, 1997.

Bay State, which is both a public utility company and a holding company, distributes natural gas at retail in parts of Massachusetts and, through a wholly owned subsidiary, Northern Utilities, Inc. ("Northern"), in contiguous areas of Maine and New Hampshire.⁷

Bay State provides gas service to approximately 261,000 residential, commercial and industrial customers in three separate areas of Massachusetts covering approximately 1,344 square miles and having a combined population of approximately 1,340,000. These include the greater Springfield area in western Massachusetts, an area southwest of Boston that includes the cities of Attleboro, Brockton and Taunton, and an area north of Boston extending to the New Hampshire border that includes the city of Lawrence. Bay

⁷ As of December 31, 1997, the combined gas system of Bay State and Northern (together, the "Bay State System") consisted of 5,158 miles of distribution mains; 29 miles of transmission lines, together with associated pumping and regulating stations; liquid natural gas liquefaction, vaporization and storage facilities; propane storage tanks; 270,108 customer service connections; and 306,446 customer meters. The Bay State System purchases approximately 40% of its total system gas requirements from the on-shore and off-shore Texas and Louisiana producing areas and approximately 49% of its total system requirements from the Western Canadian Sedimentation Basin. The Bay State System has contracted for "firm" transportation capacity on four domestic long-haul pipelines (Tennessee Gas, Transco, Texas Eastern Transmission Corp. and Texas Gas Transmission Corp.) as well as on TransCanada Pipe Line Corp. and several regional pipelines. Like NIPSCO, the Bay State System projects that it will purchase an increasing amount of its gas requirements from the Western Canadian Sedimentation Basin. This gas will reach the Bay State service area directly via the PNGTS pipeline (see below), which is scheduled to be completed in late 1998, as well as indirectly by means of any one of several different pipeline expansions/extensions (including the Crossroads/CNG expansions) that have been announced and will provide the Bay State System with greater access to supplies available in the Chicago area market.

State is subject to regulation by the Massachusetts Department of Telecommunications and Energy as to rates, service, accounts, issuance of securities, and other matters.

Northern provides gas service to approximately 46,000 residential, commercial and industrial customers in an area of approximately 808 square miles in New Hampshire and Maine having a population of approximately 450,000. Northern's service area extends north from the Massachusetts-New Hampshire border to the Portland/Lewiston area in Maine. Northern is subject to regulation by the New Hampshire Public Utilities Commission and Maine Public Utilities Commission as to rates, service, accounts, issuance of securities, and other matters.

Bay State has one direct wholly owned non-utility subsidiary, Granite State Gas Transmission, Inc. ("Granite State"), which owns and operates a 105-mile-6, to 12-inch diameter, interstate pipeline that extends from Haverhill, Massachusetts, where it interconnects with the facilities of Tennessee Gas Pipeline Company ("Tennessee Gas"), in a northeasterly direction to a point near Westbrook, Maine. Granite State also leases a 166-mile, 18-inch diameter, converted oil pipeline, which is used to transport western Canadian gas to Portland, Maine.

Through a wholly owned subsidiary, Natural Gas Development, Inc. ("NGD"), Granite State is a partner in the Portland Natural Gas Transmission System ("PNGTS"), which was formed to construct a 292-mile, 24-inch diameter, natural gas transmission line in northern New England that will form the northern link in a new gas transmission system designed to bring western Canadian gas supplies to the New England market. When complete, these facilities will interconnect with the Tennessee Gas pipeline facilities near Dracut, Massachusetts, and with Granite State at locations in Maine and New Hampshire.

In addition to NGD, Bay State also has four other indirect non-utility subsidiaries, all of which are wholly owned subsidiaries of Granite State: (1) EnergyUSA, Inc., a company organized to provide unregulated energy products and services, including water heater rentals, insurance programs for heating systems, and strategic energy supply management; (2) EnergyEXPRESS, Inc., an unregulated natural gas, electricity, propane and fuel oil marketer; (3) LNG Development Corp., which was established to invest in a proposed liquefied natural gas storage facility in Wells, Maine; and (4) Bay State Energy Enterprises, Inc., which is inactive.

For the year ended December 31, 1997, the combined gas revenues (including revenues for transportation-only customers), utility operating income and net utility income of Bay State and Northern (as adjusted to eliminate the effect on earnings of a one-time write-off of restructuring costs)⁸ were approximately \$441 million, \$39.2 million and \$21.6 million, respectively. Consolidated assets of Bay State and its subsidiaries as of December 31, 1997 were approximately \$788 million, consisting of \$496.4 million in combined net utility plant of Bay State and Northern and \$291.6 million in non-utility plant and other non-utility assets.

In accordance with an Agreement and Plan of Merger dated December 18, 1997, as amended and restated as of March 4, 1998 (the "Merger Agreement"), NIPSCO seeks authorization to acquire all of the issued and outstanding common stock of Bay State ("Merger").⁹ Under the terms of the "preferred merger"¹⁰ structure set forth in the Merger Agreement, Bay State would be merged with and into a wholly-owned NIPSCO subsidiary to be formed under the laws of Massachusetts which, upon completion of the Merger, would change its name to and operate under the name of "Bay State Gas Company."¹¹ The Merger has been

⁸The restructuring charges, which related primarily to retirement benefits and consulting fees, totaled \$11.4 million, and had the effect of reducing the combined net utility income of Bay State and Northern to approximately \$14.7 million in 1997.

⁹The Merger Agreement is subject to the approval of Bay State's shareholders at a special meeting called for that purpose to be held on May 27, 1998. The affirmative vote of the holders of two-thirds of the outstanding shares of Bay State is required for approval. The Transaction is also subject to various regulatory approvals in addition to the approval of this Commission. Insofar as it relates to Bay State and Northern, the Merger is subject to the jurisdiction of the Massachusetts Department of Telecommunications and Energy, the New Hampshire Public Utilities Commission, and the Maine Public Utilities Commission. In addition, certain aspects of the Merger may be subject to the jurisdiction of the Federal Energy Regulatory Commission under the Federal Power Act. The Merger is also subject to the notification and reporting requirements of the Hart-Scott-Rodino Act.

¹⁰Applicant states that the Merger Agreement also provides for an "alternative merger" transaction which would be carried out in the event that it is not possible to consummate the "preferred merger" transaction. Applicant contends that the "alternative merger" transaction would not be subject to Commission jurisdiction under the Act and the request for approval made in its application concerns only the "preferred merger" transaction.

¹¹Applicant notes that, following the Merger, the stock of Northern may be transferred to NIPSCO, which would result in Northern becoming a direct wholly-owned utility subsidiary of NIPSCO. If, however, Northern is maintained as a subsidiary of Bay State, Bay State will continue to claim exempt holding company status under section 3(a)(2) and rule 2.

structured to qualify as a tax-free reorganization under section 368(a) of the Internal Revenue Code of 1986, as amended.

Under the Merger Agreement, upon the effective date of the Merger, each outstanding share of common stock of Bay State ("Bay State Shares") will be converted into the right to receive common shares of NIPSCO ("NIPSCO Shares"), or at the election of any Bay State shareholder and subject to certain limitations, cash, in either case having a value of \$40.00 per share. The number of NIPSCO Shares that would be issued in exchange for each Bay State Share (the "Exchange Ratio") would be determined by dividing (i) \$40.00 by (ii) the NIPSCO Share Price, which is the average of the closing prices of NIPSCO, as reported in The Wall Street Journal's NYSE Composite Transactions Report, for the 20 trading days immediately preceding the second trading day prior to the effective date of the merger.¹² Bay State shareholders may elect to receive \$40.00 in cash, without interest, for some or all of their Bay State Shares ("Cash Election"). The aggregate number of Bay State Shares that will be converted into the right to receive \$40.00 in cash in the Transaction (the "Cash Election Maximum") may not exceed an amount determined by dividing (A) the dollar number equal to the difference between (i) one-half of the product of (x) \$40.00 multiplied by (y) the aggregate number of Bay State Shares outstanding on the second day prior to the effective date of the Merger less (ii) the dollar amount of a special dividend, if any, paid by Bay State prior to the Merger and certain other cash payments to be determined prior to such time, by (B) \$40.00. Further, cash amounts paid to electing shareholders would be subject to proration if the aggregate number of Bay State Shares covered by the Cash Election exceeds the Cash Election Maximum.¹³

¹²On a *pro forma* basis, based on the number of Bay State Shares and NIPSCO Shares outstanding on April 17, 1998, and assuming that 100% of the outstanding Bay State Shares are converted into the right to receive NIPSCO Shares at a conversion price of \$27.38 per share (the 20-day trading average for the NIPSCO Shares determined as of April 17, 1998), the current shareholders of Bay State would effectively acquire, in exchange for their Bay State Shares, about 13.7% of the issued and outstanding NIPSCO Shares.

¹³Applicant states that the terms of the Merger Agreement, including the Exchange Ratio, reflect months of due diligence and analysis and evaluation of the assets, liabilities and business prospects of Bay State and were the product of extensive and vigorous arm's-length negotiations between NIPSCO and Bay State. Applicant also states that Bay State engaged SG Barr Devlin ("Barr Devlin") a nationally recognized investment banking concern, to evaluate NIPSCO's offer for Bay

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Following the Merger, the board of directors of "new" Bay State will consist of ten members, of whom three will be officers of NIPSCO, three will be officers of "old" Bay State, and four will be current outside directors of "old" Bay State. The current officers of "old" Bay State will continue to serve in similar capacities in "new" Bay State. The Merger Agreement also provides that NIPSCO shall nominate and recommend for election to the NIPSCO board of director one "new" Bay State directors to be mutually determined by NIPSCO and Bay State. "New" Bay State will continue to maintain its principal executive offices in Westborough, Massachusetts.

Applicant states that, upon consummation of the Merger, NIPSCO will own an integrated gas utility system comprised of its gas distribution system in Indiana and Bay State's gas distribution system in Massachusetts, Maine and New Hampshire, as well as an integrated electric utility system in Indiana.¹⁴

Applicant also states that the Merger is expected to produce various benefits to the public, investors and consumers and will satisfy all of the applicable standards under section 10 of the Act. Among other things, applicant states that, following the Merger, the combined companies will be better positioned to take advantage of operating economies and efficiencies through, among other measures, joint management optimization of their respective portfolios of gas supply, transportation and storage assets. Applicant also notes that the Merger is expected to provide benefits in the form of greater flexibility and capacity in financing the operations of the combining companies and an enhanced ability to take advantage of future

State. Barr Devlin subsequently delivered a "fairness" opinion to the Bay State board of directors to the effect that, based on certain assumptions stated therein, the consideration offered in connection with the Transaction is fair, from a financial point of view, to the holders of Bay State Shares. Applicant notes that a *pro forma* analysis prepared by Barr Devlin indicates that the Transaction would result in accretion to Bay State's shareholders in terms of earnings per share and that NIPSCO's shareholders would also realize accretion in earnings per share (assuming NIPSCO's shares continue to trade at current levels).

¹⁴ Post-merger, the NIPSCO System will provide gas distribution services to approximately 1,036,400 residential, commercial and industrial customers in a 14,152-square mile area in four states, as well as electric service to approximately 416,300 customers, all in Indiana. On a *pro forma* basis, the combined net utility plant (gas and electric) of NIPSCO and Bay State as of December 31, 1997 would have totaled approximately \$3.61 billion and combined gross utility revenues for the twelve months then ended would have totaled approximately \$2.3 billion.

strategic opportunities in the competitive marketplace for energy and energy services that is rapidly evolving in New England.

Applicant contends that, after the Merger, NIPSCO will remain predominantly an intrastate (i.e., Indiana) holding company that will not derive any material part of its income from any out-of-state utility subsidiary and has requested an order under section 3(a)(1) declaring NIPSCO, after consummation of the Merger, to be exempt from all sections of the Act except section 9(a)(2).

For the Commission, by the Division of Investment Management, under delegated authority.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98-14623 Filed 6-2-98; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40035; File No. SR-NASD-98-25]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to Fees for Nasdaq Market Data Distributors or Vendors

May 27, 1998.

On May 14, 1998,¹ the Nasdaq Stock Market, Inc. ("Nasdaq") filed with the Securities and Exchange Commission ("Commission" or SEC") a proposed rule, pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),² and Rule 19b-4 thereunder.³ The proposed rule change is described in Items I, II, and III below, which Items have been prepared by Nasdaq. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

¹ The NASD initially submitted this proposal on March 16, 1998. However, a substantive amendment was requested to clarify the applicability of the proposed fee. The NASD filed Amendment No. 1 on April 28, 1998. See letter from Thomas P. Moran, Senior Attorney, Office of General Counsel, The Nasdaq Stock Market, Inc., to Mignon McLemore, Esq., Division of Market Regulation, SEC, dated April 28, 1998.

On May 14, 1998, the Board filed another substantive amendment modifying the proposed rule language. See letter from Thomas P. Moran, Senior Attorney, Office of General Counsel, The Nasdaq Stock Market, Inc., to Katherine A. England, Division of Market Regulation, SEC, dated May 14, 1998 ("Amendment No. 2").

² 15 U.S.C. 78s(b)(1).

³ 17 CFR 240.19b-4.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

Nasdaq is proposing to amend NASD Rule 7010 to establish an annual, scaled administrative fee, payable by Nasdaq market data distributors or vendors, for data usage monitoring costs and other administrative expenses incurred by Nasdaq. Once effective, Nasdaq will suspend indefinitely its current contractual requirement that Nasdaq real-time data distributors or vendors provide an annual accountant-certified list of its subscribers who receive Nasdaq data. Below is the text of the proposed rule change. Proposed new language is italicized.

7010. System Services

(a)-(n) No change

(o) *Market Data Distributor or Vendor Annual Administrative Fee*

Nasdaq Market Data Distributors or Vendors shall be assessed the following annual administrative fee:

<i>Delayed distributor</i>	\$250.00
<i>0-999 real-time terminals.....</i>	\$500.00
<i>1,000-4,999 real-time terminals.....</i>	\$1,250.00
<i>5,000-9,999 real-time terminals....</i>	\$2,250.00
<i>10,000 + real-time terminals</i>	\$3,750.00

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

In its filing with the Commission, Nasdaq 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. Nasdaq 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

Nasdaq is proposing to establish an annual, scaled fee for the Nasdaq real-time market data distributors or vendors to cover the expenses Nasdaq incurs to administer and monitor market data usage. Currently, Nasdaq real-time market data distributors or vendors are annually required to submit a list, certified by a public accountant paid for by the distributor or vendor, of all subscribers receiving real-time Nasdaq data. Alternatively, a Nasdaq real-time market data distributor or vendor may elect to pay a generally lower fee and have its service usage verified by an on-