

broker terminals would require payment not only of the monthly terminal charge of \$350 per terminal, but also the other charges associated with Tools Plus, such as initial deposits, installation fees, connection and port charges, training fees, and hourly rates for customized programming. Finally, although Nasdaq does not currently foresee a demand for the use of full functionality terminals by non-members, the fee schedule for non-members also includes the prices for these terminals, in case such demand does develop.⁶

2. Statutory Basis

Nasdaq believes that the proposed rule change is consistent with the provisions of Section 15A of the Act,⁷ in general, and with Section 15A(b)(5) of the Act,⁸ in particular, in that it provides for the equitable allocation of reasonable fees, dues, and other charges among members and issuers and other persons using any facility or system which the NASD operates or controls.

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

Nasdaq believes that the proposed rule change will not result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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 on the proposed rule change contained in this filing.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)

emerge. Telephone Conversation between John M. Yetter, Assistant General Counsel, Office of General Counsel, Nasdaq, and Susie Cho, Special Counsel, Division of Market Regulation ("Division"), Commission, on February 27, 2003.

⁶ Nasdaq notes that a Tools Plus user cannot use a Tools Plus terminal to route orders to a given market center unless the user has a relationship with the market center that allows it to do so under the rules governing access to that market center. For example, a member of a regional securities exchange that was not an NASD member could not use a Tools Plus terminal to route orders to Nasdaq's SuperMontage system unless the regional exchange was itself a SuperMontage participant (in which case, the member of the exchange could route orders through the exchange, as provided in NASD Rule 4710(e)). Telephone Conversation between John M. Yetter, Assistant General Counsel, Office of General Counsel, Nasdaq, and Susie Cho, Special Counsel, Division, Commission, on March 3, 2003.

⁷ 15 U.S.C. 78o-3.

⁸ 15 U.S.C. 78o-3(b)(5).

of the Act⁹ and Rule 19b-4(f)(6)¹⁰ thereunder because the proposal: (i) Does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) does not become operative prior to 30 days after the date of filing or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. Nasdaq gave the Commission notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change. At any time within 60 days of the filing of such 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, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. 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 the filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to file number SR-NASD-2003-21 and should be submitted by March 31, 2003.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 03-5565 Filed 3-7-03; 8:45 am]

BILLING CODE 8010-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47433; File No. SR-NASD-2003-24]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the National Association of Securities Dealers, Inc. To Amend the NASD Registration Rules

March 3, 2003.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and rule 19b-4 thereunder,² notice is hereby given that on February 26, 2003, the National Association of Securities Dealers, Inc. ("NASD") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in items I and II below, which items have been prepared by NASD. NASD has designated the proposed rule change as constituting a "non-controversial" rule change pursuant to rule 19b-4(f)(6) 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

As part of its rule modernization initiative, NASD is proposing to make technical changes to the NASD registration rules and to update these rules. Below is the text of the proposed rule change. New text is in *italics*. Proposed deletions are in [brackets].

* * * * *

1000. Membership, Registration and Qualification Requirements

* * * * *

1020. Registration of Principals

1021. Registration Requirements

(a) All Principals Must Be Registered
All persons engaged or to be engaged in the investment banking or securities

¹¹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4(f)(6).

business of a member who are to function as principals shall be registered as such with [the Association] *NASD* in the category of registration appropriate to the function to be performed as specified in rule 1022. Before their registration can become effective, they shall pass a Qualification Examination for Principals appropriate to the category of registration as specified by the Board of Governors. A member shall not maintain a principal registration with [the Association] *NASD* for any person (1) who is no longer active in the member's investment banking or securities business, (2) who is no longer functioning as a principal, or (3) where the sole purpose is to avoid the examination requirement prescribed in paragraph (c). A member shall not make application for the registration of any person as principal where there is no intent to employ such person in the member's investment banking or securities business. A member may, however, maintain or make application for the registration as a principal of a person who performs legal, compliance, internal audit, *back-office operations*, or similar responsibilities for the member or a person engaged in the investment banking or securities business of a foreign securities affiliate or subsidiary of the member.

(b) through (c) No change.

(d) Application for Principal Status

(1) Any person associated with a member as a Registered Representative whose duties are changed by the member so as to require registration in any principal classification shall be allowed a period of 90 calendar days following the change in his duties during which to pass the appropriate Qualification Examination for Principals. Upon elevation, the member shall submit to [the Association] *NASD* an [elevation form] amended "*Uniform Application for Securities Industry Registration or Transfer*" [designated by the Board of Governors] and the applicable fees. In no event may a person function as a Principal beyond the initial 90 calendar day period following the change in his duties without having successfully passed the appropriate Qualification Examination.

(2) No Change.

[(3) If an applicant does not take the examination within the ninety calendar day period or if the applicant fails the examination, a new principal elevation form and examination fee shall be required.]

(e) Requirement of Two Registered Principals for [New Applicants for] Membership] *Members*

(1) An [applicant for membership in the Association] *NASD member*, except a sole proprietorship, shall have at least two officers or partners who are [qualified to become] registered as principals with respect to each aspect of the [applicant's] *member's* investment banking and securities business pursuant to the *applicable* provisions of rule 1022[(a), (d) and (e), whichever are applicable, before it shall be admitted to membership]. *This requirement applies to persons seeking admission as members and existing members.*

(2) through (3) No change.

1022. Categories of Principal Registration

(a) General Securities Principal

(1) through (2) No Change.

(3) Except as provided in rule 1021(c), a person who was registered with [the Association] *NASD* as a Principal [or a Financial Principal.] shall not be required to pass a Qualification Examination for General Securities Principal and shall be qualified as a General Securities Principal.

(4) A person registered solely as a General Securities Principal shall not be qualified to function as a Limited Principal—Financial and Operations; *Limited Principal—Registered Options and Security Futures; Limited Principal—General Securities Sales Supervisor; Municipal Securities Principal, or Municipal Fund Securities Limited Principal*, unless [he] *that person* is also qualified and registered as such [pursuant to paragraph (b)].

[(5) A person registered solely as a General Securities Principal shall not be qualified to function as a Registered Options Principal unless he is also qualified and registered as such pursuant to the provisions of paragraph (f).]

[(6) A person qualified solely as a General Securities Principal shall not be qualified to be registered as a Limited Principal—General Securities Sales Supervisor unless he is also qualified and registered as such pursuant to the provisions of paragraph (g)(1).]

(b) Limited Principal—Financial and Operations

(1) through (2) No change.

[(3) Except as provided in rule 1021(c), a person designated pursuant to the provisions of subparagraph (1) hereof shall not be required to take the Limited Principal—Financial and Operations Examination and shall be

qualified for registration as a Limited Principal—Financial and Operations if:

(A) such person had been performing the functions of a Limited Principal—Financial and Operations as defined in subparagraph (2) hereof on or before September 1, 1972; or

(B) such person was registered with the Association as a Financial Principal.]

(4) Renumbered as (3).

(c) through (e) No change.

(f) *Limited Principal—Registered Options and Security Futures* [Principals]

No change to rule language.

(g) Limited Principal—General Securities Sales Supervisor

(1) No change.

(2) A person registered in this category solely on the basis of having passed the Qualification Examination for Limited Principal—General Securities Sales Supervisor shall NOT be qualified to:

(A) [be registered in any other category of principal registration] *function in a principal capacity with responsibility over any area of business activity not prescribed in subparagraph (1);*

(B) through (C) No change.

(3) No change.

(h) *Limited Principal—Government Securities*

(1) All persons associated with a member not previously registered as a principal who are to function as government securities principals shall be registered as such with *NASD*.

(2) Each person associated with a member must be registered as a Limited Principal—Government Securities if such person is:

(A) Engaged in the management or supervision of the member's government securities business, including:

(i) Underwriting, trading or sales of government securities;

(ii) Financial advisory or consultant services for issuers in connection with the issuance of government securities;

(iii) Research or investment advice, other than general economic information or advice, with respect to government securities in connection with the activities described in (i) and (ii) above;

(iv) Activities other than those specifically described above that involve communication, directly or indirectly, with public investors in government securities in connection with the activities described in (i) and (ii) above; or

(B) Responsible for supervision of:

(i) *The processing and clearance activities with respect to government securities; or*

(ii) *The maintenance of records involving any of the activities described in paragraph (2)(A) above.*

(3) Notification of Principal Status

A member shall promptly notify NASD when an individual not previously registered with the member as a principal assumes the duties of a principal on the form designated by the Board accompanied by the applicable fees.

IM-1022-1. Limited Principal—Registered Options and Security Futures [Principals]

No change to rule language.

* * * * *

1030. Registration of Representatives

1031. Registration Requirements

(a) All Representatives Must Be Registered

All persons engaged or to be engaged in the investment banking or securities business of a member who are to function as representatives shall be registered as such with [the Association] NASD in the category of registration appropriate to the function to be performed as specified in rule 1032. Before their registration can become effective, they shall pass a Qualification Examination for Representatives appropriate to the category of registration as specified by the Board of Governors. A member shall not maintain a representative registration with [the Association] NASD for any person (1) who is no longer active in the member's investment banking or securities business, (2) who is no longer functioning as a representative, or (3) where the sole purpose is to avoid the examination requirement prescribed in paragraph (c). A member shall not make application for the registration of any person as representative where there is no intent to employ such person in the member's investment banking or securities business. A member may, however, maintain or make application for the registration as a representative of a person who performs legal, compliance, internal audit, *back-office operations*, or similar responsibilities for the member, or a person who performs administrative support functions for registered personnel, or a person engaged in the investment banking or securities business of a foreign securities affiliate or subsidiary of the member.

(b) through (c) no change.

1032. Categories of Representative Registration

(a) General Securities Representative

(1) No change.

(2) Except as provided in rule 1031(c):

[(A) Any person who was registered with the Association as a Representative prior to September 1, 1974, shall be qualified to be registered with the Association as a General Securities Representative.]

[(B) A person who applied for registration as a Representative prior to September 1, 1974, and who became registered as a Representative prior to April 1, 1975, by virtue of having passed the Qualification Examination for Representatives (Test Series 1) shall be qualified to be registered as a General Securities Representative.]

[(C) A person who applied for registration as a Representative on or after September 1, 1974, or who registered as a Representative on or after April 1, 1975, by virtue of having passed the Qualification Examination for Registered Representatives (Test Series 1) shall be qualified to be registered only as a Limited Representative—Investment Company and Variable Contracts Products and as a Limited Representative—Direct Participation Programs as defined in paragraph (b) and (c) hereof.]

[(D) A person who was registered as a Registered Representative after September 1, 1974, by virtue of having passed the General Securities Representative Examination (Test Series 7) shall be qualified to be registered as a General Securities Representative.]

(E) Renumbered as (A)

[(F) A person who was registered as a Registered Representative for Sale of Variable Contracts Only shall be qualified to be registered as a Limited Representative—Investment Company and Variable Contracts Products.]

[(G)](B) A person [registered and in good standing with] *who is authorized or approved to conduct business in accordance with the requirements of The [Securities and Futures] Financial Services Authority and having passed the Modified General Securities Representative Qualification Examination [for United Kingdom Representatives] shall be qualified to be registered as a General Securities Representative except that such person's activities in the investment banking or securities business may not involve the solicitation, purchase and/or sale of municipal securities as defined in section 3(a)(29) of the Act.*

(H) through (I) renumbered as (C) through (D).

(3) No change.

(b) through (e) no change.

(f) Limited Representative—Equity Trader

(1) No change.

(2) Before registration as a Limited Representative—Equity Trader as defined in subparagraph (1) hereof may become effective, an applicant must:

(A) No change.

(B) pass an appropriate Qualification Examination for Limited Representative—Equity Trader. [Any person who was performing any of the activities described in paragraph (f)(1) above on or prior to May 1, 1998, and who has filed an application to take this examination by August 31, 1998, must pass the examination by May 1, 2000. Any person who is eligible for this extended qualification period and who fails this examination during the 24 month time period commencing on May 1, 1998, and ending on May 1, 2000, must wait 30 days from the date of failure to take the examination again. Any person, other than a person who is eligible for the extended qualification period, who files an application to take this qualification examination after May 1, 1998, must pass this examination before conducting such activities as described in paragraph (f)(1) above. In no event may a person who is eligible for the extended qualification period function as an Equity Trader beyond the 24-month period without having successfully passed the appropriate qualification examination.]

(g) Limited Representative—Government Securities

(1) through (2) no change.

[(3) A person who has been performing the functions of a Limited Representative—Government Securities on or before April 1, 1996, may register as such without first meeting the requirement of subparagraph (1)(B) above unless:

(A) Such person is currently subject to a statutory disqualification as defined in section 3(a)(39) of the Act or

(B) During the past 10 years before the effective date of that requirement was the subject of a suspension or fine of \$5,000 or more by the Association, the Securities and Exchange Commission, the Commodity Futures Trading Commission, state securities commission, foreign financial regulatory authority, or any other regulatory organization responsible for the investment banking or securities business.]

(h) No change.

* * * * *

1070. Qualification Examinations and Waiver of Requirements

(a) through (b) No Change.

(c) Examination results shall be reported to member firms [on a pass/fail basis only] and may be accompanied by an analysis of the candidate's performance on the examination. Passing scores assigned to each examination series shall be determined by the Board of Governors, or its designee.

(d) [An applicant cannot receive assistance while taking the examination. Each applicant shall certify to the Board of Governors that no assistance was given to or received by him during the examination.]

[(e)] Pursuant to the rule 9600 Series, [the Association] NASD may, in exceptional cases and where good cause is shown, waive the applicable Qualification Examination and accept other standards as evidence of an applicant's qualifications for registration. Advanced age[,] or physical infirmity [or experience in fields ancillary to the investment banking or securities business] will not individually of themselves constitute sufficient grounds to waive a Qualification Examination. *Experience in fields ancillary to the investment banking or securities business may constitute sufficient grounds to waive a Qualification Examination.*

(f) Renumbered as (e)

* * * * *

1080. Confidentiality of Examinations

[The Association] NASD considers all of its Qualification Examinations to be highly confidential. The removal from an examination center, reproduction, disclosure, receipt from or passing to any person, or use for study purposes of any portion of such Qualification Examination, whether of a present or past series, or any other use which would compromise the effectiveness of the Examinations and the use in any manner and at any time of the questions or answers to the Examinations are prohibited and are deemed to be a violation of rule 2110. *An applicant cannot receive assistance while taking the examination. Each applicant shall certify to the Board that no assistance was given to or received by him during the examination.*

* * * * *

1100. Foreign Associates

(a) No Change.

(b) Prior to the time the exemption provided for in paragraph (a) hereof may become effective, the member desiring to employ any such person must file

with [the Association] NASD a [form designated "Application for Classification as a Foreign Associate"] "Uniform Application for Securities Industry Registration or Transfer" for each such person and must certify that such person meets the criteria of paragraph (a), as well as that:

(1) through (2) no change.

(c) No change.

[1110. Registration of Government Securities Principals and Representatives]

[1111. Registration of Principals]

[All persons associated with a member not previously registered as a principal who are to function as government securities principals shall be registered as such with the Association.]

[(a) Definition of Government Securities Principal]

[Persons associated with a member who are:]

[(1) engaged in the management or supervision of the member's government securities business, including:]

[(A) underwriting, trading or sales of government securities;]

[(B) financial advisory or consultant services for issuers in connection with the issuance of government securities;]

[(C) research or investment advice, other than general economic information or advice, with respect to government securities in connection with the activities described in (A) and (B) above;]

[(D) activities other than those specifically mentioned that involve communication, directly or indirectly, with public investors in government securities in connection with the activities described in (A) and (B) above; or]

[(2) are responsible for supervision of:]

[(A) the processing and clearance activities with respect to government securities; or]

[(B) the maintenance of records involving any of the activities described in paragraph (a)(1) above;]

[are designated as principals.]

[(b) Notification of Principal Status]

[A member shall promptly notify the Association of the assumption by an individual not previously registered with the member as a principal on the form designated by the Board of Governors accompanied by the applicable fees.]

* * * * *

[1113. Persons Exempt From Registration]

Persons associated with a member whose functions are exclusively clerical or ministerial are not required to register with the Association.]

* * * * *

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

In its 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. The 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

1. Purpose

As part of the NASD's rule modernization initiative, NASD has identified certain registration rules that are antiquated and need to be updated to reflect changes in the regulatory landscape. Many of these registration rules impose requirements that no longer serve a valid investor protection goal. The proposed changes, which primarily are technical in nature, are intended to clarify and clean-up existing rules to reduce burdens on the industry caused by outdated registration requirements.

Rules 1021 and 1031 (Principal and Representative Registration Requirements)

Rules 1021(a) and 1031(a) state that persons engaged in a member's investment banking or securities business who are functioning as principals or representatives must be registered with NASD in the appropriate registration category. These rules prohibit a member from registering a person as principal or representative where the member does not intend to employ the person in its investment banking or securities business. Rules 1021(a) and 1031(a) provide a narrow exception to this general prohibition by permitting a member to maintain the registration of a principal or representative who performs legal, compliance, internal audit, or similar responsibilities. NASD believes that principals or representatives who perform back-office operations,

including, but not limited to, cashiering, accounting, settling, and the record keeping of customers' cash or margin accounts, also should be included under this limited exception. Accordingly, NASD is proposing to add the term "back-office operations" before the terms "or similar responsibilities" in rules 1021(a) and 1031(a). Rule 1021(d)(1) states that a person who is currently a registered representative may function as a principal for 90 calendar days before he or she is required to pass the appropriate qualification examination for principal. This rule requires that a member submit an "elevation form" for a representative who has been elevated to principal. NASD no longer uses an "elevation form." Rather, NASD now requires members to submit an amended "Uniform Application for Securities Industry Registration or Transfer" (Form U-4). NASD is proposing to amend the rule to reflect this change.

Rule 1021(d)(3) suggests that an applicant who does not take the examination within 90 days or fails the examination can submit a new form and continue to function as a principal until qualified. This is inconsistent with rule 1021(d)(1), which states that in no event may a person function as a principal beyond the initial 90-day period. Therefore, NASD is proposing to delete rule 1021(d)(3).

Rule 1021(e) requires applicants for NASD membership to have at least two principals with respect to each aspect of the applicant's investment banking and securities business. NASD has interpreted rule 1021(e) to generally require all members, including new applicants, to have at least two principals with respect to each aspect of the member's investment banking and securities business. Therefore, NASD is proposing to amend rule 1021(e) to clarify that this requirement applies to existing members as well as new applicants.

Rules 1022 and 1032 (Principal and Representative Registration Categories)

Rule 1022(a)(3) states that a person who was registered with NASD as a principal or financial principal is not required to pass a qualification examination for general securities principal to be qualified as a principal. The term "financial principal" refers to an examination that is no longer administered and thus should be deleted from rule 1022(a)(3).

Rules 1022(a)(4), (5), and (6) provide that a person registered solely as a general securities principal is not automatically qualified to function in certain limited principal capacities.

NASD is proposing to combine these rules to eliminate certain redundancies in the language. Further, NASD is proposing to clarify that a person registered solely as a general securities principal is not automatically qualified to function as a municipal securities principal or municipal fund securities limited principal.

Rule 1022(b)(3) provides an exception from the limited principal—financial and operations examination for those persons who were performing these functions before September 1, 1972, and those persons who were registered as a financial principal. NASD is proposing to delete rule 1022(b)(3) because the grandfather clause and the reference to "financial principal" relate to changes made in the 1970s.

For consistency with the other headings under rule 1022, NASD is proposing to amend the headings for rule 1022(f) and IM-1022-1 to state: "Limited Principal—Registered Options and Security Futures."

Rule 1022(g)(2)(A) provides that a limited principal general securities sales supervisor cannot be qualified to be registered in any other principal registration category. NASD believes that rule 1022(g)(2)(A) is inaccurate. Accordingly, NASD is proposing to replace the current language in rule 1022(g)(2)(A) to state that a person registered solely as a Limited Principal—General Securities Sales Supervisor shall not be qualified to function in a principal capacity with responsibility over any of the areas of business not described in that rule. This will clarify that such persons may be registered in other categories, if applicable.

Rules 1032(a)(2)(A)–(D) and 1032(a)(2)(F) relate to the transition from the Series 1 to the Series 7, which took place in the 1970's. NASD is proposing to delete rules 1032(a)(2)(A)–(D) and 1032(a)(2)(F) because these sections are no longer relevant to a vast majority of our members and NASD could provide waivers if necessary. Rule 1032(a)(2)(G) provides that persons registered and in good standing with the Securities and Futures Authority ("SFA") and who have passed the Modified General Securities Representative Qualification Examination for United Kingdom Representatives are qualified to be registered as general securities representatives, with certain restrictions. Under the previous regulatory framework in the United Kingdom, certain persons engaged in the securities and derivatives business were required to register with the SFA before they could engage in such

business. The Financial Services Authority ("FSA") has consolidated the regulatory duties that were carried out by the previous regulatory bodies, including the SFA. The FSA is an independent non-governmental body with statutory powers under United Kingdom legislation to regulate the financial services industry in the United Kingdom. Under the FSA structure, persons that plan to perform specified functions, known as regulated activities or controlled functions, must be either authorized or approved by the FSA before they can carry out these functions. Therefore, NASD is proposing to revise the language in rule 1032(a)(2)(G) to reflect the FSA's new authorization and approval process.

Rule 1032(f)(2)(B) sets forth the grace periods for passing the equity trader examination. For instance, registered representatives who were eligible for the two-year grace period were given until October 1, 2000, to pass the examination. Because the grace period deadlines have passed, NASD is proposing to delete the periods specified under rule 1032(f)(2)(B).

Rule 1032(g)(3) provides a grandfathering provision for persons who were performing the functions of a government securities limited representative on or before April 1, 1996. NASD believes that it is no longer necessary to keep this section because most persons who were eligible for grandfathering have been processed and, if necessary, the staff may provide waivers to new applicants. Accordingly, NASD is proposing to eliminate rule 1032(g)(3) in its entirety.

Rule 1070 (Qualification Examination and Waiver of Requirements)

Rule 1070(c) provides that qualification examination results will be reported to members on a pass/fail basis only. NASD is proposing to delete the phrase "on a pass/fail basis only" because NASD provides more than just pass/fail information to members.

Rule 1070(d) prohibits an applicant from receiving assistance while taking an examination. Rule 1080 requires that examinations be kept confidential. NASD is proposing to combine the language in rule 1070(d) and rule 1080 because these sections cover similar topics. Consequently, NASD is proposing to incorporate rule 1070(d) into rule 1080 and delete rule 1070(d).

Rule 1070(e) provides that experience in fields ancillary to investment banking or securities business will not in and of itself constitute sufficient grounds for waiving an examination. NASD is proposing to amend rule 1070(e) to clarify that although age or physical

infirmity will not individually of themselves constitute sufficient grounds to waive an examination, experience in an ancillary field may be sufficient grounds to waive an examination.

Rule 1100 (Foreign Associates)

Rule 1100(b) requires that members employing foreign associates file an "Application for Classification as a Foreign Associate." NASD no longer uses this application. Thus, NASD is proposing to replace the terms "Application for Classification as a Foreign Associate" with the terms "Uniform Application for Securities Industry Registration or Transfer," which is the current application.

Rule 1111 (Registration of Government Securities Principals)

Rule 1111 relates to the registration requirements for government securities principals. Because this rule relates to principal registration requirements, NASD is proposing to move this rule to the rule 1020 Series and renumber it as rule 1022(h). The heading for rule 1022(h) will be "Limited Principal—Government Securities." Rule 1022(h) will not include a subsection on examination because there is no required examination for this registration category. Non-substantive changes also were made to this provision to clarify its application.

Rule 1113 (Persons Exempt From Registration)

Both rules 1060(a)(1) and 1113 state that associated persons whose functions are solely and exclusively clerical or ministerial are exempt from registration. NASD is proposing to delete rule 1113 because it duplicates rule 1060(a)(1).

Finally, NASD is adopting a new corporate structure and is seeking the merger of NASD Regulation and NASD Dispute Resolution into NASD, with the merger becoming effective upon the Commission's authorization of the operation of Nasdaq other than as a facility of NASD. To underscore this new corporate structure and renewed regulatory focus, NASD generally does not refer to itself using its full corporate name, "the Association" or "the NASD." Instead NASD uses "NASD" unless otherwise appropriate for corporate or regulatory reasons. Accordingly, NASD has replaced several references to "the Association" and "the NASD" in the text of the proposed rule change with "NASD."

2. Statutory Basis

NASD believes that the proposed rule change is consistent with the provisions

of section 15A(b)(6) of the Act,⁴ 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 the proposed rule change also is consistent with the provisions of sections 15A(b)(3)⁵ and 15A(g)(3) of the Act,⁶ which, among other things, authorize NASD to prescribe standards of training, experience, and competence for persons associated with NASD members. NASD believes that the proposed rule change clarifies NASD registration obligations and provides consistency throughout these rules and will assist members and their associated persons in complying with these rules.

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 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 proposed rule change has been filed by NASD as a "non-controversial" rule change pursuant to section 19(b)(3)(A) of the Act⁷ and rule 19b-4(f)(6) thereunder.⁸ Because the foregoing proposed rule change: (1) Does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative for 30 days (or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest) after the date of this filing; and NASD provided the Commission with written notice of its intent to file the proposed rule change at least five business days prior to the filing date,⁹ the proposed rule change

has become effective pursuant to section 19(b)(3)(A) of the Act¹⁰ and rule 19b-4(f)(6) thereunder.¹¹

NASD has requested that the Commission waive the 30-day pre-operative waiting period, which would make the proposed rule operative immediately. The Commission believes that it is consistent with the protection of investors and the public interest to waive the 30-day pre-operative period in this case because the proposed rule change is highly technical in nature. For these reasons, the Commission waives the 30-day pre-operative period and designates that the proposal become operative immediately.¹²

At any time within 60 days of the filing of the 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, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. 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

withdrew SR-NASD-2002-185 and refiled the proposed rule change as a "non-controversial" filing pursuant to section 19(b)(3)(A) of the Act and rule 19b-4(f)(6) thereunder because the proposed rule change is highly technical in nature. Rule 19b-4(f)(6)(iii) under the Act requires the self-regulatory organization to provide the Commission written notice of its intent to file the proposed rule change at least five business days before doing so (or such shorter time as designated by the Commission). The Commission finds that NASD satisfied the five-day pre-filing requirement by filing SR-NASD-2002-185.

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f)(6).

¹² For purposes of accelerating the operative date of this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁴ 15 U.S.C. 78o-3(b)(6).

⁵ 15 U.S.C. 78o-3(b)(3).

⁶ 15 U.S.C. 78o-3(g)(3).

⁷ 15 U.S.C. 78s(b)(3)(A).

⁸ 17 CFR 240.19b-4(f)(6).

⁹ NASD initially filed the proposed rule change on December 30, 2002 for full notice and comment in accordance with section 19(b)(2) of the Act. See SR-NASD-2002-185. NASD subsequently

available for inspection and copying at the principal office of the NASD. All submissions should refer to File No. SR-NASD-2002-03 and should be submitted by March 31, 2003.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 03-5570 Filed 3-7-03; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47434; File No. SR-NASD-2002-112]

Self-Regulatory Organizations; Order Approving Proposed Rule Change by the National Association of Securities Dealers, Inc., To Amend NASD Rule 3070 To Require Members To File Copies of Criminal and Civil Complaints and Arbitration Claims With NASD

March 3, 2003.

I. Introduction

On August 15, 2002, the National Association of Securities Dealers, Inc. ("NASD") filed with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder² to amend Rule 3070 of its rules to require members promptly to file copies with NASD of certain criminal and civil complaints and arbitration claims against a member or a person associated with a member. NASD amended the proposed rule change on December 9, 2002.³ Notice of the proposed rule change and Amendment No. 1 thereto was published for comment in the *Federal Register* on December 27, 2002.⁴

The Commission received five comment letters regarding the proposal.⁵ On February 12, 2003, NASD

filed a response to the comment letters.⁶ This order approves the proposed rule change as amended by Amendment No. 1.

II. Description of the Proposal

The proposed rule change amends NASD Rule 3070 to require members to file promptly with NASD copies of certain criminal and civil complaints and arbitration claims against the member or a person associated with the member. The purpose of the rule proposal is to improve the quality and flow of information to NASD with respect to allegations of broker misconduct, so that NASD can enhance investor protection efforts by promptly taking appropriate regulatory action to address the specific alleged misconduct and to prevent similar or related misconduct in the future.

Specifically, the proposed rule change requires members to file with NASD copies of (1) any criminal complaints filed against the member or plea agreements entered into by the member that are covered by the rule; (2) any securities or commodities-related private civil complaints filed against the member; (3) any arbitration claim against the member (except those claims that have already been filed with NASD Dispute Resolution, in which case NASD obtains copies of such claims directly from NASD Dispute Resolution); and (4) any criminal complaint or plea agreement, private civil complaint or arbitration claim against an associated person that is reportable under question 14 on Form U-4, irrespective of any dollar threshold requirements that question imposes for

notification (except those arbitration claims that have already been filed with NASD Dispute Resolution). To avoid duplicative filing, the rule proposal also provides that members need not separately produce the above-referenced documents if they have already been the subject of a request by NASD's Registration and Disclosure staff. These amendments are discussed in greater detail in the Commission's notice soliciting public comment on this proposal.⁷

III. Summary of Comments

The Commission received five comment letters on the proposed rule change.⁸ Although four of the commenters generally supported NASD's desire to obtain and collect information regarding broker misconduct, they each contended that the proposal was unduly burdensome for members and offered alternative suggestions for achieving NASD's stated objectives.⁹ The fifth comment letter was written in response to the SIA Letter and in support of the proposed rule change.¹⁰ World Group and A.G. Edwards stated that NASD would be unduly burdened by the volume of documents it would receive compared to the amount of new relevant information. MetLife and the SIA stated that the proposal was inconsistent with NASD's rule modernization initiative, which seeks to streamline NASD rules by maximizing regulatory efficiency while imposing the least regulatory burden.¹¹

In its response to commenters, NASD focused only on comments made in connection with this proposal. The World Group, MetLife and A.G. Edwards Letters also addressed a change in NASD's policy regarding letters NASD issues when a determination is made to close an investigation without disciplinary action (referred to as "close-out letters"). While notice of the policy change with respect to close-out letters was contained in the same *Notice to Members* 02-53 that announced that NASD had filed with the SEC its proposal to amend Rule 3070, that policy change is not part of this rule filing. Accordingly, this order does not address the policy change with respect to close-out letters.

NASD disagrees that the proposal would impose duplicative filing requirements on members or be unduly

¹³ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See letter from Patrice Gliniecki, Vice President and Deputy General Counsel, NASD, to Katherine A. England, Assistant Director, Division of Market Regulation, Commission, dated December 6, 2002, and enclosures ("Amendment No. 1"). Amendment No. 1 replaced the original rule filing in its entirety.

⁴ See Securities Exchange Act Release No. 47060 (December 20, 2002), 67 FR 79203.

⁵ See letter from Kevin L. Palmer, Legal Department, World Group Securities, Inc. ("World Group"), to Jonathan G. Katz, Secretary, Commission, dated September 19, 2002 ("World Group Letter") (World Group commented on NASD

Notice to Members 02-53 concerning the proposed amendment to NASD Rule 3070 prior to the Commission's publication of the proposed rule filing); letter from Marc A. Cohn, Assistant Vice President, Metropolitan Life Insurance Company ("MetLife"), to Jonathan G. Katz, Secretary, Commission, dated December 27, 2002 ("MetLife Letter"); letter from Stephen G. Sneeringer, Senior Vice President & Counsel, A.G. Edwards & Sons, Inc. ("A.G. Edwards"), to Jonathan G. Katz, Secretary, Commission, dated January 17, 2003 ("A.G. Edwards Letter"); letter from Edward Turan, Chairman, Arbitration Committee, Securities Industry Association ("SIA") and John Polanin, Jr., Chairman, Self-Regulation and Supervisory Practices Committee, SIA, to Jonathan G. Katz, Secretary, Commission, dated January 24, 2003 ("SIA Letter"), and letter from David A. Weintraub, Attorney at Law, David A. Weintraub, P.A. ("Weintraub"), to Jonathan G. Katz, Secretary, Commission, dated February 6, 2003 ("Weintraub Letter"). The comment letters are described in Section III, *infra*.

⁶ See letter from Philip A. Shaikun, Assistant General Counsel, NASD, to Katherine A. England, Assistant Director, Division of Market Regulation, Commission, dated February 11, 2003 ("NASD Response Letter"). The NASD Response Letter does not respond to the Weintraub Letter because the Weintraub Letter was received by the Commission after NASD filed the NASD Response Letter.

⁷ See *supra*, note 4.

⁸ See *supra*, note 5.

⁹ See World Group Letter, MetLife Letter, A.G. Edwards Letter and SIA Letter.

¹⁰ See Weintraub Letter.

¹¹ See *Special NASD Notice to Members* 01-35.