

Notices to Members

YEAR 2000 UPDATE

February 1999

Year 2000 Legal Update

As we rapidly approach the Year 2000, there are some legal issues that all member firms should consider. Following is important information on disclosure requirements.

The Securities and Exchange Commission (SEC) Staff Legal Bulletin No. 5 requires disclosure of Year 2000 information in the financial statements of all public companies. Amendments to SEC Rule 17a-5(e)(5)(ii)(A) under the Exchange Act of 1934 mandate that brokers and dealers with capital requirements of \$5,000 and greater disclose their Year 2000 compliance status in the two Form BD-Y2K Reports. The first Form BD-Y2K Report filed by members, which was due on August 31, 1998, provided the SEC and the National Association of Securities Dealers, Inc. (NASD®) with member compliance status as of July 15, 1998. This information will be updated through a second Form BD-Y2K Report that all NASD members must file by April 30, 1999. (Instructions and forms will be sent to all NASD members.) All completed 1998 Form BD-Y2K Report information is in the public domain and will be available on the SEC Web Site by late February. Reports submitted to the designated examining authority (DEA) must be preserved in your files in accordance with SEC Rules 17a-3 and 17a-4 for a period of three years.

Recent legislation, the "Year 2000 Information and Readiness Disclosure Act" (S. 2392), provides a "safe harbor" for firms' public disclosure of Year 2000 information. Be sure to check the guidelines of this disclosure. They are available at www.y2k.gov/java/y2kinfo.html.

Firms should also be aware that the NASD has compiled summary information on the responses for the NASD DEA firms. This information will help firms review their reported progress against the progress reported by other similar types of firms. This information is available on the NASDR Web Site at www.nasdr.com.

Personal Computer (PC) And Desk-Top Readiness

In addition to checking Year 2000 compliance of computer hardware and related equipment, members should examine possible desk-top applications that are used to assist with business practices. This could range from a PC financial system to a customer tracking system. These can often be purchased packages or developed by the user in common products like Excel or Access. Further, members should confirm with the appropriate vendors or manufacturers that all mission-critical software using date-sensitive fields is Year 2000 compliant. Moreover, any software that is customized by employees or vendors or that includes "macros" or scripts in spreadsheets or databases should be tested. If not compliant, these programs may cause incorrect output, erroneous computations, data corruption, general protection faults, or abnormal program terminations.



Where Should Your Firm Be?

At this stage in firms' Year 2000 programs, firms should be concentrating on testing their connections with correspondent firms and third parties upon which the firms rely for mission-critical systems or software. In addition, NASD member firms should determine the readiness of internal systems (e.g., personal computers and software) and facilities equipment (e.g., facsimile machines) and remediate any problems. All software and equipment using a date-related field and not certified by the manufacturer as Year 2000 compliant should be tested. Further, when possible, firms should test certified hardware or software that is mission critical, even if they have been certified as compliant.

For more information on conducting these tests, please refer to the July and August 1998 issues of *NASD Notices to Members* or call (888) 227-1330, select option 3, and a member of the NASD Year 2000 Testing Team will assist you.

Year 2000 Education And Events

Virtual Workshops

As published in previous *Notices to Members*, the NASD Year 2000 Program Office is holding Virtual Workshops—workshops in which NASD members may hear about important Year 2000 issues via conference call-in sessions. During the call-in sessions, members will hear a presentation, followed by a question and answer period. The following sessions will provide an opportunity for members to share ideas and learn from other firms' experiences. Following is a description of each of the workshops, and on the next page is a listing of times and other vital information.

BD-Y2K 1999 Frequently Asked Questions and Answers

Issues to be covered:

- ◆ Frequently asked questions about the Form BD-Y2K 1999 in comparison to the Form BD-Y2K 1998
- ◆ Helpful hints in the completion of Part 2 and how your DEA will review your SOP

BD-Y2K for Large Firms

Issues to be covered:

- ◆ Completing the Form BD-Y2K and how the SOP corresponds to your disclosure
- ◆ What does the SOP cover

BD-Y2K for Small Firms

Issues to be covered:

- ◆ Completing the upcoming BD-Y2K Report: A small firm approach
- ◆ Report 1999 vs. Report 1998

Contingency Planning for Introducing Firms

Issues to be covered:

- ◆ Why you need a contingency plan
- ◆ What should be covered in the plan (business impact analysis)
- ◆ Triggers initiating the plan and preparing for its use, if needed (testing)

Legal Issues & the Year 2000

Issues to be covered:

- ◆ Due diligence efforts for brokers/dealers
- ◆ Litigation helpful hints
- ◆ Recent developments in disclosure

Mandatory Testing

Issues to be covered:

- ◆ Internal testing
- ◆ SIA-sponsored industry-wide testing
- ◆ Testing with the NASD

Year 2000 Overview/Business Continuity Strategies

Issues to be covered:

- ◆ Developing or updating a disaster and contingency plan
- ◆ Documenting plans
- ◆ Business impact analysis
- ◆ Recovering mission-critical systems
- ◆ Validating firms' business continuity strategies

Mandatory Testing Reminder

See *NASD Special Notice to Members 99-13* for time-sensitive information regarding Mandatory Testing. The NASD adopted a rule requiring selected NASD member firms to conduct Year 2000 testing on certain applications and systems. If your firm was selected to test, the Year 2000 contact at your firm should have received a copy of the *Special Notice* and a cover letter with further information. To see the list of firms mandated to test, visit the Securities Industry Association (SIA) Year 2000 Web Pages at www.sia2k.com.

More Information/Questions

**NASD Year 2000
Program Office**

e-mail: y2k@nasd.com

phone: (888) 227-1330

Year 2000 Education And Events

To participate in the Virtual Workshops, the NASD strongly encourages registration, but it is not required. To register, call (888) 567-0578, listen to the greeting, and provide the following information when prompted: firm name, Broker/Dealer #, and workshop date. On the day of the session, call the phone number listed below with the associated workshop, and indicate the password, conference leader, and confirmation number provided for the specific workshop (see below for a list of these specifics organized by date of session).

February 11 – Mandatory Testing

Leader: Donna Nichols

Password: Mandatory Testing

Conf #: 2922888

Call-in phone number:

(800) 857-7323

February 16 – BD-Y2K (small firms)

Leader: Brooks Johnson

Password: BD-Y2K

Conf #: 3818571

Call-in phone number:

(888) 455-5419

February 18 – BD-Y2K (large firms)

Leader: Brooks Johnson

Password: SOP

Conf #: 3818625

Call-in phone number:

(888) 455-5419

February 25 – Legal Issues & the Year 2000

Leader: Angela Lacroix

Password: Legal

Conf #: 3818652

Call-in phone number:

(888) 455-5419

March 11 – Contingency Planning for Introducing Firms

Leader: Angela L. Brade

Password: Contingency

Conf #: 2920001

Call-in phone number:

(800) 857-7323

March 17 – BD-Y2K 1999 Frequently Asked Questions and Answers

Leader: Brooks Johnson

Password: Questions

Conf #: 2920202

Call-in phone number:

(800) 857-7323

March 23 – Year 2000 Overview/Business Continuity Strategies

Leader: Angela L. Brade

Password: Strategies

Conf #: 2920237

Call-in phone number:

(800) 857-7323

New York Workshops

In addition to the Virtual Workshops, the NASD Year 2000 Program Office will also host two workshops in New York City on “*Form BD-Y2K Submission Guidelines and Frequently Asked Questions*” and “*Contingency Planning*.” Please note that **registration is required**. To register, call (888) 227-1330.

Form BD-Y2K Submission Guidelines and Frequently Asked Questions

Marriott World Trade Center
New York City

March 3, 1999

Sessions will be conducted from
9:00 a.m. - 11:00 a.m. **and**
1:00 p.m. - 4:00 p.m.

Contingency Planning

Marriott World Trade Center
New York City

April 5, 1999

Sessions will be conducted from
9:00 a.m. - 11:00 a.m. **and**
1:00 p.m. - 4:00 p.m.

All sessions will be held at:

**Marriott World Trade Center
3 World Trade Center
New York, NY**

Year 2000 Education And Events

1999 NASD Regulation Spring Securities Conference

Year 2000 issues will be featured as part of the 1999 NASD Regulation annual Spring Securities Conference to be held in New Orleans on May 20-21. There will be a main conference workshop focusing on contingency planning issues, and there will also be two Year 2000 "Q&A" sessions where attendees can walk in and get their Year 2000 questions answered. A conference brochure will soon be mailed to NASD members and will also be available on the NASD Regulation Web Site at www.nasdr.com.

NASD Year 2000 Event Calendar

Topic	Location	Date	Time
Mandatory Testing	Virtual	February 11	11:00 a.m., ET
BD-Y2K (small firms)	Virtual	February 16	11:00 a.m., ET
BD-Y2K (large firms)	Virtual	February 18	11:00 a.m., ET
Legal Issues and Y2K	Virtual	February 25	11:00 a.m., ET
Form BD-Y2K Submission Guidelines and Frequently Asked Questions	New York	March 3	9:00 a.m. - 11:00 a.m.
Form BD-Y2K Submission Guidelines and Frequently Asked Questions	New York	March 3	1:00 p.m. - 4:00 p.m.
Contingency Planning for Introducing Firms	Virtual	March 11	11:00 a.m., ET
BD-Y2K 1999 Frequently Asked Questions and Answers	Virtual	March 17	11:00 a.m., ET
Y2K Overview/Business Continuity Strategies	Virtual	March 23	11:00 a.m., ET
Contingency Planning	New York	April 5	9:00 a.m. - 11:00 a.m.
Contingency Planning	New York	April 5	1:00 p.m. - 4:00 p.m.
NASD Regulation Spring Securities Conference	New Orleans	May 20-21	