

September 1, 2000

Joseph P. Morra, Esq.  
Division of Market Regulation  
U.S. Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, DC 20549

Re: **File No. SR-NASD-00-39 Amendment to Schedule A of the NASD By-Laws for the Timely Filing of Reports, and Amendments to IM-9216, Minor Rule Violation Plan; Amendment No. 1**

Dear Mr. Morra:

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 and Rule 19b-4 thereunder, NASD Regulation, Inc. proposes the following amendments, as well as changes made and approved during the phone conversations of August 25, to the above-numbered rule filing:

On page two, the third line from the bottom of the page, the period at the end of the sentence should be changed to a semi-colon and the word "and" should be added after the semi-colon. This change should also be made on page 21, at the eighth line from the bottom of the page.

On page three, the fourth line from the bottom of the page, the word "maintain" should be replaced with the phrase "comply with". This change should also be made on page 22, at the eighth line from the bottom of the page.

One page 10, beginning on the third line, and again on page 28, beginning on the eighth line, the following changes are requested: (Proposed new language is underlined and proposed deletions are in brackets.)

*Rule 1120 -Failure to comply with [maintain] continuing education requirements, regulatory and firm elements. Regulatory Element. NASD Rule 1120(a) requires members to oversee the continuing education*

requirements of their "registered persons"<sup>1</sup> and to ensure that such persons do not continuing acting in a registered capacity if they do not complete the requirements. The Regulatory Element of the continuing education requirements requires that each registered person, who is not considered exempt from the rule, shall complete the Regulatory Element[, as established by the member, on three occasions after] on the occurrence of their second registration anniversary and every three years thereafter. On each occasion, the training must be completed within 120 days after the registered person's anniversary date. A registered person will be in violation Rule 1120(a) if the person has not completed the Regulatory Element within the prescribed time periods and will be deemed to be inactive until the Regulatory Element has been fulfilled.

The member firm will be considered to be in violation of the Regulatory Element [if a registered person of the member firm does not complete the Regulatory Element requirements; and] if the member firm permits a registered person to engage in, or be paid for, activities requiring a securities registration[continue to perform duties] despite the fact that the registered person is deemed inactive because the registered person has not completed the Regulatory Element requirements.

*Firm Element.* NASD Rule 1120(b) requires members to establish, maintain, evaluate and update continuing education programs for members and their "covered registered persons."<sup>2</sup> Specifically, the Firm Element of the continuing education requirements requires that each member firm develop continuing and current education programs for covered persons to enhance their securities knowledge, skill, and professionalism. At a minimum, each member shall at least annually evaluate and prioritize its training needs and develop a written training plan. The plan[The programs must be held annually and] must take into consideration each member's size, organizational structure, and scope of business activities as well as regulatory developments and the performance of covered persons in the Regulatory Element. If a member's analysis establishes the need for supervisory training for persons with supervisory responsibilities, such training must be included in the member's training plan. At a minimum, the programs used to implement a member's training plan must cover the following matters concerning products, services, and strategies offered by the member[include]; general investment features and associated risk factors; suitability and sales practice considerations; and applicable regulatory

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<sup>1</sup> "Registered person" means any person registered with the Association as a representative, principal or assistant representative pursuant to Rules 1020, 1030, 1040, and the Rule 1110 Series.

<sup>2</sup> "Covered registered person" means any person registered with a member who has direct contact with customers in the conduct of the member's securities sales, trading and investment banking activities, and to the immediate supervisors of such persons.

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requirements. A covered registered person would be in violation [in] of the Firm Element if the person fails to participate in the firm's training[educational] program.

A member firm would violate the Firm Element of Rule 1120 if the [firm fails to take all appropriate and reasonable steps to ensure that its covered registered persons to participate in a continuing education program of the member; the firm fails to adequately ensure that covered registered persons participate in educational programs; the] firm[s] fails to [annually] evaluate and prioritize its training needs annually and [to] update its written training plan when necessary; the firm fails to take all appropriate and reasonable steps to ensure that its covered registered persons participate in the Firm Element programs of the member; and the firm fails to maintain appropriate records documenting implementation of its[for a] written training plan.

If you have any questions, please contact Greg Dean, Office of General Counsel, NASD Regulation, Inc. at (202) 728-8159; e-mail [gregory.dean@nasd.com](mailto:gregory.dean@nasd.com). The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Alden S. Adkins

Senior Vice President and General Counsel