

January 4, 2002

Ms. Katherine England
Assistant Director
Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-1001

**Re: File No. SR-NASD-2002-03 - Amendment to Relieve Registered Representatives
Serving in Armed Forces from Continuing Education Requirements**

Dear Ms. England:

Pursuant to Rule 19b-4, enclosed please find the above-numbered rule filing. Also enclosed is a 3-1/2" disk containing the rule filing in Microsoft Word 7.0 to facilitate production of the Federal Register release.

If you have any questions, please contact Grace Yeh, Office of General Counsel, NASD Regulation, Inc., at (202) 728-6939; e-mail grace.yeh@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Patrice M. Gliniecki
Vice President and
Acting General Counsel

Enclosures

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

Form 19b-4

Proposed Rule Change

by

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), the National Association of Securities Dealers, Inc. ("NASD" or "Association"), through its wholly owned subsidiary, NASD Regulation, Inc. ("NASD Regulation"), is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change to amend NASD IM-1000-2 to codify the staff's position regarding the relief from Rule 1120, Continuing Education Requirements, for securities industry professionals who volunteer or are called into active military duty. Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

IM-1000-2. Status of Sole Proprietors and Registered Representatives Serving in the Armed Forces

Any Registered [registered] Representative of a member who volunteers or is called into the Armed Forces of the United States shall be placed, after proper notification to the Executive Office, upon inactive status and need not be re-registered by such member upon his or her return to active employment with the member.

Any member (Sole Proprietor) who temporarily closes his or her business by reason of volunteering or being called into the Armed Forces of the United States, shall be placed, after proper notification to the Executive Office, on inactive status until his or her return to active participation in the investment banking and securities business.

A Registered Representative who is placed on inactive status as set forth above shall not be included within the definition of "Personnel" for purposes of the dues or assessments as provided in Article VI of the By-Laws.

Any member placed on inactive status as set forth above shall not be required to pay dues or assessments during the pendency of such inactive status and shall not be required to pay an admission fee upon return to active participation in the investment banking and securities business.

A Registered Representative who is placed on inactive status as set forth above shall not be required to complete either of the Regulatory or Firm Elements of the continuing education requirements set forth in Rule 1120 during the pendency of such inactive status.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

(a) The proposed rule change was approved by the Board of Directors of NASD Regulation at its meeting on December 5, 2001, which authorized the filing of the proposed rule change with the SEC. Counsel for The Nasdaq Stock Market and NASD Dispute Resolution have been provided an opportunity to consult with respect to the proposed rule change, pursuant to the Plan of Allocation and Delegation of Functions by the NASD to its Subsidiaries. The NASD Board of Governors had an opportunity to review the proposed rule change at its meeting on December 6, 2001. No other action by the NASD is necessary for the filing of the proposed rule change.

(b) Questions regarding this rule filing may be directed to Grace Yeh, Assistant General Counsel, NASD Regulation, Office of General Counsel, at (202) 728-6939.

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

(a) Purpose

NASD IM-1000-2 (“the Interpretation”) addresses the registration status of sole proprietors and registered representatives serving in the armed forces. The Interpretation states that securities industry professionals who volunteer or are called into active military duty (“Active Duty Professionals”) will be placed in a specially designated “inactive” status once the NASD is notified of their military service, but will remain registered for NASD purposes. While IM-1000-2 does not address continuing education obligations with respect to Active Duty Professionals, NASD Regulation staff has interpreted Rule 1120 to relieve Active Duty Professionals from continuing education obligations for the period of time that they are on active duty. The proposed rule change codifies the staff’s position through amendments to IM-1000-2. The Securities Industry/Regulatory Council on Continuing Education (“CE Council”) supports the staff’s views.¹

NASD Regulation has, for the reasons set forth below, relieved Active Duty Professionals from continuing education requirements. Rule 1120(a)(2) provides that “Unless otherwise determined by the Association, any registered persons who have not completed the Regulatory Element within the prescribed time frames will have their registrations deemed inactive until such time as the requirements of the program have been satisfied.” A registered person may satisfy his or her Regulatory Element requirement at a

¹ The CE Council, of which all of the self-regulatory organizations and 14 industry representatives are members, is responsible for the oversight of the continuing education program as a whole. The SEC and North American Securities Administrators Association also send liaisons to attend CE Council meetings.

Prometric Center in the United States and Canada, or at a VUE Center in Europe and the Pacific Rim. Because it is generally not practical for Active Duty Professionals to be at a facility that delivers the Regulatory Element, NASD Regulation believes that Active Duty Professionals should be relieved from fulfilling the Regulatory Element requirements that arise during the period of time that they are on active duty.

With respect to the Firm Element requirements of continuing education, Rule 1120(b)(1) currently provides that only persons who have “direct contact with customers” in the conduct of securities activities are subject to the Firm Element requirements. Active Duty Professionals are excluded from the Firm Element requirements because they do not have contact with customers. Accordingly, the proposed amendment to IM-1000-2 expressly states that Active Duty Professionals are not required to complete either of the Regulatory or Firm Elements of the continuing education requirements set forth in Rule 1120 during the pendency of such inactive status.

(b) Statutory Basis

NASD Regulation believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act, which requires, among other things, that the Association’s rules 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 Regulation believes that codifying the staff’s interpretative position to relieve Active Duty Professionals from the NASD’s continuing education requirements during the time they are on active duty is consistent with the protection of investors and the public interest.

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

NASD Regulation believes that the proposed rule change would not result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

5. 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.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3)

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A) of the Act and paragraph (f)(1) of Rule 19b-4 thereunder, in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Exhibits

1. Completed notice of proposed rule change for publication in the Federal Register.

Pursuant to the requirements of the Securities Exchange Act of 1934, NASD Regulation has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

NASD REGULATION, INC.

BY: _____

Patrice M. Gliniecki
Vice President and
Acting General Counsel

Date: January 4, 2002

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASD-2002-03)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to the Amendment to Relieve Registered Representatives Serving in Armed Forces from Continuing Education Requirements

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 , the National Association of Securities Dealers, Inc. (“NASD”), through its wholly owned subsidiary, NASD Regulation, Inc. (“NASD Regulation”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASD Regulation. The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A) of the Act and paragraph (f)(1) of Rule 19b-4 thereunder, in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule. 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

NASD Regulation is proposing to amend NASD IM-1000-2 to codify the staff’s interpretive position regarding the relief from Rule 1120, Continuing Education Requirements, for securities industry professionals who volunteer or are called into active

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

military duty. Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

IM-1000-2. Status of Sole Proprietors and Registered Representatives Serving in the Armed Forces

Any Registered [registered] Representative of a member who volunteers or is called into the Armed Forces of the United States shall be placed, after proper notification to the Executive Office, upon inactive status and need not be re-registered by such member upon his or her return to active employment with the member.

Any member (Sole Proprietor) who temporarily closes his business by reason of volunteering or being called into the Armed Forces of the United States, shall be placed, after proper notification to the Executive Office, on inactive status until his or her return to active participation in the investment banking and securities business.

A Registered Representative who is placed on inactive status as set forth above shall not be included within the definition of "Personnel" for purposes of the dues or assessments as provided in Article VI of the By-Laws.

Any member placed on inactive status as set forth above shall not be required to pay dues or assessments during the pendency of such inactive status and shall not be required to pay an admission fee upon return to active participation in the investment banking and securities business.

A Registered Representative who is placed on inactive status as set forth above shall not be required to complete either of the Regulatory or Firm Elements of the continuing education requirements set forth in Rule 1120 during the pendency of such inactive status.

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 Regulation 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. NASD Regulation 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

NASD IM-1000-2 (“the Interpretation”) addresses the registration status of sole proprietors and registered representatives serving in the armed forces. The Interpretation states that securities industry professionals who volunteer or are called into active military duty (“Active Duty Professionals”) will be placed in a specially designated “inactive” status once the NASD is notified of their military service, but will remain registered for NASD purposes. While IM-1000-2 does not address continuing education obligations with respect to Active Duty Professionals, NASD Regulation staff has interpreted Rule 1120 to relieve Active Duty Professionals from continuing education obligations for the period of time that they are on active duty. The proposed rule change codifies the staff’s position

through amendments to IM-1000-2. The Securities Industry/Regulatory Council on Continuing Education (“CE Council”) supports the staff’s views.³

NASD Regulation has, for the reasons set forth below, relieved Active Duty Professionals from continuing education requirements. Rule 1120(a)(2) provides that “Unless otherwise determined by the Association, any registered persons who have not completed the Regulatory Element within the prescribed time frames will have their registrations deemed inactive until such time as the requirements of the program have been satisfied.” A registered person may satisfy his or her Regulatory Element requirement at a Prometric Center in the United States and Canada, or at a VUE Center in Europe and the Pacific Rim. Because it is generally not practical for Active Duty Professionals to be at a facility that delivers the Regulatory Element, NASD Regulation believes that Active Duty Professionals should be relieved from fulfilling the Regulatory Element requirements that arise during the period of time that they are on active duty.

With respect to the Firm Element requirements of continuing education, Rule 1120(b)(1) currently provides that only persons who have “direct contact with customers” in the conduct of securities activities are subject to the Firm Element requirements. Active Duty Professionals are excluded from the Firm Element requirements because they do not have contact with customers. Accordingly, the proposed amendment to IM-1000-2 expressly states that Active Duty Professionals are not required to complete either of the Regulatory or Firm Elements of the continuing education requirements set forth in Rule 1120 during the pendency of such inactive status.

³ The CE Council, of which all of the self-regulatory organizations and 14 industry representatives are members, is responsible for the oversight of the continuing education program as a whole. The SEC and North American Securities Administrators Association also send liaisons to attend CE Council meetings.

(2) Statutory Basis

NASD Regulation believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act, which requires, among other things, that the Association's rules 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 Regulation believes that codifying the staff's interpretative position to relieve Active Duty Professionals from the NASD's continuing education requirements during the time they are on active duty is consistent with the protection of investors and the public interest.

(B) Self-Regulatory Organization's Statement on Burden on Competition

NASD Regulation 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 is effective upon filing pursuant to Section 19(b)(3)(A) of the Act and paragraph (f)(1) of Rule 19b-4 thereunder, in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule. At any time within 60 days of this filing, the Commission may summarily abrogate this proposal 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. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. 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 available for inspection and copying at the principal office of the NASD. All submissions should refer to the file number in the caption above and should be submitted by [insert date 21 days from the date of publication].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority, 17 CFR 200.30-3(a)(12).

Jonathan G. Katz
Secretary