

December 19, 2000

Katherine A. 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-00-77 - Proposed Rule Change to Amend Rule 1022(b), Rule 1022(c) (FINOP and Introducing FINOP Registration Requirements) and Rule 9610(a) (Procedures for Exemptive Relief)**

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 Shirley H. Weiss, Office of General Counsel, NASD Regulation, Inc., at (202) 728-8844; e-mail Shirley.Weiss@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Joan C. Conley  
Senior Vice President  
and Corporate Secretary

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) under 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 Membership and Registration Rule 1022(b) (Limited Principal - Financial and Operations (“FINOP”)), Membership and Registration Rule 1022(c) (Limited Principal - Introducing Broker/Dealer Financial and Operations (“Introducing FINOP”)), and Procedural Rule 9610 (Procedures for Exemptions). The proposed amendments to Rule 1022(b) and Rule 1022(c) would (1) clarify the applicability of Rule 1022(b) and Rule 1022(c) to members by making citations in these rules consistent with the SEC’s net capital rule, (2) eliminate the ability of a member that is subject to the SEC’s net capital rule to request an exemption from the requirement under Rule 1022(b) to have a FINOP, and (3) exclude from the requirements of Rule 1022(b) and Rule 1022(c) those firms that are exempt from or otherwise not subject to the SEC’s net capital rule. The proposed amendments to Rule 9610(a) would eliminate Rule 1022 from the list of rules from which a member may seek exemptive relief. The proposed amendments to Rule 9610(a) also would make a technical change to clarify that the Rule 9600 Series merely sets forth procedures for seeking exemptive relief, and that the type of relief that may be requested, and the authority to grant such relief, is found in the rules listed in Rule 9610(a).

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

\*\*\*

## 1020. Registration of Principals

\*\*\*

## 1022. Categories of Principal Registration

(a) No change

### (b) Limited Principal-Financial and Operations

(1) Every member of the Association, [unless exempted by subparagraph (4),] that is operating pursuant to the provisions of SEC Rule 15c3-1(a)(1)(ii), (a)(2)(i) or (a)(8), shall designate as Limited Principal-Financial and Operations those persons associated with it, at least one of whom shall be its chief financial officer, who performs the duties described in subparagraph [(b)](2) hereof. Each person associated with a member who performs such duties shall be required to register as a Limited Principal-Financial and Operations with the Association and shall pass an appropriate Qualification Examination before such registration may become effective.

(2) and (3) No change

[(4) Pursuant to the Rule 9600 Series, the Association may exempt a member or an applicant for membership in the Association from the requirement to have a Limited Principal – Financial and Operations if:]

[A) it has been expressly exempted by the Commission from SEC Rule 15c3-1(b)(1)(iii);]

[(B) it is subject to the provisions of SEC Rule 15c3-1(a)(2) or to Section 402.2(c) of the rules of the Treasury Department.]

[(5)] (4) A person registered solely as a Limited Principal-Financial and Operations shall not be qualified to function in a principal capacity with responsibility over any area of business activity not described [prescribed] in subparagraph (2) hereof.

**(c) Limited Principal-Introducing Broker/Dealer Financial and Operations**

(1) Every member of the Association, [which is operating pursuant to the provisions of SEC Rule 15c3-1(a)(2)(i) or (vi) and to the provisions of SEC Rule 15c3-3(k)(2)(ii),] that is subject to the requirements of SEC Rule 15c3-1, other than a member operating pursuant to SEC Rule 15c3-1(a)(1)(ii), (a)(2)(i) or (a)(8) in which case paragraph (b) shall apply, shall designate as Limited Principal-Introducing Broker/Dealer Financial and Operations those persons associated with it, as least one of whom shall be its chief financial officer, who perform the duties described in [paragraph] subparagraph (2)[,] hereof. Each person associated with a member who performs such duties shall be required to register as a Limited Principal-Introducing Broker/Dealer Financial and Operations with the Association and shall pass an appropriate Qualification Examination before such registration may become effective.

(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-Introducing Broker/Dealer Financial and Operations Examination and shall be qualified for registration as a Limited Principal-Introducing Broker/Dealer Financial and Operations if such a person is

qualified to be registered or is registered as a Limited Principal-Financial and Operations as defined in paragraph (b)(2) hereof.

(4) No change

**(d) through (g)** No change

\* \* \*

## **9600. PROCEDURES FOR EXEMPTIONS**

### **9610. Application**

#### **(a) Where to File**

A member seeking [an exemption from] exemptive relief as permitted under Rules 1021, [1022,]1070, 2210, 2320, 2340, 2520, 2710, 2720, 2810, 2850, 2851, 2860, Interpretive Material 2860-1, 3010(b)(2), 3020, 3210, 3230, 3350, 8211, 8212, 8213, 11870, or 11900, Interpretive Material 2110-1, or Municipal Securities Rulemaking Board Rule G-37 shall file a written application with the appropriate department or staff of the Association and provide a copy of the application to the Office of General Counsel of NASD Regulation.

**(b) and (c)** No change

\* \* \*

## **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 October 4, 2000, which authorized the filing of the rule change with the SEC. The

Nasdaq Stock Market, Inc. and NASD Dispute Resolution, Inc. 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 October 5, 2000. No other action by the NASD is necessary for the filing of the proposed rule change. Section 1(a)(ii) of Article VII of the NASD By-Laws permits the NASD Board of Governors to adopt amendments to NASD Rules without recourse to the membership for approval.

The NASD will announce the effective date of the proposed rule change in a Notice to Members to be published no later than 60 days following Commission approval. The effective date will be approximately 30 days following publication of the Notice to Members announcing Commission approval.

(b) Questions regarding this rule filing may be directed to Shirley H. Weiss, Associate General Counsel, NASD Regulation, Office of General Counsel, at (202) 728-8844.

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

(a) Purpose

Membership and Registration Rule 1022(b) and Rule 1022(c) set forth the registration requirements for FINOPs and Introducing FINOPs. FINOPs are required to take and pass the Series 27 Principal Examination, and Introducing FINOPs are required to take and pass the Series 28 Principal Examination. The proposed amendments to Rule 1022(b) would clarify that every broker-dealer that is operating pursuant to the provisions of SEC Rule 15c3-1(a)(1)(ii), (a)(2)(i) (both of which

subject broker-dealers to a minimum net capital requirement of \$250,000), or (a)(8) (which subjects broker-dealers to a minimum \$150,000 net capital requirement) must have a FINOP. The proposed amendments to Rule 1022(c) would clarify that every broker-dealer that is subject to the requirements of SEC Rule 15c3-1, and is not required to employ a FINOP pursuant to Rule 1022(b), is required to have at least one associated person who has qualified as an Introducing FINOP. The proposed amendments to Rule 1022(c) also would clarify that a person qualified as a Series 27 FINOP is not required to take the Series 28 Examination if he or she is employed as an Introducing FINOP.

In addition, the proposed amendments to Rule 1022(b) would eliminate the provisions that allow a broker-dealer that is subject to SEC Rule 15c3-1 to seek an exemption from the requirement to have a FINOP. As a procedural matter, Rule 9610(a) would therefore be amended to eliminate Rule 1022 from the list of rules for which a member may file an application to seek exemptive relief.<sup>1</sup> NASD Regulation believes that firms that are subject to SEC Rule 15c3-1 should not be exempted from the requirement to employ a FINOP or Introducing FINOP. In the rare instance that a firm believes that a particular individual should not be required to take and pass the Series 27 or Series 28 Examination based on that individual's experience and qualifications, the firm may seek an exam waiver for that individual pursuant to Rule 1070(e).

---

<sup>1</sup> The proposed amendments to Rule 9610(a) also would make a technical change to clarify that the Rule 9600 Series merely sets forth procedures for seeking exemptive relief, and that the type of relief that may be requested, and the authority to grant such relief, is found in the rules listed in Rule 9610(a).

The proposed amendments to Rule 1022(b) also would eliminate the ability – as well as the necessity -- of members that are exempt from SEC Rule 15c3-1 to seek exemptive relief from the FINOP or Introducing FINOP requirements. As noted above, the proposed changes to both Rule 1022(b) and Rule 1022(c) would make clear that the requirements to have a FINOP or Introducing FINOP apply only to firms that are subject to the requirements of SEC Rule 15c3-1. Members that are exempt from or otherwise not subject to the SEC’s net capital rule would no longer be subject to the requirements of either Rule 1022(b) or Rule 1022(c). Therefore, under the proposed amendments, it would no longer be necessary for such members to seek exemptive relief from the requirements of those rules.

The proposed amendments would have no effect on individuals who are currently grandfathered for the Series 27 or Series 28 Examination, because these persons are considered to possess the license for which they were grandfathered.<sup>2</sup> In addition, firms currently the subject of a FINOP waiver would not be subject to the proposed rule amendments.

(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 must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable

---

<sup>2</sup> Only individuals who qualified as “Financial Principals” before the establishment of the Series 27 examination were grandfathered as FINOPs and were not required to take either the Series 27 or Series 28 examination.

principles of trade, and, in general, to protect investors and the public interest. NASD Regulation believes that the proposed rule change is designed to accomplish these ends by clarifying the applicability of Rules 1022(b) and (c) to members by making the citations in the rules consistent with SEC Rule 15c3-1 and by eliminating the ability of broker-dealers that are subject to SEC Rule 15c3-1 from operating without a FINOP or Introducing FINOP. The proposed rule change also would help members by clarifying the circumstances under which a FINOP must have taken and passed either a Series 27 or Series 28 Examination.

4. 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.

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.<sup>3</sup>

6. Extension of Time Period for Commission Action

NASD Regulation does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

---

<sup>3</sup> This proposed rule change was not published for comment by the NASD through its Notice to Members process.

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: \_\_\_\_\_  
Joan C. Conley  
Senior Vice President and Corporate Secretary

Date: December 19, 2000

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-00-77)

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Registration Requirements for Limited Principals-Financial and Operations and Limited Principals-Introducing Broker/Dealer Financial and Operations

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on 2000, 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 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: Membership and Registration Rule 1022(b) (Limited Principal - Financial and Operations (“FINOP”)), Membership and Registration Rule 1022(c) (Limited Principal - Introducing Broker/Dealer Financial and Operations (“Introducing FINOP”)), and Procedural Rule 9610 (Procedures for Exemptions). The proposed amendments to Rule 1022(b) and Rule

---

<sup>1</sup> 15 U.S.C. 78s(b)(1)

<sup>2</sup> 17 CFR 240.19b-4.

1022(c) would (1) clarify the applicability of Rule 1022(b) and Rule 1022(c) to members by making citations in these rules consistent with the SEC's net capital rule , (2) eliminate the ability of a member that is subject to the SEC's net capital rule to request an exemption from the requirement under Rule 1022(b) to have a FINOP , and (3) exclude from the requirements of Rule 1022(b) and Rule 1022(c) those firms that are exempt from or otherwise not subject to the SEC's net capital rule. The proposed amendments to Rule 9610(a) would eliminate Rule 1022 from the list of rules from which a member may seek exemptive relief. The proposed Amendments to Rule 9610(a) also would make a technical change to clarify that the Rule 9600 Series merely sets forth procedures for seeking exemptive relief, and that the type of relief that may be requested, and the authority to grant such relief, is found in the rules listed in Rule 9610(a).

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

\*\*\*

#### **1020. Registration of Principals**

\*\*\*

#### **1022. Categories of Principal Registration**

(a) No change

#### **(b) Limited Principal-Financial and Operations**

(1) Every member of the Association, [unless exempted by subparagraph (4),] that is operating pursuant to the provisions of SEC Rule 15c3-1(a)(1)(ii), (a)(2)(i) or (a)(8), shall

designate as Limited Principal-Financial and Operations those persons associated with it, at least one of whom shall be its chief financial officer, who performs the duties described in subparagraph [(b)](2) hereof. Each person associated with a member who performs such duties shall be required to register as a Limited Principal-Financial and Operations with the Association and shall pass an appropriate Qualification Examination before such registration may become effective.

(2) and (3) No change

[(4) Pursuant to the Rule 9600 Series, the Association may exempt a member or an applicant for membership in the Association from the requirement to have a Limited Principal – Financial and Operations if:]

[(A) it has been expressly exempted by the Commission from SEC Rule 15c3-1(b)(1)(iii);]

[(B) it is subject to the provisions of SEC Rule 15c3-1(a)(2) or to Section 402.2(c) of the rules of the Treasury Department.]

[(5)] (4) A person registered solely as a Limited Principal-Financial and Operations shall not be qualified to function in a principal capacity with responsibility over any area of business activity not described [prescribed] in subparagraph (2) hereof.

**(c) Limited Principal-Introducing Broker/Dealer Financial and Operations**

(1) Every member of the Association, [which is operating pursuant to the provisions of SEC Rule 15c3-1(a)(2)(i) or (vi) and to the provisions of SEC Rule 15c3-3(k)(2)(ii),] that is subject to the requirements of SEC Rule 15c3-1, other than SEC Rule 15c3-1(a)(1)(ii), (a)(2)(i) or (a)(8), shall designate as Limited Principal-Introducing Broker/Dealer Financial and

Operations those persons associated with it, as least one of whom shall be its chief financial officer, who perform the duties described in [paragraph] subparagraph (2)[,] hereof. Each person associated with a member who performs such duties shall be required to register as a Limited Principal-Introducing Broker/Dealer Financial and Operations with the Association and shall pass an appropriate Qualification Examination before such registration may become effective.

(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-Introducing Broker/Dealer Financial and Operations Examination and shall be qualified for registration as a Limited Principal-Introducing Broker/Dealer Financial and Operations if such a person is qualified to be registered or is registered as a Limited Principal-Financial and Operations [as defined in paragraph (2) hereof.] pursuant to Rule 1022(b).

(4) No change

**(d) through (g)** No change

\* \* \*

## **9600. PROCEDURES FOR EXEMPTIONS**

### **9610. Application**

#### **(a) Where to File**

A member seeking [an exemption from] exemptive relief provided in Rules 1021, [1022,]1070, 2210, 2320, 2340, 2520, 2710, 2720, 2810, 2850, 2851, 2860, Interpretive Material 2860-1, 3010(b)(2), 3020, 3210, 3230, 3350, 8211, 8212, 8213, 11870, or 11900, Interpretive Material 2110-1, or Municipal Securities Rulemaking Board Rule G-37 shall file a written application with the appropriate department or staff of the Association and provide a copy of the application to the Office of General Counsel of NASD Regulation.

**(b) and (c)** No change

\* \* \*

## **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

(a) Purpose

Membership and Registration Rule 1022(b) and Rule 1022(c) set forth the registration requirements for FINOPs and Introducing FINOPs. FINOPs are required to take and pass the Series 27 Principal Examination, and Introducing FINOPs are required to take and pass the Series 28 Principal Examination. The proposed amendments to Rule 1022(b) would clarify that every broker-dealer that is operating pursuant to the provisions of SEC Rule 15c3-1(a)(1)(ii), (a)(2)(i) (both of which subject broker-dealers to a minimum net capital requirement of \$250,000), or (a)(8) (which subjects broker-dealers to a minimum \$150,000 net capital requirement) must have a FINOP. The proposed amendments to Rule 1022(c) would clarify that every broker-dealer that is subject to the requirements of SEC Rule 15c3-1, and is not required to employ a FINOP pursuant to Rule 1022(b), is required to have at least one associated person who has qualified as an Introducing FINOP. The proposed amendments to Rule 1022(c) also would clarify that a person qualified as a Series 27 FINOP is not required to take the Series 28 Examination if he or she is employed as an Introducing FINOP.

In addition, the proposed amendments to Rule 1022(b) would eliminate the provisions that allow a broker-dealer that is subject to SEC Rule 15c3-1 to seek an exemption from the requirement to have a FINOP. As a procedural matter, Rule 9610(a) would therefore be amended to eliminate Rule 1022 from the list of rules for which a member may file an

application to seek exemptive relief. NASD Regulation believes that firms that are subject to SEC Rule 15c3-1 should not be exempted from the requirement to employ a FINOP or Introducing FINOP. In the rare instance that a firm believes that a particular individual should not be required to take and pass the Series 27 or Series 28 Examination based on that individual's experience and qualifications, the firm may seek an exam waiver for that individual pursuant to Rule 1070(e).

The proposed amendments to Rule 1022(b) also would eliminate the ability – as well as the necessity -- of members that are exempt from SEC Rule 15c3-1 to seek exemptive relief from the FINOP or Introducing FINOP requirements. As noted above, the proposed changes to both Rule 1022(b) and Rule 1022(c) would make clear that the requirements to have a FINOP or Introducing FINOP apply only to firms that are subject to the requirements of SEC Rule 15c3-1. Members that are exempt from or otherwise not subject to the SEC's net capital rule would no longer be subject to the requirements of either Rule 1022(b) or Rule 1022(c). Therefore, under the proposed amendments, it would no longer be necessary for such members to seek exemptive relief from the requirements of those rules.

The proposed amendments would have no effect on individuals who are currently grandfathered for the Series 27 or Series 28 Examination, because these persons are considered to possess the license for which they were grandfathered.<sup>3</sup> In addition, firms

---

<sup>3</sup> Only individuals who qualified as "Financial Principals" before the establishment of the Series 27 examination were grandfathered as FINOPs and were not required to take either the Series 27 or Series 28 examination.

currently the subject of a FINOP waiver would not be subject to the proposed rule amendments .

(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 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 Regulation believes that the proposed rule change is designed to accomplish these ends by clarifying the applicability of Rules 1022(b) and (c) to members by making the citations in the rules consistent with SEC Rule 15c3-1 and by eliminating the ability of broker-dealers that are subject to SEC Rule 15c3-1 from operating without a FINOP or Introducing FINOP. The proposed rule change also would help members by clarifying the circumstances under which a FINOP must have taken and passed either a Series 27 or Series 28 Examination.

(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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- A. by order approve such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be disapproved.

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