

March 26, 2001

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

**Re: SR-NASD-2001-22: Revisions to Series 26 Examination Program;
Immediate Effectiveness Requested**

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 feel free to contact Eric Moss, Office of General Counsel, NASD Regulation, Inc., at (202) 728-8982; e-mail Eric.Moss@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Patrice M. Gliniecki
Vice President and
Deputy General Counsel

Enclosures

File No. SR-NASD-2001-22
Consists of 11 Pages

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 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”) revisions to the examination specifications and study outline for the Investment Company Products/Variable Contracts Limited Principal (Series 26) examination program. The proposed revisions would update the material to reflect changes to the rules, regulations, and practices covered by the examination. The proposed revisions are reflected in the question bank for the Series 26 examination and are available for Commission review. NASD Regulation is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD Regulation or the National Association of Securities Dealers, Inc. (“NASD” or “Association”).¹

A description of the Series 26 examination is included in the attached revised study outline. Confidential information on the examination is included in the revised examination specifications, which have been omitted from this filing and are being submitted under separate cover to the Secretary of the SEC pursuant to Rule 24b-2 under the Act.

(b) Not applicable.

¹ On October 8, 1999, NASD Regulation filed SR-NASD-99-51 with the Commission, proposing revisions to the Series 26 examination program. In support of SR-NASD-99-51, NASD Regulation submitted proposed examination questions. The Commission staff voiced concern that certain questions were ambiguous. NASD Regulation has endeavored to modify these questions. When an item could not be resolved through modification, the item was removed from the examination. NASD Regulation has withdrawn SR-NASD-99-51 from consideration, and is filing SR-NASD-2001-22 in its place. Based upon instruction from the Commission staff, NASD Regulation is submitting SR-NASD-2001-22 for immediate effectiveness, and is not attaching the examination bank for Commission review. *See* Letter to Alden S. Adkins, Senior Vice President & General Counsel, NASD Regulation, Inc. from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

(a) The proposed revisions to the Series 26 examination program were developed by an industry committee and the staff of NASD Regulation's Qualifications Department. The proposed rule change was approved by the Board of Directors of NASD Regulation at its meeting on January 24, 2001, which authorized the filing of the proposed rule change with the SEC. Counsel for 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 ("Delegation Plan"). The NASD Board of Governors had an opportunity to review the proposed rule change at its meeting on January 25, 2001. No other action by NASD Regulation is necessary for the filing of the proposed rule change. Section 1 of Article IV of the NASD Regulation By-Laws and Section II.A.1. of the Delegation Plan permit the Board of Directors of NASD Regulation to adopt amendments to NASD Rules without recourse to the membership for approval.

The proposed rule change is effective upon filing with the Commission pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f) thereunder. The implementation (or operative) date of the proposed rule change will be July 2, 2001. NASD Regulation will announce the implementation (or operative) date of the revised Series 26 examination program in a Notice to Members to be published no later than 60 days following the date of filing of this proposed rule change.

(b) Questions regarding this submission may be directed to Eric Moss, Assistant General Counsel, NASD Regulation, Office of General Counsel, at (202) 728-8982.

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

(a) Purpose

Pursuant to Section 15A(g)(3) of the Act, which requires the NASD to prescribe standards of training, experience, and competence for persons associated with NASD members, the NASD has developed examinations, and administers examinations developed by other self-regulatory organizations, that are designed to establish that persons associated with NASD members have attained specified levels of competence and knowledge. NASD Regulation periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

The Series 26 Limited Principal examination is an NASD examination that qualifies an individual to function as a principal in a member's securities business limited to investment company products and variable contracts. This examination tests a candidate's knowledge of securities industry rules and regulations pertinent to such products.

A committee of industry representatives, in conjunction with NASD Regulation staff, recently undertook a review of the Series 26 examination program. As a result of this review, NASD Regulation is proposing revisions to the Series 26 test selection specifications, study outline, and question bank to reflect changes in relevant laws, rules, and regulations, and the development of new products, and to more accurately reflect the duties and responsibilities of a Series 26 principal. The examination program also has been revised to focus more closely on the supervision of sales activities. In addition, the material has been reorganized into five substantive categories of critical functions that a Series 26

principal may be required to perform. Those categories are: Hiring and Qualification; Training of Representatives; Supervision; Sales Practices; and Business Processing and Record-Keeping.

The examination will remain a two-hour, 100 multiple choice question examination with 70% as the passing score.

(b) Statutory Basis

NASD Regulation believes that the proposed revisions to the Series 26 examination program are consistent with the provisions of Sections 15A(b)(6) and 15A(g)(3) of the Act, which authorize the NASD to prescribe standards of training, experience, and competence for persons associated with NASD members.

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.

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.

NASD Regulation proposes to implement the revised Series 26 examination program on July 2, 2001.

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.
2. Study Outline for the Revised Series 26 Examination.
3. Specifications for the Revised Series 26 Examination. The specifications for the Series 26 Examination are confidential and are omitted from this filing. The specifications for the Series 26 Examination have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.

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 Deputy General Counsel

Date: March 26, 2001

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASD-2001-22)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by NASD Regulation, Inc. Relating to Revisions to the Investment Company Products/Variable Contracts Limited Principal (Series 26) Examination Program

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.³ NASD Regulation has designated the proposed rule change as constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule under paragraph (f)(1) of Rule 19b-4 under the Act,⁴ 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ On October 8, 1999, NASD Regulation filed SR-NASD-99-51 with the Commission, proposing revisions to the Series 26 examination program. In support of SR-NASD-99-51, NASD Regulation submitted proposed examination questions. The Commission staff voiced concern that certain questions were ambiguous. NASD Regulation has endeavored to modify these questions. When an item could not be resolved through modification, the item was removed from the examination. NASD Regulation has withdrawn SR-NASD-99-51 from consideration, and is filing SR-NASD-2001-22 in its place. Based upon instruction from the Commission staff, NASD Regulation is submitting SR-NASD-2001-22 for immediate effectiveness, and is not attaching the examination bank for Commission review. *See* Letter to Alden S. Adkins, Senior Vice President & General Counsel, NASD Regulation, Inc. from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000.

I. SELF-REGULATORY ORGANIZATION'S STATEMENT OF THE TERMS OF SUBSTANCE OF THE PROPOSED RULE CHANGE

NASD Regulation is proposing revisions to the Investment Company Products/Variable Contracts Limited Principal (Series 26) examination program.⁵ The proposed revisions consist of general revisions to update the examination programs to reflect changes in the rules, regulations, and practices covered by the examination. The proposed revisions do not result in any textual changes to the By-Laws, Schedule of By-Laws, or Rules of NASD Regulation or the National Association of Securities Dealers, Inc. ("NASD").

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

Pursuant to 15A(g)(3) of the Act, which requires the NASD to prescribe standards of training, experience, and competence for persons associated with NASD members, the NASD has developed examinations, and administers examinations developed by other self-regulatory organizations, that are

⁴ 17 CFR 240.19b-4(f)(1).

⁵ The revised examination specifications are confidential and have been submitted under separate cover to the Commission pursuant to Rule 24b-2 under the Act.

designed to established that persons associated with NASD members have attained specified levels of competence and knowledge. NASD Regulation periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

The Series 26 Limited Principal examination is an NASD examination that qualifies individuals to function as a principal in a member's securities business limited to investment company products and variable contracts. This examination tests a candidate's knowledge of securities industry rules and regulations pertinent to such products.

A committee of industry representatives, in conjunction with NASD Regulation staff, recently undertook a review of the Series 26 examination program. As a result of this review, NASD Regulation is proposing revisions to the Series 26 test selection specifications, study outline, and question bank to reflect changes in relevant laws, rules, and regulations and the development of new products, and to more accurately reflect the duties and responsibilities of a Series 26 principal. The examination program also has been revised to focus more closely on the supervision of sales activities. In addition, the material has been reorganized into five substantive categories of critical functions that a Series 26 principal may be required to perform. Those categories are: Hiring and Qualification; Training of Representatives; Supervision; Sales Practices; and Business Processing and Record-Keeping.

The examination will remain a two-hour, 100 multiple choice question examination with 70% as the passing score.

(2) Statutory Basis

NASD Regulation believes that the proposed revisions are consistent with the provisions of Sections 15A(b)(6) and 15A(g)(3) of the Act, which authorize the NASD to prescribe standards of training, experience, and competence for persons associated with NASD members.

(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,⁶ in that the foregoing proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule. NASD Regulation proposes to implement the revised Series 26 examination program on July 2, 2001.

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.

⁶ 17 CFR 240.19b-4(f)(1).

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