

April 9, 2002

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-2002-50: Revisions to Series 39 Examination Program**

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 Afshin Atabaki, Office of General Counsel, NASD Regulation, Inc., at (202) 728-8902; e-mail afshin.atabaki@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

File No. SR-NASD-2002-50  
Consists of 13 Pages

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C.

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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

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> 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 Limited Principal – Direct Participation Programs (Series 39) examination program. The proposed revisions update the material to reflect changes to the laws, rules, and regulations covered by the examination and to reflect more accurately the duties and responsibilities of a direct participation programs principal. Additionally, the proposed revisions change the method for scoring the Series 39 examination. The proposed revisions are reflected in the attached study outline. The proposed revisions also are reflected in the Series 39 examination selection specifications for which NASD Regulation has requested confidential treatment,<sup>2</sup> as well as in the question bank, which is available for Commission review.<sup>3</sup>

NASD Regulation is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD Regulation or the NASD.

(b) Not applicable.

(c) Not applicable.

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<sup>1</sup> 15 USC 78s(b)(1) (2001).

<sup>2</sup> The Series 39 examination specifications have been omitted from this filing and have been submitted under separate cover to the Commission’s Secretary pursuant to Rule 24b-2 under the Act. See 17 CFR 240.24b-2 (2001).

<sup>3</sup> Based upon instruction from the Commission staff, NASD Regulation is submitting SR-NASD-2002-50 for immediate effectiveness, and is not filing the question bank for Commission review. See Letter to Alden S. Adkins,

2. Procedures of the Self-Regulatory Organization

(a) The proposed revisions to the Series 39 examination program were developed by an industry committee and the staff of NASD Regulation's Qualifications Department. At its meeting on January 24, 2001, the Board of Directors of NASD Regulation authorized the staff of NASD Regulation to propose modifications to examination programs, including study outlines, examination specifications, and question banks, and to file the proposed modifications with the Commission, without obtaining further or specific authorization from the Board of Directors of NASD Regulation. The NASD Board of Governors had an opportunity to review that action at its meeting on January 25, 2001. Further, counsel for The Nasdaq Stock Market, Inc. and NASD Dispute Resolution, Inc. were provided an opportunity to consult with respect to that action. No other action by NASD Regulation is necessary for the filing of the proposed rule change.

The proposed rule change is effective upon filing with the Commission pursuant to Section 19(b)(3)(A)(i) of the Act<sup>4</sup> and Rule 19b-4(f)(1) thereunder.<sup>5</sup> NASD Regulation proposes to implement the revised Series 39 examination program on August 1, 2002. NASD Regulation will announce the implementation date of the revised Series 39 examination program in a *Notice to Members* to be published no later than 60 days following the date of the filing of this proposed rule change.

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Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000.

<sup>4</sup> 15 USC 78s(b)(3)(A)(i).

<sup>5</sup> 17 CFR 240.19b-4(f)(1).

(b) Questions regarding this submission may be directed to Afshin Atabaki, Attorney, NASD Regulation, Office of General Counsel, at (202) 728-8902.

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,<sup>6</sup> 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 39 examination is an NASD examination that qualifies an individual to function as a limited principal responsible solely for a member's activities with respect to equity interests in or the debt of direct participation programs. A committee of industry representatives, together with NASD Regulation staff, recently undertook a review of the Series 39 examination program. As a result of this review, NASD Regulation is proposing revisions to the Series 39 examination study outline to reflect changes in relevant laws, rules, and regulations covered by the examination, including rules concerning anti-money laundering as

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<sup>6</sup> 15 USC 78o-3(g)(3).

well as Regulations FD<sup>7</sup> and S-P,<sup>8</sup> and to reflect more accurately the duties and responsibilities of a direct participation programs principal.

Additionally, NASD Regulation is proposing to change the method for scoring the Series 39 examination. Currently, the Series 39 examination is graded based on two passing scores. Individuals taking the examination must obtain a score of 70% on the substantive section relating to compliance with financial responsibility rules and a score of 70% on the remaining substantive sections. Those individuals who fail either part must retake the Series 39 examination. NASD Regulation is proposing to combine both parts and require 70% as the passing score.<sup>9</sup> NASD Regulation also is proposing to reduce the total number of multiple-choice questions to 95 from 100. The testing time for the Series 39 examination will remain at 2 hours.

To adequately test the material covered in the revised examination, NASD Regulation is proposing to reorganize the substantive sections of the outline and to allocate questions to each section as follows: Structure and Regulation of Direct Participation Program Offerings, 47

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<sup>7</sup> 17 CFR 243.100-103.

<sup>8</sup> 17 CFR 248.1-18; 17 CFR 248.30; and 17 CFR 248, Appendix A.

<sup>9</sup> NASD Rules 1022(b) and 1022(c) were recently amended to require members that are subject to Exchange Act Rule 15c3-1 to have at least one associated person registered as a financial and operations principal. *See* Securities Exchange Act Release No. 44332 (May 21, 2001), 66 FR 29196 (May 29, 2001) (Order Approving SR-NASD-2000-77). In light of these amendments, NASD Regulation believes that it is no longer necessary for an individual who is qualifying as a direct participation programs principal to pass a separately scored substantive section of the examination relating to financial responsibility. Accordingly, NASD Regulation is proposing to combine the substantive section relating to compliance with financial responsibility rules with the other substantive sections and to require one passing score for the entire examination. Additionally, as discussed below, NASD Regulation is proposing to decrease the number of questions in the substantive section relating to compliance with financial responsibility rules to 17 questions from 24 questions.

questions; Sales Supervision, General Supervision of Employees, Regulatory Framework of NASD, 31 questions; and Compliance with Financial Responsibility Rules, 17 questions.

NASD Regulation is proposing similar changes to the corresponding sections of the Series 39 examination selection specifications and question bank.

(b) Statutory Basis

NASD Regulation believes that the proposed revisions to the Series 39 examination program are consistent with the provisions of Sections 15A(b)(6)<sup>10</sup> and 15A(g)(3) of the Act,<sup>11</sup> 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.

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<sup>10</sup> 15 USC 78o-3(b)(6).

<sup>11</sup> 15 USC 78o-3(g)(3).

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

The proposed rule change is effective pursuant to Section 19(b)(3)(A)(i) of the Act<sup>12</sup> and subparagraph (f)(1) of Rule 19b-4 thereunder,<sup>13</sup> 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 of the self-regulatory organization. NASD Regulation proposes to implement the revised Series 39 examination program on August 1, 2002.

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 39 Examination.
3. Selection Specifications for the Revised Series 39 Examination. NASD Regulation has requested confidential treatment for the Series 39 examination, and thus the specifications are omitted from this filing. The specifications for the Series 39 examination have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.<sup>14</sup>

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<sup>12</sup> 15 USC 78s(b)(3)(A)(i).

<sup>13</sup> 17 CFR 240.19b-4(f)(1).

<sup>14</sup> 17 CFR 240.24b-2.

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: \_\_\_\_\_

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Patrice M. Gliniecki  
Vice President and Acting General Counsel

Date: April 9, 2002

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-NASD-2002-50)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by NASD Regulation, Inc. Relating to Revisions to the Limited Principal – Direct Participation Programs (Series 39) Examination Program

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 \_\_\_\_\_, 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. NASD Regulation has designated this proposed rule change as constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the self-regulatory organization under Section 19(b)(3)(A)(i) of the Act<sup>3</sup> and Rule 19b-4(f)(1) thereunder,<sup>4</sup> which renders the proposal effective upon receipt of this filing by the Commission.<sup>5</sup> The Commission

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<sup>1</sup> 15 USC 78s(b)(1) (2001).

<sup>2</sup> 17 CFR 240.19b-4 (2001).

<sup>3</sup> 15 USC 78s(b)(3)(A)(i).

<sup>4</sup> 17 CFR 240.19b-4(f)(1).

<sup>5</sup> See Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000.

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 revisions to the Limited Principal – Direct Participation Programs (Series 39) examination program. The proposed revisions update the Series 39 examination study outline,<sup>6</sup> selection specifications,<sup>7</sup> and question bank<sup>8</sup> to reflect changes to the laws, rules, and regulations covered by the examination and to reflect more accurately the duties and responsibilities of a direct participation programs principal. The proposed revisions also change the method for scoring the Series 39 examination. The proposed revisions do not result in any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD Regulation or the 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

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<sup>6</sup> The text of the Series 39 study outline is available at NASD Regulation and at the Commission.

<sup>7</sup> NASD Regulation has requested confidential treatment for the Series 39 examination, and thus the specifications are omitted from this filing. The specifications have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.

<sup>8</sup> Based upon instruction from the Commission staff, NASD Regulation is not filing the question bank for Commission review. See Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000.

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 Section 15A(g)(3) of the Act,<sup>9</sup> 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 39 examination is an NASD examination that qualifies an individual to function as a limited principal responsible solely for a member's activities with respect to equity interests in or the debt of direct participation programs. A committee of industry representatives, together with NASD Regulation staff, recently undertook a review of the Series 39 examination program. As a result of this review, NASD Regulation is proposing revisions to the Series 39 examination study outline to reflect changes in relevant laws, rules, and regulations covered by the examination, including rules concerning anti-money laundering as

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<sup>9</sup> 15 USC 78o-3(g)(3).

well as Regulations FD<sup>10</sup> and S-P,<sup>11</sup> and to reflect more accurately the duties and responsibilities of a direct participation programs principal.

Additionally, NASD Regulation is proposing to change the method for scoring the Series 39 examination. Currently, the Series 39 examination is graded based on two passing scores. Individuals taking the examination must obtain a score of 70% on the substantive section relating to compliance with financial responsibility rules and a score of 70% on the remaining substantive sections. Those individuals who fail either part must retake the Series 39 examination. NASD Regulation is proposing to combine both parts and require 70% as the passing score.<sup>12</sup> NASD Regulation also is proposing to reduce the total number of multiple-choice questions to 95 from 100. The testing time for the Series 39 examination will remain at 2 hours.

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<sup>10</sup> 17 CFR 243.100-103.

<sup>11</sup> 17 CFR 248.1-18; 17 CFR 248.30; and 17 CFR 248, Appendix A.

<sup>12</sup> NASD Rules 1022(b) and 1022(c) were recently amended to require members that are subject to Exchange Act Rule 15c3-1 to have at least one associated person registered as a financial and operations principal. *See* Securities Exchange Act Release No. 44332 (May 21, 2001), 66 FR 29196 (May 29, 2001) (Order Approving SR-NASD-2000-77). In light of these amendments, NASD Regulation believes that it is no longer necessary for an individual who is qualifying as a direct participation programs principal to pass a separately scored substantive section of the examination relating to financial responsibility. Accordingly, NASD Regulation is proposing to combine the substantive section relating to compliance with financial responsibility rules with the other substantive sections and to require one passing score for the entire examination. Additionally, as discussed below, NASD Regulation is proposing to decrease the number of questions in the substantive section relating to compliance with financial responsibility rules to 17 questions from 24 questions.

questions; Sales Supervision, General Supervision of Employees, Regulatory Framework of NASD, 31 questions; and Compliance with Financial Responsibility Rules, 17 questions.

NASD Regulation is proposing similar changes to the corresponding sections of the Series 39 examination selection specifications and question bank.

(2) Statutory Basis

NASD Regulation believes that the proposed revisions are consistent with the provisions of Sections 15A(b)(6)<sup>13</sup> and 15A(g)(3) of the Act,<sup>14</sup> 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.

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<sup>13</sup> 15 USC 78o-3(b)(6).

<sup>14</sup> 15 USC 78o-3(g)(3).

III. DATE OF EFFECTIVENESS OF THE PROPOSED RULE CHANGE AND TIMING FOR COMMISSION ACTION

The proposed rule change has become effective pursuant to Section 19(b)(3)(A)(i) of the Act<sup>15</sup> and Rule 19b-4(f)(1) thereunder,<sup>16</sup> 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 of the self-regulatory organization. NASD Regulation proposes to implement the revised Series 39 examination program on August 1, 2002.

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,

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<sup>15</sup> 15 USC 78s(b)(3)(A)(i).

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.<sup>17</sup>

Jonathan G. Katz  
Secretary

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<sup>16</sup> 17 CFR 240.19b-4(f)(1).

<sup>17</sup> 17 CFR 200.30-3(a)(12).