

Barbara Z. Sweeney  
Senior Vice President and  
Corporate Secretary

January 16, 2004

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: File No. SR-NASD-2004-010 - To Establish Effective Date For NASD Rule  
1050, Registration of Research Analysts**

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 Philip A. Shaikun, Office of General Counsel, Division of Regulatory Policy and Oversight, NASD, Inc. at (202) 728-8451; e-mail philip.shaikun@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Barbara Z. Sweeney  
Senior Vice President and  
Corporate Secretary

Enclosures

File No. SR-NASD-2004-010  
Consists of 11 Pages  
January 16, 2004

**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 (“Exchange Act” or “Act”), the National Association of Securities Dealers, Inc. (“NASD”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to establish “not later than March 30, 2004” as the effective date for Rule 1050, which requires persons associated with a member who function as research analysts to be registered as such and to pass a qualification examination. The proposal also would ensure that the effective date for Rule 1050 would occur no sooner than 30 days after a study outline for the Research Analyst Qualification Examination is filed by NASD with the Commission and becomes effective.<sup>1</sup>

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

(a) The Board of Directors of NASD Regulation, Inc. approved the proposed rule change at its meeting on September 25, 2002, and authorized the filing of the 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 NASD to its Subsidiaries. The NASD Board of Governors had the opportunity to review the proposed rule change at its meeting on September 26, 2002. No other action by the NASD is necessary for the filing of the proposed rule change.

---

<sup>1</sup> NASD understands that it may file the study outline for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange Act and Rule 19b-4(f)(6) thereunder. *See* Letter to Alden S. Atkins from Belinda Blaine (July 24, 2000).

(b) Questions regarding this rule filing may be directed to Philip A. Shaikun, Associate General Counsel, Office of General Counsel, Division of Regulatory Policy and Oversight, NASD, at (202) 728-8451.

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

(a) Purpose

NASD is filing the proposed rule change to establish “not later than March 30, 2004” as the effective date for Rule 1050, which requires that any person associated with a member who functions as a “research analyst” be registered as such and pass a qualification examination. For the purposes of Rule 1050, “research analyst” means an associated person who is primarily responsible for the preparation of the substance of a research report or whose name appears on a research report.

The SEC approved the rule on July 29, 2003, together with amendments to NASD Rules 2711 and 1120 that augmented research analyst conflict of interest rules generally and imposed registration and continuing education requirements on research analysts.<sup>2</sup> The approval order established January 26, 2004, or “such later date as determined by NASD” as the effective date for the Rule 1050 registration provision. Thus, the approval order recognized that additional time might be necessary to fully develop the examination and complete the attendant administrative requirements necessary to begin registration and testing.

NASD has been working diligently with the New York Stock Exchange (“NYSE”) to develop and implement the qualification examination required by Rule 1050 and NYSE’s

---

<sup>2</sup> Exchange Release No. 48252, 68 FR 45875 (August 4, 2003).

corresponding Rule 344. As a result, NASD shortly will file with the Commission the study outline and specifications of the examination. In addition, NASD intends to submit to the Commission shortly a proposed rule change that would set forth certain prerequisites and exemptions to the registration and qualification requirements. A fee filing also will follow separately. Therefore, NASD is proposing to establish an effective date of “not later than March 30, 2004” for Rule 1050 to allow sufficient time for (1) consideration of, and action on, the aforementioned proposed rule changes by the Commission and (2) members to prepare their research analysts to take the examination after a study outline is filed with the Commission and made effective. In furtherance of the latter, NASD also is proposing that the effective date be set no sooner than 30 days after the Commission acts on a study outline for the Research Analyst Qualification Examination.

(b) Statutory Basis

NASD 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 NASD 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 believes that this proposed rule change will foster greater investor protection by providing adequate time for the development of a comprehensive research analyst competency examination and for members to prepare their research analysts for such examination.

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

NASD 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 Rule 1050, previously approved by the SEC. The sole purpose of the rule change is to establish an effective date for a rule previously approved.

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

The NYSE is expected to file with the Commission, on or around the filing date of this proposed rule change, a similar proposed rule change to establish the same effective date for its corresponding rule related to registration of research analysts.

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 has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

NASD

BY: \_\_\_\_\_  
Barbara Z. Sweeney  
Senior Vice President and Corporate Secretary

Date: January 16, 2004

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-

; File No. SR-NASD-2004-010)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by National Association of Securities Dealers, Inc. To Establish Effective Date for NASD Rule 1050, Registration Research Analysts

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act” or “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”) 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. NASD 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 series under paragraph (f)(1) of Rule 19b-4 under the Act,<sup>3</sup> 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.

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

Pursuant to the provisions of Section 19(b)(1) of the Exchange Act, NASD is filing with the SEC a proposed rule change rule change to establish “not later than March 30, 2004” as the effective date for Rule 1050, which requires persons associated with a member who function as

---

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

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

<sup>3</sup> 17 CFR § 240.19b-4(f)(1).

research analysts to be registered as such and to pass a qualification examination. The proposal also would ensure that the effective date for Rule 1050 would occur no sooner than 30 days after a study outline for the Research Analyst Qualification Examination is filed by NASD with the Commission and becomes effective.<sup>4</sup>

II. SELF-REGULATORY ORGANIZATION'S STATEMENT OF THE PURPOSE OF, AND STATUTORY BASIS FOR, THE PROPOSED RULE CHANGE

In its original rule filing with the Commission, NASD 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 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

NASD is filing the proposed rule change to establish “not later than March 30, 2004” as the effective date for Rule 1050, which requires that any person associated with a member who functions as a “research analyst” be registered as such and pass a qualification examination. For the purposes of Rule 1050, “research analyst” means an associated person who is primarily responsible for the preparation of the substance of a research report or whose name appears on a research report.

The SEC approved the rule on July 29, 2003, together with amendments to NASD Rules 2711 and 1120 that augmented research analyst conflict of interest rules generally and imposed

---

<sup>4</sup> NASD understands that it may file the study outline for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange Act and Rule 19b-4(f)(6) thereunder. See Letter to Alden S. Atkins from Belinda Blaine (July 24, 2000).

registration and continuing education requirements on research analysts.<sup>5</sup> The approval order established January 26, 2004, or “such later date as determined by NASD” as the effective date for the Rule 1050 registration provision. Thus, the approval order recognized that additional time might be necessary to fully develop the examination and complete the attendant administrative requirements necessary to begin registration and testing.

NASD has been working diligently with the New York Stock Exchange (“NYSE”) to develop and implement the qualification examination required by Rule 1050 and NYSE’s corresponding Rule 344. As a result, NASD shortly will file with the Commission the study outline and specifications of the examination. In addition, NASD intends to submit to the Commission shortly a proposed rule change that would set forth certain prerequisites and exemptions to the registration and qualification requirements. A fee filing also will follow separately. Therefore, NASD is proposing to establish an effective date of “not later than March 30, 2004” for Rule 1050 to allow sufficient time for (1) consideration of, and action on, the aforementioned proposed rule changes by the Commission and (2) members to prepare their research analysts to take the examination after a study outline is filed with the Commission and made effective. In furtherance of the latter, NASD also is proposing that the effective date be set no sooner than 30 days after the Commission acts on a study outline for the Research Analyst Qualification Examination.

(b) Statutory Basis

NASD 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 NASD rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of

---

<sup>5</sup> Exchange Release No. 48252, 68 FR 45875 (August 4, 2003).

trade, and, in general, to protect investors and the public interest. NASD believes that this proposed rule change will foster greater investor protection by providing adequate time for the development of a comprehensive research analyst competency examination and for members to prepare their research analysts for such examination.

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

NASD 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

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 has been filed by NASD as a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule series under Rule 19b-4(f)(1) under the Act.<sup>6</sup> Consequently, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder.

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,

---

<sup>6</sup> 17 CFR § 240.19b-4(f)(1).

Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549.

Comments may also be submitted electronically at the following e-mail address: [rule-comments@sec.gov](mailto:rule-comments@sec.gov). All comment letters should refer to File No. SR-NASD-2004-010. This file number should be included on the subject line if e-mail is used. To help us process and review comments more efficiently, comments should be sent in hardcopy or by e-mail but not by both methods. 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).

Margaret H. McFarland  
Deputy Secretary