

Barbara Z. Sweeney
Senior Vice President and Corporate Secretary
(202) 728-8062-Direct
(202) 728-8075-Fax

December 10, 2003

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-2003-186 — Administration of Qualification
Examinations on Security Futures**

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 Gary L. Goldsholle, Office of General Counsel, Regulatory Policy and Oversight, NASD, at (202) 728-8104; e-mail gary.goldsholle@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

cc: TR Lazo

File No. SR-NASD-2003-186
Consists of 17 Pages
December 10, 2003

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”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change discussing the implementation of new and revised qualification examinations to address trading in security futures.

(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, Inc. at its meetings on April 25, July 25, and October 24, 2001, and in part by the Executive Committee of the NASD at its meeting on June 21, 2001, which 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 an opportunity to review the proposed rule change at its meetings on April 26, July 26, and October 25, 2001. No other action by NASD is necessary for the filing of the proposed rule change.

(b) Questions regarding this rule filing may be directed to Gary L. Goldsholle, Associate General Counsel, Office of General Counsel, Regulatory Policy and Oversight, NASD, at (202) 728-8104.

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

(a) Purpose

The Commodity Futures Modernization Act of 2000 (“CFMA”) lifted the ban on the trading of security futures (i.e., futures on single stocks and on narrow-based stock indexes). At the time the CFMA was enacted, expectations for security futures were very high, and two separate markets were developed to trade these new products. To meet the challenge of ensuring that individuals engaging in a security futures business were properly qualified, NASD took the unique step of mandating that firms include training in security futures as part of their firm-element continuing education program. Furthermore, to assist firms in meeting this responsibility, NASD and the National Futures Association (“NFA”) contracted with the Institute for Financial Markets to develop an internet-based training program. NASD and NFA have made this program available to firms and registered representatives for free. Since its inception in October 2002, over 12,000 individuals have completed the Internet training, which takes approximately two to three hours.

At the time trading in security futures commenced, NASD also indicated that it planned to both modify and create qualification examinations to address trading in security futures. Specifically, NASD intended to modify the Series 4 examination (Registered Options and Security Futures Principal (replacing Registered Options Principal)), Series 9/10 examination (Limited Principal General Securities Sales Supervisor), and Series 42 examination (Limited Representative Options and Security Futures (replacing Limited Representative Options)). In addition, NASD intended to create a new Series 43 examination for general securities representatives (Series 7) seeking to engage in a

security futures business.¹ The Series 43 is targeted at new entrants into the securities industry. Existing registrants (i.e., those registered before the Series 43 examination is effective) are required to complete a firm-element continuing education program prior to engaging in a security futures business. Once the Series 43 was developed, NASD intended to permit existing registrants the option of completing the firm-element continuing education program in lieu of the Series 43 examination until December 31, 2006.

In the approximately one year since security futures began trading, NASD has devoted substantial resources to creating the Series 43 examination. Industry and SRO representatives² have met for 11 days and have devoted collectively over 1800 hours in meeting time developing a content outline and a question bank for the Series 43.³ In addition, NASD has incurred over \$45,000 in expenses to develop these materials. The Series 43 examination is now complete. Revised study outlines for the Series 4, 9/10 and 42 also have been developed. Questions for those examinations will be borrowed from the Series 43 question bank and developed by committees charged with maintaining and reviewing the question banks for those examinations.

Despite these efforts, current data on trading volume has shown there to be very limited trading activity in security futures. According to data at The Options Clearing

¹ A new Series 43 examination was necessary, in part, because the New York Stock Exchange did not intend to incorporate questions on security futures on the Series 7 examination.

² SRO representatives from NASD, NFA, CBOE, AMEX, OneChicago, and NQLX helped develop the content outline and question bank.

³ These totals do not include travel time, time spent preparing for meetings (including developing and rewriting questions), and NASD staff time administering the Series 43 program.

Corporation, the average trading volume for 2003 in security futures is around 10,000 contracts per day across the two exchanges. In addition, our market regulation surveillance confirms that most of this volume is proprietary trading among market-maker firms. Our colleagues at NFA have informed us that in 2003, security futures products represented 0.0028% of all futures contracts traded. While similar statistics are not calculated for the securities industry, the figures would be substantially lower given the size of the securities markets.

Moreover, interest among registered representatives to engage in a security futures business has waned. Since July 2003, an average of fewer than 50 registered persons per month in the securities industry have completed the Internet-based continuing education.

In view of the foregoing, we do not believe it is appropriate or necessary to institute the Series 43 or amend other existing qualification examinations at the present time. We believe the current system of a firm-element continuing education requirement continues to work well. Our feedback on the Internet-training program has been very positive. In addition, we also have not received any evidence of customer complaints in these products. Moreover, we are hesitant to amend existing examinations to address security futures because the net result will be to de-emphasize other more pertinent subject areas, as we do not intend to expand the number of questions on the Series 4, 9/10, and 42.⁴ Finally, the introduction of a separate, stand-alone qualification examination for security futures seems excessive in view of the level of trading in these products. We also anticipate that very few representatives would elect to take the Series 43.

⁴ The problem is equally acute on the futures industry side, where the proposed revised Series 3 examination will have approximately 17% of its questions addressing security futures.

We note that our colleagues at NFA have made similar conclusions about the need to revise the Series 3 to reflect trading of security futures. Both NASD and NFA believe that the qualification requirements between the securities and futures industry should generally be comparable, and, as regulators, we have sought to avoid favoring one industry group over another, or actions leading to regulatory arbitrage.

While we do not plan to implement the new or revised qualification examinations today, we intend to monitor activity in security futures very closely. We also intend to continue coordinating with NFA. We intend to make periodic assessments of the activity in security futures to determine the appropriate time to implement the examinations. We do not believe that there is any single factor that should be determinative of whether security futures examinations should be implemented. Rather, we intend to review the following:

- ? Volume in security futures contracts
- ? Analysis of who is trading security futures
- ? Number of registered representatives completing continuing education
- ? Number of accounts authorized to trade security futures
- ? Nature of security futures customers
- ? Evidence, if any, of customer complaints
- ? Evidence, if any, of regulatory concerns arising from our surveillance and examination programs.

Once we determine that new/revised qualification examinations are appropriate, or the SEC requests that we implement the examinations, we will be able to have them effective

in less than four months. As our efforts to date indicate, we remain fully committed to providing the necessary resources to ensure that representatives engaging in a security futures business are properly trained and qualified. We intend to closely monitor activity in security futures to determine when, and if, it becomes an appropriate date to implement revised qualification examinations.

(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'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 believes that for the reasons stated above it is appropriate to defer implementation of revised and new qualification examinations concerning security futures.

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

NASD 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)

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A) of the Act and paragraph (f)(6) of Rule 19b-4 thereunder, in that the proposed rule change does not significantly affect the protection of investors or the public interest; does not impose any significant burden on competition; and does not become operative for 30 days after filing. The Commission has granted NASD a waiver from the requirement under Rule 19b-4, to submit written notice of the intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing.

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

NASD, INC.

BY: _____
Barbara Z. Sweeney, Senior Vice President and
Corporate Secretary

Date: December 10, 2003

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-

; File No. SR-NASD-2003-186

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to the Administration of Qualification Examinations on Security Futures

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”) 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 “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 under the Act,³ 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

NASD is discussing the implementation of new and revised qualification examinations to address trading in security futures.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

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 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

The Commodity Futures Modernization Act of 2000 (“CFMA”) lifted the ban on the trading of security futures (i.e., futures on single stocks and on narrow-based stock indexes). At the time the CFMA was enacted, expectations for security futures were very high, and two separate markets were developed to trade these new products. To meet the challenge of ensuring that individuals engaging in a security futures business were properly qualified, NASD took the unique step of mandating that firms include training in security futures as part of their firm-element continuing education program. Furthermore, to assist firms in meeting this responsibility, NASD and the National Futures Association (“NFA”) contracted with the Institute for Financial Markets to develop an internet-based training program. NASD and NFA have made this program available to firms and registered representatives for free. Since its inception in October 2002, over 12,000 individuals have completed the Internet training, which takes approximately two to three hours.

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Once we determine that new/revised qualification examinations are appropriate, or the SEC requests that we implement the examinations, we will be able to have them effective in less than four months. As our efforts to date indicate, we remain fully committed to providing the necessary resources to ensure that representatives engaging in a security futures business are properly trained and qualified. We intend to closely monitor activity in security futures to determine when, and if, it becomes an appropriate date to implement revised qualification examinations.

(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'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.

⁷ The problem is equally acute on the futures industry side, where the proposed revised Series 3 examination will have approximately 17% of its questions addressing security futures.

NASD believes that for the reasons stated above it is appropriate to defer implementation of revised and new qualification examinations concerning security futures.

(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 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 has been filed by NASD as a “non-controversial” rule change under Rule 19b-4(f)(6) under the Act.⁸ Consequently, because the foregoing proposed rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative until more than 30 days from December 10, 2003, the date on which it was filed, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder. The Commission has granted NASD a waiver from the requirement to provide the Commission with written notice of its intent to file the proposed rule change at least five days prior to the filing date.

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

⁸ 17 CFR 240.19b-4(f)(6).

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, including whether the proposed rule change is consistent with the act. 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. Comments may also be submitted electronically at the following e-mail address: rule-comments@sec.gov. All comment letters should refer to File No. SR-NASD-2003-186. 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 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