

Proposed Rule Change by National Association of Securities Dealers
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input type="checkbox"/>	Section 19(b)(3)(A) <input checked="" type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action <input type="checkbox"/>		Date Expires <input type="text"/>	<input checked="" type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>
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Description
Provide a brief description of the proposed rule change (limit 250 characters).

Contact Information
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name	<input type="text" value="Afshin"/>	Last Name	<input type="text" value="Atabaki"/>
Title	<input type="text" value="Assistant General Counsel"/>		
E-mail	<input type="text" value="afshin.atabaki@nasd.com"/>		
Telephone	<input type="text" value="(202) 728-8902"/>	Fax	<input type="text" value="(202) 728-8264"/>

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934,

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

Date

By (Name)
 (Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

Add Remove View

Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

Add Remove View

Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

Add Remove View

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ the National Association of Securities Dealers, Inc. (“NASD”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) revisions to the study outline and selection specifications for the Limited Principal – Direct Participation Programs (Series 39) examination program.² The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and responsibilities of a direct participation programs principal. NASD is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD.

The revised study outline is attached. The Series 39 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to Rule 24b-2 under the Act.³

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

¹ 15 U.S.C. 78s(b)(1).

² NASD also is proposing corresponding revisions to the Series 39 question bank, but based upon instruction from the Commission staff, NASD is submitting SR-NASD-2006-085 for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder, and 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. The question bank is available for Commission review.

³ 17 CFR 240.24b-2.

At its meeting on January 24, 2001, the Board of Directors of NASD Regulation, Inc. authorized the staff 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, Inc. The Board of Governors of NASD 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 is necessary for the filing of the proposed rule change.

As further discussed below, NASD is filing the proposed rule change for immediate effectiveness. NASD proposes to implement the revised Series 39 examination program on August 15, 2006. NASD will announce the proposed rule change and the implementation date in a Notice to Members (“NTM”) to be published on the same date as this filing.

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

(a) Purpose

Section 15A(g)(3) of the Act⁴ requires NASD to prescribe standards of training, experience, and competence for persons associated with NASD members. In accordance with that provision, 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

⁴ 15 U.S.C. 78o-3(g)(3).

and knowledge. NASD 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.

Pursuant to NASD Rule 1022(e), an associated person of a member who meets the definition of principal in Rule 1021 may register with NASD as a Limited Principal – Direct Participation Programs if: (1) the individual’s activities in the investment banking and securities business are limited solely to the equity interests in or the debt of direct participation programs as defined in Rule 1022(e)(2); (2) the individual also is registered as either a General Securities Representative (Series 7) or a Limited Representative – Direct Participation Programs (Series 22); and (3) the individual passes the Series 39 qualification examination.

A committee of industry representatives, together with NASD staff, recently undertook a review of the Series 39 examination program. As a result of this review, NASD is proposing to make the following revisions to the study outline to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and responsibilities of a direct participation programs principal. NASD is proposing to add a section on SEC Form S-1 registration. NASD also is proposing to add sections on NASD Rules 2370 (Borrowing from or Lending to Customers), 3012 (Supervisory Control System), 3013 (Annual Certification of Compliance and Supervisory Processes), 3510 (Business Continuity Plan) and 3520 (Emergency Contact Information).

In addition, NASD is proposing to revise the study outline to remove the sections on Section 4(3) (Transactions by a dealer) under the Securities Act of 1933⁵ and SEC Rule 174 (Delivery of prospectus by dealers; exemptions under Section 4(3)).⁶ Further, NASD is proposing to remove the sections on NASD Rules 1040 (Registration of Assistant Representatives and Proctors), 1110 (formerly Registration of Government Securities Principals and Representatives) and 2750 (Transactions with Related Persons), as well as to remove the section on NASD Certificate of Incorporation.

As a result of the revisions discussed above, the number of questions on each section of the study outline were modified as follows: Structure and Regulation of Direct Participation Program Offerings, decreased from 47 to 46 questions; Sales Supervision, General Supervision of Employees, Regulatory Framework of NASD, increased from 31 to 32 questions; and Compliance with Financial Responsibility Rules, increased from 17 to 22 questions.

NASD is proposing these changes to the entire content of the Series 39 examination, including the selection specifications and question bank. The number of questions on the Series 39 examination will increase from 95 to 100 questions, and candidates will now have 2¼ hours (135 minutes) to complete the exam. Also, each question will continue to count one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

(b) Statutory Basis

⁵ 15 U.S.C. 77d(3).

⁶ 17 CFR 230.174.

NASD believes that the proposed revisions to the Series 39 examination program are consistent with the provisions of Sections 15A(b)(6)⁷ and 15A(g)(3) of the Act,⁸ which authorize 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 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) 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)(i) of the Act⁹ and Rule 19b-4(f)(1) thereunder,¹⁰ 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 of NASD. NASD proposes to

⁷ 15 U.S.C. 78o-3(b)(6).

⁸ 15 U.S.C. 78o-3(g)(3).

⁹ 15 U.S.C. 78s(b)(3)(A)(i).

¹⁰ 17 CFR 240.19b-4(f)(1).

implement the revised Series 39 examination program on August 15, 2006. NASD will announce the implementation date in an NTM to be published on the same date as this filing.

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

Not applicable.

9. Exhibits

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 3a. Revised Study Outline for the Series 39 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 39 Examination.

NASD has requested confidential treatment for the Series 39 revised selection specifications, and thus the specifications are omitted from this filing. The Series 39 revised selection specifications have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.¹¹

Exhibit 3c. Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, Inc. from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000.

¹¹ 17 CFR 240.24b-2.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-2006-085)

Self-Regulatory Organizations: National Association of Securities Dealers, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Revisions to the Series 39 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”) 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 of the self-regulatory organization pursuant to Section 19(b)(3)(A)(i) of the Act³ and Rule 19b-4(f)(1) thereunder,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.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(i).

⁴ 17 CFR 240.19b-4(f)(1).

NASD is filing revisions to the study outline and selection specifications for the Limited Principal – Direct Participation Programs (Series 39) examination program.⁵ The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and responsibilities of a direct participation programs principal. NASD is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD.

The revised study outline is attached. The Series 39 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to Rule 24b-2 under the Act.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

1. Purpose

⁵ NASD also is proposing corresponding revisions to the Series 39 question bank, but based upon instruction from the Commission staff, NASD is submitting SR-NASD-2006-085 for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder, and 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. The question bank is available for Commission review.

Section 15A(g)(3) of the Act⁷ requires NASD to prescribe standards of training, experience, and competence for persons associated with NASD members. In accordance with that provision, 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 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.

Pursuant to NASD Rule 1022(e), an associated person of a member who meets the definition of principal in Rule 1021 may register with NASD as a Limited Principal – Direct Participation Programs if: (1) the individual’s activities in the investment banking and securities business are limited solely to the equity interests in or the debt of direct participation programs as defined in Rule 1022(e)(2); (2) the individual also is registered as either a General Securities Representative (Series 7) or a Limited Representative – Direct Participation Programs (Series 22); and (3) the individual passes the Series 39 qualification examination.

A committee of industry representatives, together with NASD staff, recently undertook a review of the Series 39 examination program. As a result of this review, NASD is proposing to make the following revisions to the study outline to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and responsibilities of a direct participation programs principal. NASD

⁶ 17 CFR 240.24b-2.

⁷ 15 U.S.C. 78o-3(g)(3).

is proposing to add a section on SEC Form S-1 registration. NASD also is proposing to add sections on NASD Rules 2370 (Borrowing from or Lending to Customers), 3012 (Supervisory Control System), 3013 (Annual Certification of Compliance and Supervisory Processes), 3510 (Business Continuity Plan) and 3520 (Emergency Contact Information).

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As a result of the revisions discussed above, the number of questions on each section of the study outline were modified as follows: Structure and Regulation of Direct Participation Program Offerings, decreased from 47 to 46 questions; Sales Supervision, General Supervision of Employees, Regulatory Framework of NASD, increased from 31 to 32 questions; and Compliance with Financial Responsibility Rules, increased from 17 to 22 questions.

NASD is proposing these changes to the entire content of the Series 39 examination, including the selection specifications and question bank. The number of questions on the Series 39 examination will increase from 95 to 100 questions, and

⁸ 15 U.S.C. 77d(3).

⁹ 17 CFR 230.174.

candidates will now have 2¼ hours (135 minutes) to complete the exam. Also, each question will continue to count one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

2. Statutory Basis

NASD believes that the proposed revisions to the Series 39 examination program are consistent with the provisions of Sections 15A(b)(6)¹⁰ and 15A(g)(3) of the Act,¹¹ which authorize 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 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 become effective pursuant to Section 19(b)(3)(A)(i) of the Act¹² and Rule 19b-4(f)(1) thereunder,¹³ in that the proposed rule change

¹⁰ 15 U.S.C. 78o-3(b)(6).

¹¹ 15 U.S.C. 78o-3(g)(3).

¹² 15 U.S.C. 78s(b)(3)(A)(i).

¹³ 17 CFR 240.19b-4(f)(1).

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 proposes to implement the revised Series 39 examination program on August 15, 2006. NASD will announce the implementation date in a Notice to Members to be published on the same date as this filing.

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change 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, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASD-2006-085 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.
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All submissions should refer to File Number SR-NASD-2006-085. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). 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 also will be available for inspection and copying at the principal office of NASD.

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to the File Number SR-NASD-2006-085 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁴

Nancy M. Morris

Secretary

¹⁴ 17 CFR 200.30-3(a)(12).



**DIRECT PARTICIPATION
PROGRAMS LIMITED PRINCIPAL
QUALIFICATION EXAMINATION
(TEST SERIES 39)**

STUDY OUTLINE

STUDY OUTLINE

**DIRECT PARTICIPATION PROGRAMS
LIMITED PRINCIPAL QUALIFICATION EXAMINATION
(SERIES 39)**

The NASD Direct Participation Programs Limited Principal (Test Series 39) Qualification Examination (hereinafter called the DPP Principal Exam) is designed to test a candidate's knowledge of the rules and statutory provisions applicable to the management of a broker-dealer which limits its securities business to these products. This study outline has been prepared to assist member firms in preparing candidates to sit for the examination. The outline may also be used by commercial course developers in the preparation of training material, by training directors in the development of lecture notes and seminar programs, and by candidates themselves, both to structure their study and as a final review checklist prior to sitting for the examination. The DPP Principal Exam and this study outline are composed of three general areas which are listed below with the approximate percentage point value assigned to each area.

SECTION	DESCRIPTION	% POINT VALUE
1	Structure and Regulation of Direct Participation Program Offerings	46
2	Sales Supervision; General Supervision of Employees; Regulatory Framework of NASD	32
3	Compliance with Financial Responsibility Rules	22
TOTAL		100

Structure of the Examination and Grading Procedures

The DPP Principal Exam is composed of 100 multiple-choice questions covering the material in the following outline in accordance with the subject matter distribution shown above. A maximum of 135 minutes will be allowed for candidates to complete the DPP Principal Exam. Each multiple-choice question is worth one point. Candidates must correctly answer 70 percent of the questions to receive a passing grade. At the completion of the DPP Principal Exam, candidates will be provided with their score for the entire exam along with their score in each of the three sections.

The DPP Principal Exam is a closed-book test and candidates will not be permitted to use any reference material during their testing sessions. Scratch paper and basic electronic calculators will be provided to a candidate by the test administrator and must be returned to the administrator at the end of the testing session.

The questions used in the DPP Principal Exam are updated regularly to reflect current interpretations of the rules and regulations on which they are based. Questions on new rules and regulations are added to the pool and questions on rescinded rules and regulations are deleted within a reasonable time period after the change takes place.

Reference materials that may be used as a source material starting point for course developers in preparing training programs for the DPP Principal Exam or for candidates as part of a study program are listed below. It is not necessary to obtain all these reference materials since the topics covered in one may overlap other references. In addition, there are study courses specifically designed for the DPP Principal Exam by vendors that are often listed in local yellow page directories or advertise in securities industry periodicals.

The study outline is available on the NASD Web Site at www.nasd.com.

At the end of this outline there are four sample questions written in the various formats used in the DPP Principal Exam. These samples do not reflect the difficulty level of the test questions or the subject matter distribution of the test itself. They are to familiarize candidates with the types of multiple choice question formats used in the DPP Principal Exam.

REFERENCE MATERIALS

Federal Securities Law Reporter

Volume 1 - Securities Act
Volume 2 - Exchange Act
Commerce Clearing House, Inc.
4025 W. Peterson Avenue
Chicago, IL 60646
www.cch.com

Federal Taxation of Partnerships and Partners, Volumes 1 and 2

W.S. McKee, W.F. Nelson and R.L. Whitmire
Warren, Gorham & Lamont, Inc.
Boston, MA 02111

Guide to Limited Liability Companies

CCH Incorporated
P.O. Box 5490
Chicago, IL 60680
www.cch.com

Investment Limited Partnerships Handbook

R. J. Haft and P. M. Fass
Clark Boardman Callaghan
155 Pfingsten Road
Deerfield, IL 60015
www.west.Thomson.com

Limited Liability Company Handbook

M.A. Sargent and W.D. Schwidetzky
West Group
620 Opperman Drive
St. Paul, MN 55164
www.westgroup.com

NASD Manual

NASD Media Source
9513 Key West Avenue
Rockville, MD 20850
www.nasd.com

Oil and Gas: Federal Income Taxation (2005)

Patrick A. Hennessee, Ph.D., CPA.
CCH Incorporated
P.O. Box 5490
Chicago, IL 60680
www.cch.com

2001 Federal Tax Course

Panel Publishers
1185 Avenue of the Americas
New York, NY 10036
www.tax.cchgroup.com

Real Estate Taxation – A Practitioner’s Guide

D.F. Windish
CCH Incorporated
P.O. Box 5490
Chicago, IL 60680
www.cch.com

Resales of Restricted Securities

J.W. Hicks
Clark Boardman Callaghan
610 Opperman Drive
Eagan, MN 55123
www.west.Thomson.com

Securities Act Handbook

Aspen Publishers
111 Eighth Avenue
New York, NY 10011
www.aspenpublishers.com

Securities Law Handbook

H.S. Bloomenthal
Clark Boardman Callaghan
610 Opperman Drive
Eagan, MN 55123
www.west.Thomson.com

Tax Advantaged Securities Handbook

R. J. Haft and P. M. Fass
Clark Boardman Callaghan
155 Pfingsten Road
Deerfield, IL 60015
www.west.Thomson.com

1.0

STRUCTURE AND REGULATION OF DIRECT PARTICIPATION PROGRAM OFFERINGS

1.1 Direct Participation Program Offering Practices

1.1.1 Types of underwriting commitments

- 1.1.1.1 Best efforts
 - Contingent
 - All or none
 - Mini-Max

- 1.1.1.2 Firm commitment

1.1.2 Syndication practices

- 1.1.2.1 Managed offerings

- 1.1.2.1.1 Selling group manager

- 1.1.2.1.2 Soliciting dealer

- 1.1.2.1.3 Dealer manager functions
 - Performs due diligence
 - Solicits and allocates retail participation by other broker-dealers
 - Maintains books and records
 - May assist issuer in planning and preparation of offering
 - May coordinate investor relations after the offering
 - Enters into dealer/manager agreement with the program sponsor
 - May be an affiliate of the sponsor

- 1.1.2.1.4 Sponsor-managed offerings
 - Each dealer enters into agreement directly with program sponsor
 - Dealers are paid directly by the program sponsor

- 1.1.2.2 Role of wholesalers
 - Individuals or member firms paid to retain selected dealers or soliciting dealers for the offering
 - Interface between issuer and broker-dealers and their sales force
 - Usually compensated on the basis of sales of program assets
 - Dealer Manager and employed wholesalers handle all expenses associated with wholesaling including reimbursements or expenses for broker-dealers and their sales force
 - Dealer Manager or Sponsor may utilize outside or unaffiliated wholesalers
 - All wholesaling compensation and expenses are underwriting compensation subject to the 10% limitation

- 1.1.2.3 Compliance requirements for wholesaling
 - Registered individuals acting in wholesaling capacities or functions must be supervised by the firm
 - Member firms and their registered individuals engaged in wholesaling activities

may
liability

cause a member to be deemed an underwriter, and subject to underwriter's

Wholesaling compensation and expenses are items of compensation and must be run through the member firm's books

Registration of wholesaler

Member firms must ensure compliance with non-cash compensation guidelines and training and education restrictions

1.1.2.4

Due diligence

The exercise of reasonable care to determine that the offering disclosures are accurate and complete

Public offerings - statutory defense available (Section 11(c) or (d))

Private offerings - helps avoid fraud charges

Should be performed by broker-dealers making the offering

Typical activities

Verify all material statements in offering documents

Confirm compliance with registration/exemption rules

Review financial data

Investigate management background

Check issuer track record

Review the reasonableness of any assumptions in forecasts or projections

Evaluate all fees and other distributions of proceeds

1.1.2.5

Finders

1.1.2.5.1

Defined as un-registered introducer

1.1.2.5.2

Prohibited practices

Sales compensation to non-members of a national securities exchange or association registered with the Securities and Exchange Commission

Referrals by non-members of individual clients to broker-dealers in exchange for compensation

1.1.3

Subscription practices

1.1.3.1

Signature pages of partnership documents

Purchaser representations

Liquidity

Marketability

Suitability

1.1.3.2

Responsibility of DPP registered representatives and principals

Familiarity with the DPP offering and the prospectus

Timely delivery of the prospectus

"Know your customer" rules

Understanding of the risks involved

Net worth, income and suitability

Accuracy of investor's representations

1.1.3.3

Sales are conditioned upon acceptance of subscribers

1.1.3.4

Supervision of order by broker-dealer--review of documents

1.1.4 Securities Exchange Act of 1934 and SEC Rules Thereunder

1.1.4.1 Handling investor funds

1.1.4.1.1 Rule 15c2-4 – Transmission and maintenance of payments received in underwritings

Movement of investor funds between the broker-dealer and escrow agent

1.1.4.2 Conditions of the underwriting

1.1.4.2.1 Rule 10b-9 - Prohibited representations in connection with certain offerings

1.2 Underwriting Compensation

1.2.1 Types of compensation

1.2.1.1 Cash

1.2.1.2 Non-cash

1.2.1.3 Indeterminate

Carried interest/continuing compensation

Other securities

1.2.2 Limits on sales compensation in public offerings

1.2.2.1 Limited to amount stated in offering document

1.2.2.2 Limit applies to individual and aggregate sales

1.2.2.3 10% of gross dollar amount of securities sold in public offerings; plus up to .5% for reimbursement of bona fide due diligence expenses

1.2.2.4 15% of proceeds for organization and offering expenses

1.2.2.5 Sharing commissions

1.3 Communications with the Public

1.3.1 Securities Act of 1933 and SEC Rules Thereunder

1.3.1.1 Section 2 - Definitions under the Act

Section 2(8) - Registration statement

Section 2(10) - Prospectus

Rule 134 - Communications not deemed a prospectus

1.3.1.2 Section 5 - Prohibitions relating to interstate commerce and the mails

Rule 135 - Notice of certain proposed offerings

Rule 135A - Generic advertising

1.3.1.3 Section 6 - Registration of securities and signing of registration statement

Regulation C - Registration

Rule 425 - Statement required in all prospectuses

Rule 425A - Statement required on all prospectus regarding delivery of

- 1.3.1.4 Section 10 - Information required in Prospectus
 - SEC Guide 4 - Oil and Gas
 - SEC Guide 5 - Real Estate
- 1.3.1.5 Section 11 - Civil liabilities on account of false registration statement
- 1.3.1.6 Section 12 - Civil liabilities arising in connection with prospectus and communications
- 1.3.2 Securities Exchange Act of 1934 and SEC Rules Thereunder**
- 1.3.2.1 Rule 15c2-8 - Delivery of prospectus (to customers)
 - Preliminary prospectus (red herring)
 - Effective prospectus
 - Delivery to associated persons
 - Delivery to other broker-dealers by managing underwriter
- 1.3.3 NASD Conduct Rules**
- 1.3.3.1 Rule 2210 - Communications with the public
 - Definitions
 - Advertisement
 - Sales literature
 - Approval and recordkeeping
 - Filing requirements and review procedures
 - Content standards
 - Standards applicable to communication with the public
 - Standards applicable to advertisements and sales literature
 - IM-2210-1 – Guidelines to ensure that communications with the public are not misleading
 - IM-2210-4 – Limitations on use of NASD’s name
- 1.3.3.2 Rule 2211 – Institutional Sales Material and Correspondence
 - Definitions
 - Correspondence
 - Institutional sales material
 - Institutional investor
 - Existing retail customer
 - Approval and recordkeeping
 - Spot-check procedures
 - Content standards applicable to institutional sales material and correspondence
- 1.3.3.3 Rule 2212 - Telemarketing
- 1.4 Registration of Securities and Exemptions from Registration**
- 1.4.1 Securities Act of 1933 and SEC Rules Thereunder**
- 1.4.1.1 Section 2 - Definitions under the Act
 - Section 2(1) - Security
 - Section 2(2) - Person
 - Section 2(3) - Sale or sell; offer

Section 2(4) - Issuer

Section 2(11) – Underwriter

1.4.1.2 Section 17 - Fraudulent interstate transactions

1.4.1.3 Section 23 - Unlawful representations

1.4.2 Form of Offering

1.4.2.1 Public programs

1.4.2.1.1 Securities Act of 1933

Form S-1 registration (general securities)

Form S-11 registration (real estate programs)

Form SB-1 registration (small issue registration)

Regulation A - conditional small issues exemption

1.4.2.1.2 NASD Conduct Rules

Rule 2710 - Corporate financing rule

Definitions

Filing requirements for public programs

Underwriting compensation and arrangements

Rule 2810 - Direct Participation Programs

Definitions

Requirements

Application

Suitability

Disclosure

Organization and offering expenses

Valuation for Customer Accounts

Participation in rollups

1.4.2.2 Transactions exempt from registration

1.4.2.2.1 Private offerings

1.4.2.2.1.1 Section 4(2) - Transactions by an issuer not involving any public offering

1.4.2.2.1.2 Section 4(6) - Transactions involving offers or sales by an issuer solely to accredited investors

1.4.2.2.1.3 Regulation D - Rules governing the limited offer and sale of securities without Registration under the Securities Act of 1933

1.4.2.2.1.3.1 Rule 501 - Definitions and terms used in Regulation D

Accredited investor

Affiliate

Aggregate offering price

Number of purchasers

Executive officer

Issuer

- 1.4.2.2.1.3.2 Rule 502 - General conditions to be met
 - Integration - 6 month safe harbor rule
 - Information requirements
 - When information must be furnished
 - Type of information to be furnished
 - Limitation on manner of offering
 - Limitations on resale
- 1.4.2.2.1.3.3 Rule 503 - Filing of notice of sale
 - Filing Form D
- 1.4.2.2.1.3.4 Rule 504 - Exemption for limited offers and sales of securities not exceeding \$1,000,000
 - Exemption
 - Conditions to be met
 - General conditions
 - Specific conditions
 - Limitation on aggregate offering price
- 1.4.2.2.1.3.5 Rule 505 - Exemption for limited offers and sales of securities not exceeding \$5,000,000
 - Exemption
 - Conditions to be met
 - Limitation on aggregate offering price
 - Limitation on number of purchasers
 - Disqualification
- 1.4.2.2.1.3.6 Rule 506 - Exemption for limited offers and sales without regard to dollar amount of offering
 - Exemption
 - Conditions to be met
 - Limitation of number of purchasers
 - Nature of purchasers
- 1.4.2.2.1.3.7 Rule 507 - Disqualifying provision relating to exemptions under Rules 504, 505, and 506
- 1.4.2.2.1.3.8 Rule 508 - Insignificant deviations from a term, condition or requirement of Regulation D
- 1.4.2.2.2 Intrastate offerings
 - 1.4.2.2.2.1 Section 3(a)(11) - Any security which is part of an issue offered and sold only to persons resident within a single state or territory
 - 1.4.2.2.2.2 Rule 147 - "Part of an issue", "person resident" and "doing business with"
 - Part of an issue
 - Integration of offerings
 - Nature of the issuer
 - Offerees and purchasers; persons resident
 - Limitation of resales
 - Precautions against interstate offers and sales

1.4.3 State (Blue Sky) Registration and Filing Requirements

- 1.4.3.1 Pre-emption of certain state securities regulations by the National Securities Market Improvement Act (NSMIA)
- 1.4.3.2 State Regulation of DPP Programs
North American Securities Administrators Association (NASAA) Statement of Policy
- 1.4.3.3 Exemption from state registration
- 1.4.3.4 Broker-dealer state registration
- 1.4.3.5 Branch office registration
- 1.4.3.6 Registered representative/principal state registration

2.0

**SALES SUPERVISION; GENERAL SUPERVISION OF EMPLOYEES;
REGULATORY FRAMEWORK OF NASD**

2.1 Securities Exchange Act of 1934 and SEC Rules Thereunder

2.1.1 Section 3 Definitions

Section 3(a)(3) -- Member

Section 3(a)(4) -- Broker

Rule 3a4-1--Persons deemed not to be brokers

Section 3(a)(5) -- Dealer

Section 3(a)(8) -- Issuer

Section 3(a)(9) -- Person

Section 3(a)(10) -- Security

Section 3(a)(11) -- Equity security

Section 3(a)(12) -- Exempted security

Section 3(a)(13) -- Buy and purchase

Section 3(a)(14) -- Sale and sell

Section 3(a)(18) -- Persons associated with a broker or dealer

Section 3(a)(24) -- Participant

Section 3(a)(26) -- Self regulatory organization

Section 3(a)(35) -- Investment discretion

Section 3(a)(37) -- Records

Section 3(a)(39) -- Statutory disqualification

2.1.2 Section 10--Regulation of the use of manipulative and deceptive devices

2.1.2.1 Rule 10b-1--Prohibitions with respect to securities exempted from registration

2.1.2.2 Rule 10b-3--Employment of manipulative and deceptive devices by brokers or dealers

2.1.2.3 Rule 10b-5--Employment of manipulative and deceptive devices
False, misleading, omitted material information

2.1.2.4 Rule 10b-10--Confirmation of transaction
Disclosure requirements

2.1.3 Section 15--Registration and regulation of brokers and dealers - Prohibitions and sanctions for fraud

2.1.3.1 Section 15(a)(1)--Prohibition relating to unregistered broker-dealers

2.1.3.2 Section 15(b)(4)--Sanctions against brokers or dealers

2.1.3.3 Section 15(b)(6)--Sanctions for persons associated with brokers or dealers

2.1.3.4 Section 15(c)(1)--Manipulative, deceptive or fraudulent devices or contrivances

2.1.3.4.1 Rule 15c1-1—Definitions

- 2.1.3.4.2 Rule 15c1-2--Fraud and misrepresentation
- 2.1.3.4.3 Rule 15c1-3--Misrepresentation by brokers and dealers as to registration
- 2.1.3.4.4 Rule 15c1-5--Disclosure of control
- 2.1.4 Section 17--Accounts and records, reports, examination of exchange members and others**
- 2.1.4.1 Rule 17f-2--Fingerprinting of securities industry personnel (general requirements)
- 2.1.5 Regulation FD – Disclosure requirements**
- 2.1.5.1 Rule 100 – General rule regarding selective disclosure
- 2.1.5.2 Rule 101 - Definitions
- 2.1.6 Regulation S-P – Privacy of consumer financial information**
- 2.2 Insider Trading**
- 2.2.1 Insider Trading and Securities Fraud Enforcement Act of 1988**
- 2.2.1.1 Section 3--Civil penalties of controlling persons for illegal insider trading by controlled persons
- 2.2.1.2 Section 4--Increases in criminal penalties
- 2.2.1.3 Section 5--Liability to contemporaneous traders for insider trading
- 2.3 Restrictions on Installment Sales for SEC Registered Public Offerings**
- 2.3.1 Federal Reserve Board Requirements under Regulation T**
- 2.3.1.1 Treated as an extension of credit on a non-marginable security
Not applicable to private offerings
- 2.3.1.2 SEC Rule 3a12-9 -- Exemption of certain direct participation programs from the restrictions regarding extending or arranging of credit
Business development plan
Specified property program
- 2.4 Investment Advisers Act of 1940**
- 2.4.1 Practices which would require registration**
- 2.5 NASD Rules**
- 2.5.1 By-Laws**
- 2.5.1.1 Article I--Definitions
Branch office
Broker

- Dealer
 - Investment banking or securities business
 - Person associated with a member
- 2.5.1.2 Article III--Qualifications of Members and Associated Persons
- 2.5.1.3 Article IV--Membership
- 2.5.1.4 Article V--Registered Representatives and Associated Persons
- 2.5.1.5 Article VI--Dues, Assessments and Other Charges
 - Schedule A (general knowledge of types of income assessed and fees levied)
- 2.5.1.6 Article VII--Board of Governors
- 2.5.1.7 Article IX--Committees
- 2.5.1.8 Article XII--Disciplinary Proceedings
- 2.5.1.9 Article XIII--Powers of Board to Prescribe Sanctions
- 2.5.1.10 Article XV--Limitation of Powers
 - Section 2--Use of name of NASD by members

2.5.2 General Provisions

- 2.5.2.1 Rule 0110 – Adoption and Application of Rules
 - Rule 0115 - Applicability
- 2.5.2.2 Rule 0120—Definitions

2.5.3 Membership, Registration and Qualification Requirements

- 2.5.3.1 Rule 1000 - Membership, registration and qualification requirements
 - IM-1000-1 - Filing of misleading information as to membership or registration
 - IM-1000-3 - Failure to register personnel
 - IM-1000-4 - Appointment of executive representative
- 2.5.3.2 Rule 1010 - Membership proceedings
- 2.5.3.3 Rule 1020 - Registration of principals
 - Registration requirements
 - Definition of principals
 - Categories of principal registration
 - General securities principal
 - Limited principals
- 2.5.3.4 Rule 1030 - Registration of representatives
 - Registration requirements
 - Definition of representative
 - Categories of representative registration
 - General securities representative
 - Limited representatives
- 2.5.3.5 Rule 1060 - Persons exempt from registration
- 2.5.3.6 Rule 1070 - Qualification examinations and waiver of requirements
- 2.5.3.7 Rule 1080 - Confidentiality of examinations
- 2.5.3.8 Rule 1120 - Continuing education requirements
 - Firm element

- 2.5.4 Conduct Rules**
- 2.5.4.1 Rule 2110 - Standards of commercial honor and principles of trade
 - 2.5.4.2 Rule 2120 - Use of manipulative, deceptive or other fraudulent devices
 - 2.5.4.3 Rule 2230 - Confirmations
 - 2.5.4.4 Rule 2240- - Disclosure of control relationship with issuer
 - 2.5.4.5 Rule 2250 - Disclosure of participation or interest in primary or secondary distribution
 - 2.5.4.6 Rule 2280 - Investor education and protection
 - 2.5.4.7 Rule 2310 - Recommendations to customers (Suitability)
 - 2.5.4.8 Rule 2370 - Borrowing from or lending to customers
 - 2.5.4.9 Rule 2420--Dealing with non-members
 - Transactions with non-members
 - Transactions with foreign non-members
 - Non-member broker or dealer
 - IM-2420-1--Transactions between members and non-members
 - Member
 - Expelled dealer
 - Suspended dealer
 - Broker or dealer whose registration is revoked by the SEC
 - Membership resigned or canceled
 - 2.5.4.10 Rule 2430--Charges for services performed
 - 2.5.4.11 Rule 2440--Fair prices and commissions
 - 2.5.4.12 Rule 2790 – Restrictions on purchase and sale of initial equity public offerings
 - General prohibitions
 - Preconditions for sale
 - General exemptions
 - Issuer-directed securities
 - Anti-dilution provisions
 - Stand-by purchasers
 - Undersubscribed offerings
 - Definitions
 - 2.5.4.13 Rule 3010--Supervision
 - Supervisory system
 - Written procedures
 - Supervisory manual--readily accessible and continuously updated
 - Internal inspections
 - Written approval
 - Correspondence and transactions
 - Qualifications investigated

Definitions

Office of Supervisory Jurisdiction

Branch Office

- 2.5.4.14 Rule 3030--Outside business activity of an associated person
Prompt written notice for all outside business activities including registered investment advisers
- 2.5.4.15 Rule 3040--Private securities transactions of an associated person (selling away)
Applicability to all associated persons of member
Prompt written notice to employer member
Transactions for compensation
Transactions not for compensation
Definitions
Private securities transaction
Selling compensation
- 2.5.4.16 Rule 3050--Transactions for or by associated persons
Determine adverse interest
Obligations of executing member
Notice to employer member
Transactions effected for personnel of other members
Obligations of associated persons concerning an account with a member
Obligations of associated persons concerning an account with an investment adviser, bank or other financial institution
Exemption for transactions in investment company shares and unit investment trust
- 2.5.4.17 Rule 3060--Influencing or rewarding employees of others
- 2.5.4.18 Rule 3120--Use of information obtained in a fiduciary capacity

2.5.5 Procedural Rules

- 2.5.5.1 Rule 8000--Investigations and sanctions
- 2.5.5.1.1 Rule 8100 - General provisions
Availability of Manual to customers
Definitions
- 2.5.5.1.2 Rule 8200 - Investigations
Provision of information and testimony and inspection and copying of books
Suspension for failure to provide requested information
- 2.5.5.1.3 Rule 8300 - Sanctions
Sanctions for violation of the rules
Effect of a suspension, revocation, cancellation or bar
Release of disciplinary information
Payment of fines, other monetary sanctions, or costs; summary action for failure to pay
Costs of proceedings
- 2.5.5.2 Rule 9000 - Code of Procedure

- 2.5.5.2.1 Rule 9100 - Application and purpose
 - Application
 - Definitions
 - Service; filing of papers
 - Proceedings
 - Recusal and disqualification

- 2.5.5.2.2 Rule 9200--Disciplinary proceedings
 - Complaint and answer
 - Request for hearing; extensions of time, postponements, adjournments
 - Appointment of hearing panel, extended hearing panel
 - Prehearing conference and submission
 - Discovery
 - Hearing and decision
 - Settlement procedure
 - Contemptuous conduct

- 2.5.5.2.3 Rule 9300--Review of disciplinary proceeding by National Adjudicatory Council, NASD Board; application for Commission review
 - Appeal to or review by National Adjudicatory Council
 - Transmission of records; extensions of time, postponements, adjournments
 - Proceedings
 - Discretionary review by Board
 - Effectiveness of sanctions
 - Application to Commission for review

- 2.5.5.2.4 Rule 9500--Suspension, cancellation, bar, denial of access and eligibility procedures
 - Procedures for summary and non-summary suspension, cancellation, bar, limitation, or prohibition
 - Eligibility proceedings

- 2.5.5.2.5 Rule 9600--Procedures for exemptions
 - Application
 - Decision
 - Appeal

- 2.5.5.3 Rule 10000--Code of Arbitration Procedure

- 2.5.5.3.1 Rule 10100--Administrative provisions
 - Matters eligible for submission
 - Composition and appointment of panels

- 2.5.5.3.2 Rule 10300--Uniform Code of Arbitration
 - Required submission
 - Simplified arbitration
 - Designation of number of arbitrators
 - Composition of panel
 - Initiation of proceedings
 - General provisions governing pre-hearing proceedings
 - Awards

- 2.5.5.3.3 Rule 10400--Mediation rules
 - Scope and authority
 - Submission of eligible matters
 - Limitation on liability
 - Mediation ground rules

2.6 Retirement Plans

2.6.1 ERISA (Employee Retirement Income Security Act)

2.6.2 Types of retirement plans

- 2.6.2.1 IRA
 - Traditional
 - Roth
- 2.6.2.2 Keogh/HR10
- 2.6.2.3 Corporate pension plans
- 2.6.2.4 Corporate deferred payment profit sharing plans
- 2.6.2.5 401(k) plans -- cash or deferred arrangements (CODA's)
403(b) plans -- for employees of non-profit organizations
457 plans -- for government employees

2.6.3 Suitability

- 2.6.3.1 Prudent man rules standards
- 2.6.3.2 Self-directed or fiduciary directed

2.6.4 Rollover issues - maintaining non-taxed status

2.6.5 Unrelated business taxable income

- 2.6.5.1 Debt vs. equity

2.6.6 Prohibited transactions

- 2.6.6.1 Self-dealing

2.6.7 Distributions from qualified plans - tax effects vary

**COMPLIANCE WITH FINANCIAL
RESPONSIBILITY RULES**

3.1 Securities Exchange Act of 1934 and SEC Rules Thereunder

3.1.1 Rule 15c3-1--Net Capital Requirements

3.1.1.1 Minimum net capital requirements

3.1.1.1.1 Broker-dealers engaging in a general securities business
Aggregate Indebtedness to net capital ratio not to exceed 800% during
first 12 months of operation; 1500% thereafter
Minimum net capital of \$250,000

3.1.1.1.2 Broker-dealer who do not receive customer funds or securities and do not
carry customer accounts--\$5,000 minimum net capital requirement
Introducing broker-dealers
Broker-dealers participating in underwritings on a "best efforts" or "all or
none" basis
Broker-dealers which promptly forward subscriptions for securities to the
issuer, underwriter or distributor
Broker-dealers effecting occasional transactions for their own investment
accounts

3.1.1.2 Aggregate Indebtedness

3.1.1.2.1 Definitions

3.1.1.2.2 Exclusions from aggregate indebtedness

3.1.1.3 Net Capital

3.1.1.3.1 Adjustments to net worth

3.1.1.3.2 Subordinated liabilities

3.1.1.3.3 Assets not readily convertible into cash

3.1.1.3.4 Securities haircuts--for proprietary accounts

3.1.1.3.5 Debt-Equity requirements

3.1.2 Rule 15c3-3 Customer Protection--reserve and custody of securities

3.1.2.1 Exemptions

3.1.2.1.1 (k)(2) exempt broker-dealers

3.1.2.1.1.1 (k)(2)(i) broker-dealers
No margin accounts
Promptly transmits all customer funds and securities

3.1.3 Rule 17a-3--Records to Be Made by Brokers and Dealers

- 3.1.3.1 Proof of money balances of all ledger accounts
 - Trial balances computed at least once per month
 - Record of computation of aggregate indebtedness
 - Record of computation of net capital
- 3.1.3.2 Questionnaire or application for employment executed by each "associated person" approved in writing by an authorized representative of the broker-dealer
 - Definition of an "associated person"
- 3.1.3.3 Fingerprint records required to be maintained pursuant to SEC Rule 17f-2(d)

3.1.4 Rule 17a-4--Records to be Preserved by Certain Exchange Members, Brokers and Dealers

- 3.1.4.1 Records to be preserved for not less than six years, the first two years in a readily accessible place
 - Ledgers or other records reflecting in all broker-dealer's assets and liabilities, income and expense and capital accounts
 - Ledger accounts or other records itemizing separately required information per Rule 17a-3 as to each account
- 3.1.4.2 Records to be preserved for not less than three years, the first two years in a readily accessible place
 - All check books, bank statements, canceled checks and cash reconciliations
 - All bills receivable or payable
 - Originals of all communications received and sent
 - All guarantees of accounts, powers of attorney and other evidence granting discretionary authority and resolutions empowering an agent to act on behalf of a corporation
 - All written agreements entered into by a broker-dealer relating to his business as such records containing the following information in support of amounts included in Focus Part II-A reports and in audited financial statements required by Rule 17a-5
 - Detail of all items which are charged or credited in the computation of net capital
- 3.1.4.3 Customer account records (including subscription documents and questionnaires) for a period of six years after the closing of such account
- 3.1.4.4 Partnership articles or articles of incorporation of charter, minute books and stock certificate books for the life of the enterprise and of any successor enterprise
- 3.1.4.5 The following records with respect to associated persons:
 - Employment applications until at least three years after such person has terminated employment
 - Fingerprint records pursuant to Rule 17f-2 until at least three years after such person has terminated employment
- 3.1.4.6 Preservation of required records on microfilm or optical storage technology

Availability of and facilities for viewing such records
Efficiency of index and filing system
Facilities to provide facsimile enlargements
Separate storage of duplicate file

3.1.4.7 Applicability of preservation requirements to firms ceasing to transact a securities business

3.1.4.8 Outside service bureaus

3.1.5 Rule 17a-5--Reports to be Made by Brokers and Dealers (FOCUS Reports)

3.1.5.1 Filing of monthly and quarterly reports
Quarterly filings of FOCUS Part IIA--non-clearing, non-carrying broker-dealers
Requirement for Direct Participation Programs broker-dealers
Filings specifically required by SEC or designated examining authority

3.1.5.2 Annual filing of audited financial statements

3.1.5.3 Nature and form of reports

3.1.5.4 Accountants

3.1.5.5 Audit objectives

3.1.5.6 Extent and timing of audit procedures

3.1.5.7 Accountant's reports
Responsibilities of broker-dealers and accountants

3.1.5.8 Accountant's report on material inadequacies

3.1.5.9 Extensions and exemptions

3.1.5.10 Notification of change of fiscal year

3.1.5.11 Filing requirements

3.1.6 Rule 17a-8--Reporting of currency and foreign transactions and financial recordkeeping

3.1.7 Rule 17a-11--Supplemental current financial and operational reports to be made by brokers and dealers

3.1.7.1 Requirements for broker-dealer whose net capital is less than the required minimum net capital under Rule 15c3-1

3.1.7.2 Requirements for broker-dealers to send prompt notice after the occurrence of specified events

3.1.7.3 Requirement for broker-dealers who fail to make and keep current the books and records specified in Rule 17a-3

- 3.1.7.4 Requirement for broker-dealer who discovers or is notified by an accountant, pursuant to Rule 17a-5, that material inadequacies in its accounting system exist
- 3.1.7.5 Transmittal of required notices and reports
- 3.2 Securities Investor Protection Act and SIPC Rules Thereunder**
 - 3.2.1 Membership requirements of SIPC**
 - 3.2.2 Protection of customers**
 - 3.2.2.1 Determination of need for protection
 - 3.2.3 SIPC Rules**
 - 3.2.3.1 Prohibited acts
 - Embezzlement of SIPC assets
 - 3.2.3.2 Advertising by members of SIPC protection
- 3.3 NASD Rules**
 - 3.3.1 Conduct Rules**
 - 3.3.1.1 Disclosure of financial condition
 - Rule 2270--Disclosure of financial condition to customers
 - Rule 2910--Disclosure of financial condition to other members
 - 3.3.1.2 Rule 2330--Customers' securities or funds
 - Improper Use
 - Prohibition against guarantees
 - Sharing in accounts; extent permissible
 - 3.3.1.3 Rule 3011 – Anti-money laundering compliance program
 - 3.3.1.4 Rule 3012 – Supervisory Control System
 - 3.3.1.5 Rule 3013 – Annual Certification of Compliance and Supervisory Processes
 - 3.3.1.6 Rule 3020--Fidelity bonds
 - Coverage required
 - Deductible provision
 - Annual Review of coverage
 - Notification of change
 - Definitions
 - 3.3.1.7 Rule 3110--Books and records
 - Requirements
 - Information on accounts
 - Record of written complaints
 - "Complaint" defined
 - Requirements when using predispute arbitration agreements with customers
 - Telemarketing requirements

- 3.3.1.8 Rule 3140--Approval of change in exempt status under SEC Rule 15c3-3
Loss of 15c3-3(k) exemption when member conducts business that will disqualify it from the exemption without the prior written approval of the NASD
- 3.3.1.9 Rule 3510 – Business Continuity Plan
- 3.3.1.10 Rule 3520 – Emergency Contact Information
- 3.3.2 Procedural Rules**
- 3.3.2.1 Rule 9400--Limitation procedures under Rules 3130 and 3131
Procedures Regulating activities of members experiencing financial or operating difficulties
- 3.4 Proprietary Accounts of Introducing Broker-Dealers (PAIB)
(NASD Notices to Members 99-44 and 98-99)**
- 3.4.1 Required computations**
 - Net capital
 - Customer reserve
 - Segregation of introducing broker-dealer accounts
 - Frequency of calculations
- 3.4.2 Required written agreements**

SAMPLE QUESTIONS

The questions which appear below are similar in format and content to questions on the examination. This sample of questions, however, is not intended to exactly parallel either the level of difficulty or the subject coverage of the examination. Their purpose here is to assist candidates and training personnel in preparing for the types of multiple choice questions which will appear on the examination.

1. Under NASD rules, which of the following documents must an NASD member firm make available for inspection by its customers?
 - (A) the most recent balance sheet
 - (B) the most recent FOCUS Report
 - (C) the most recent income statement
 - (D) the most recent net capital computation
2. An NASD member in a public offering of a direct participation program may receive commissions from all of the following EXCEPT
 - (A) an NASD member
 - (B) a non-member wholesaling organization
 - (C) directly from the program sponsor
 - (D) the dealer-manager
3. Which two of the following types of electronic communications require written approval prior to dissemination?
 - I. An email sent to an individual
 - II. An email sent to 50 prospective retail customers
 - III. Personal communications sent to a Chat room
 - IV. Communications posted on the firm's website
 - (A) I and III
 - (B) I and IV
 - (C) II and III
 - (D) II and IV
4. In a joint venture, a venturer has liability that is equivalent to the liability of
 - (A) a limited partner
 - (B) a general partner
 - (C) a shareholder in a C corporation
 - (D) a shareholder in an S corporation

ANSWERS TO SAMPLE QUESTIONS

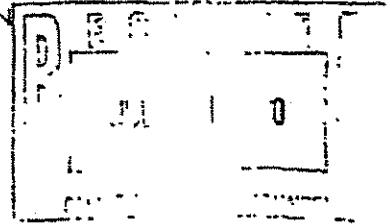
1. (A)
2. (B)
3. (D)
4. (B)

Exhibit 3c
SR-NASD-2006-085



DIVISION OF
MARKET REGULATION

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549



July 24, 2000

Mr. Alden S. Adkins
Senior Vice President & General Counsel
NASD Regulation, Inc.
1735 K Street, N. W.
Washington, D.C. 20006-1500

Re: Procedure for Filings Relating to Qualification Examinations

Dear Mr. ^{Alden} Adkins:

I am writing to inform you of a change in the filing requirements for proposed rule changes involving qualification examinations for associated persons. In the past, the Division required the SROs to file question banks for new examinations for Commission approval pursuant to Section 19(b)(2) of the Exchange Act. The Division also required SROs to file questions being added to the question bank for Commission approval.

The Division has decided that it is no longer necessary for SROs to file new exam question banks for Commission approval under Section 19(b)(2). In the future, any new examinations should be filed as non-controversial rule changes for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange Act and Rule 19b-4(f)(6) thereunder. As you know, Rule 19b-4(f)(6) requires the SRO to give notice to the Commission of its intent to file a proposed rule change five days before doing so. During the five days prior to filing, the Division will determine if the proposed rule change is appropriately filed as non-controversial. To assist us in our analysis, please include a complete description of the examination in your rule filing. For example, the proposed rule change should address who will be required to take the exam, what information the exam will cover, the time allotted for each section, the weight assigned to each topic, the effective date of the exam requirement, and any other information that would be helpful to us in determining whether the proposal should become effective on filing. Also, pursuant to Rule 19b-4(f)(6), the rule change should be designated as effecting a change that does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition and, by its terms, does not become operative for 30 days after the date of the filing.

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Filings to modify an existing examination should be submitted as "constituting a stated policy, practice, or interpretation with respect to the meaning, administration or enforcement of an existing rule..." pursuant to Section 19(b)(3)(A) of the Exchange Act.

Our goal in changing these procedures is to expedite the effectiveness of proposed rule changes involving examination requirements for persons associated with SRO members. Please contact Kathy England, Assistant Director, at 202-942-0154, or Karl Varner, Special Counsel, at 202-942-7125, if you have any questions.

Sincerely,



Belinda Blaine
Associate Director