

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"/>
--	---

**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”),<sup>1</sup> 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 Representative – Equity Trader (Series 55) examination program.<sup>2</sup> 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 an equity trader representative. 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 55 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.<sup>3</sup>

(b) Not applicable.

(c) Not applicable.

**2. Procedures of the Self-Regulatory Organization**

---

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

<sup>2</sup> NASD also is proposing corresponding revisions to the Series 55 question bank, but based upon instruction from the Commission staff, NASD is submitting SR-NASD-2006-086 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.

<sup>3</sup> 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 55 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 Act<sup>4</sup> 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

---

<sup>4</sup> 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 1032(f), the Series 55 examination is required, with certain limited exceptions, for associated persons who are engaged in or directly supervise proprietary trading or the execution of transactions on an agency basis with respect to transactions in equity, preferred or convertible debt securities effected otherwise than on a securities exchange. There is an exception from the Series 55 examination requirement for any person associated with a member whose trading activities are conducted principally on behalf of an investment company that is registered with the Commission pursuant to the Investment Company Act of 1940 and that controls, is controlled by, or is under common control with the member.

A committee of industry representatives, together with NASD staff, recently undertook a review of the Series 55 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 an equity trader representative. NASD is proposing to add a section on Rules 600 (NMS Security Designation and Definitions),<sup>5</sup> 602 (Dissemination of Quotations in NMS Securities),<sup>6</sup> 604 (Display of Customer Limit

---

<sup>5</sup> 17 CFR 242.600.

<sup>6</sup> 17 CFR 242.602.

Orders),<sup>7</sup> 605 (Disclosure of Order Execution Information),<sup>8</sup> 606 (Disclosure of Order Routing Information)<sup>9</sup> and 612 (Minimum Price Increments)<sup>10</sup> of SEC Regulation NMS. NASD also is proposing to add sections on NASD Rules 2111 (Trading Ahead of Customer Market Orders) and 3380 (Order Entry and Execution Practices). NASD further is proposing to modify the section on the NASDAQ Market Center – Execution Services to add specific references to NASD Rules 4701(Definitions), 4704 (Opening Process for NASDAQ-Listed Securities), 4706 (Order Entry Parameters), 4707 (Entry and Display of Quotes/Orders), 4709 (NASDAQ Closing Cross), 4710 (Participant Obligations in the NASDAQ Market Center), 4714 (Routing NASDAQ-Listed Securities), 4715 (Adjustment of Open Quotes and/or Orders) and 4719 (Anonymity).

NASD is proposing to add a section on the NASDAQ Initial Public Offering Process (NASDAQ Head Trader Alert 2005-096) and to modify the section on SEC Regulation SHO to add specific references to Rules 200 (Definition of “Short Sale” and Marking Requirements)<sup>11</sup> and 203 (Borrowing and Delivery Requirements).<sup>12</sup> Further, NASD is proposing to add references to the specific types of NASDAQ securities covered by the Series 55 examination, add two additional modifiers (.ST (Pre-Open and Aftermarket Trades Not Reported Within 90 Seconds) and .W (Stop Orders)) to the list of

---

<sup>7</sup> 17 CFR 242.604.

<sup>8</sup> 17 CFR 242.605.

<sup>9</sup> 17 CFR 242.606.

<sup>10</sup> 17 CFR 242.612.

<sup>11</sup> 17 CFR 242.200.

<sup>12</sup> 17 CFR 242.203.

Trade Reporting Service modifiers and add a section on reporting cancelled trades.

In addition, NASD is proposing to revise the study outline to remove the following sections: SEC Rules 11Ac1-1 (formerly Dissemination of Quotations),<sup>13</sup> 11Ac1-4 (formerly Display of Customer Limit Orders),<sup>14</sup> 11Ac1-5 (formerly Disclosure of Order Execution Information)<sup>15</sup> and 11Ac1-6 (formerly Disclosure of Order Routing Information)<sup>16</sup>; NASDAQ Levels 1, 2 and 3 Service; SEC Rule 10b-10 (Confirmation of Transactions)<sup>17</sup>; and NASD Rules 3360 (Short Interest Reporting), 3370 (Purchases) and 4643 (Customer Confirmations).

As a result of the revisions discussed above, the number of questions on each section of the study outline were modified as follows: NASDAQ and Over-The-Counter Markets, decreased from 42 to 41 questions; NASDAQ Display, Execution and Trading Systems, increased from 15 to 17 questions; Trade Reporting Requirements, increased from 16 to 19 questions; and General Industry Standards, decreased from 27 to 23 questions.

NASD is proposing these changes to the entire content of the Series 55 examination, including the selection specifications and question bank. The number of questions on the Series 55 examination will remain at 100, and candidates will continue

---

<sup>13</sup> 17 CFR 240.11Ac1-1.

<sup>14</sup> 17 CFR 240.11Ac1-4.

<sup>15</sup> 17 CFR 240.11Ac1-5.

<sup>16</sup> 17 CFR 240.11Ac1-6.

<sup>17</sup> 17 CFR 240.10b-10.

to have 3 hours 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

NASD believes that the proposed revisions to the Series 55 examination program are consistent with the provisions of Sections 15A(b)(6)<sup>18</sup> and 15A(g)(3) of the Act,<sup>19</sup> 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 Act<sup>20</sup> and Rule 19b-4(f)(1) thereunder,<sup>21</sup> in that the proposed rule

---

<sup>18</sup> 15 U.S.C. 78o-3(b)(6).

<sup>19</sup> 15 U.S.C. 78o-3(g)(3).

<sup>20</sup> 15 U.S.C. 78s(b)(3)(A)(i).



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 implement the revised Series 55 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 55 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 55 Examination.

NASD has requested confidential treatment for the Series 55 revised selection specifications, and thus the specifications are omitted from this filing. The Series 55 revised selection specifications have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.<sup>22</sup>

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.

---

<sup>21</sup> 17 CFR 240.19b-4(f)(1).

<sup>22</sup> 17 CFR 240.24b-2.

**EXHIBIT 1**

**SECURITIES AND EXCHANGE COMMISSION**

(Release No. 34- ; File No. SR-NASD-2006-086)

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 55 Examination Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on , the National Association of Securities Dealers, Inc. (“NASD”) 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 Act<sup>3</sup> and Rule 19b-4(f)(1) thereunder,<sup>4</sup> which renders the proposal effective upon receipt of this filing by the Commission. 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**

---

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

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

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(i).

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

NASD is filing revisions to the study outline and selection specifications for the Limited Representative – Equity Trader (Series 55) examination program.<sup>5</sup> 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 an equity trader representative. 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 55 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.<sup>6</sup>

**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

---

<sup>5</sup> NASD also is proposing corresponding revisions to the Series 55 question bank, but based upon instruction from the Commission staff, NASD is submitting SR-NASD-2006-086 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 Act<sup>7</sup> 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 1032(f), the Series 55 examination is required, with certain limited exceptions, for associated persons who are engaged in or directly supervise proprietary trading or the execution of transactions on an agency basis with respect to transactions in equity, preferred or convertible debt securities effected otherwise than on a securities exchange. There is an exception from the Series 55 examination requirement for any person associated with a member whose trading activities are conducted principally on behalf of an investment company that is registered with the Commission pursuant to the Investment Company Act of 1940 and that controls, is controlled by, or is under common control with the member.

A committee of industry representatives, together with NASD staff, recently undertook a review of the Series 55 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

---

<sup>6</sup> 17 CFR 240.24b-2.

<sup>7</sup> 15 U.S.C. 78o-3(g)(3).

reflect the duties and responsibilities of an equity trader representative. NASD is proposing to add a section on Rules 600 (NMS Security Designation and Definitions),<sup>8</sup> 602 (Dissemination of Quotations in NMS Securities),<sup>9</sup> 604 (Display of Customer Limit Orders),<sup>10</sup> 605 (Disclosure of Order Execution Information),<sup>11</sup> 606 (Disclosure of Order Routing Information)<sup>12</sup> and 612 (Minimum Price Increments)<sup>13</sup> of SEC Regulation NMS. NASD also is proposing to add sections on NASD Rules 2111 (Trading Ahead of Customer Market Orders) and 3380 (Order Entry and Execution Practices). NASD further is proposing to modify the section on the NASDAQ Market Center – Execution Services to add specific references to NASD Rules 4701(Definitions), 4704 (Opening Process for NASDAQ-Listed Securities), 4706 (Order Entry Parameters), 4707 (Entry and Display of Quotes/Orders), 4709 (NASDAQ Closing Cross), 4710 (Participant Obligations in the NASDAQ Market Center), 4714 (Routing NASDAQ-Listed Securities), 4715 (Adjustment of Open Quotes and/or Orders) and 4719 (Anonymity).

NASD is proposing to add a section on the NASDAQ Initial Public Offering Process (NASDAQ Head Trader Alert 2005-096) and to modify the section on SEC Regulation SHO to add specific references to Rules 200 (Definition of “Short Sale” and Marking Requirements)<sup>14</sup> and 203 (Borrowing and Delivery Requirements).<sup>15</sup> Further,

---

<sup>8</sup> 17 CFR 242.600.

<sup>9</sup> 17 CFR 242.602.

<sup>10</sup> 17 CFR 242.604.

<sup>11</sup> 17 CFR 242.605.

<sup>12</sup> 17 CFR 242.606.

<sup>13</sup> 17 CFR 242.612.

<sup>14</sup> 17 CFR 242.200.

NASD is proposing to add references to the specific types of NASDAQ securities covered by the Series 55 examination, add two additional modifiers (.ST (Pre-Open and Aftermarket Trades Not Reported Within 90 Seconds) and .W (Stop Orders)) to the list of Trade Reporting Service modifiers and add a section on reporting cancelled trades.

In addition, NASD is proposing to revise the study outline to remove the following sections: SEC Rules 11Ac1-1 (formerly Dissemination of Quotations),<sup>16</sup> 11Ac1-4 (formerly Display of Customer Limit Orders),<sup>17</sup> 11Ac1-5 (formerly Disclosure of Order Execution Information)<sup>18</sup> and 11Ac1-6 (formerly Disclosure of Order Routing Information)<sup>19</sup>; NASDAQ Levels 1, 2 and 3 Service; SEC Rule 10b-10 (Confirmation of Transactions)<sup>20</sup>; and NASD Rules 3360 (Short Interest Reporting), 3370 (Purchases) and 4643 (Customer Confirmations).

As a result of the revisions discussed above, the number of questions on each section of the study outline were modified as follows: NASDAQ and Over-The-Counter Markets, decreased from 42 to 41 questions; NASDAQ Display, Execution and Trading Systems, increased from 15 to 17 questions; Trade Reporting Requirements, increased from 16 to 19 questions; and General Industry Standards, decreased from 27 to 23 questions.

---

<sup>15</sup> 17 CFR 242.203.

<sup>16</sup> 17 CFR 240.11Ac1-1.

<sup>17</sup> 17 CFR 240.11Ac1-4.

<sup>18</sup> 17 CFR 240.11Ac1-5.

<sup>19</sup> 17 CFR 240.11Ac1-6.

<sup>20</sup> 17 CFR 240.10b-10.

NASD is proposing these changes to the entire content of the Series 55 examination, including the selection specifications and question bank. The number of questions on the Series 55 examination will remain at 100, and candidates will continue to have 3 hours 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 55 examination program are consistent with the provisions of Sections 15A(b)(6)<sup>21</sup> and 15A(g)(3) of the Act,<sup>22</sup> 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**

---

<sup>21</sup> 15 U.S.C. 78o-3(b)(6).

<sup>22</sup> 15 U.S.C. 78o-3(g)(3).

The proposed rule change has become effective pursuant to Section 19(b)(3)(A)(i) of the Act<sup>23</sup> and Rule 19b-4(f)(1) thereunder,<sup>24</sup> 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 the self-regulatory organization. NASD proposes to implement the revised Series 55 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](mailto:rule-comments@sec.gov). Please include File Number SR-NASD-2006-086 on the subject line.

##### Paper Comments:

---

<sup>23</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>24</sup> 17 CFR 240.19b-4(f)(1).



- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NASD-2006-086. 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-2006-086 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.<sup>25</sup>

Nancy M. Morris

---

<sup>25</sup> 17 CFR 200.30-3(a)(12).

Secretary



**LIMITED REPRESENTATIVE—  
EQUITY TRADER EXAMINATION  
(TEST SERIES 55)**

**STUDY OUTLINE**

## INTRODUCTION

---

The Equity Trader Qualification Examination (Series 55) is used to qualify individuals seeking registration pursuant to the NASD By-Laws Article III, Section 2 and the Membership and Registration Rules. Registered representatives in this category of registration may trade equity and convertible debt securities on a principal or agency basis. In order to be registered in this registration category, candidates must first be qualified as either Limited Representative Corporate Securities (Series 62) or General Securities Representative (Series 7).

This study outline has been prepared to assist NASD member firms in preparing candidates to sit for the Series 55 Examination. It may be used to structure or prepare training material and develop lecture notes and seminar programs, as well as a training aid for the candidates themselves. This outline and the test are divided into four sections, which are described below along with the number of questions in each section.

SECTION	DESCRIPTION	NUMBER OF QUESTIONS
1	NASDAQ and Over-The-Counter Markets	41
2	NASDAQ Display, Execution and Trading Systems	17
3	Trade Reporting Requirements	19
4	General Industry Standards	23
<b>TOTAL</b>		<b>100</b>

The Series 55 Examination is comprised of 100 questions, and candidates will be allowed 180 minutes to complete the examination. A candidate must correctly answer 70 percent of the questions to receive a passing grade. The test is administered as a closed book exam. Scratch paper and a basic electronic calculator will be provided by the proctor. At the completion of the test, each candidate will receive an informational breakdown of their performance on each section and their overall score.

Examination questions will be updated to reflect the current interpretations of the rules and regulations. Questions on new rules will be added to the pool of questions for this examination within a reasonable period of their effective dates. Questions on rescinded rules will be promptly deleted from the pool of questions. Candidates will only be asked questions pertaining to the rules that are effective at the time the candidate takes the exam.

At the end of this outline is a list of references that may be used as a source material starting point for course developers in preparing training programs. In addition, nonmember commercial training vendors may offer packaged study courses specifically designed for this registration category. These vendors are often listed in local yellow page directories and advertise in securities industry periodicals.

There are also sample Series 55 test questions written in the various formats. They do not mirror the difficulty level of the actual test questions or the subject matter distribution of the test itself. Their use is merely to familiarize the candidate with the styles of multiple-choice questions used in the Series 55 Examination.

Copies of this outline and registration applications may be obtained from the NASD Web Site at [www.nasd.com](http://www.nasd.com).

## **1.0 NASDAQ AND OVER-THE-COUNTER MARKETS**

---

### **1.1 Overview of Markets Regulated by NASD**

#### **1.1.1 NASDAQ Securities**

- NASDAQ Tier securities
- Preferred securities
- Convertible debt

#### **1.1.2 Non-NASDAQ Securities**

##### **1.1.2.1 Bulletin Board**

- 1.1.2.1.1 NASD Rule 6500 — OTC Bulletin Board Service
  - Rule 6510—Applicability
  - Rule 6520—Operation of the service
  - Rule 6530—OTCBB-eligible securities
  - Rule 6540—Requirements applicable to market makers
    - Permissible quotation entries (one-sided quotes)
    - Voluntary termination of registration
    - More than one trading location
    - Clearance and settlement

##### **1.1.2.2 Pink Sheets and other Similar Trading Facilities**

##### **1.1.2.3 Third Market**

- 1.1.2.3.1 Trading in exchange-listed securities in OTC market
- 1.1.2.3.2 Consolidated tape 90-second reporting requirement

### **1.2 Quotation and Market Maker Requirements (general knowledge)**

#### **1.2.1 Securities Exchange Act of 1934 and SEC Rules Thereunder**

##### **1.2.1.1 Regulation NMS**

- 1.2.1.1.1 Rule 600 — NMS security designation and definitions
  - Block size
  - Electronic communications network (ECN)
  - Exchange market maker
  - NMS security/stock
  - OTC market maker
  - Quotation size

- 1.2.1.1.2 Rule 602—Dissemination of quotations in NMS securities

Obligations of responsible brokers and dealers

- 1.2.1.2 Rule 15c2-11 — Initiation or resumption of quotations without specified information
  - Form 211
  - Piggybacking
  - Due diligence

**1.2.2 Quotation Obligations**

- 1.2.2.1 SEC Regulation NMS
  - 1.2.2.1.1 Rule 612—Minimum price increments
- 1.2.2.2 NASD Rules
  - 1.2.2.2.1 Rule 3310 — Publication of transactions and quotations
    - Marking the close/ Marking the opening
  - 1.2.2.2.2 Rule 3320 — Offers at stated prices
    - IM-3320 — Firmness of quotations
      - Backing-away
      - Subject (nominal) market

**1.2.3 NASDAQ Market Maker Obligations**

- 1.2.3.1 Securities Exchange Act of 1934 and SEC Rules Thereunder
  - Section 3 — Certain definitions under the Act
    - Section 3(a)(38) — Market maker
    - Rule 3b-8 — Qualified block positioner
- 1.2.3.2 NASD Rule 4705—NASDAQ Market Center participant registration
- 1.2.3.3 NASD Rule 4611 — Registration as a NASDAQ market maker
- 1.2.3.4 NASD Rule 4613 — Character of quotations
  - Quotation requirements and obligations
    - Two-sided quotations
    - Multiple MPIDs
    - Firm quotations
    - Quotations reasonably related to the market
    - Reasonably competitive quotations
    - Locked and crossed markets
    - IM-4613 — Procedures for allocation of second displayable MPIDs
- 1.2.3.5 NASD Rule 4617 — Normal business hours
  - Extended hours trading (including pre-market)

- 1.2.3.6 NASD Rule 4618 — Clearance and settlement
- 1.2.3.7 NASD Rule 4619 — Withdrawal of quotations and passive market making
  - 1.2.3.7.1 Excused withdrawal
- 1.2.3.8 NASD Rule 4620 — Voluntary termination of registration
- 1.2.3.9 NASD Rule 4621 — Suspension and termination of quotations by Association action

## **1.2.4 CQS market maker registration and quotation obligations**

- 1.2.4.1 NASD Rule 6300 — Consolidated Quotations Service (CQS)
  - 1.2.4.1.1 CQS Securities
    - NYSE and AMEX listed securities
    - Certain securities listed on regional exchanges
    - Securities registered or admitted to unlisted trading privileges
  - 1.2.4.1.2 NASD Rule 6320 — Registration as a CQS market maker
  - 1.2.4.1.3 NASD Rule 6330 — Obligations of CQS market makers
  - 1.2.4.1.4 NASD Rule 6340 — Normal business hours
  - 1.2.4.1.5 NASD Rule 6350 — Withdrawal of quotations

## **1.3 Trading Activities**

### **1.3.1 Trading Halts**

- 1.3.1.1 NASD Rule 3340 — Trading halts in NASDAQ securities
  - Prohibition on transactions
- 1.3.1.2 NASD Rule 4120 — Trading halts
  - Authority to initiate trading halts
  - Procedure for initiating a trading halt
  - IM-4120-1 — Disclosure of material information
  - Notification of trading halts
  - Trading halt codes

### **1.3.2 Market Halts**

- Agreement between NASDAQ and NYSE (circuit breakers)
- IM-4120-4 — Market closing policy

### **1.3.3 Pre-Arranged and Third Party Trades**

- Painting the tape
- Cross trade



Third-party trades  
Step Out  
WRAP accounts  
Give-up (clearing)  
Prime Broker

#### **1.4 Anti-Competitive Trading Practices**

**1.4.1** NASD Rule IM-2110-5 — Anti-intimidation/coordination  
Collusion  
Price/size/spread convention  
Intimidation  
Harassment

#### **1.5 Transactions in Accounts**

##### **1.5.1 Short Sales**

1.5.1.1 SEC Regulation SHO  
Rule 200—Definition of “short sale” and marking requirements  
Rule 203—Borrowing and delivery requirements

1.5.1.2 SEC Regulation M — Rule 105 — Short sales

1.5.1.3 NASD Rule 3350 — Short sale rule  
Execution of short sales  
Note difference between exchange listed plus tick or zero plus tick rule and NASD requirements  
Short exempt  
Short-against-the-box

##### **1.5.2 Limit Orders**

1.5.2.1 NASD Rule IM-2110-2 — Trading ahead of customer limit orders (NASD Limit order interpretation Manning)

1.5.2.2 SEC Regulation NMS

1.5.2.2.1 Rule 604 — Display of customer limit orders  
Specialist and OTC market makers

##### **1.5.3 Market Orders**

1.5.3.1 NASD Rule 2110 — Standards of commercial honor and principles of trade  
IM-2110-3 — Front running policy

IM-2110-4 — Trading ahead of research reports

1.5.3.2 NASD Rule 2111—Trading ahead of customer market orders

## 2.0 NASDAQ Display, Execution and Trading Systems

---

### 2.1 NASDAQ Order Entry and Execution Systems

#### 2.1.1 NASD Rule 4700—NASDAQ Market Center - Execution Services

##### 2.1.1.1 Rule 4701—Definitions

- Auto-Ex
- Day
- Discretionary
- End-of-Day
- Fill or Return
- Good-till-Cancelled
- Immediate or Cancel
- Pegged orders
- Summary quotes
- Summary trades
- Sweep orders

##### 2.1.1.2 Rule 4706—Order entry parameters

##### 2.1.1.3 Rule 4707—Entry and display of quotes/orders

- Attributable and non-attributable orders
- Quote entry and orders
- Display quotes/orders
- Reserve size
- Public data feeds and order information
- Trading in Actual Shares
  - Round lots
  - Odd lots
  - Mixed lots

##### 2.1.1.4 Rule 4710—Participant obligations in the NASDAQ Market Center

- Quote decrementation
- Auto Quote Refresh (AQR)
- Non-directed orders
- Preferenced orders
- Order execution algorithm
  - Price/time
  - Price/size/time
  - Price/time with access fee consideration
- Internalization and anti-internalization

Price governor process (sweep order protection feature) –  
SEC No. 34-46652, File No. SR-NASD-2002-13  
NASDAQ Head Trader Alert 2002-149

- 2.1.1.5 Rule 4714—Routing NASDAQ-listed securities
- 2.1.1.6 Rule 4715—Adjustment of open quotes and/or orders
- 2.1.1.7 Rule 4719—Anonymity
- 2.1.1.8 Opening/Closing Process
  - 2.1.1.8.1 Rule 4704—Opening process for NASDAQ-listed securities
    - Opening Cross
    - Limit On Open Order
    - Imbalance
    - Order Imbalance Indicator
    - Market On Open Order
  - 2.1.1.8.2 Rule 4709—NASDAQ closing cross
    - Closing Cross
    - Market On Close
    - Limit On Close
    - Imbalance Only Order
    - Imbalance On Open
    - Access to displayed quotes and orders
- 2.2 NASD Rule 5400—Alternative Display Facility**
- 2.3 Advanced Computerized Execution System (ACES)**
  - 2.3.1 Services Provided by ACES**
    - Automatic order delivery system
    - Maintains traders’ order file
- 2.4 NASD Rule 5200 — Intermarket Trading System/Computer Assisted Execution System (ITS/CAES) (NASDAQ Market Center for Listed Securities)**
  - 2.4.1 Rule 5210 — Definitions**
  - 2.4.2 Rule 5240 — Pre-Opening Application—Opening by ITS/CAES Market Maker**
  - 2.4.3 Rule 5262 — Trade-Throughs**

- 2.4.4 Rule 5263 — Locked or Crossed Markets**
- 2.4.5 Rule 5264 — Block Transactions**
- 2.4.6 Rule 5265 — Authority to Cancel or Adjust Transactions**
- 2.5 Other market facilities (general understanding)**
  - 2.5.1 Alternate Trading Systems (ATS)**
  - 2.5.2 Electronic Communication Network (ECN)**  
ECN 5 second rule
  - 2.5.3 UTP Exchanges (Unlisted Trading Privilege)**  
NASD Rule 4710(d)-- UTP Exchanges – Direct Participation in  
NASDAQ Market Center

## **3.0 Trade Reporting Requirements**

---

### **3.1 Trade Reporting Obligations**

#### **3.1.1 NASD Marketplace Rules**

3.1.1.1 Rules 4630 and 4640 — Reporting Transactions in NASDAQ Listed Securities

Rules 4631 and 4641 — Definitions

3.1.1.2 Rule 6400 — Reporting Transactions in Listed Securities

Rule 6410 — Definitions

Rule 6430 — Suspension of trading

Rule 6440 — Trading practices

Rule 6450 — Eligible securities

3.1.1.3 Rule 6700 — Reporting Transactions in Non-NASDAQ Securities

Rule 6720 — Price and volume reporting

Rule 6740 – Submission of Rule 15c2-11 information on Non-NASDAQ securities

Rule 6750 – Minimum quotation size requirements for OTC equity securities

### **3.2 NASD Rule 6100 — Trade Reporting Service**

#### **3.2.1 Function of Trade Reporting Service**

Primary vehicle for reporting over-the-counter transactions in equity securities (including OTC trades in listed securities)

Modifiers

.B — Bunched/aggregated trades up to 10,000 shares

.C — Cash trade

.ND — Next day settlement

.O — Price override

.PRP — Prior reference price

.SB — Late bunched trade

.SLD — Late trade — transaction executed during normal market hours

.SNN — Extended settlement

.ST—Pre-open and aftermarket trades not reported within 90 seconds

.T — Trades executed pre-opening or extended market hours

.W—Weighted average

.W—Stop orders

- 3.2.2 Rule 6110 — Definitions**
- 3.2.3 Rule 6120 — Trade Reporting Participation Requirements**
  - Participant obligations
  - Access
  - Market maker obligations
  - Order entry firm obligations
  - Clearing broker obligations
- 3.2.4 Rule 6140 — Trade Report Processing**
  - Trade by trade match
  - Trade acceptance
  - Aggregate volume match
  - T+N trade processing
- 3.3 Transaction Reporting Rules 4632; IM-4632 and 4642; 4652; 5430; 6130; 6420; 6550; 6620**
- 3.3.1 When and How Transactions Are Reported**
  - Hours for trade reporting
  - Electronic Form T
  - Capacity
    - Agency
    - Cross
    - Mixed
    - Principal
    - Riskless principal
- 3.3.2 Which Party Reports Transaction**
  - Transactions between two market makers
  - Transactions between a market maker and an order entry firm
  - Transactions between two order entry firms
  - Transactions between a member and a customer
- 3.3.3 Information To Be Reported**
- 3.3.4 Procedures for Reporting Price and Volume**
- 3.3.5 Transactions Not Required To Be Reported**
- 3.3.6 Aggregation of Transaction Reports**
  - Bunched Trades
- 3.3.7 Reporting Cancelled Trades**

**3.4 Rule 6950 — Order Audit Trail System (OATS)**

Rule 6951 — Definitions

Rule 6952 — Applicability

Rule 6953 — Synchronization of member's business clocks

Rule 6954 — Recording of order information

Rule 6955 — Order data transmission requirements



## **4.0 General Industry Standards**

---

### **4.1 Insider Trading Regulations**

- 4.1.1 Insider Trading and Securities Fraud Enforcement Act of 1988**
  - Civil and criminal penalties of controlling persons for illegal insider trading by controlled persons
    - Securities Exchange Act of 1934
      - Section 15(f) — Policies and procedures to be developed by broker-dealers to prevent misuse of material, non-public information
- 4.1.2 SEC Rule 10b-5 — Employment of manipulative and deceptive devices (by individuals)**
  - Insider Trading
  - Material information
  - Insiders and non-public information
  - Insiders and tippees
  - Information barriers (Chinese Wall)

### **4.2 General industry requirements**

#### **4.2.1 Securities Exchange Act of 1934 and SEC Rules Thereunder**

- 4.2.1.1 Regulation NMS
  - 4.2.1.1.1 SEC Rule 605 — Disclosure of order execution information
  - 4.2.1.1.2 SEC Rule 606 — Disclosure of order routing information
- 4.2.1.2 Rule 10b-18 — Purchases of certain equity securities by the issuer and others
  - Definitions
  - Limitations
  - Restrictions
- 4.2.1.3 Rule 15c6-1 — Settlement cycle
- 4.2.1.4 Penny stock rules
  - 4.2.1.4.1 Section 3(a)(51) — Definition of Penny stock
    - Rule 3a51-1 — Penny stock
  - 4.2.1.4.2 Rule 15g-1 — Exemptions for certain transactions
    - Confirmations and other disclosures
  - 4.2.1.4.3 Rule 15g-3 — Broker or dealer disclosure of quotations and other information relating to the penny stock market

- 4.2.1.4.4 Rule 15g-4 — Disclosure of compensation to brokers or dealers
- 4.2.1.4.5 Rule 15g-5 — Disclosure of compensation to associated persons in connection with penny stock transactions
- 4.2.1.4.6 Rule 15g-6 — Account statements for penny stock customers
- 4.2.1.4.7 Rule 15g-8 — Sales of escrowed securities of blank check companies
- 4.2.1.4.8 Rule 15g-9 — Sales practice requirements for certain low-priced securities

## **4.2.2 Investment Advisers Act of 1940**

- 4.2.2.1 Section 206 — Prohibited transactions by investment advisers  
General understanding of obligations of market makers not to trade as principal with managed accounts

## **4.2.3 NASD Rules**

- 4.2.3.1 Rule 2120 — Use of manipulative, deceptive or other fraudulent devices
- 4.2.3.2 Rule 2310 — Recommendations to customers (suitability)
  - IM-2310-2 — Fair dealing with customers
  - IM-2310-3 — Suitability obligations to institutional customers
- 4.2.3.3 Rule 2320 — Best execution and interpositioning
- 4.2.3.4 Rule 2460 — Payments for market making
- 4.2.3.5 Rule 3380 ---Order Entry and Execution Practices
- 4.2.3.6 Mark-ups/Mark-downs and commissions
  - IM 2110-2—Disclosure of mark-ups/sales concessions
  - Rule 2440 — Fair prices and commissions
    - IM-2440—NASD 5% mark-up policy
    - Regulatory concerns
    - General mark-up/ mark-down considerations
    - Determination of prevailing market price in:
      - NASDAQ listed securities
      - OTC securities
      - Active competitive markets
      - Dominated and controlled markets
      - Competitive, inactive markets
      - Validation of quotes
      - Contemporaneous dealer transactions

Additional compliance considerations  
Markups/markdowns by a non-market maker

### **4.3 General Standards for Syndicate Activities**

#### **4.3.1 Syndicate Activities**

4.3.1.1 NASDAQ Initial Public Offering (IPO) process (*See Head Trader Alert 2005-096*)

Obligation of lead underwriter to notify NASDAQ IPO has been released by SEC

Create baseline price for trading the IPO

4.3.1.2 Stabilization

Maintained by managing underwriter in aftermarket at or below public offering price

Syndicate penalty bid

Purpose

Stabilizing bids

Pre-effective bids

Syndicate covering transactions

NASD Rule 4614 — Stabilizing bids

SEC Regulation M – Rule 104 – Stabilizing transactions

4.3.1.3 Securities Act of 1933 and SEC Rules Thereunder

4.3.1.3.1 Rule 144 — Persons deemed not to be engaged in a distribution and therefore not underwriters

Holding period (applies to restricted securities only)

Quantity limitations

Manner of sale

Solicitation of an order

Registration as a market maker in anticipation of a transaction

4.3.1.3.2 Rule 145 — Reclassification of securities, mergers, consolidations and acquisitions of assets

4.3.1.4 Securities Exchange Act of 1934 and SEC Rules Thereunder

4.3.1.4.1 Regulation M

Rule 101 — Distribution participant restrictions

Rule 103 — Passive market making in NASDAQ Stocks

Limitations

Requirements

### **4.4 Books and Records**

- 4.4.1 SEC Rule 17a-3 — Records to be Made by Certain Exchange Members, Brokers and Dealers**
  - Time stamps
  - Change of time stamps
- 4.4.2 NASD Rule 3110 — Books and Records**
- 4.5 Uniform Practice Code**
  - 4.5.1 Rule 11130 — When, as and if Issued/Distributed Contracts**
  - 4.5.2 Rule 11140 — Transactions in Securities “ex-dividend,” “ex-rights” or “ex-warrants”**
  - 4.5.3 Rule 11320 — Dates of Delivery**
    - For cash
    - Regular way
  - 4.5.4 Rule 11890 — Clearly Erroneous Trades**

## REFERENCES

---

### **Securities Act Handbook**

Aspen Publishers  
111 Eighth Avenue  
New York, NY 10011

### **Code of Federal Regulations**

Title 17 — Commodity and  
Securities Exchanges  
U.S. Government Printing Office.  
Washington, DC 20402

### **Dictionary of Finance and Investment Terms**

Barron's Financial Guides, —ed.  
Barron's Educational Series, Inc.  
250 Wireless Boulevard  
Hauppauge, NY 11788

### ***NASD Manual***

NASD MediaSource  
P. O. Box 9403  
Rockville, MD 20898  
[www.nasd.com](http://www.nasd.com)

Publications available from NASDAQ at [www.nasdaqtrader.com](http://www.nasdaqtrader.com)

NASDAQ Trader Manual  
NASDAQ Marketplace Rules  
Head Trader Alerts  
SuperMontage User Manual

## SAMPLE QUESTIONS

---

The questions that follow are similar in format and content to questions on the actual examination. They are not intended, however, to parallel either the level of difficulty or the subject matter distribution of the test itself. The purpose here is to assist candidates and training personnel in preparing for the types of multiple-choice questions that will appear in the examination.

### ANSWERS

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

1. When must round lot trades in NASDAQ National Market securities be reported?

- (A) Within 30 seconds of execution.
- (B) Within 90 seconds of execution.
- (C) Within 5 minutes of execution.
- (D) Within 20 minutes of execution.

2. Each of the following orders are required to comply with the NASD Limit Order Interpretation EXCEPT:

- (A) 100 shares of a NMS stock entered at 12:23 pm (ET) for a retail customer.
- (B) 500 shares of a NASDAQ Capital Market (SmallCap) stock entered at 10:06 am (ET) for a retail customer.
- (C) 1000 shares of a NMS stock entered at 12:23 pm (ET) for a retail customer.
- (D) 99 shares of an OTCBB stock entered at 6:55 am (ET) for an institutional customer.

3. Which two of the following services are provided by ACES?

- I. Automatic executions
- II. Self-preferencing
- III. Maintains a limit order file
- IV. Block transactions

- (A) I and III
- (B) I and IV
- (C) II and III
- (D) II and IV

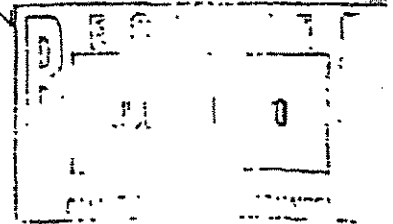
4. In the absence of other bona fide evidence of the market price of a security, which of the following is the best indicator of the prevailing market price?

- (A) The last trade
- (B) The contemporaneous cost
- (C) The length of time the security has been in inventory
- (D) The price of similar issues

Exhibit 3c  
SR-NASD-2006-086



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. <sup>Alden</sup> 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.

Alden S. Adkins  
Page 2

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