

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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Form 19b-4 Information

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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

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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

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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

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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

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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

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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

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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”) proposed NASD Rule 2342, which would require members to advise all new customers, in writing, at the opening of an account, and all customers at least once each year that they may obtain information about the Securities Investor Protection Corporation (“SIPC”), including the SIPC Brochure,² by contacting SIPC, and to provide such customers with SIPC’s telephone number and Web site address. Below is the text of the proposed rule change. Proposed new language is underlined.

* * * * *

2000. BUSINESS CONDUCT

* * * * *

2300. Transactions with Customers

* * * * *

2342. SIPC Information

Members shall advise all new customers, in writing, at the opening of an account, that they may obtain information about the Securities Investor Protection Corporation (SIPC), including the SIPC Brochure, by contacting SIPC, and also shall

¹ 15 U.S.C. 78s(b)(1).

² In brief, the SIPC Brochure describes such things as the role of SIPC, what SIPC covers and what it does not, and how to avoid investment fraud.

provide the Web site address and telephone number of SIPC. In addition, members shall provide all customers with the same information, in writing, at least once each year. In cases where both an introducing firm and clearing firm service an account, the firms may assign these requirements to one of the firms.

* * * * *

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of NASD Regulation, Inc. at its meeting on November 2, 2004, which authorized the filing of the rule change with the SEC. Counsel for The Nasdaq Stock Market (now Nasdaq, Inc.) and NASD Dispute Resolution have been provided an opportunity to consult with respect to the proposed rule change, pursuant to the Plan of Allocation and Delegation of Functions by NASD to its Subsidiaries. The Board of Governors of NASD had an opportunity to review the proposed rule change at its meeting on November 18, 2004. No other action by NASD is necessary for the filing of the proposed rule change. Section 1(a)(ii) of Article VII of the NASD By-Laws permits the Board of Governors of NASD to adopt NASD Rules without recourse to the membership for approval.

NASD will announce the effective date of the proposed rule change in a Notice to Members to be published no later than 30 days following Commission approval. NASD is proposing an effective date of May 31, 2007. This will give members time to make necessary changes to their customer documentation and systems.

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

(a) Purpose

On May 25, 2001, the U.S. General Accounting Office (“GAO”) issued *Securities Investor Protection: Steps Needed to Better Disclose SIPC Policies to Investors* (GAO-01-653). In that report, the GAO made recommendations to the SEC and SIPC about ways to improve the information available to the public about SIPC and the Securities Investor Protection Act (“SIPA”). Among other things, the GAO recommended that self-regulatory organizations (“SROs”) explore ways to encourage broader dissemination of the SIPC Brochure to customers so that they can become more aware of the scope of coverage of SIPA. In July 2003, the GAO issued *Securities Investor Protection: Update on Matters Related to the Securities Investor Protection Corporation*, in which the GAO noted that the Commission was working with SROs to explore ways in which the GAO’s recommendations could be implemented.³

In response, NASD is proposing Rule 2342, which would require members to

³ In its report, the GAO also recommended that SROs consider requiring firms to include information on periodic statements or trade confirmations advising investors that they should document account discrepancies in writing. In response to this recommendation, NASD amended Rule 2340 to require that account statements include a statement advising each customer to report promptly any inaccuracy or discrepancy in that person's account to his or her brokerage firm and clearing firm (where these are different firms). Such statement also must advise the customer that any oral communication should be re-confirmed in writing to further protect the customer’s rights, including rights under SIPA. See Securities Exchange Act Rel. No. 54411 (September 7, 2006) 71 FR 54105 (September 13, 2006) (SR-NASD-2004-171), as corrected by Securities Exchange Act Rel. No. 54411A (October 6, 2006) 71 FR 61115 (October 17, 2006).

advise all new customers, in writing, at the opening of an account, that they may obtain information about SIPC, including the SIPC Brochure, by contacting SIPC, and to provide SIPC's Web site address and telephone number. In addition, proposed Rule 2342 would require members to provide all customers with the same information, in writing, at least once each year. In cases where both an introducing firm and clearing firm service an account, the firms may assign these requirements to one of the firms.

NASD will announce the effective date of the proposed rule change in a Notice to Members to be published no later than 30 days following Commission approval. NASD is proposing an effective date of May 31, 2007. This will give members time to make necessary changes to their customer documentation and systems.

(b) Statutory Basis

NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,⁴ which requires, among other things, that NASD rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. NASD believes that the proposed rule change is consistent with this provision of the Act because NASD members will be required to provide new customers with SIPC's telephone number and Web site address and to provide that same information to all customers, annually. This new requirement will further assist investors in obtaining information that will help them to understand SIPC and how SIPC protects investors.

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

⁴ 15 U.S.C. 78o-3(b)(6).

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.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

NASD does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.⁵

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

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

The New York Stock Exchange has proposed a substantially similar rule change.

See SR-NYSE-2005-09.

9. Exhibits

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

⁵ 15 U.S.C. 78s(b)(2).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-2006-124)

Self-Regulatory Organizations: National Association of Securities Dealers, Inc.; Notice of Filing of Proposed Rule Change Relating to Proposed Rule 2342 Requiring Members to Provide New Customers, and All Customers Annually, the Web Site and Telephone Number of the Securities Investor Protection Corporation (“SIPC”)

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. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

NASD is proposing to adopt Rule 2342, which would require members to advise all new customers, in writing, at the opening of an account, and all customers at least once each year that they may obtain information about SIPC, including the SIPC Brochure,³ by contacting SIPC, and to provide such customers with SIPC’s telephone

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In brief, the SIPC Brochure describes such things as the role of SIPC, what SIPC covers and what it does not, and how to avoid investment fraud.

number and Web site address. Below is the text of the proposed rule change. Proposed new language is in italics.

* * * * *

2000. BUSINESS CONDUCT

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2300. Transactions with Customers

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2342. SIPC Information

Members shall advise all new customers, in writing, at the opening of an account, that they may obtain information about the Securities Investor Protection Corporation (SIPC), including the SIPC Brochure, by contacting SIPC, and also shall provide the Web site address and telephone number of SIPC. In addition, members shall provide all customers with the same information, in writing, at least once each year. In cases where both an introducing firm and clearing firm service an account, the firms may assign these requirements to one of the firms.

* * * * *

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

On May 25, 2001, the U.S. General Accounting Office (“GAO”) issued *Securities Investor Protection: Steps Needed to Better Disclose SIPC Policies to Investors* (GAO-01-653). In that report, the GAO made recommendations to the SEC and SIPC about ways to improve the information available to the public about SIPC and the Securities Investor Protection Act (“SIPA”). Among other things, the GAO recommended that self-regulatory organizations (“SROs”) explore ways to encourage broader dissemination of the SIPC Brochure to customers so that they can become more aware of the scope of coverage of SIPA. In July 2003, the GAO issued *Securities Investor Protection: Update on Matters Related to the Securities Investor Protection Corporation*, in which the GAO noted that the Commission was working with SROs to explore ways in which the GAO’s recommendations could be implemented.⁴

In response, NASD is proposing Rule 2342, which would require members to advise all new customers, in writing, at the opening of an account, that they may obtain

⁴ In its report, the GAO also recommended that SROs consider requiring firms to include information on periodic statements or trade confirmations advising investors that they should document account discrepancies in writing. In response to this recommendation, NASD amended Rule 2340 to require that account statements include a statement advising each customer to report promptly any inaccuracy or discrepancy in that person's account to his or her brokerage firm and clearing firm (where these are different firms). Such statement also must advise the customer that any oral communication should be re-confirmed in writing to further protect the customer’s rights, including rights under SIPA. See Securities Exchange Act Rel. No. 54411 (September 7, 2006) 71 FR 54105 (September 13, 2006) (SR-NASD-2004-171), as corrected by Securities Exchange Act Rel. No. 54411A (October 6, 2006) 71 FR 61115 (October 17, 2006).

information about SIPC, including the SIPC Brochure, by contacting SIPC, and to provide SIPC's Web site address and telephone number. In addition, proposed Rule 2342 would require members to provide all customers with the same information, in writing, at least once each year. In cases where both an introducing firm and clearing firm service an account, the firms may assign these requirements to one of the firms.

NASD will announce the effective date of the proposed rule change in a Notice to Members to be published no later than 30 days following Commission approval. NASD is proposing an effective date of May 31, 2007. This will give members time to make necessary changes to their customer documentation and systems.

2. Statutory Basis

NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,⁵ which requires, among other things, that NASD rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. NASD believes that the proposed rule change is consistent with this provision of the Act because NASD members will be required to provide new customers with SIPC's telephone number and Web site address and to provide that same information to all customers, annually. This new requirement will further assist investors in obtaining information that will help them to understand SIPC and how SIPC protects investors.

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.

⁵ 15 U.S.C. 78o-3(b)(6).

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**

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

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-2006-124 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.

All submissions should refer to File Number SR-NASD-2006-124. 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-2006-124 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.⁶

Nancy M. Morris

Secretary

⁶ 17 CFR 200.30-3(a)(12).