

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

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|----------------------------------|---|--|--|--|--|
| <input type="checkbox"/> Initial | <input checked="" type="checkbox"/> Amendment | <input type="checkbox"/> Withdrawal | <input checked="" type="checkbox"/> Section 19(b)(2) | <input type="checkbox"/> Section 19(b)(3)(A) | <input type="checkbox"/> Section 19(b)(3)(B) |
| | | | Rule | | |
| <input type="checkbox"/> Pilot | <input type="checkbox"/> Extension of Time Period for Commission Action | <input type="text" value=""/> Date Expires | <input type="checkbox"/> 19b-4(f)(1) | <input type="checkbox"/> 19b-4(f)(4) | |
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| <input type="checkbox"/> Exhibit 2 Sent As Paper Document | <input type="checkbox"/> Exhibit 3 Sent As Paper Document |
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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="Sharon"/> | Last Name | <input type="text" value="Zackula"/> |
| Title | <input type="text" value="Associate Vice President and Associate General Counsel"/> | | |
| E-mail | <input type="text" value="sharon.zackula@finra.org"/> | | |
| Telephone | <input type="text" value="(202) 728-8985"/> | Fax | <input type="text" value="(202) 728-8972"/> |

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 officer.

| | |
|------|---|
| Date | <input type="text" value="08/04/2008"/> |
| By | <input type="text" value="Marc Menchel"/> |
| | (Name) |
| | <input type="text" value="Executive Vice President and General Counsel"/> |
| | (Title) |

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

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 Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a National Association of Securities Dealers, Inc. (“NASD”)) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) Amendment No. 5 to SR-NASD-2005-100, which proposes to: (1) adopt NASD Rule 2231 to require members, subject to specified exceptions, to provide customers in transactions in TRACE-eligible debt securities additional, transaction-specific disclosures; and (2) amend Rule 2340 to require members to notify certain customers of the availability of a disclosure document discussing debt securities authored by FINRA.² Amendment No. 5 to SR-NASD-2005-100 replaces

¹ 15 U.S.C. 78s(b)(1).

² On May 23, 2008, FINRA filed with the Commission a proposed rule change (SR-FINRA-2008-021) in which FINRA proposed, among other things, to adopt the following NASD Rules (which are part of the existing FINRA rulebook) as FINRA Rules in the new consolidated FINRA rulebook: the 4000 through 10000 Series and the 12000 through 14000 Series. The NASD Rule 4000 through 7000 Series generally involves regulatory requirements and fees for quoting, trading, reporting, clearing and comparing over-the-counter transactions. The NASD Rule 9000 Series involves disciplinary procedures. The proposed rule change would adopt these rule series in their entirety as FINRA rules as part of the Consolidated FINRA Rulebook, with certain non-material changes. Amendment No. 1 to SR-FINRA-2008-21 was filed on July 11, 2008.

This rule filing proposes changes to NASD Rule 2340 and also incorporates or refers to certain parts of the following NASD Rules in the proposed rule text: NASD Rule 3110, NASD Rule 3230, NASD Rule 4632, IM-4632-1, NASD Rule 6210(a) and the NASD Rule 9000 Series.

In SR-FINRA-2008-021, FINRA proposed, among other things, to adopt without material change: (i) NASD Rule 6210 as FINRA Rule 6710; (ii) NASD Rule 4632 as FINRA Rule 6380A; and (iii) NASD IM-4632-1 as FINRA Rule 6181. In addition, FINRA proposes to adopt the NASD Rule 9000 Series as the FINRA Rule 9000 Series (and to adopt, without material change, the exemptive provisions in the NASD Rule 9600 Series, which are the relevant provisions in the rule text of SR-

and supersedes the proposed rule change as filed on August 19, 2005 and all amendments thereto, except: (i) Exhibits 2a, 2b, and 2c of the original rule filing as filed on August 19, 2005 and (ii) Exhibit 1a to Amendment No. 1, as filed on December 21, 2005. The text of the proposed rule change marked to show changes proposed in this Amendment No. 5 is attached as Exhibit 4. The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

At its meeting on January 27, 2005, the Board of Governors of FINRA (formerly NASD) authorized the filing of the rule change with the SEC. No other action by FINRA is necessary for the filing of the proposed rule change.

FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 60 days following Commission approval. The effective date will be no later than nine months following publication of the Regulatory Notice announcing Commission approval.

NASD-2005-100, as the FINRA Rule 9600 Series). (NASD Rule 2340, NASD Rule 3110 and NASD Rule 3230 were not included in SR-FINRA-2008-021.) If the Commission approves this proposed rule change prior to approving SR-FINRA-2008-021, FINRA will amend SR-FINRA-2008-021 as necessary to reflect such approval. If the Commission approves SR-FINRA-2008-021 prior to approving this proposed rule change, FINRA will amend this proposed rule change as necessary to reflect such approval.

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

(a) Purpose

I. Introduction

The major amendments to the proposed rule change in this Amendment No. 5 will permit a member to elect to deliver via the Internet the additional disclosures in transactions in TRACE-eligible securities required under proposed NASD Rule 2231. The amendments would permit members to comply with the Rule by referring their customers to an Internet Web site (a “non-FINRA Internet Web site”), a FINRA Market Data Internet Web site that displays bond market data (“FINRA Market Data Internet Web site”), or both the FINRA Market Data Internet Web site and a non-FINRA Internet Web site.³

The alternative method of providing the additional disclosures for transactions in TRACE-eligible securities in proposed NASD Rule 2231 would permit members and customers to take advantage of technological developments and the growth of the Internet and electronic communications. Members that opt to use the proposed alternative method of delivery of information via the Internet would be required to provide customers with a “Notice of Internet Availability of Transaction Information” that such information is accessible on a specified Internet Web site.⁴

³ In the fall of 2007, various members and Securities Industry and Financial Markets Association (“SIFMA”) approached FINRA staff and suggested that members be permitted to provide the disclosures required under proposed NASD Rule 2231 via the Internet. Following further discussion of this concept and a review of certain actions by the SEC regarding Internet-based communications and disclosures, FINRA is amending the proposed rule change to include Internet delivery of the required information as one option.

⁴ This alternative method of delivering information via the Internet, preceded by a notice that such information is available on the Internet at a specified Internet Web

In addition, FINRA proposes several other amendments to proposed NASD Rule 2231 in this Amendment No. 5, including: (i) eliminating the requirement to disclose yield to maturity; (ii) in the definition of “institutional account,” eliminating the specific mandate to review the classification of an account as an “institutional account” at least once annually; and (iii) revising the disclosures regarding credit ratings. FINRA also proposes in NASD Rule 2231 to delete two unnecessary definitions; make minor technical changes to other definitions; consolidate redundant provisions regarding a member’s obligation to provide written information to a customer within specified periods upon receipt of a customer’s written request; and renumber various provisions. In addition, FINRA proposes to make minor amendments to the discussions

site, has been referred to as “notice and access.” In this Amendment No. 5, FINRA incorporates some of the concepts relied upon in the SEC’s action in January 2007 allowing issuers and others persons soliciting proxies *voluntarily* to furnish proxy materials to shareholders by posting them on an Internet Web Site and providing shareholders with notice of the availability of the proxy materials. (The issuer’s other choices were to provide shareholders with the choice to receive proxy materials by electronic means or in paper form (and send the materials according to the shareholder’s choice), or to send the proxy materials in paper form.) See “Internet Availability of Proxy Materials,” Securities Exchange Act Release No. 55146 (January 22, 2007), 72 FR 4148 (January 29, 2007) (File No. S7-10-05) (approving release). FINRA’s proposed rule change *would not require* broker-dealers to post the information required under the proposed rule change on an Internet Web site, as the SEC did in additional amendments to rules governing the distribution of proxy materials that were adopted in August 2007. See “Shareholder Choice Regarding Proxy Materials,” Securities Exchange Act Release No. 56135 (July 26, 2007), 72 FR 42222 (August 1, 2007) (File No. S7-03-07) (approving release).

of bond call provisions and credit ratings in the proposed disclosure document; and, in the proposed rule filing generally, to convert references to “NASD” or “the Association” to “FINRA,” to conform references to the federal securities statutes and rules, and to make other minor technical, administrative, or conforming changes.

II. Amendments to Proposed NASD Rule 2231

A. Alternative Notice and Access Method to Make Disclosures.

In SR-NASD-2005-100 as published in the 2007 Release, FINRA proposed that a member provide additional disclosures to customers in transactions in TRACE-eligible securities in the same manner and at the same time in which the member discloses to the customer information in connection with SEC Rule 10b-10 under the Act.⁵ In this Amendment No. 5, FINRA proposes that a member may provide the additional disclosures to investors by: (i) making the additional disclosures as set forth above; or (ii) providing such disclosures via the Internet, using the delivery option set forth in proposed NASD Rule 2231(a)(2)(B).⁶

The amendments would permit members to comply with the Rule by referring their customers to: (i) a non-FINRA Internet Web site that provides all or some of the information required under paragraph (b) of the Rule; (ii) the FINRA Market Data Internet Web site that displays bond market data, including some but not all of the information required under paragraph (b) of the Rule; or (iii) both the FINRA Market Data Internet

⁵ 17 CFR 240.10b-10.

⁶ The notice and access provision in proposed NASD Rule 2231(a)(2)(B) would apply only to a member’s delivery of the additional disclosures required to be provided to a customer under proposed NASD Rule 2231. The proposed rule change does not apply to a member’s obligation to make disclosures under SEC

Web site and a non-FINRA Internet Web site. In addition, a member may use a combination of methods to deliver the information; a member may deliver some of the information required under paragraph (b) of the proposed Rule in the same manner and at the same time in which the member discloses information under SEC Rule 10b-10,⁷ and may deliver the balance of the information via the Internet by using one or both of the Internet Web sites referenced above.

If a member elects to provide disclosures by notice and access, the member must adhere to all the requirements in proposed NASD Rule 2231 for doing so discussed in greater detail below, including providing a Notice of Internet Availability of Transaction Information and actually providing such information at an Internet Web site(s) identified by the member.

1. Notice of Internet Availability of Transaction Information. If a member elects to provide information via the Internet under proposed Rule 2231, first the member must provide the customer a Notice of Internet Availability of Transaction Information (“Notice”). The Notice must contain specific information such as the CUSIP of the debt security, must alert the customer to the availability of the information and the specific Internet Web site(s) where it is located, provide instructions and any code or control number needed to access the information,⁸ provide contact information, and provide

⁷ Rule 10b-10 to a customer nor to the methods for delivering such information to the customer under SEC Rule 10b-10 under the Act. 17 CFR 240.10b-10.

⁸ FINRA does not use control or identification numbers, or otherwise limit access to the market data found at the FINRA Internet Market Data Web site for members of the public (generally, “non-professionals” as defined in NASD Rule 7030(c)(3)(A)). Members of the public are encouraged to access such information market data at <http://www.finra.org/marketdata>.

information on how a customer may obtain additional information after viewing the disclosures on the Internet Web site⁹ or a paper copy of the information that is displayed at the Internet Web site if the customer does not desire to access the Internet or is unable to do so under proposed NASD Rule 2231(c)(2)(C). In the Notice, a member may refer a customer to no more than two Internet Web sites, as discussed in greater detail below.

The Notice must be delivered to the customer in the same manner and at the same time in which the member discloses to the customer the confirmation disclosures pursuant to SEC Rule 10b-10.¹⁰

2. Internet Web Site(s) Referenced and Used. The Notice must refer the customer to at least one Internet Web site and no more than two. The Internet Web site(s) may be: (i) a single non-FINRA Internet Web site; (ii) FINRA's Market Data Internet Web site at <http://www.finra.org.marketdata>;¹¹ or (iii) both FINRA's Market Data Internet Web site

⁹ Several subparagraphs of proposed NASD Rule 2231 require a member to provide additional information if a customer makes a written request for such information. See proposed NASD Rule 2231(b)(5)(A)(interest and principal); proposed NASD Rule 2231 (b)(5)(B)(call provisions); and proposed NASD Rule 2231 (b)(5)(C) (variable interest rates). If a request is made, a member must provide such information in writing within three business days of receiving a customer's written request or within ten business days if such a request is received more than six months after the transaction's settlement date. See proposed NASD Rule 2231(d).

¹⁰ 17 CFR 240.10b-10.

¹¹ The URL, <http://www.finra.org/marketdata> is a "user friendly" URL to access a FINRA Internet Web site located at the URL: <http://exa.marketwatch.com/finra/MarketData/default.aspx>.

If a member intends to deliver all the information via the Internet, and the member references and relies upon the FINRA Market Data Internet Web site to provide certain disclosures, a member also must refer a customer to a second non-FINRA Internet Web site, because the FINRA Market Data Internet Web site does not

and a single non-FINRA Internet Web site. A member is limited to referring its customer to only one Internet Web site, unless a member refers the customer to FINRA's Market Data Internet Web site as the second site. FINRA believes that this limitation is necessary to protect customers from a disclosure process that could become unintentionally or deliberately difficult, unwieldy, or inconvenient to use, eviscerating the customer protections sought in this proposal.

A member is responsible for the content of the non-FINRA Internet Web site it uses to comply with proposed Rule 2231, whether the member uses its own Web site or the site of a third party.

As noted previously, a member may combine different methods of delivering the required information, provided all the information is delivered or otherwise provided to the customer. For example, a member may use notice and access and refer a customer to a non-FINRA Internet Web site for some information and the FINRA Market Data Internet Web site for other information. However, assume in this example, that although the member uses two Web sites, the member has not provided its customer all the information and specific disclosures required under paragraph (b) of proposed NASD Rule 2231. In such case, the member would be required to deliver the balance of the information in the same manner and time as the confirmation is sent under SEC Rule 10b-10.¹²

A member may use FINRA's Market Data Internet Web site --

<http://www.finra.org/marketdata> -- for the disclosure of certain information about the bond

include all disclosures required under proposed NASD Rule 2231, as discussed in greater detail hereinafter.

¹² 17 C.F.R. 240.10b-10.

and its features, such as the bond's CUSIP and TRACE symbol, current price, interest payment schedule, current credit ratings, and the date such ratings were assigned, but not all the information that must be disclosed is available at the site. FINRA's Market Data Internet Web site does not include the more transaction-specific information and representations regarding the member-customer relationship that must be disclosed under proposed NASD Rule 2231. The disclosures mandated under proposed NASD Rule 2231 that are not displayed on the FINRA Market Data Internet Web site are:

- 1) in paragraph (b)(2), the disclosure regarding member charges that apply to any member acting as a principal;
- 2) in paragraph (b)(4), the disclosure that transaction price information for TRACE-eligible securities is publicly available at the Internet Web site; <http://www.finra.org/marketdata>, for the customer's non-commercial use at no charge, or at other sources that provide such information;
- 3) in paragraph (b)(5)(A), the statement providing: "This security does not pay interest or principal on a regular schedule. Information regarding the frequency of interest or principal payments for this security will be furnished to you upon written request."
- 4) in paragraph (b)(5)(B), the statement providing: "Additional call features exist that may affect yield; additional information will be furnished to you upon written request."; in paragraph (b)(5)(C), the disclosures for debt securities carrying a variable coupon rate; and
- 5) the information required under paragraph (b)(5)(D).

As a result, if a member desires to use notice and access to disclose all information eligible to be delivered in this manner, the information that is not available at the FINRA Market Data Internet Web site must be displayed at the second specified Internet Web site to which the customer is referred in the Notice.

Although the FINRA Market Data Internet Web site lacks several essential disclosures, the option of using the FINRA Market Data Internet Web site in combination with a second non-FINRA Internet Web site is proposed for several reasons. First, FINRA has developed an extensive Market Data Internet Web site, which is updated frequently. Second, a member's use of the FINRA Market Data Internet Web site may reduce the costs of compliance of the proposed rule. Third, a member that refers a customer to FINRA's Market Data Internet Web site may rely upon the accuracy of the information provided there.¹³

3. Additional Requirements. If a member opts to use notice and access, proposed NASD Rule 2231(c)(3)(A) through (D) also require that any non-FINRA Internet Web site specified in the Notice meet certain standards regarding accessibility, design and format, the protection of privacy and costs. Under proposed NASD Rule 2231(c)(3)(A) through (C), the information that is to be accessed by the customer at the non-FINRA Internet Web site identified in the Notice must be actually displayed before or as of the day and time that

¹³ Although proposed NASD Rule 2231 applies only to non-institutional customers, members may choose to adopt certain procedures for all customers. However, if a member adopts notice and access for institutional accounts, the member would not be able to refer such institutional accounts to FINRA's Market Data Internet Web site. Members may refer only natural persons, and only those natural persons who are not market professionals, to FINRA's Market Data Internet Web site. Institutions and market professionals are prohibited from using FINRA's Market Data Internet Web site, which is operated to provide retail customers and the public access to bond market information.

the Notice is sent to the customer. In addition, the information must be accurate, and located on one or two contiguous pages. Also, a customer must be able to easily access the non-FINRA Internet Web site and access, read, transfer, and print the information free of charge. And, such information must remain available on the non-FINRA Internet Web site for at least one year following the date of settlement of the transaction.

Under proposed NASD Rule 2231(c)(3)(D), FINRA proposes several requirements to protect the customer's privacy. Generally, a member must maintain the non-FINRA Internet Web site in a manner that does not infringe on the privacy of the customer when the customer accesses the Internet Web site or otherwise. More specifically, a member may not use a customer's e-mail address obtained from the customer for the purposes of requesting a copy of the information on the Internet Web site for any purpose other than sending the information required under proposed Rule 2231 to the customer. Also, a member must not disclose or sell the e-mail address to third parties. Finally, the non-FINRA Internet Web site may not require the installation of any "cookies" or other software that might collect information about the accessing customer.¹⁴

If a member uses a non-FINRA Internet Web site of a third party to comply with proposed Rule 2231, the member is responsible for the operator's and the Internet Web site's compliance with the requirements set forth in proposed NASD Rule 2231(c)(3)(A) through 2231(c)(3) (D) concerning customers' privacy and computer use.

¹⁴ The requirements in proposed NASD Rule 2231(c) apply to the non-FINRA Internet Web site identified in the Notice, or the relevant portion of the non-FINRA Internet Web site, that a member uses to comply with the proposed rule change.

None of the requirements described above and set forth in proposed NASD Rule 2231(c)(3)(A) through (c)(3)(D) apply to members in connection with their use of the FINRA Market Data Internet Web site because members do not exercise any control over the FINRA Market Data Internet Web site. See proposed NASD Rule 2231(c)(3)(E).

B. Yield to Maturity. Under SEC Rule 10b-10,¹⁵ in debt securities transactions members must disclose to a customer in the customer's confirmation yield to maturity or, in some transactions, an alternative yield at which the transaction was effected (e.g., yield to call) or, in a third transaction type, both yield to maturity and the alternative yield. Because customers currently receive at least one yield in their SEC Rule 10b-10¹⁶ confirmations, FINRA proposes to eliminate the requirement that members disclose yield to maturity in proposed NASD Rule 2231(b)(5)(B).

C. Assessment of "Institutional Account" Status. In proposed NASD Rule 2231, FINRA distinguishes between institutional accounts and retail accounts. In paragraph (a)(3)(A) (formerly paragraph (a)(2)(A)) of proposed NASD Rule 2231, FINRA defines "institutional account" for purposes of the rule. FINRA proposes to amend paragraph (a)(3)(A) to eliminate the specific obligation that a member determine *at least annually* that an account is properly categorized as an institutional account. The phrase "and means an account that, within the past twelve months, the member has determined is an institutional account." will be deleted, and the provision as amended would simply state: "Institutional account" shall have the same meaning it has in NASD Rule 3110." FINRA is proposing this principle-based approach, because it is always incumbent upon a member to ascertain

¹⁵ 17 C.F.R. 240.10b-10.

¹⁶ Id.

if an account is in fact an institutional account as the firm deals with the customer. The general duty to ascertain account status arises in this and any other regulatory scheme that distinguishes institutional accounts from all other accounts. FINRA believes that this principle-based approach is both more appropriate and flexible for purposes of a member's compliance with the proposed bifurcated rule.

D. Credit Rating(s). Currently, in proposed NASD Rule 2231(b)(3), a member is required to disclose the lowest credit rating it has received at the time the transaction confirmation is generated, the date such credit ratings was assigned and the NRSRO assigning the rating. FINRA proposes to renumber paragraph (b)(3) of Rule 2231 as new paragraph (b)(3)(B) and to move certain requirements that are in paragraph (b)(3) to new paragraph (b)(3)(A).

Under Amendment No. 5, FINRA also proposes to modify the credit rating disclosure requirement if a member elects to deliver credit rating information using "notice and access" and directs the customer to an Internet Web site.¹⁷ In proposed NASD Rule 2231(b)(3)(B), when a member provides the customer credit rating(s) information via the Internet, the member may provide the customer the credit rating(s) that is displayed on the Internet Web site specified by the member in the Notice and is *in effect at the time the customer accesses the specified Internet Web site*, provided that such Internet Web site updates the credit ratings every business day and displays current credit ratings.¹⁸

¹⁷ The disclosure may be made by directing the customer to the non-FINRA Internet Web site or FINRA's Market Data Internet Web site.

¹⁸ FINRA believes it is important that a customer access current transaction-related information, including current credit ratings, at the time of the transaction. Accordingly, proposed NASD Rule 2231(c)(2)(B) requires a firm to include a

Alternatively, the member may provide the lowest credit rating(s) received by the member at the time the transaction confirmation is generated, which is the same credit rating(s) that the member must provide when providing disclosure in the same manner and at the same time in which the member discloses to the customer transaction information pursuant to SEC Rule 10b-10.¹⁹

The member's option to provide a current credit rating instead of the lowest credit rating received by the broker-dealer at the time the transaction confirmation is generated (when providing the customer information using notice and access) is the only disclosure that may differ depending on the method the firm uses to provide the information to the customer under proposed NASD Rule 2231. FINRA is proposing this modification because credit ratings and other bond-specific information that is displayed electronically customarily are constantly updated as the information changes.

E. Definitional and Technical Changes. Proposed NASD Rule 2231(a)(2), the definitions section, is renumbered as Rule 2231(a)(3). In addition, FINRA is deleting the proposed definitions of "exempted security" in subparagraph (C) and "asset-backed security" in subparagraph (D). (The definitions in subsequent subparagraphs also are renumbered.) Definitions for these two types of securities are no longer necessary because the proposed rule, as amended, applies solely to transactions in TRACE-eligible securities, and exempted securities and asset-backed securities are not TRACE-eligible securities. Finally, a "nationally recognized statistical rating agency" or NRSRO (renumbered in this

statement in the Notice encouraging a customer to review promptly the additional important transaction information accessible on the specified Internet web site.

¹⁹ 17 CFR 240.10b-10.

Amendment No. 5 as proposed Rule 2231(a)(3)(C)) is defined to have the same meaning as it has in Section 3(a)(62) of the Act,²⁰ and the reference to Rule 15c3-1 under the Act is deleted.²¹

In addition, FINRA proposes other minor administrative, technical, or conforming amendments to proposed NASD Rule 2231, including deleting the unnecessary phrase, “except that any exempted security or asset-backed security is excluded from this definition” in the definition of “debt security” in paragraph (a)(3)(B); consolidating redundant provisions in proposed NASD Rule 2231 regarding a member’s obligation to provide written information to a customer within specified periods upon receipt of a customer’s written request; deleting unnecessary references to debt securities in paragraphs (b)(1)(A) and (B); substituting “TRACE-eligible securities” for “the securities subject to this Rule” in paragraph (b)(4); and deleting the Internet Web site address, www.bondinfo.com, and substituting <http://www.finra.org/marketdata> in paragraph (b)(4). A table is attached listing provisions that are in the proposed rule and are renumbered in this Amendment No. 5.

III. Amendments to the Disclosure Document and NASD Rule 2340

A. Proposed Disclosure Document. In the proposed disclosure document, “Important Information You Need to Know About Investing in Corporate Bonds,” FINRA proposes minor amendments to two sections. In the section titled, “Call and Reinvestment Risk,” FINRA proposes amendments to the discussion about bonds with call provisions. The amendments supplement the discussion of the reinvestment and call risks of bonds

²⁰ 15 U.S.C. 78c(a)(62).

²¹ 17 C.F.R. 240.15c3-1.

with call provisions and the impact of calls on the pricing and yield of a bond. Also, in the section titled, “Default and Credit Risk,” FINRA proposes minor amendments to the discussion of credit rating agencies and the ratings they issue.

B. Other Provisions. FINRA is deleting references to “NASD” and “the Association” and replacing them with “FINRA,” and conforming references to the federal securities laws and rules in proposed NASD Rule 2231, NASD Rule 2340 and the proposed disclosure document. In this Amendment No. 5, FINRA is not proposing any additional amendments to NASD Rule 2340, except technical amendments, including those described in the preceding sentence.

| Proposed NASD Rule 2231 Provision | Provision as Re-Numbered in Amendment No. 5 | New Provision Proposed in Amendment No. 5 |
|---|---|--|
| Rule 2231(a) | Rule 2231(a)(1), (a)(2) Rule 2231 (a)(2)(A) | Rule 2231(a)(2)(B) |
| Rule 2231(a)(2) | Rule 2231(a)(3) | |
| Rule 2231 (a)(2) (A) and (B) | Rule 2231 (a)(3) (A) and (B) | |
| Rule 2231(a)(2)(E) - (H) | Rule 2231(a)(3)(C) - (F) | |
| Rule 2231(b)(1) | Rule 2231 (b)(1)(A) and (b)(1)(B) | |
| Rule 2231(b)(3) Rule 2231(b)(3)(A) – (C) | Rule 2231(b)(3)(A) Rule 2231(b)(3)(A)(i) - (iii) | Rule 2231(b)(3)(B) |
| | | Rule 2231(c) |

| | | |
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| | | Rule 2231(d) |
| | | |

As noted in Item 2 of this filing, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 60 days following Commission approval. The effective date will be no later than nine months following publication of the Regulatory Notice announcing Commission approval.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,²² which requires, among other things, that FINRA 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. FINRA believes that the proposed rule change is consistent with these requirements in that it would provide investors with information with which they might better assess the quality of their executions in debt securities transactions, the fees charged, and whether the security purchased fits their investment goals.

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

FINRA 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

²² 15 U.S.C. 78o-3(b)(6).

As noted in SR-NASD-2005-100 as previously filed and as stated in the 2007 Release, the proposed rule change was published for comment in NASD Notice to Members 05-21. The Notice to Members, an index of the comment letters received in response to the Notice to Members, the comments letters, and FINRA's response to the comments were previously filed as, respectively, Exhibit 2a, Exhibit 2b and Exhibit 2c to the initial rule filing (filed on August 19, 2005), and Exhibit 1a to Amendment No. 1 to SR-NASD-2005-100 (filed on December 21, 2005).

6. Extension of Time Period for Commission Action

FINRA consents to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act²³ to September 8, 2008.

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

Not applicable.

9. Exhibits

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

Exhibit 4. Exhibit 4 shows the full text of the proposed rule change marked to show changes from the rule text as published in the 2007 Release, with rule text as published in the 2007 Release shown as if adopted, proposed new language underlined and proposed deletions in brackets.

²³ 15 U.S.C. 78s(b)(2).

Exhibit 5. Exhibit 5 shows the full text of rule change consolidating all proposed amendments in one document.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-FINRA-2005-100)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of Proposed Rule Change Relating to Providing Customers in TRACE-Eligible Debt Securities With Additional, Transaction-Specific Disclosures and Notifying Customers of the Availability of a Disclosure Document

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 [leave space], Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a National Association of Securities Dealers, Inc. (“NASD”)) filed with the Securities and Exchange Commission (“SEC” or “Commission”) Amendment No. 5 to SR-NASD-2005-100, the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA.

A brief procedural history of the proposed rule change follows. On August 29, 2005, FINRA filed SR-NASD-2005-100. Thereafter, FINRA filed four amendments to the proposed rule change: Amendment No. 1 on December 21, 2005; Amendment No. 2 on January 26, 2007; Amendment No. 3 on July 16, 2007; and Amendment No. 4 on August 21, 2007.³ On October 19, 2007, the SEC published a notice to solicit

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No.1 to the proposed rule change, FINRA made certain technical changes. Amendment No. 1 replaced and superseded in its entirety the proposed rule change as filed on August 19, 2005, except Exhibits 2a, 2b and 2c thereto.

In Amendment No. 2 to the proposed rule change, FINRA modified proposed NASD Rule 2231 and proposed amendments to NASD Rule 2340. Amendment

comments on the proposed rule change, as amended, from interested persons (the “2007 Release”).⁴ Following publication of the 2007 Notice, FINRA determined to make additional changes to the proposed rule change, which are set forth in this Amendment No. 5.

Amendment No. 5 to SR-NASD-2005-100 replaces and supersedes the proposed rule change as filed on August 19, 2005 and all amendments thereto, except: (i) Exhibits 2a, 2b, and 2c of the original rule filing as filed on August 19, 2005 and (ii) Exhibit 1a to Amendment No. 1 as filed on December 21, 2005.

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

FINRA is proposing to: (1) adopt NASD Rule 2231 to require members, subject to specified exceptions, to provide customers in transactions in TRACE-eligible debt securities additional, transaction-specific disclosures; and (2) amend Rule 2340 to require members to notify certain customers of the availability of a disclosure document

No. 2 replaced and superseded in its entirety Amendment No. 1 as filed on December 21, 2005, except Exhibit 1a thereto, and the original rule filing as filed on August 19, 2005, except Exhibits 2a, 2b, and 2c thereto.

In partial Amendment No. 3 to the proposed rule change, FINRA addressed comments of the Commission staff and made certain technical changes. In partial Amendment No. 4 to the proposed rule change, FINRA updated references to certain Internet Web addresses referred to in the proposed rule change and made a technical correction.

⁴ Securities Exchange Act Release No. 56661 (October 15, 2007), 72 FR 59321 (October 19, 2007) (notice soliciting comments on SR-NASD-2005-100, as amended through Amendment No. 4, to the proposed rule change).

discussing debt securities authored by FINRA.⁵ The text of the proposed rule change marked to show changes from the 2007 Release is attached as Exhibit 4. The text of the proposed rule change is attached as Exhibit 5.

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

In its filing with the Commission, FINRA 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

⁵ On May 23, 2008, FINRA filed with the Commission a proposed rule change (SR-FINRA-2008-021) in which FINRA proposed, among other things, to adopt the following NASD Rules (which are part of the existing FINRA rulebook) as FINRA Rules in the new consolidated FINRA rulebook: the 4000 through 10000 Series and the 12000 through 14000 Series. The NASD Rule 4000 through 7000 Series generally involves regulatory requirements and fees for quoting, trading, reporting, clearing and comparing over-the-counter transactions. The NASD Rule 9000 Series involves disciplinary procedures. The proposed rule change would adopt these rule series in their entirety as FINRA rules as part of the Consolidated FINRA Rulebook, with certain non-material changes. Amendment No. 1 to SR-FINRA-2008-21 was filed on July 11, 2008.

This rule filing proposes changes to NASD Rule 2340 and also incorporates or refers to certain parts of the following NASD Rules in the proposed rule text: NASD Rule 3110, NASD Rule 3230, NASD Rule 4632, IM-4632-1, NASD Rule 6210(a) and the NASD Rule 9000 Series.

In SR-FINRA-2008-021, FINRA proposed, among other things, to adopt without material change: (i) NASD Rule 6210 as FINRA Rule 6710; (ii) NASD Rule 4632 as FINRA Rule 6380A; and (iii) NASD IM-4632-1 as FINRA Rule 6181. In addition, FINRA proposes to adopt the NASD Rule 9000 Series as the FINRA Rule 9000 Series (and to adopt, without material change, the exemptive provisions in the NASD Rule 9600 Series, which are the relevant provisions in the rule text of SR-NASD-2005-100, as the FINRA Rule 9600 Series). (NASD Rule 2340, NASD Rule 3110 and NASD Rule 3230 were not included in SR-FINRA-2008-021.) If the Commission approves this proposed rule change prior to approving SR-FINRA-2008-021, FINRA will amend SR-FINRA-2008-021 as necessary to reflect such approval. If the Commission approves SR-FINRA-2008-021 prior to approving this proposed rule change, FINRA will amend this proposed rule change as necessary to reflect such approval.

the places specified in Item IV below. FINRA 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

I. Introduction

The major amendments to the proposed rule change in this Amendment No. 5 will permit a member to elect to deliver via the Internet the additional disclosures in transactions in TRACE-eligible securities required under proposed NASD Rule 2231. The amendments would permit members to comply with the Rule by referring their customers to an Internet Web site (a “non-FINRA Internet Web site”), a FINRA Market Data Internet Web site that displays bond market data (“FINRA Market Data Internet Web site”), or both the FINRA Market Data Internet Web site and a non-FINRA Internet Web site.⁶

The alternative method of providing the additional disclosures for transactions in TRACE-eligible securities in proposed NASD Rule 2231 would permit members and customers to take advantage of technological developments and the growth of the Internet and electronic communications. Members that opt to use the proposed alternative method of delivery of information via the Internet would be required to provide

⁶ In the fall of 2007, various members and Securities Industry and Financial Markets Association (“SIFMA”) approached FINRA staff and suggested that members be permitted to provide the disclosures required under proposed NASD Rule 2231 via the Internet. Following further discussion of this concept and a review of certain actions by the SEC regarding Internet-based communications and disclosures, FINRA is amending the proposed rule change to include Internet delivery of the required information as one option.

customers with a "Notice of Internet Availability of Transaction Information" that such information is accessible on a specified Internet Web site.⁷

In addition, FINRA proposes several other amendments to proposed NASD Rule 2231 in this Amendment No. 5, including: (i) eliminating the requirement to disclose yield to maturity; (ii) in the definition of "institutional account," eliminating the specific mandate to review the classification of an account as an "institutional account" at least once annually; and (iii) revising the disclosures regarding credit ratings.

FINRA also proposes in NASD Rule 2231 to delete two unnecessary definitions; make minor technical changes to other definitions; consolidate redundant provisions regarding a member's obligation to provide written information to a customer within specified periods upon receipt of a customer's written request; and renumber various provisions. In addition, FINRA proposes to make minor amendments to the discussions

⁷ This alternative method of delivering information via the Internet, preceded by a notice that such information is available on the Internet at a specified Internet Web site, has been referred to as "notice and access." In this Amendment No. 5, FINRA incorporates some of the concepts relied upon in the SEC's action in January 2007 allowing issuers and others persons soliciting proxies *voluntarily* to furnish proxy materials to shareholders by posting them on an Internet Web Site and providing shareholders with notice of the availability of the proxy materials. (The issuer's other choices were to provide shareholders with the choice to receive proxy materials by electronic means or in paper form (and send the materials according to the shareholder's choice), or to send the proxy materials in paper form.) See "Internet Availability of Proxy Materials," Securities Exchange Act Release No. 55146 (January 22, 2007), 72 FR 4148 (January 29, 2007) (File No. S7-10-05) (approving release). FINRA's proposed rule change *would not require* broker-dealers to post the information required under the proposed rule change on an Internet Web site, as the SEC did in additional amendments to rules governing the distribution of proxy materials that were adopted in August 2007. See "Shareholder Choice Regarding Proxy Materials," Securities Exchange Act Release No. 56135 (July 26, 2007), 72 FR 42222 (August 1, 2007) (File No. S7-03-07) (approving release).

of bond call provisions and credit ratings in the proposed disclosure document; and, in the proposed rule filing generally, to convert references to “NASD” or “the Association” to “FINRA,” to conform references to the federal securities statutes and rules, and to make other minor technical, administrative, or conforming changes.

II. Amendments to Proposed NASD Rule 2231

A. Alternative Notice and Access Method to Make Disclosures.

In SR-NASD-2005-100 as published in the 2007 Release, FINRA proposed that a member provide additional disclosures to customers in transactions in TRACE-eligible securities in the same manner and at the same time in which the member discloses to the customer information in connection with SEC Rule 10b-10 under the Act.⁸ In this Amendment No. 5, FINRA proposes that a member may provide the additional disclosures to investors by: (i) making the additional disclosures as set forth above; or (ii) providing such disclosures via the Internet, using the delivery option set forth in proposed NASD Rule 2231(a)(2)(B).⁹

The amendments would permit members to comply with the Rule by referring their customers to: (i) a non-FINRA Internet Web site that provides all or some of the information required under paragraph (b) of the Rule; (ii) the FINRA Market Data Internet Web site that displays bond market data, including some but not all of the information required under paragraph (b) of the Rule; or (iii) both the FINRA Market

⁸ 17 CFR 240.10b-10.

⁹ The notice and access provision in proposed NASD Rule 2231(a)(2)(B) would apply only to a member’s delivery of the additional disclosures required to be provided to a customer under proposed NASD Rule 2231. The proposed rule change does not apply to a member’s obligation to make disclosures under SEC Rule 10b-10 to a customer nor to the methods for delivering such information to the customer under SEC Rule 10b-10 under the Act. 17 CFR 240.10b-10.

Data Internet Web site and a non-FINRA Internet Web site. In addition, a member may use a combination of methods to deliver the information; a member may deliver some of the information required under paragraph (b) of the proposed Rule in the same manner and at the same time in which the member discloses information under SEC Rule 10b-10,¹⁰ and may deliver the balance of the information via the Internet by using one or both of the Internet Web sites referenced above.

If a member elects to provide disclosures by notice and access, the member must adhere to all the requirements in proposed NASD Rule 2231 for doing so discussed in greater detail below, including providing a Notice of Internet Availability of Transaction Information and actually providing such information at an Internet Web site(s) identified by the member.

1. Notice of Internet Availability of Transaction Information. If a member elects to provide information via the Internet under proposed Rule 2231, first the member must provide the customer a Notice of Internet Availability of Transaction Information (“Notice”). The Notice must contain specific information such as the CUSIP of the debt security, must alert the customer to the availability of the information and the specific Internet Web site(s) where it is located, provide instructions and any code or control number needed to access the information,¹¹ provide contact information, and provide information on how a customer may obtain additional information after viewing the

¹⁰ 17 CFR 240.10b-10.

¹¹ FINRA does not use control or identification numbers, or otherwise limit access to the market data found at the FINRA Internet Market Data Web site for members of the public (generally, “non-professionals” as defined in NASD Rule 7030(c)(3)(A)). Members of the public are encouraged to access such information market data at <http://www.finra.org/marketdata>.

disclosures on the Internet Web site¹² or a paper copy of the information that is displayed at the Internet Web site if the customer does not desire to access the Internet or is unable to do so under proposed NASD Rule 2231(c)(2)(C). In the Notice, a member may refer a customer to no more than two Internet Web sites, as discussed in greater detail below.

The Notice must be delivered to the customer in the same manner and at the same time in which the member discloses to the customer the confirmation disclosures pursuant to SEC Rule 10b-10.¹³

2. Internet Web Site(s) Referenced and Used. The Notice must refer the customer to at least one Internet Web site and no more than two. The Internet Web site(s) may be: (i) a single non-FINRA Internet Web site; (ii) FINRA's Market Data Internet Web site at <http://www.finra.org.marketdata>;¹⁴ or (iii) both FINRA's Market

¹² Several subparagraphs of proposed NASD Rule 2231 require a member to provide additional information if a customer makes a written request for such information. See proposed NASD Rule 2231(b)(5)(A)(interest and principal); proposed NASD Rule 2231 (b)(5)(B)(call provisions); and proposed NASD Rule 2231 (b)(5)(C) (variable interest rates). If a request is made, a member must provide such information in writing within three business days of receiving a customer's written request or within ten business days if such a request is received more than six months after the transaction's settlement date. See proposed NASD Rule 2231(d).

¹³ 17 CFR 240.10b-10.

¹⁴ The URL, <http://www.finra.org/marketdata> is a "user friendly" URL to access a FINRA Internet Web site located at the URL: <http://cxa.marketwatch.com/finra/MarketData/default.aspx>.

If a member intends to deliver all the information via the Internet, and the member references and relies upon the FINRA Market Data Internet Web site to provide certain disclosures, a member also must refer a customer to a second non-FINRA Internet Web site, because the FINRA Market Data Internet Web site does not include all disclosures required under proposed NASD Rule 2231, as discussed in greater detail hereinafter.

Data Internet Web site and a single non-FINRA Internet Web site. A member is limited to referring its customer to only one Internet Web site, unless a member refers the customer to FINRA's Market Data Internet Web site as the second site. FINRA believes that this limitation is necessary to protect customers from a disclosure process that could become unintentionally or deliberately difficult, unwieldy, or inconvenient to use, eviscerating the customer protections sought in this proposal.

A member is responsible for the content of the non-FINRA Internet Web site it uses to comply with proposed Rule 2231, whether the member uses its own Web site or the site of a third party.

As noted previously, a member may combine different methods of delivering the required information, provided all the information is delivered or otherwise provided to the customer. For example, a member may use notice and access and refer a customer to a non-FINRA Internet Web site for some information and the FINRA Market Data Internet Web site for other information. However, assume in this example, that although the member uses two Web sites, the member has not provided its customer all the information and specific disclosures required under paragraph (b) of proposed NASD Rule 2231. In such case, the member would be required to deliver the balance of the information in the same manner and time as the confirmation is sent under SEC Rule 10b-10.¹⁵

A member may use FINRA's Market Data Internet Web site -- <http://www.finra.org/marketdata> -- for the disclosure of certain information about the bond and its features, such as the bond's CUSIP and TRACE symbol, current price,

¹⁵ 17 C.F.R. 240.10b-10.

interest payment schedule, current credit ratings, and the date such ratings were assigned, but not all the information that must be disclosed is available at the site. FINRA's Market Data Internet Web site does not include the more transaction-specific information and representations regarding the member-customer relationship that must be disclosed under proposed NASD Rule 2231. The disclosures mandated under proposed NASD Rule 2231 that are not displayed on the FINRA Market Data Internet Web site are:

- 1) in paragraph (b)(2), the disclosure regarding member charges that apply to any member acting as a principal;
- 2) in paragraph (b)(4), the disclosure that transaction price information for TRACE-eligible securities is publicly available at the Internet Web site; <http://www.finra.org/marketdata>, for the customer's non-commercial use at no charge, or at other sources that provide such information;
- 3) in paragraph (b)(5)(A), the statement providing: "This security does not pay interest or principal on a regular schedule. Information regarding the frequency of interest or principal payments for this security will be furnished to you upon written request."
- 4) in paragraph (b)(5)(B), the statement providing: "Additional call features exist that may affect yield; additional information will be furnished to you upon written request."; in paragraph (b)(5)(C), the disclosures for debt securities carrying a variable coupon rate; and
- 5) the information required under paragraph (b)(5)(D).

As a result, if a member desires to use notice and access to disclose all information eligible to be delivered in this manner, the information that is not available at

the FINRA Market Data Internet Web site must be displayed at the second specified Internet Web site to which the customer is referred in the Notice.

Although the FINRA Market Data Internet Web site lacks several essential disclosures, the option of using the FINRA Market Data Internet Web site in combination with a second non-FINRA Internet Web site is proposed for several reasons. First, FINRA has developed an extensive Market Data Internet Web site, which is updated frequently. Second, a member's use of the FINRA Market Data Internet Web site may reduce the costs of compliance of the proposed rule. Third, a member that refers a customer to FINRA's Market Data Internet Web site may rely upon the accuracy of the information provided there.¹⁶

3. Additional Requirements. If a member opts to use notice and access, proposed NASD Rule 2231(c)(3)(A) through (D) also require that any non-FINRA Internet Web site specified in the Notice meet certain standards regarding accessibility, design and format, the protection of privacy and costs. Under proposed NASD Rule 2231(c)(3)(A) through (C), the information that is to be accessed by the customer at the non-FINRA Internet Web site identified in the Notice must be actually displayed before or as of the day and time that the Notice is sent to the customer. In addition, the information must be accurate, and located on one or two contiguous pages. Also, a customer must be able to

¹⁶ Although proposed NASD Rule 2231 applies only to non-institutional customers, members may choose to adopt certain procedures for all customers. However, if a member adopts notice and access for institutional accounts, the member would not be able to refer such institutional accounts to FINRA's Market Data Internet Web site. Members may refer only natural persons, and only those natural persons who are not market professionals, to FINRA's Market Data Internet Web site. Institutions and market professionals are prohibited from using FINRA's Market Data Internet Web site, which is operated to provide retail customers and the public access to bond market information.

easily access the non-FINRA Internet Web site and access, read, transfer, and print the information free of charge. And, such information must remain available on the non-FINRA Internet Web site for at least one year following the date of settlement of the transaction.

Under proposed NASD Rule 2231(c)(3)(D), FINRA proposes several requirements to protect the customer's privacy. Generally, a member must maintain the non-FINRA Internet Web site in a manner that does not infringe on the privacy of the customer when the customer accesses the Internet Web site or otherwise. More specifically, a member may not use a customer's e-mail address obtained from the customer for the purposes of requesting a copy of the information on the Internet Web site for any purpose other than sending the information required under proposed Rule 2231 to the customer. Also, a member must not disclose or sell the e-mail address to third parties. Finally, the non-FINRA Internet Web site may not require the installation of any "cookies" or other software that might collect information about the accessing customer.¹⁷

If a member uses a non-FINRA Internet Web site of a third party to comply with proposed Rule 2231, the member is responsible for the operator's and the Internet Web site's compliance with the requirements set forth in proposed NASD Rule 2231(c)(3)(A) through 2231(c)(3) (D) concerning customers' privacy and computer use.

¹⁷ The requirements in proposed NASD Rule 2231(c) apply to the non-FINRA Internet Web site identified in the Notice, or the relevant portion of the non-FINRA Internet Web site, that a member uses to comply with the proposed rule change.

None of the requirements described above and set forth in proposed NASD Rule 2231(c)(3)(A) through (c)(3)(D) apply to members in connection with their use of the FINRA Market Data Internet Web site because members do not exercise any control over the FINRA Market Data Internet Web site. See proposed NASD Rule 2231(c)(3)(E).

B. Yield to Maturity. Under SEC Rule 10b-10,¹⁸ in debt securities transactions members must disclose to a customer in the customer's confirmation yield to maturity or, in some transactions, an alternative yield at which the transaction was effected (e.g., yield to call) or, in a third transaction type, both yield to maturity and the alternative yield. Because customers currently receive at least one yield in their SEC Rule 10b-10¹⁹ confirmations, FINRA proposes to eliminate the requirement that members disclose yield to maturity in proposed NASD Rule 2231(b)(5)(B).

C. Assessment of "Institutional Account" Status. In proposed NASD Rule 2231, FINRA distinguishes between institutional accounts and retail accounts. In paragraph (a)(3)(A) (formerly paragraph (a)(2)(A)) of proposed NASD Rule 2231, FINRA defines "institutional account" for purposes of the rule. FINRA proposes to amend paragraph (a)(3)(A) to eliminate the specific obligation that a member determine *at least annually* that an account is properly categorized as an institutional account. The phrase "and means an account that, within the past twelve months, the member has determined is an institutional account." will be deleted, and the provision as amended would simply state: "Institutional account" shall have the same meaning it has in NASD Rule 3110." FINRA is proposing this principle-based approach, because it is always

¹⁸ 17 C.F.R. 240.10b-10.

¹⁹ *Id.*

incumbent upon a member to ascertain if an account is in fact an institutional account as the firm deals with the customer. The general duty to ascertain account status arises in this and any other regulatory scheme that distinguishes institutional accounts from all other accounts. FINRA believes that this principle-based approach is both more appropriate and flexible for purposes of a member's compliance with the proposed bifurcated rule.

D. Credit Rating(s). Currently, in proposed NASD Rule 2231(b)(3), a member is required to disclose the lowest credit rating it has received at the time the transaction confirmation is generated, the date such credit ratings was assigned and the NRSRO assigning the rating. FINRA proposes to renumber paragraph (b)(3) of Rule 2231 as new paragraph (b)(3)(B) and to move certain requirements that are in paragraph (b)(3) to new paragraph (b)(3)(A).

Under Amendment No. 5, FINRA also proposes to modify the credit rating disclosure requirement if a member elects to deliver credit rating information using "notice and access" and directs the customer to an Internet Web site.²⁰ In proposed NASD Rule 2231(b)(3)(B), when a member provides the customer credit rating(s) information via the Internet, the member may provide the customer the credit rating(s) that is displayed on the Internet Web site specified by the member in the Notice and is *in effect at the time the customer accesses the specified Internet Web site*, provided that such Internet Web site updates the credit ratings every business day and displays current credit

²⁰ The disclosure may be made by directing the customer to the non-FINRA Internet Web site or FINRA's Market Data Internet Web site.

ratings.²¹ Alternatively, the member may provide the lowest credit rating(s) received by the member at the time the transaction confirmation is generated, which is the same credit rating(s) that the member must provide when providing disclosure in the same manner and at the same time in which the member discloses to the customer transaction information pursuant to SEC Rule 10b-10.²²

The member's option to provide a current credit rating instead of the lowest credit rating received by the broker-dealer at the time the transaction confirmation is generated (when providing the customer information using notice and access) is the only disclosure that may differ depending on the method the firm uses to provide the information to the customer under proposed NASD Rule 2231. FINRA is proposing this modification because credit ratings and other bond-specific information that is displayed electronically customarily are constantly updated as the information changes.

E. Definitional and Technical Changes. Proposed NASD Rule 2231(a)(2), the definitions section, is renumbered as Rule 2231(a)(3). In addition, FINRA is deleting the proposed definitions of "exempted security" in subparagraph (C) and "asset-backed security" in subparagraph (D). (The definitions in subsequent subparagraphs also are renumbered.) Definitions for these two types of securities are no longer necessary because the proposed rule, as amended, applies solely to transactions in TRACE-eligible securities, and exempted securities and asset-backed securities are not TRACE-eligible

²¹ FINRA believes it is important that a customer access current transaction-related information, including current credit ratings, at the time of the transaction. Accordingly, proposed NASD Rule 2231(c)(2)(B) requires a firm to include a statement in the Notice encouraging a customer to review promptly the additional important transaction information accessible on the specified Internet web site.

²² 17 CFR 240.10b-10.

securities. Finally, a “nationally recognized statistical rating agency” or NRSRO (renumbered in this Amendment No. 5 as proposed Rule 2231(a)(3)(C)) is defined to have the same meaning as it has in Section 3(a)(62) of the Act,²³ and the reference to Rule 15c3-1 under the Act is deleted.²⁴

In addition, FINRA proposes other minor administrative, technical, or conforming amendments to proposed NASD Rule 2231, including deleting the unnecessary phrase, “except that any exempted security or asset-backed security is excluded from this definition” in the definition of “debt security” in paragraph (a)(3)(B); consolidating redundant provisions in proposed NASD Rule 2231 regarding a member’s obligation to provide written information to a customer within specified periods upon receipt of a customer’s written request; deleting unnecessary references to debt securities in paragraphs (b)(1)(A) and (B); substituting “TRACE-eligible securities” for “the securities subject to this Rule” in paragraph (b)(4); and deleting the Internet Web site address, www.bondinfo.com, and substituting <http://www.finra.org/marketdata> in paragraph (b)(4). A table is attached listing provisions that are in the proposed rule and are renumbered in this Amendment No. 5.

III. Amendments to the Disclosure Document and NASD Rule 2340

A. Proposed Disclosure Document. In the proposed disclosure document, “Important Information You Need to Know About Investing in Corporate Bonds,” FINRA proposes minor amendments to two sections. In the section titled, “Call and Reinvestment Risk,” FINRA proposes amendments to the discussion about bonds with

²³ 15 U.S.C. 78c(a)(62).

²⁴ 17 C.F.R. 240.15c3-1.

call provisions. The amendments supplement the discussion of the reinvestment and call risks of bonds with call provisions and the impact of calls on the pricing and yield of a bond. Also, in the section titled, “Default and Credit Risk,” FINRA proposes minor amendments to the discussion of credit rating agencies and the ratings they issue.

B. Other Provisions. FINRA is deleting references to “NASD” and “the Association” and replacing them with “FINRA,” and conforming references to the federal securities laws and rules in proposed NASD Rule 2231, NASD Rule 2340 and the proposed disclosure document. In this Amendment No. 5, FINRA is not proposing any additional amendments to NASD Rule 2340, except technical amendments, including those described in the preceding sentence.

| Proposed NASD Rule 2231 Provision | Provision as Re-Numbered in Amendment No. 5 | New Provision Proposed in Amendment No. 5 |
|--|--|--|
| Rule 2231(a) | Rule 2231(a)(1), (a)(2) Rule 2231 (a)(2)(A) | Rule 2231(a)(2)(B) |
| Rule 2231(a)(2) | Rule 2231(a)(3) | |
| Rule 2231 (a)(2) (A) and (B) | Rule 2231 (a)(3) (A) and (B) | |
| Rule 2231(a)(2)(E) - (H) | Rule 2231(a)(3)(C) - (F) | |
| Rule 2231(b)(1) | Rule 2231 (b)(1)(A) and (b)(1)(B) | |
| Rule 2231(b)(3) | Rule 2231(b)(3)(A) | Rule 2231(b)(3)(B) |
| Rule 2231(b)(3)(A) – (C) | Rule 2231(b)(3)(A)(i) - (iii) | |
| | | Rule 2231(c) |
| | | Rule 2231(d) |

FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 60 days following Commission approval. The effective date will be no later than nine months following publication of the Regulatory Notice announcing Commission approval.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,²⁵ which requires, among other things, that FINRA 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. FINRA believes that the proposed rule change is consistent with these requirements in that it would provide investors with information with which they might better assess the quality of their executions in debt securities transactions, the fees charged, and whether the security purchased fits their investment goals.

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

FINRA 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.

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

As noted in SR-NASD-2005-100 as previously filed and as stated in the 2007 Release, the proposed rule change was published for comment in NASD Notice to Members 05-21. The Notice to Members, an index of the comment letters received in

²⁵ 15 U.S.C. 78o-3(b)(6).

response to the Notice to Members, the comments letters, and FINRA's response to the comments were previously filed as, respectively, Exhibit 2a, Exhibit 2b and Exhibit 2c to the initial rule filing (filed on August 19, 2005), and Exhibit 1a to Amendment No. 1 to SR-NASD-2005-100 (filed on December 21, 2005).

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-FINRA-2005-100 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Florence Harmon, Acting Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2005-100. 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, 100 F Street, NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. 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 File Number SR-FINRA-2005-100] and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁶

Florence Harmon

Acting Secretary

²⁶ 17 CFR 200.30-3(a)(12).

EXHIBIT 4

Exhibit 4 shows changes to the proposed rule change FINRA proposes in Amendment No. 5 to SR-NASD-2005-100, and treats the previously proposed rule text, as set forth in 2007 Release, as if approved. Proposed new language is underlined; proposed deletions are in brackets.

2231. Confirmation of Transactions in Debt Securities

(a) Confirmation of Transactions in Debt Securities

(1) Except as otherwise provided herein, any member that is required to disclose to a customer information pursuant to Rule 10b-10 under the Act in connection with any transaction in a debt security also shall, with respect to any TRACE-eligible security, disclose to the customer, other than an institutional account, the information set forth in paragraph (b). A member need not disclose to customers information pursuant to this Rule if the member discloses such information pursuant to Rule 10b-10 under the Act.

(2) A member shall disclose the information set forth in paragraph (b) to a customer by: [Except as otherwise provided herein, this information shall be disclosed]

(A) providing it in the same manner and at the same time in which the member discloses to the customer information in connection with the transaction pursuant to Rule 10b-10 under the Act; or

(B) providing it by notice of, and Internet access to information and disclosures required under this Rule in accordance with paragraph (c) of this Rule.

[A member need not disclose to customers information required to be disclosed under this Rule if the member discloses such information pursuant to Rule 10b-10 under the Act.]

(~~2~~3) For purposes of this Rule:

(A) “[~~i~~]Institutional account” shall have the same meaning it has in NASD Rule 3110 and means an account that [, within the past twelve months,] the member has determined is an institutional account;

(B) “[~~d~~]Debt security” shall have the same meaning it has in Rule 10b-10 under the Act[, except that any exempted security or asset-backed security is excluded from this definition];

[~~C~~] “[~~e~~]xempted security” shall have the same meaning it has in Section 3(a)(12) of the Act;]

[~~D~~] “[~~a~~]sset-backed security” shall have the same meaning it has in Rule 10b-10 under the Act;]

(~~E~~]C) “[~~n~~]Nationally recognized statistical rating organization” (“NRSRO”) shall have the same meaning it has in Section 3(a)(62) of the Act [Rule 15c3-1 under the Act];

(~~F~~]D) “[~~c~~]Clearing member” shall have the same meaning it has in NASD Rule 3230;

(~~G~~]E) “[~~s~~]Service bureau” shall have the same meaning it has in NASD IM-4632-1 under NASD Rule 4632; and

(~~H~~]E) “TRACE-eligible security” shall have the same meaning it has in NASD Rule 6210(a).

(b) Information Required to be Disclosed

(1) *Debt security information.* A member must disclose:

(A) the [debt security's]CUSIP number; and

(B) the TRACE symbol [of the debt security]if one has been designated by [NASD] FINRA.

(2) *Broker-dealer charges.* A member must disclose, if acting as principal, the following: “The broker-dealer’s remuneration on this transaction has been added to the price in the case of a purchase or deducted from the price in the case of a sale.”

(3) *Credit rating.*

(A) A member must disclose credit rating(s) of a debt security if:
[the lowest credit rating(s) it has received at the time the transaction confirmation is generated, the date of such credit rating(s), and the NRSRO(s) assigning the credit rating(s) of the debt security the member purchased for or from or sold to or for a customer, if:]

[(A)](i) [t]The member has entered into a written agreement with the NRSRO to receive such credit rating(s);

[(B)](ii) [a]A service bureau that provides confirmation services to the member for the transaction has entered into a written agreement with the NRSRO to receive such credit rating(s) and provides them to the member as part of the confirmation services at no additional cost; or

[(C)](iii) [a]A member that acts as a clearing member for, and provides confirmation services to, the member for the transaction has entered into a written agreement with the NRSRO to receive such credit rating(s) and provides them to the member as part of the confirmation services at no additional cost.

(B) A member that discloses credit rating(s) of a debt security to a customer in accordance with paragraph (a)(2)(A) of this Rule must disclose the lowest credit rating(s) it has received at the time the transaction confirmation is generated. A member that discloses credit rating(s) to a customer in accordance with paragraph (a)(2)(B) of this Rule must provide: (i) the lowest credit rating(s) it has received for the debt security at the time the transaction confirmation is generated; or (ii) the credit rating(s) for the debt security in effect as of the time the customer accesses the Internet Web site designated by the member. A member that chooses to provide the credit rating(s) in effect as of the time the customer accesses such site may use an Internet Web site other than the FINRA Market Data Internet Web site only if the Internet Web site updates credit rating information at least daily. For any credit rating(s) that the member is required to disclose under this Rule or includes with the disclosures required under this Rule, the member also must disclose the date such credit rating(s) was assigned, and the NRSRO(s) assigning it.

(4) *Indicators of marketability and liquidity.* A member must disclose that transaction price information for TRACE-eligible securities [the securities

subject to this Rule] is publicly available on the Internet at the FINRA Market Data Internet Web site -- at <http://www.finra.org/marketdata> -- [<http://www.bondinfo.com>] for the customer's non-commercial use at no charge, or at other sources that provide such information.

(5) *Cash flow information.* For purchases by customers only, a member must disclose on a per debt security basis the following:

(A) The frequency of interest and/or principal payments as applicable, if either are paid on a periodic, fixed schedule. If the debt security does not pay interest or principal on a regular schedule, a member must disclose the following: "This security does not pay interest or principal on a regular schedule. Information regarding the frequency of interest or principal payments for this security will be furnished to you upon written request." [A member shall provide such additional information in writing within three business days of receiving a customer's written request, or within ten business days if such a request is received more than six months after the transaction's settlement date.]

(B) [Yield to maturity, and, i]If the debt security is subject to call prior to maturity through any means, a notation of "callable" shall be included and [. T]the date and price of the next pricing call shall be included and so designated. If the debt security is continuously callable (i.e., callable on any date after the first call date), a member must disclose the following: "This security is continuously callable[.]" or "Continuously callable." If there are any call features in addition to the next pricing call,

a member must disclose the following: “Additional call features exist that may affect yield; additional information will be furnished to you upon written request.” [A member shall provide such additional information in writing within three business days of receiving a customer’s written request, or within ten business days if such a request is received more than six months after the transaction's settlement date.]

(C) For debt securities carrying a variable coupon rate, a member must disclose the following: “The coupon rate may vary. Additional information that describes the way in which the debt security’s interest and principal payments are calculated will be furnished to you upon written request.” [A member shall provide such additional information in writing within three business days of receiving a customer’s written request, or within ten business days if such a request is received more than six months after the transaction's settlement date.] Any such additional information shall contain:

(i) [t]The amount of the next interest payment based on the current coupon rate,

(ii) [a]A statement that this amount will change if the coupon rate changes,

(iii) [h]How often the coupon rate may be recalculated,

(iv) [a]An explanation of the event(s) that may trigger the recalculation, and

(v) [t]The formula for recalculating such coupon rate.

(D) For debt securities that are callable and, at issuance, are not structured to include scheduled interest payments (e.g., “zero coupon bonds”), the dollar equivalent of the debt security’s imputed interest until the next occurring call date (assuming that the price at which the debt security may be called is paid to the holder).

(c) Notice and Access Procedures for Providing Information at Internet Web

Site

(1) If a member opts to disclose to a customer any of the information required to be disclosed under paragraph (b) of this Rule in accordance with paragraph (a)(2)(B), the member must provide the customer a “Notice of Internet Availability of Transaction Information,” in the same manner and at the same time in which the member discloses to the customer information in connection with the transaction pursuant to Rule 10b-10 under the Act, and make the information required to be disclosed accessible at one or two Internet Web sites in the manner required by this Rule.

(2) The “Notice of Internet Availability of Transaction Information” must include:

(A) The CUSIP of the debt security the member purchased for or from or sold to or for the customer;

(B) A statement providing: “Additional important information about your transaction is available at {specified Web site(s)}. We encourage you to access and review this information promptly.” A member may refer a customer to no more than two Internet Web sites to

access the information the member is required to provide to the customer under this Rule, and, if a member refers a customer to two Internet Web sites, one of them must be the FINRA Market Data Internet Web site – <http://www.finra.org/marketdata..>

(C) A statement providing: “If you want to receive a paper or e-mail copy of the information regarding your transaction, you must request one in writing. There is no charge to you for requesting a copy.”

(D) Any control/identification numbers that the customer needs to access his or her transaction information on the Internet Web site(s); and

(E) A toll-free telephone number, an e-mail address, and an Internet Web site where a customer may request assistance, or send a written request for a paper or electronic copy of the information regarding the customer’s transaction provided on the Internet Web site(s) or for any additional information that a member is required to provide to the customer upon the customer’s written request under this Rule.

(3) Additional Requirements to Use Notice and Access Procedures

(A) Any information required to be disclosed to the customer by the member under paragraph (b) of this Rule that is not disclosed in accordance with paragraph (a)(2)(A) must be displayed at the Internet Web site(s) identified in the “Notice of Internet Availability of Transaction Information.” Such information must be displayed on or before the day and time that the “Notice of Internet Availability of Transaction Information” is sent to the customer. The information displayed on the Internet Web site(s) must be accurate, free of charge and located

on one or two contiguous pages, or two linked pages. The Internet Web site(s) identified in the “Notice of Internet Availability of Transaction Information” must be easily accessed by the customer and free of charge.

(B) The information required to be disclosed to the customer and provided to the customer on an Internet Web site identified in the “Notice of Internet Availability of Transaction Information” must remain available on that Internet Web site for at least one year following the date of settlement of the transaction.

(C) The information must be presented on the Internet Web site identified in the “Notice of Internet Availability of Transaction Information” in a format, or formats, convenient for reading online, sending as an e-mail attachment and printing on paper.

(D) A member must maintain the Internet Web site identified in the “Notice of Internet Availability of Transaction Information” in a manner that does not infringe on the privacy of the customer when the customer accesses the Internet Web site or otherwise. A member may not use a customer’s e-mail address obtained from the customer for the purposes of requesting a copy of the information on the Internet Web site(s) for any purpose other than sending the information required under this Rule to the customer. The member may not disclose or sell the e-mail address to third parties. The portion of any Internet Web site that is used to comply with this Rule may not require the installation of any “cookies” or other software that might collect information about the accessing customer.

(E) The requirements in paragraphs (c)(3)(A), (c)(3)(B), (c)(3)(C) and (c)(3)(D) of this Rule do not apply to a member in connection with the member's referral of customers to the FINRA Market Data Internet Web site for the purposes of providing certain information required under this Rule.

(4) The FINRA Market Data Internet Web site --

<http://www.finra.org/marketdata> -- does not contain all the information that a member is required to provide to a customer under this Rule. A member may not rely upon the FINRA Market Data Internet Web site to provide the disclosures required under the following paragraphs:

(A) Paragraph (b)(2);

(B) Paragraph (b)(4);

(C) The statement in paragraph (b)(5)(A) providing: "This security does not pay interest or principal on a regular schedule. Information regarding the frequency of interest or principal payments for this security will be furnished to you upon written request.";

(D) The statement in paragraph (b)(5)(B) providing: "Additional call features exist that may affect yield; additional information will be furnished to you upon written request.";

(E) Paragraph (b)(5)(C); and

(F) Paragraph (b)(5)(D).

(d) Requests for Additional Information

If a member receives a customer's written request for information under any part of this Rule requiring a member to notify a customer that additional or specific

information will be furnished upon written request, a member shall provide such information in writing within three business days of receiving a customer's written request, or within ten business days if such request is received more than six months after the transaction's settlement date. A member must provide the information at no charge.

2340. Customer Account Statements

(a)-(d) No change.

(e) Notice of Availability of FINRA[NASD] Disclosure on Debt Securities

(1) Except as otherwise provided in subparagraph (2) below, a member that has provided a customer disclosure under NASD Rule 2231 during the period since the last account statement was sent to the customer also must disclose the following: "A disclosure document discussing your rights as a bondholder and some of the risks related to buying and holding bonds, titled 'Important Information You Need to Know About Investing in Corporate Bonds,' has been prepared by FINRA[NASD] and is available online at www.finra.org. A paper version of this document is available from your broker upon your written request."

(2) In lieu of disclosing the [i]Internet Web site address "www.finra.org" in the statement set forth in subparagraph (1), a member may disclose the member's [i]Internet Web site address, provided that the document, "Important Information You Need to Know About Investing in Corporate Bonds," or an [i]Internet hyperlink directly thereto, is easily accessible from the [i]Internet address that is disclosed.

(3) A member shall provide the document, “Important Information You Need to Know About Investing in Corporate Bonds,” to any customer to whom a statement is provided pursuant to subparagraph (1) within three business days of receiving a customer’s written request, or within ten business days if such a request is received more than six months after the transaction's settlement date. This document provides information that an investor should know immediately prior to buying or selling a bond such as the basics of bond pricing, yield, and the difference between yield to maturity and yield to call. It also describes certain risks that bond investors assume in such transactions (e.g., interest rate risk and liquidity risk). This document also contains a short description of basic types of bonds (e.g., floating rate bonds, zero coupon bonds and convertible bonds) as well as debt structure (e.g., junior or subordinated debt). Finally it informs investors that even if they are not charged a commission they are nevertheless paying a fee to their broker-dealer when they buy or sell bonds.

(f) Exemptions

Pursuant to the Rule 9600 Series, FINRA[the Association] may exempt any member from the provisions of this Rule for good cause shown.

Important Information You Need to Know about Investing in Corporate Bonds

This document is intended to provide you with some basic facts about the most common features of corporate bonds, and to alert you to some of the risks associated with buying, selling, and holding corporate bonds.

As with any investment, before buying a corporate bond, you should analyze the bond on its own merits, weighing its risks, costs, and rewards. Consult with your firm about any questions you may have about investing in a particular bond.

Corporate Bond Basics

What is a Corporate Bond?

Corporate bonds are, at their simplest, loans that investors make to public and private corporations. Consequently, bonds are referred to as debt securities. Corporations generally issue corporate bonds to raise money for capital expenditures, operations, and acquisitions.

Typically, bondholders receive interest payments during the term of a bond (or, for as long as a bondholder owns a bond), at the stated interest rate—also called the coupon rate. In addition, if bondholders hold bonds until maturity, they also are repaid the principal amount, called par value or face amount.

Bond Price and Yield

Price

If you sell a bond before it matures, you may not receive the full principal amount of the bond. This is because a bond's price is not based on the par value of the bond. Rather, it is set in the secondary market and is established by the current market values of such bonds, which may be more or less than the amount of principal the issuer would be required to pay the bondholder at maturity. Therefore, it is impossible to predict in advance the price that a bondholder will receive if the bondholder purchases a bond and later sells the bond before maturity.

The price of a bond is often above or below its par value because the price is adjusted according to current interest rates in the whole market for the same debt security and comparable debt securities. For example, if the bond you desire to purchase has a coupon rate of 8 percent, and similar quality new bonds available for sale have a coupon rate of 5 percent, you will have to pay more than the par amount of the bond that you intend to purchase, because you will receive more interest income than the current coupon rate (5 percent) being attached to similar bonds. (A bond's coupon rate is the rate of interest paid periodically on the face amount of the obligation.)

Yield

Yield is the overall return on the capital you invest in the bond. Yield is similar to, but different from, a bond's coupon rate. This distinction is important, because as is explained above, while a bond's face amount or par value is fixed, its market value

almost always changes over time. Because bond prices fluctuate continually in the market, the yield your bond investment will provide if it is sold prior to maturity also changes constantly. *A bond's price is inversely related to its yield. As a bond's price increases, its associated yield decreases; as the price of a bond decreases, the associated yield increases.*

For example, a bond that sells today for \$1,000 and has a coupon rate of 8 percent has a current yield of 8 percent. Because the “price” equals the face amount of the bond, the current yield of 8 percent equals the 8 percent coupon rate. However, usually after the first sale of a bond, the price of a bond differs from the face amount. For example, if the same bond sells tomorrow for \$990, the current yield would be slightly higher than 8 percent.

Yield to Maturity and Yield to Call: What's the Difference?

Yield to maturity is calculated by taking into account the total amount of interest you will receive over time, your purchase price (the amount of capital you invested), the face amount (or other amount you will be paid when the issuer “redeems” the bond), the time between interest payments, and the time remaining until the bond matures.

If you hold a callable bond, another type of yield calculation, yield to call, also is important for you to understand. This calculation takes into account the impact on a bond's yield if it is called prior to maturity and is often done using the first date on which the issuer could call the bond. (Other call dates may be used in specified circumstances.) A bond's yield to call may be lower than its yield to maturity.

To get a more accurate picture of what a bond will cost you or what you received for it, you should also ask your broker to calculate the yield adjusting the purchase price up (when you purchase) or down (when you sell) by the amount of the mark-up or commission (when you purchase) or mark-down or commission (when you sell) and other fees or charges that you are charged by your broker for its services. This is called yield reflecting broker compensation.

Corporate Bond Risks

Like virtually all investments, corporate bonds carry risk. It is important that you fully understand the risks of investing in corporate bonds. These risks include:

Interest Rate Risk

When interest rates rise, bond prices fall, and when interest rates fall, bond prices rise.

Interest rate risk is the risk that changes in interest rates generally in the U.S. or the world economy may reduce (or increase) the market value of a bond you hold. Interest rate risk increases the longer that you hold a bond. For example, if interest rates rise throughout the economy, bond issuers, along with other borrowers, will need to offer potential bondholders higher rates to compete with the higher interest rates available elsewhere.

Any bonds issued in a period of rising interest rates generally will carry higher coupon rates, which will be more attractive to potential bondholders than the coupon rate paid by bonds issued before the rise in interest rates. This decreased appetite for older bonds that pay lower interest depresses their price in the secondary market, which would translate into your receiving a lower price for your bonds if you chose to resell them in a period of

rising interest rates. The opposite holds true as well, and the market value of older bonds that pay higher than current interest rates tends to rise in periods where interest rates are generally declining.

Call and Reinvestment Risk

Bonds with a call provision can be redeemed or “called” by the bond issuers, requiring bondholders to redeem their bonds at the call price well before their maturity dates.

Bonds often are called when market interest rates are falling, because bond issuers want to refinance their debt at lower interest rates (similar to when a home owner seeks to refinance a mortgage at a lower rate when mortgage interest rates decrease). This is known as call risk.

With a callable bond, a bondholder might not receive the bond’s coupon rate for the entire term of the bond, and It[*it*] might be difficult or impossible to find an equivalent investment paying rates as high as the called bond because generally it is in the issuer’s interest to call the bond, and bonds are more frequently called, when the coupon rate of the bond is higher than current interest rates. This is known as reinvestment risk.

Additionally, at any given point in time, the period that a callable bond will generate cash flow is uncertain. This risk will be reflected in a lower market value for the bond because any appreciation in the value of the bond’s periodic interest payments may not be fully realized if it is “called away” by its issuer.

Bondholders generally receive a higher yield on callable bonds to compensate for the call and reinvestment risks described above. If the issuer chooses not to call the bond, bondholders receive this higher yield all the way to maturity.

Refunding Risk and Sinking Fund[s] Provisions

A sinking fund provision, which often is a term included in bonds issued by industrial and utility companies, requires a bond's issuer to retire a certain number of bonds periodically. This can be accomplished in a variety of ways, including through purchases in the secondary market or forced purchases directly from bondholders at a pre-determined price.

Holders of bonds subject to sinking fund redemptions should understand that they risk having their bonds called (or redeemed) prior to maturity. Unlike other bonds subject to call, depending on the sinking fund provision, there may be a relatively high likelihood that the issuer will redeem some or many of the bonds prior to maturity, even if market-wide interest rates do not change.

It is important to understand that there is no guarantee that an issuer of these bonds will be able to comply strictly with any redemption requirements. In certain cases, an issuer may need to borrow funds or issue additional debt to refinance an outstanding bond issue subject to a sinking fund provision when it matures. If the issuer is unable to raise adequate funds to refinance the outstanding issue, the issuer could default and the bondholder could lose all or most of his/her investment.

Default and Credit Risk

If you ever loaned money to someone, chances are you gave some thought to the likelihood of being repaid. Some loans are riskier than others. The same is true when you invest in bonds. You are taking a risk that the issuer's promise to repay the [both]

principal and pay interest will not be upheld. In the case of Treasuries and other government-issued bonds backed by the “full faith and credit of the U.S. government,” that risk is almost zero. However, there is some risk of default with corporate bonds. This means the corporations issuing them may either be late paying bondholders or -- in worst-case scenarios -- be unable to pay at all.

Bond ratings are [a way of] an aid in measuring default and credit risk. Bond ratings are issued by private companies called credit rating agencies. Prior to[In] issuing a credit rating, a credit rating agency is supposed to review [reviews] relevant information supplied to it by the issuer or its agents, and from sources the credit rating agency considers reliable, including financial information such as the issuer’s financial statements, and assigns a rating (for example, AAA (or Aaa) to D).]

Generally, bonds are categorized in two broad categories—investment grade and non-investment grade. When a credit rating agency rates a bond [Bonds that are rated] BBB (or Baa) or higher, the credit rating agency considers the bond to be investment grade; when the credit rating agency rates a bond BB (or Ba), the credit rating agency considers the bond to be non-investment grade.[are considered investment grade. Bonds that are rated BB (or Ba) or lower are non-investment grade.] Non-investment grade bonds are also referred to as high-yield or junk bonds, and in some cases, distressed bonds. These bonds are considered riskier investments because the issuer’s general financial condition is less sound, and the issuer may default -- (may not be able to pay the interest and principal to bondholders when they are due).

Many bondholders heavily weigh the rating of a particular corporate bond in determining if the corporate bond is an appropriate and suitable investment for them. Although credit

ratings are an important indicator of creditworthiness, you should also consider that the value of the bond might change depending on changes in the company's business and profitability. The credit rating could be revised downward. In addition, in a volatile market, a credit rating agency may not be able to review and revise credit ratings of many bonds in a timely manner, and a bond rated investment grade may be trading at prices that indicate that many buyers and sellers believe the bond to be rated too highly. In the worst scenario, if you own a bond and the company that issues it defaults you could lose all of your investment. Finally, some bonds are not rated. In such cases, an individual bondholder [may] is likely to find it more difficult to assess the overall creditworthiness of the issuer of the bond.

Liquidity Risk

You should determine whether the bond in which you are interested has traded frequently, infrequently, or not at all in recent months, and if your broker regularly buys and sells the bond. While certain bonds are very actively traded and are relatively "liquid," other bonds, including many high-yield bonds, are traded much less frequently or not at all and may not be easy to sell. If you think you might need to sell the bonds you are purchasing prior to their maturity, you should carefully consider the likelihood of your being able to do so, and whether your broker will be able and willing to assist you in liquidating your investment at a fair price reasonably related to then current market prices. It is possible that you may be able to re-sell a bond *only* at a heavy discount to the price you paid (loss of some principal) or not at all. Additionally, bonds that are less frequently traded may be subject to wider "spreads" in the secondary market, which

means that you would receive less for your bond if selling, or pay more if buying, than otherwise would be the case.

Corporate Bonds with Special Features

It also is important to understand any special features a bond may have before you buy, since these features may affect risk.

Floating Rate Bonds

Floating-rate bonds have a floating or variable interest rate that is adjusted periodically, or floats, using an external value or measure (for example, the prime rate or a stock index). Such bonds offer protection against interest rate risk, but their coupon rate is usually lower than those of fixed-rate bonds.

Zero-Coupon Bonds

Zero-coupon bonds, unlike other bonds, don't make regular interest payments. Instead, the bondholder buys the bond at a discount from the face value of the bond, and, when the bond matures, the issuer repays the bondholder the face amount. The difference between the discounted amount the bondholder pays upon purchase and the face amount later received is the imputed interest. Because zero-coupon bonds don't pay any interest until maturity, their prices may be more volatile than other bonds with similar maturities that pay interest periodically.

Secured Bonds

Secured bonds are backed by collateral that the bond's issuer has agreed to sell if it otherwise is unable to meet its obligation when the bond matures. For example, a bond might be backed by a specific factory or industrial equipment. However, any such backing is only as good as the value of the asset being used as collateral, the value of which can decrease during the term of the bond.

Bonds that are not backed by any collateral are unsecured and are sometimes called debentures. Debentures are backed solely by an issuer's promise to repay you. Most corporate bonds are debentures.

Guaranteed and Insured Bonds

Certain bonds may be referred to as guaranteed or insured. This means that a third party has agreed to make the bond's interest and principal payments if the issuer is unable to make these payments. You should keep in mind that such guarantees only are as valuable as the creditworthiness of the third party making the guarantee or providing the insurance.

Convertible Bonds

Convertible bonds may be converted into the stock of the bond's issuer. A bondholder should be careful to understand the conditions under which the bonds may be converted, as this right often is contingent upon the issuer's stock reaching a certain price level, among other things. Bond investors also should ask their broker or financial adviser whether there is any charge or fee associated with making a conversion.

Junior or Subordinated Bonds

The more junior bonds issued by a company typically are referred to as subordinated debt, because a junior bondholder's claim for repayment of the principal of such bonds has a lower priority than the claims of a bondholder holding an issuer's more senior debt. Therefore, in the event of a bankruptcy, junior bondholders receive payment only after senior debt claims are paid in full. Additionally, other types of claims also may have priority on the issuer's remaining assets over the claims of *all* bondholders (e.g., certain supplier or customer claims). Therefore, although bondholders generally are paid prior to stockholders in a bankruptcy proceeding, this doesn't mean the bondholder will get any money back because the issuer's assets could be reduced to zero by other creditors that have the right to be paid before bondholders.

Broker Compensation for Selling Bonds

No Commission does not Mean No Charge.

You should understand that your broker is being compensated for performing services for you, even if you are not charged a commission when you buy or sell a bond. In most bond transactions, brokers are compensated, even though a commission charge is not disclosed, because the transaction is structured as a principal transaction (i.e., your broker sells you a bond it already owns). This is because when a dealer sells you a bond in a principal capacity, the dealer increases or marks up the price you pay over the price the dealer paid to acquire the bond. The mark-up is the dealer's compensation and is similar to a commission. Similarly, if you sell a bond, a dealer will offer you a price that includes a mark-down from the price that the dealer believes he can sell the bond to

another dealer or another buyer. You should understand that the firm has charged you a fee for its services.

Would a Similar Bond Cost Less?

Finally, it is important to consider the potential conflicts that your broker might have when it sells you a bond. Bonds issued by different issuers often have very similar risk profiles and carry similar coupon rates. Before you buy a bond, you should shop around and consider if there are other bonds that you could buy at a cheaper price than the one recommended by your broker. You should consider whether there are other bonds available with similar risk/return profiles that might be available at lower cost. You also should try and understand how your broker is being compensated for any bond transaction, particularly those that are recommended to you where similar bonds may be available.

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EXHIBIT 5

Exhibit 5 shows all proposed changes included in SR-NASD-2005-100 as amended through Amendment No. 5. Proposed new language is underlined; proposed deletions are in brackets.

2231. Confirmation of Transactions in Debt Securities

(a) Confirmation of Transactions in Debt Securities

(1) Except as otherwise provided herein, any member that is required to disclose to a customer information pursuant to Rule 10b-10 under the Act in connection with any transaction in a debt security also shall, with respect to any TRACE-eligible security, disclose to the customer, other than an institutional account, the information set forth in paragraph (b). A member need not disclose to customers information pursuant to this Rule if the member discloses such information pursuant to Rule 10b-10 under the Act.

(2) A member shall disclose the information set forth in paragraph (b) to a customer by:

(A) providing it in the same manner and at the same time in which the member discloses to the customer information in connection with the transaction pursuant to Rule 10b-10 under the Act; or

(B) providing it by notice of, and Internet access to information and disclosures required under this Rule in accordance with paragraph (c) of this Rule.

(3) For purposes of this Rule:

(A) “Institutional account” shall have the same meaning it has in NASD Rule 3110 and means an account that the member has determined is an institutional account;

(B) “Debt security” shall have the same meaning it has in Rule 10b-10 under the Act;

(C) “Nationally recognized statistical rating organization” (“NRSRO”) shall have the same meaning it has in Section 3(a)(62) of the [Rule 15c3-1 under the] Act;

(D) “Clearing member” shall have the same meaning it has in NASD Rule 3230;

(E) “Service bureau” shall have the same meaning it has in NASD IM-4632-1 under NASD Rule 4632; and

(F) “TRACE-eligible security” shall have the same meaning it has in NASD Rule 6210(a).

(b) Information Required to be Disclosed

(1) Debt security information. A member must disclose:

(A) the CUSIP number; and

(B) the TRACE symbol if one has been designated by FINRA.

(2) Broker-dealer charges. A member must disclose, if acting as principal, the following: “The broker-dealer’s remuneration on this transaction has been added to the price in the case of a purchase or deducted from the price in the case of a sale.”

(3) Credit rating.

(A) A member must disclose credit rating(s) of a debt security if:

(i) The member has entered into a written agreement with the NRSRO to receive such credit rating(s);

(ii) A service bureau that provides confirmation services to the member for the transaction has entered into a written agreement with the NRSRO to receive such credit rating(s) and provides them to the member as part of the confirmation services at no additional cost; or

(iii) A member that acts as a clearing member for, and provides confirmation services to, the member for the transaction has entered into a written agreement with the NRSRO to receive such credit rating(s) and provides them to the member as part of the confirmation services at no additional cost.

(B) A member that discloses credit rating(s) of a debt security to a customer in accordance with paragraph (a)(2)(A) of this Rule must disclose the lowest credit rating(s) it has received at the time the transaction confirmation is generated. A member that discloses credit rating(s) to a customer in accordance with paragraph (a)(2)(B) of this Rule must provide: (i) the lowest credit rating(s) it has received for the debt security at the time the transaction confirmation is generated; or (ii) the credit rating(s) for the debt security in effect as of the time the customer accesses the Internet Web site designated by the member. A member that chooses to provide the credit rating(s) in effect as of the time the customer

accesses such site may use an Internet Web site other than the FINRA Market Data Internet Web site only if the Internet Web site updates credit rating information at least daily. For any credit rating(s) that the member is required to disclose under this Rule or includes with the disclosures required under this Rule, the member also must disclose the date such credit rating(s) was assigned, and the NRSRO(s) assigning it.

(4) *Indicators of marketability and liquidity.* A member must disclose that transaction price information for TRACE-eligible securities is publicly available on the Internet at the FINRA Market Data Internet Web site --at <http://www.finra.org/marketdata> -- for the customer's non-commercial use at no charge, or at other sources that provide such information.

(5) *Cash flow information.* For purchases by customers only, a member must disclose on a per debt security basis the following:

(A) *The frequency of interest and/or principal payments as applicable, if either are paid on a periodic, fixed schedule. If the debt security does not pay interest or principal on a regular schedule, a member must disclose the following: "This security does not pay interest or principal on a regular schedule. Information regarding the frequency of interest or principal payments for this security will be furnished to you upon written request."*

(B) *If the debt security is subject to call prior to maturity through any means, a notation of "callable" shall be included and the date and price of the next pricing call shall be included and so designated. If the*

debt security is continuously callable (i.e., callable on any date after the first call date), a member must disclose the following: “This security is continuously callable.” or “Continuously callable.” If there are any call features in addition to the next pricing call, a member must disclose the following: “Additional call features exist that may affect yield; additional information will be furnished to you upon written request.”

(C) For debt securities carrying a variable coupon rate, a member must disclose the following: “The coupon rate may vary. Additional information that describes the way in which the debt security’s interest and principal payments are calculated will be furnished to you upon written request.” Any such additional information shall contain:

(i) The amount of the next interest payment based on the current coupon rate,

(ii) A statement that this amount will change if the coupon rate changes,

(iii) How often the coupon rate may be recalculated,

(iv) An explanation of the event(s) that may trigger the recalculation, and

(v) The formula for recalculating such coupon rate.

(D) For debt securities that are callable and, at issuance, are not structured to include scheduled interest payments (e.g., “zero coupon bonds”), the dollar equivalent of the debt security’s imputed interest until

the next occurring call date (assuming that the price at which the debt security may be called is paid to the holder).

(c) Notice and Access Procedures for Providing Information at Internet Web Site

(1) If a member opts to disclose to a customer any of the information required to be disclosed under paragraph (b) of this Rule in accordance with paragraph (a)(2)(B), the member must provide the customer a “Notice of Internet Availability of Transaction Information,” in the same manner and at the same time in which the member discloses to the customer information in connection with the transaction pursuant to Rule 10b-10 under the Act, and make the information required to be disclosed accessible at one or two Internet Web sites in the manner required by this Rule.

(2) The “Notice of Internet Availability of Transaction Information” must include:

(A) The CUSIP of the debt security the member purchased for or from or sold to or for the customer;

(B) A statement providing: “Additional important information about your transaction is available at {specified Web site(s)}. We encourage you to access and review this information promptly.” A member may refer a customer to no more than two Internet Web sites to access the information the member is required to provide to the customer under this Rule, and, if a member refers a customer to two Internet Web

sites, one of them must be the FINRA Market Data Internet Web site –
<http://www.finra.org/marketdata..>

(C) A statement providing: “If you want to receive a paper or e-mail copy of the information regarding your transaction, you must request one in writing. There is no charge to you for requesting a copy.”

(D) Any control/identification numbers that the customer needs to access his or her transaction information on the Internet Web site(s); and

(E) A toll-free telephone number, an e-mail address, and an Internet Web site where a customer may request assistance, or send a written request for a paper or electronic copy of the information regarding the customer’s transaction provided on the Internet Web site(s) or for any additional information that a member is required to provide to the customer upon the customer’s written request under this Rule.

(3) Additional Requirements to Use Notice and Access Procedures

(A) Any information required to be disclosed to the customer by the member under paragraph (b) of this Rule that is not disclosed in accordance with paragraph (a)(2)(A) must be displayed at the Internet Web site(s) identified in the “Notice of Internet Availability of Transaction Information.” Such information must be displayed on or before the day and time that the “Notice of Internet Availability of Transaction Information” is sent to the customer. The information displayed on the Internet Web site(s) must be accurate, free of charge and located on one or two contiguous pages, or two linked pages. The Internet

Web site(s) identified in the “Notice of Internet Availability of Transaction Information” must be easily accessed by the customer and free of charge.

(B) The information required to be disclosed to the customer and provided to the customer on an Internet Web site identified in the “Notice of Internet Availability of Transaction Information” must remain available on that Internet Web site for at least one year following the date of settlement of the transaction.

(C) The information must be presented on the Internet Web site identified in the “Notice of Internet Availability of Transaction Information” in a format, or formats, convenient for reading online, sending as an e-mail attachment and printing on paper.

(D) A member must maintain the Internet Web site identified in the “Notice of Internet Availability of Transaction Information” in a manner that does not infringe on the privacy of the customer when the customer accesses the Internet Web site or otherwise. A member may not use a customer’s e-mail address obtained from the customer for the purposes of requesting a copy of the information on the Internet Web site(s) for any purpose other than sending the information required under this Rule to the customer. The member may not disclose or sell the e-mail address to third parties. The portion of any Internet Web site that is used to comply with this Rule may not require the installation of any “cookies”

or other software that might collect information about the accessing customer.

(E) The requirements in paragraphs (c)(3)(A), (c)(3)(B), (c)(3)(C) and (c)(3)(D) of this Rule do not apply to a member in connection with the member's referral of customers to the FINRA Market Data Internet Web site for the purposes of providing certain information required under this Rule.

(4) The FINRA Market Data Internet Web site -- <http://www.finra.org/marketdata> -- does not contain all the information that a member is required to provide to a customer under this Rule. A member may not rely upon the FINRA Market Data Internet Web site to provide the disclosures required under the following paragraphs:

(A) Paragraph (b)(2);

(B) Paragraph (b)(4);

(C) The statement in paragraph (b)(5)(A) providing: "This security does not pay interest or principal on a regular schedule. Information regarding the frequency of interest or principal payments for this security will be furnished to you upon written request.";

(D) The statement in paragraph (b)(5)(B) providing: "Additional call features exist that may affect yield; additional information will be furnished to you upon written request.";

(E) Paragraph (b)(5)(C); and

(F) Paragraph (b)(5)(D).

(d) Requests for Additional Information

If a member receives a customer's written request for information under any part of this Rule requiring a member to notify a customer that additional or specific information will be furnished upon written request, a member shall provide such information in writing within three business days of receiving a customer's written request, or within ten business days if such request is received more than six months after the transaction's settlement date. A member must provide the information at no charge.

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2340. Customer Account Statements

(a) through (d) No Change.

(e) Notice of Availability of FINRA Disclosure on Debt Securities

(1) Except as otherwise provided in subparagraph (2) below, a member that has provided a customer disclosure under NASD Rule 2231 during the period since the last account statement was sent to the customer also must disclose the following: "A disclosure document discussing your rights as a bondholder and some of the risks related to buying and holding bonds, titled 'Important Information You Need to Know About Investing in Corporate Bonds,' has been prepared by FINRA and is available online at www.finra.org. A paper version of this document is available from your broker upon your written request."

(2) In lieu of disclosing the Internet Web site address "www.finra.org" in the statement set forth in subparagraph (1), a member may disclose the member's Internet Web site address, provided that the document, "Important Information You Need to Know About Investing in Corporate Bonds," or an Internet

hyperlink directly thereto, is easily accessible from the Internet address that is disclosed.

(3) A member shall provide the document, “Important Information You Need to Know About Investing in Corporate Bonds,” to any customer to whom a statement is provided pursuant to subparagraph (1) within three business days of receiving a customer’s written request, or within ten business days if such a request is received more than six months after the transaction's settlement date. This document provides information that an investor should know immediately prior to buying or selling a bond such as the basics of bond pricing, yield, and the difference between yield to maturity and yield to call. It also describes certain risks that bond investors assume in such transactions (e.g., interest rate risk and liquidity risk). This document also contains a short description of basic types of bonds (e.g., floating rate bonds, zero coupon bonds and convertible bonds) as well as debt structure (e.g., junior or subordinated debt). Finally it informs investors that even if they are not charged a commission they are nevertheless paying a fee to their broker-dealer when they buy or sell bonds.

([e]f) Exemptions

Pursuant to the Rule 9600 Series, [NASD] FINRA may exempt any member from the provisions of this Rule for good cause shown.

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Important Information You Need to Know about Investing in Corporate Bonds

This document is intended to provide you with some basic facts about the most common features of corporate bonds, and to alert you to some of the risks associated with buying, selling, and holding corporate bonds.

As with any investment, before buying a corporate bond, you should analyze the bond on its own merits, weighing its risks, costs, and rewards. Consult with your firm about any questions you may have about investing in a particular bond.

Corporate Bond Basics

What is a Corporate Bond?

Corporate bonds are, at their simplest, loans that investors make to public and private corporations. Consequently, bonds are referred to as debt securities.

Corporations generally issue corporate bonds to raise money for capital expenditures, operations, and acquisitions.

Typically, bondholders receive interest payments during the term of a bond (or, for as long as a bondholder owns a bond), at the stated interest rate—also called the coupon rate. In addition, if bondholders hold bonds until maturity, they also are repaid the principal amount, called par value or face amount.

Bond Price and Yield

Price

If you sell a bond before it matures, you may not receive the full principal amount of the bond. This is because a bond's price is not based on the par value of the bond. Rather, it is set in the secondary market and is established by the current market values of such bonds, which may be more or less than the amount of principal the issuer would be

required to pay the bondholder at maturity. Therefore, it is impossible to predict in advance the price that a bondholder will receive if the bondholder purchases a bond and later sells the bond before maturity.

The price of a bond is often above or below its par value because the price is adjusted according to current interest rates in the whole market for the same debt security and comparable debt securities. For example, if the bond you desire to purchase has a coupon rate of 8 percent, and similar quality new bonds available for sale have a coupon rate of 5 percent, you will have to pay more than the par amount of the bond that you intend to purchase, because you will receive more interest income than the current coupon rate (5 percent) being attached to similar bonds. (A bond's coupon rate is the rate of interest paid periodically on the face amount of the obligation.)

Yield

Yield is the overall return on the capital you invest in the bond. Yield is similar to, but different from, a bond's coupon rate. This distinction is important, because as is explained above, while a bond's face amount or par value is fixed, its market value almost always changes over time. Because bond prices fluctuate continually in the market, the yield your bond investment will provide if it is sold prior to maturity also changes constantly. *A bond's price is inversely related to its yield. As a bond's price increases, its associated yield decreases; as the price of a bond decreases, the associated yield increases.*

For example, a bond that sells today for \$1,000 and has a coupon rate of 8 percent has a current yield of 8 percent. Because the "price" equals the face amount of the bond, the current yield of 8 percent equals the 8 percent coupon rate. However, usually after

the first sale of a bond, the price of a bond differs from the face amount. For example, if the same bond sells tomorrow for \$990, the current yield would be slightly higher than 8 percent.

Yield to Maturity and Yield to Call: What's the Difference?

Yield to maturity is calculated by taking into account the total amount of interest you will receive over time, your purchase price (the amount of capital you invested), the face amount (or other amount you will be paid when the issuer "redeems" the bond), the time between interest payments, and the time remaining until the bond matures.

If you hold a callable bond, another type of yield calculation, yield to call, also is important for you to understand. This calculation takes into account the impact on a bond's yield if it is called prior to maturity and is often done using the first date on which the issuer could call the bond. (Other call dates may be used in specified circumstances.) A bond's yield to call may be lower than its yield to maturity.

To get a more accurate picture of what a bond will cost you or what you received for it, you should also ask your broker to calculate the yield adjusting the purchase price up (when you purchase) or down (when you sell) by the amount of the mark-up or commission (when you purchase) or mark-down or commission (when you sell) and other fees or charges that you are charged by your broker for its services. This is called yield reflecting broker compensation.

Corporate Bond Risks

Like virtually all investments, corporate bonds carry risk. It is important that you fully understand the risks of investing in corporate bonds. These risks include:

Interest Rate Risk

When interest rates rise, bond prices fall, and when interest rates fall, bond prices rise. Interest rate risk is the risk that changes in interest rates generally in the U.S. or the world economy may reduce (or increase) the market value of a bond you hold. Interest rate risk increases the longer that you hold a bond. For example, if interest rates rise throughout the economy, bond issuers, along with other borrowers, will need to offer potential bondholders higher rates to compete with the higher interest rates available elsewhere.

Any bonds issued in a period of rising interest rates generally will carry higher coupon rates, which will be more attractive to potential bondholders than the coupon rate paid by bonds issued before the rise in interest rates. This decreased appetite for older bonds that pay lower interest depresses their price in the secondary market, which would translate into your receiving a lower price for your bonds if you chose to resell them in a period of rising interest rates. The opposite holds true as well, and the market value of older bonds that pay higher than current interest rates tends to rise in periods where interest rates are generally declining.

Call and Reinvestment Risk

Bonds with a call provision can be redeemed or “called” by the bond issuers, requiring bondholders to redeem their bonds at the call price well before their maturity dates. Bonds often are called when market interest rates are falling, because bond issuers want to refinance their debt at lower interest rates (similar to when a home owner seeks to refinance a mortgage at a lower rate when mortgage interest rates decrease). This is known as call risk.

With a callable bond, a bondholder might not receive the bond's coupon rate for the entire term of the bond. It might be difficult or impossible to find an equivalent investment paying rates as high as the called bond because generally it is in the issuer's interest to call the bond, and bonds are more frequently called, when the coupon rate of the bond is higher than current interest rates. This is known as reinvestment risk. Additionally, at any given point in time, the period that a callable bond will generate cash flow is uncertain. This risk will be reflected in a lower market value for the bond because any appreciation in the value of the bond's periodic interest payments may not be fully realized if it is "called away" by its issuer.

Bondholders generally receive a higher yield on callable bonds to compensate for the call and reinvestment risks described above. If the issuer chooses not to call the bond, bondholders receive this higher yield all the way to maturity.

Refunding Risk and Sinking Fund Provisions

A sinking fund provision, which often is a term included in bonds issued by industrial and utility companies, requires a bond's issuer to retire a certain number of bonds periodically. This can be accomplished in a variety of ways, including through purchases in the secondary market or forced purchases directly from bondholders at a pre-determined price.

Holders of bonds subject to sinking fund redemptions should understand that they risk having their bonds called (or redeemed) prior to maturity. Unlike other bonds subject to call, depending on the sinking fund provision, there may be a relatively high likelihood that the issuer will redeem some or many of the bonds prior to maturity, even if market-wide interest rates do not change.

It is important to understand that there is no guarantee that an issuer of these bonds will be able to comply strictly with any redemption requirements. In certain cases, an issuer may need to borrow funds or issue additional debt to refinance an outstanding bond issue subject to a sinking fund provision when it matures. If the issuer is unable to raise adequate funds to refinance the outstanding issue, the issuer could default and the bondholder could lose all or most of his/her investment.

Default and Credit Risk

If you ever loaned money to someone, chances are you gave some thought to the likelihood of being repaid. Some loans are riskier than others. The same is true when you invest in bonds. You are taking a risk that the issuer's promise to repay the principal and pay interest will not be upheld. In the case of Treasuries and other government-issued bonds backed by the "full faith and credit of the U.S. government," that risk is almost zero. However, there is some risk of default with corporate bonds. This means the corporations issuing them may either be late paying bondholders or -- in worst-case scenarios -- be unable to pay at all.

Bond ratings are an aid in measuring default and credit risk. Bond ratings are issued by private companies called credit rating agencies. Prior to issuing a credit rating, a credit rating agency is supposed to review relevant information supplied to it by the issuer or its agents, and from sources the credit rating agency considers reliable, including financial information such as the issuer's financial statements.

Generally, bonds are categorized in two broad categories—investment grade and non-investment grade. When a credit rating agency rates a bond BBB (or Baa) or higher, the credit rating agency considers the bond to be investment grade; when the credit rating

agency rates a bond BB (or Ba), the credit rating agency considers that bond to be non-investment grade. Non-investment grade bonds are also referred to as high-yield or junk bonds, and in some cases, distressed bonds. These bonds are considered riskier investments because the issuer's general financial condition is less sound, and the issuer may default -- (may not be able to pay the interest and principal to bondholders when they are due).

Many bondholders heavily weigh the rating of a particular corporate bond in determining if the corporate bond is an appropriate and suitable investment for them. Although credit ratings are an important indicator of creditworthiness, you should also consider that the value of the bond might change depending on changes in the company's business and profitability. The credit rating could be revised downward. In addition, in a volatile market, a credit rating agency may not be able to review and revise credit ratings of many bonds in a timely manner, and a bond rated investment grade may be trading at prices that indicate that many buyers and sellers believe the bond to be rated too highly. In the worst scenario, if you own a bond and the company that issues it defaults you could lose all of your investment. Finally, some bonds are not rated. In such cases, an individual bondholder is likely to find it more difficult to assess the overall creditworthiness of the issuer of the bond.

Liquidity Risk

You should determine whether the bond in which you are interested has traded frequently, infrequently, or not at all in recent months, and if your broker regularly buys and sells the bond. While certain bonds are very actively traded and are relatively "liquid," other bonds, including many high-yield bonds, are traded much less frequently

or not at all and may not be easy to sell. If you think you might need to sell the bonds you are purchasing prior to their maturity, you should carefully consider the likelihood of your being able to do so, and whether your broker will be able and willing to assist you in liquidating your investment at a fair price reasonably related to then current market prices. It is possible that you may be able to re-sell a bond *only* at a heavy discount to the price you paid (loss of some principal) or not at all. Additionally, bonds that are less frequently traded may be subject to wider “spreads” in the secondary market, which means that you would receive less for your bond if selling, or pay more if buying, than otherwise would be the case.

Corporate Bonds with Special Features

It also is important to understand any special features a bond may have before you buy, since these features may affect risk.

Floating Rate Bonds

Floating-rate bonds have a floating or variable interest rate that is adjusted periodically, or floats, using an external value or measure (for example, the prime rate or a stock index). Such bonds offer protection against interest rate risk, but their coupon rate is usually lower than those of fixed-rate bonds.

Zero-Coupon Bonds

Zero-coupon bonds, unlike other bonds, don't make regular interest payments. Instead, the bondholder buys the bond at a discount from the face value of the bond, and, when the bond matures, the issuer repays the bondholder the face amount. The difference between the discounted amount the bondholder pays upon purchase and the face amount later received is the imputed interest. Because zero-coupon bonds don't pay any interest

until maturity, their prices may be more volatile than other bonds with similar maturities that pay interest periodically.

Secured Bonds

Secured bonds are backed by collateral that the bond's issuer has agreed to sell if it otherwise is unable to meet its obligation when the bond matures. For example, a bond might be backed by a specific factory or industrial equipment. However, any such backing is only as good as the value of the asset being used as collateral, the value of which can decrease during the term of the bond.

Bonds that are not backed by any collateral are unsecured and are sometimes called debentures. Debentures are backed solely by an issuer's promise to repay you. Most corporate bonds are debentures.

Guaranteed and Insured Bonds

Certain bonds may be referred to as guaranteed or insured. This means that a third party has agreed to make the bond's interest and principal payments if the issuer is unable to make these payments. You should keep in mind that such guarantees only are as valuable as the creditworthiness of the third party making the guarantee or providing the insurance.

Convertible Bonds

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Broker Compensation for Selling Bonds

No Commission does not Mean No Charge.

You should understand that your broker is being compensated for performing services for you, even if you are not charged a commission when you buy or sell a bond. In most bond transactions, brokers are compensated, even though a commission charge is not disclosed, because the transaction is structured as a principal transaction (i.e., your broker sells you a bond it already owns). This is because when a dealer sells you a bond in a principal capacity, the dealer increases or marks up the price you pay over the price the dealer paid to acquire the bond. The mark-up is the dealer's compensation and is similar to a commission. Similarly, if you sell a bond, a dealer will offer you a price that includes a mark-down from the price that the dealer believes he can sell the bond to

another dealer or another buyer. You should understand that the firm has charged you a fee for its services.

Would a Similar Bond Cost Less?

Finally, it is important to consider the potential conflicts that your broker might have when it sells you a bond. Bonds issued by different issuers often have very similar risk profiles and carry similar coupon rates. Before you buy a bond, you should shop around and consider if there are other bonds that you could buy at a cheaper price than the one recommended by your broker. You should consider whether there are other bonds available with similar risk/return profiles that might be available at lower cost. You also should try and understand how your broker is being compensated for any bond transaction, particularly those that are recommended to you where similar bonds may be available.

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