

Outline of Rule 3012 and Rule 3013 Requirements*

Rule 3012(a)(1) Requirements

1. Each member must designate and identify to NASD one or more principals who will be responsible for establishing, maintaining, and enforcing a system of supervisory control policies and procedures that:
 - (A) test and verify that the supervisory procedures are reasonably designed with respect to the activities of the member and its registered representatives and associated persons to achieve compliance with applicable securities laws, regulations, and NASD Rules, and;
 - (B) create additional or amend supervisory procedures where the need is identified by such testing and verification.
2. The designated principal(s) must submit to member's senior management no less than annually a report detailing the member's system of supervisory controls, the summary of the test results and significant identified exceptions, and any additional or amended supervisory procedures created in response to the test results.

Rule 3012(a)(2) Requirements

A member's written supervisory control policies and procedures must include:

1. Procedures that are reasonably designed to review and supervise on a day-to-day basis the customer account activity conducted by the member's producing managers.[†] (Rule 3012(a)(2)(A))
 - (A) A person who is either senior to or "otherwise independent" of the producing manager must perform such supervisory reviews (Rule 3012(a)(2)(A)(i)); or
 - (B) If the member is so limited in size and resources that there is no qualified person senior to, or otherwise independent of, the producing manager to conduct the supervisory reviews, the reviews may be conducted by a principal who is knowledgeable of the member's supervisory control procedures. (Rule 3012(a)(2)(A)(ii))

* This Outline attempts to present information regarding certain NASD rules to readers in a format that is easily understandable. However, please be aware that, in case of any misunderstanding, the rule language prevails.

[†] In general, a producing manager is a branch office manager, a sales manager, a regional or district sales manager, or any person who performs a similar supervisory function and who services customer accounts in a capacity requiring registration. See *Notice to Members 05-08* (January 2005).

A member relying on the “limited size and resources” exception described above must:

- a. document the reliance on the exception and the factors used to determine that the exception must be relied upon (Rule 3012(a)(2)(A)(iii));
 - b. document that the reviewer complies, to the extent practicable, with the general requirement of being either senior to or “otherwise independent” (Rule 3012(a)(2)(A)(iii)); and
 - c. electronically notify NASD of reliance on the “limited size and resources” exception. (Rule 3012(a)(2)(A)(iv))
2. Procedures that are reasonably designed to provide heightened supervision for producing managers who meet Rule 3012’s 20% threshold. (Rule 3012(a)(2)(C))
3. Procedures that are reasonably designed to review and monitor the following activities (Rule 3012(a)(2)(B)):
 - (A) transmittals of customer funds and securities (Rule 3012(a)(2)(B)(i));
 - (B) customer changes of address and validation (Rule 3012(a)(2)(B)(ii)); and
 - (C) customer changes of investment objectives and validation. (Rule 3012(a)(2)(B)(ii))

The procedures reviewing and monitoring the enumerated activities must include a method of customer confirmation that can be documented.

If a member does not engage in the enumerated activities, the member must identify those activities it does not engage in and document that additional supervisory procedures for such activities must be in place before the member can engage in the activities it does not currently perform.

Rule 3012(b) Requirements

A member in compliance with substantially similar requirements of the New York Stock Exchange, Inc. shall be deemed to be in compliance with the provisions of Rule 3012.

Rule 3013 and IM-3013 Requirements

1. Each member must designate a chief compliance officer (CCO) and identify that officer on Schedule A of Form BD. (Rule 3013(a))

2. The chief executive officer (CEO) (or equivalent officer) must execute an annual certification that the member has in place *processes* to establish maintain, review, test, and modify written compliance policies and written supervisory procedures and that the CEO has conducted one or more meetings with the CCO in the preceding 12 months to discuss such processes, the member's compliance efforts to date and significant compliance problems and plans for emerging business areas. (Rule 3013(b) and IM-3013)
3. Prior to execution of the certification, each member must prepare a report evidencing the member's processes and have it reviewed by the CEO, CCO, and any other officers the member deems necessary. (IM-3013)
4. Each member must provide the report in final form to the member's board of directors and audit committee (or equivalent bodies), either prior to execution of the certification or at the earlier of their next scheduled meetings or within 45 days of execution of the certification. (IM-3013)