
For Your Information

Reminder to NASD Members – Transactions with NASD and American Stock Exchange Employees

NASD members who carry brokerage accounts for NASD, NASDAQ, or American Stock Exchange employees are reminded of the need to promptly implement employees' instructions calling for duplicate statements to be provided to NASD. This requirement is set forth in NASD Rule 3090(a), which provides that "[w]hen a member has actual notice that an Association or American Stock Exchange employee has a financial interest in, or controls trading in, an account, the member shall promptly obtain and implement an instruction from the employee directing that duplicate account statements be provided by the member to the Association."¹

Rule 3090(a), which became effective on November 17, 2000, plays a vital role in helping NASD monitor whether employees are abiding by trading restrictions imposed by the NASD Code of Conduct. Among other things, employees may not own stock of broker/dealers or companies that derive more than 25 percent of their gross revenues from broker/dealer activities, or stock purchased as part of an initial public offering. NASD reviews duplicate statements for employees' brokerage accounts to ensure that employees have abided by these restrictions.

With respect to new accounts, the information necessary to give members actual notice of an employee's interest in an account is already included on the new account forms used by most broker/dealers, and on a standardized duplicate instruction form that NASD and Amex employees can provide to their broker/dealers. It is not necessary for an NASD official to issue a letter authorizing the opening of each employee account.

With respect to existing accounts, Rule 3090(a) contemplates that NASD and Amex employees will use the above-referenced duplicate instruction form to give NASD members actual notice of their interest in an account. A member receiving such a form must promptly implement the duplicate statement instruction.

Rule 3090(a) applies to accounts opened after the rule became effective on November 17, 2000, and to those pre-existing accounts as to which an NASD member has actual notice that an NASD or Amex employee has financial interest or controls trading. NASD members are not required to review accounts that existed before

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the rule became effective to identify those in which NASD or Amex employees may have an interest or control trading.

NASD members with questions concerning Rule 3090(a) may contact Luley Chow, NASD Code of Conduct Administrator, NASD Office of General Counsel, at luley.chow@nasd.com or (202) 728-8315

¹ NASD Rule 0120(b) defines "Association" as meaning, collectively, NASD, NASD Regulation, NASDAQ, and NASD Dispute Resolution.

Filing of Annual Attestation Required by Rule 2711 - Research Analysts and Research Reports

On May 10, 2002, the SEC approved new NASD Rule 2711, Research Analysts and Research Reports, which is intended to address conflicts of interest that can arise when securities analysts issue recommendations in research reports and public appearances and provide investors with more objective, reliable, and useful information. Most of the Rule is already in effect; the remaining provisions become effective on November 6, 2002.

Rule 2711(i) requires each member subject to the rule to adopt and implement written supervisory procedures that are reasonably designed to achieve compliance with the rule's provisions. The rule further requires that a senior officer of the member attest annually to NASD that it has adopted and implemented such procedures.

This notice is to advise members that the annual attestation must be received by NASD no later than the last business day of each calendar year. The attestation should be sent to the following address:

Department of Member Regulation
NASD Division of Regulatory Policy and Oversight
Attn: Rule 2711 Attestation
1735 K Street, NW
Washington, DC 20006

Questions concerning this information should be directed to the Department of Member Regulation, Regulatory Policy and Oversight, at (202) 728-8221.