

Notice to Members

AUGUST 2002

SUGGESTED ROUTING

Executive Representatives
Legal & Compliance
Operations
Senior Management

KEY TOPICS

Central Registration Depository
Fees
Renewal Program

INFORMATIONAL

Annual Renewal Fees

NASD Amends Section 4 of Schedule A to the NASD By-Laws to Establish a Late Fee for Failure to Pay Annual Renewal Fees on a Timely Basis; **Implementation Date: September 1, 2002**

Executive Summary

NASD has adopted an amendment to Section 4(b) of Schedule A to the NASD By-Laws, establishing a fee to be imposed on members that fail timely to pay their annual Renewal Fee as indicated on their Preliminary Renewal Statement. The rule change was filed with the Securities and Exchange Commission (SEC) on July 25, 2002. Pursuant to Section 19(b)(3)(A)(ii) of the Securities Exchange Act of 1934 and SEC Rule 19b-4(f)(2) thereunder, the rule change became effective upon filing. NASD will implement the rule change on September 1, 2002.

Included with this *Notice* is Attachment A, the text of the amendment to Section 4(b) of Schedule A to the NASD By-Laws.

Questions/Further Information

Questions concerning this *Notice* may be directed to Richard E. Pullano, Chief Counsel, Registration and Disclosure, NASD Regulatory Services and Operations, at (240) 386-4821, or Shirley H. Weiss, Associate General Counsel, Office of General Counsel, NASD Regulatory Policy and Oversight, at (202) 728-8844.

Discussion

NASD has amended Section 4(b) of Schedule A to the NASD By-Laws to establish a fee if a member fails timely to pay the amount indicated on its Preliminary Renewal Statement. The fee is 10% of a member's final annual renewal assessment or \$100, whichever is

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greater, with a maximum charge of \$5,000. As further detailed below, NASD will implement this rule change and thus assess the late fee beginning on September 1, 2002.

NASD administers an annual Renewal Program that simplifies the process of renewing registrations and licenses for member firms and their associated persons by allowing members to pay a single amount to NASD in December of each year. This annual Renewal Fee covers all NASD registration and licensing fees and fees imposed by states and other self-regulatory organizations (SROs). NASD also collects broker/dealer and investment adviser renewal fees on behalf of SROs and state regulators, as applicable, through this program.

Each year, during the first week of November, NASD publishes online, on Web CRD,SM a Preliminary Renewal Statement for each member that advises the member of the total amount of Renewal Fees owed for the following year. The Renewal Fees are generally due to NASD by the end of the first week in December. Members typically pay the amount indicated on their Preliminary Renewal Statement by check or bank wire transfer, and NASD pays the fees to the various regulators by year end. NASD advises its members that their failure to return full payment to NASD by the stated deadline could cause a member to become ineligible to do business in the jurisdictions in which it is registered as of the first business day of the new year. The timely payment of Renewal Fees by NASD members and their subsequent disbursement to appropriate regulators helps to ensure that NASD members will not be precluded from conducting business in the next calendar year as a result of the non-payment of Renewal Fees.

Because of the potential risk to members' ability to conduct business if they fail timely to pay their renewal payments, NASD engages in a comprehensive communications and operational effort beginning in August of each year that informs members of their obligation to complete the renewals process by the stated deadline and the risk associated with their failure to do so. These communications include an Advance Calendar of Key Dates, a *Notice to Members*, a *Bulletin*, reminder e-mails, and daily reminder Broadcast Messages through Web CRD.

In early January, NASD makes available on-line a Final Renewal Statement that reflects the final status of agent and firm registrations and/or Notice Filings as of December 31 of the previous year. Any adjustments in fees owed as a result of registration terminations or approvals subsequent to the Preliminary Renewal Statement are made in this final reconciled statement on Web CRD. NASD issues a credit/refund to members that paid an amount greater than the final amount based on their Preliminary Renewal Statements. NASD assesses additional fees if a member has paid less than the final reconciled amount.

Notwithstanding NASD's efforts to obtain timely payments of Renewal Fees, a significant percentage of NASD members miss the payment deadline each year, prompting NASD staff to expend additional time and resources to collect these fees after the renewal deadline has passed. NASD staff expends considerable effort to contact delinquent members to prevent them from failing to renew with the jurisdictions with which they are registered. This annual effort is in addition to, and detracts from, NASD's efforts to serve its members in the normal course of business.

NASD has therefore established a late renewal fee that will be assessed against any NASD member that has not paid its Renewal Fees by the published deadline. NASD believes that such a fee serves a two fold purpose: (1) to provide members with an additional incentive to meet the renewals payment deadline; and (2) to cover the costs of NASD collection activities (*i.e.*, the time and resources expended in contacting and collecting fees from NASD members that miss the deadline). The purpose of the late fee is not to generate significant net revenue, and it should not do so. Instead, the late fee will cover NASD's collection costs and eliminate a significant number of late payments by encouraging members to pay their Renewal Fees by the stated deadline.

Implementation Date

NASD will implement this amendment beginning on September 1, 2002.

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ATTACHMENT A

New language is underlined; deletions are in brackets.

Schedule A to the NASD By-Laws

Assessments and fees pursuant to the provisions of Article VI of the By-Laws of NASD shall be determined on the following basis.

Section 4 - Fees

(a) No change.

(b) NASD shall assess each member a fee of:

(1) through (6) No change.

(7) 10% of a member's final annual renewal assessment or \$100, whichever is greater, with a maximum charge of \$5,000, if the member fails timely to pay the amount indicated on its preliminary annual renewal statement.

(c) through (l) No change.