

**ACTION REQUESTED BY
JULY 2, 2001**

Rule Modernization Project

NASD Regulation
Requests Comment On
Steps That Can Be
Taken To Streamline
NASD Rules; **Comment
Period Expires on July
2, 2001**

SUGGESTED ROUTING

The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.

- Executive Representatives
- Legal & Compliance
- Senior Management

KEY TOPICS

- Rule Review
- Rule Modernization

Executive Summary

Over the past several years, NASD Regulation, Inc. (NASD Regulation) has conducted a comprehensive review of many of the National Association of Securities Dealers, Inc. (NASD®) rules. NASD Regulation plans to expand and build upon its review to ensure that the NASD rules are as streamlined as possible, and impose the least burden to accomplish their objectives. NASD Regulation recently retained a consultant with particular expertise in analyzing regulations to assist in this review.

One key to the success of NASD Regulation's efforts to modernize the NASD rules will be industry input. NASD Regulation encourages all interested parties to suggest rules that should be the focus of this review. Suggestions that include specific explanations of the burdens imposed by a rule will be particularly helpful. We also invite specific comments about ways that investor protection can be assured through alternative regulatory approaches.

Questions concerning this *Request for Comment* may be directed to Eric J. Moss, Associate General Counsel, Office of General Counsel, NASD Regulation, at (202) 728-8982.

Background And Discussion

In 1998, NASD Regulation began a review of the NASD's rules to: (1) determine if there are obsolete or otherwise unnecessary rules that could be repealed or that should be modernized in light of technological or industry developments; and (2) determine if particular rules should distinguish between retail and institutional customers in their application. The over-arching principle in this

review is to ensure that NASD rules promote balanced and effective regulation of the securities industry in order to protect investors and ensure market integrity, taking into account burdens and technological advances.

As part of its review, in *Notice to Members 98-81*, NASD Regulation invited members and other interested parties to submit suggestions for its review and consideration. NASD Regulation received 24 comment letters. Many of the recommendations made in the comment letters were presented to NASD Regulation committees, as well as the NASD Regulation Board of Directors. As a result of this undertaking, several important regulatory initiatives have been implemented or are pending at the Securities and Exchange Commission, including amendments to the NASD Corporate Financing Rule, Free Riding and Withholding Interpretation, Three Quote Rule, and Advertising Rules.

NASD Regulation is continuing its review to determine if there are additional steps that should be taken to modernize the NASD rules. NASD Regulation has retained an expert consultant to assist in estimating the burdens of certain NASD rules, both direct and indirect, and evaluating the benefits of such rules. Further, the consultant will help NASD Regulation develop a template and a process for using this kind of analysis on a going-forward basis. In those instances where the regulatory burden of a rule significantly outweighs the benefit, or the rule no longer works efficiently, given new technologies, NASD Regulation will look at revising the rule. NASD Regulation believes that the cost-benefit data that the consultant plans to gather

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could be particularly beneficial in evaluating whether certain rules unfairly burden small firms. NASD Regulation intends to apply the review process to all of its rules. We recognize, however, that there are some rules for which the benefits may not be readily quantified, but are nevertheless worth preserving.

Request For Comment

NASD Regulation encourages all interested parties to suggest rules that should be the focus of this review. Suggestions that include specific explanations of the burdens imposed by a rule will be particularly helpful. We also invite specific comments about ways that investor protection can be assured through alternative regulatory approaches.

*Barbara Z. Sweeney
Office of the Corporate Secretary
NASD Regulation, Inc.
1735 K Street, NW
Washington, DC 20006-1500*

*or e-mail to:
pubcom@nasd.com*

Please see Attachment A for further instructions about submitting comments to NASD Regulation. The only comments that will be considered are those submitted via e-mail or in writing.

Comments must be received by July 2, 2001. Before becoming effective, any rule change developed as a result of comments received must be adopted by the NASD Regulation Board of Directors, may be reviewed by the NASD Board of Governors, and must be approved by the Securities and Exchange Commission.

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ATTACHMENT A

Request for Comment Instructions

Comments must be received by **July 2, 2001**. Members and interested parties can submit their comments using the following methods:

- mailing in this checklist
- e-mailing written comments to *pubcom@nasd.com*
- mailing in written comments
- submitting comments online at the NASDR Web Site (*www.nasdr.com*)

The checklist and/or written comments should be mailed to:

Barbara Z. Sweeney
Office of the Corporate Secretary
NASD Regulation, Inc.
1735 K Street, NW
Washington, DC 20006-1500

NASD Regulation encourages all interested parties to suggest rules that should be the focus of this review. Please provide for each proposed rule change, a statement as to why you believe that the burdens imposed by the rule outweigh the benefits.

☐ See my attached written comments

Contact Information

Name: _____

Firm: _____

Address: _____

City/State/Zip: _____

Phone: _____

E-Mail: _____

Are you:

☐ An NASD Member

☐ An Investor

☐ A Registered Representative

☐ Other: _____