

**INFORMATIONAL**

# Continuing Education— In-Firm Delivery Of The Regulatory Element

SEC Approves Revision  
To Membership And  
Registration Rule 1120  
—Continuing Education  
Requirements—  
Permitting In-Firm  
Delivery

**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.*

- Continuing Education
- Legal & Compliance
- Registration Department
- Senior Management

**KEY TOPICS**

- NASD Membership and Registration Rule 1120
- In-Firm Delivery
- Regulatory Element

## Executive Summary

On December 11, 2000, the Securities and Exchange Commission (SEC) approved a revision to NASD® Membership and Registration Rule 1120, Continuing Education Requirements. Effective March 11, 2001, Rule 1120 permits a member firm to deliver the Regulatory Element computer-based training to registered persons on firm premises—also called “In-Firm Delivery”—as an option to having persons take the training at a Sylvan/Prometric Technology Center.

## Questions/Further Information

Questions concerning this *Notice* may be directed to John Linnehan, Director, Continuing Education, NASD Regulation, Inc. (NASDR) at (240) 386-4684, or Heather Bevans, NASDR Continuing Education Communications Coordinator, at (240) 386-4685.

## Background

NASD rules require all registered persons to participate in a prescribed Regulatory Element computer-based training session within 120 days of their second registration anniversary date and every three years thereafter. There are three Regulatory Element programs: 1) the S201 for registered Supervisors/Principals, 2) the S106 for Investment Company Products/Variable Contracts Representatives, and 3) the S101 for General Securities Representatives and other registration categories not required to take the Supervisor or Series 6 programs.

Before the Securities Industry/Regulatory Council on Continuing Education<sup>1</sup> developed the requirements for In-Firm Delivery, registered persons could only par-

ticipate in the Regulatory Element at Sylvan/Prometric Technology Centers located throughout the United States. The Regulatory Element continues to be offered at Sylvan/Prometric Technology Centers; however, effective March 11, 2001, member firms will be permitted to deliver the Regulatory Element on their premises provided the firms comply with specific requirements relating to supervision, delivery site(s), technology, administration, and proctoring. Firms offering In-Firm Delivery may continue to send their registered persons to Sylvan/Prometric locations.

Firms offering In-Firm Delivery will continue to have their CRD accounts charged for each Regulatory Element delivery. The charge will be \$62 versus \$65 charged when the representative takes a Regulatory Element session at a Sylvan/Prometric Technology Center. There will, however, be no charge to a firm if a representative cancels or does not keep an In-Firm Delivery appointment, whereas firms will continue to be charged \$65 if a representative does not keep or cancels with too short notice a Sylvan/Prometric appointment.

The following are the different requirements for In-Firm Delivery.

**1. Supervisory Requirements —** Firms must designate a registered principal to be responsible for In-Firm Delivery at the firm, and they must revise their Written Supervisory Procedures to include:

1. The principal/officer designated as responsible for In-Firm Delivery, and the name(s) of individuals authorized by the firm to serve as proctors.
2. The location of the firm's delivery site(s).

3. The procedures implemented to comply with the requirements of In-Firm Delivery of the Regulatory Element.

Before commencing In-Firm Delivery of the Regulatory Element, members are required to file with their Designated Examining Authority (DEA) a *Letter Of Attestation* (part of Attachment A) signed by a principal executive officer or executive representative, attesting to the establishment of required procedures addressing principal in-charge, supervision, In-Firm Delivery site(s), technology, administration, and proctoring. *Letters Of Attestation* filed with NASD Regulation, Inc. should be sent to Member Regulation, Continuing Education Department, 3rd Floor, 9509 Key West Avenue, Rockville, MD 20850.

**2. Site Requirements** — Delivery of the Regulatory Element must take place in an environment conducive to training, such as a training facility, conference room, or other area dedicated to this purpose. Personal offices or any other locations that cannot be secured from traffic and interruptions are not acceptable. Where there are multiple delivery terminals in one room, adequate separation between terminals must be maintained. Firms may have more than one site for In-Firm Delivery, but the locations of all delivery sites must be under the control of the firm and must be listed in the firm's Written Supervisory Procedures. All In-Firm Delivery sites must be made available for inspection by the firm's DEA.

**3. Technology Requirements** — Communication lines and In-Firm Delivery computer hardware and software must comply with standards (Attachment B) established by Virtual University Enterprises (VUE), a division of NCS Pearson,

Inc., the vendor designated by NASDR to facilitate In-Firm Delivery. Firms must install *VUE Testing System* software (*Testing System*) for each In-Firm Delivery site the firm operates, and execute a single software licensing agreement with VUE. The *Testing System* software costs \$600 to install at each site.

**4. Administrative Requirements** — Firms must schedule all Regulatory Element appointments in advance using the *Testing System* software and deliver Regulatory Element training in accordance with the procedures in the *VUE Testing Center Guide* (*Testing Guide*). The *Testing Guide* will be sent once the firm executes the software license agreement with VUE.

**5. Proctor Requirements** — A proctor must be present at every Regulatory Element session delivered at the firm. Proctors must be registered persons and be supervised by the principal/officer in charge. Proctors must follow the policies and procedures in the *VUE Testing Center Guide*. Important responsibilities of proctors are to check candidate IDs, supervise proper completion of *Rules of Conduct Forms* (including fingerprints), and maintain the training center *Sign-In Log*.

**How To Begin** — Firms should take the following steps to implement In-Firm Delivery.

1. Contact the NASD Regulation Continuing Education Department at (240) 386-4685 to obtain an information kit about In-Firm Delivery. The kit will include guidelines on establishing an In-Firm Delivery site and a detailed summary of the procedures firms will have to follow to operate the site.

2. Establish an In-Firm Delivery site that satisfies the requirements of Rule 1120.
3. Update the firm's Written Supervisory Procedures so that they include:
  - the name of the Principal in charge of In-Firm Delivery
  - the names of registered proctors
  - the location of all training sites at the firm
  - the procedures staff will follow to operate the In-Firm Delivery site(s).
4. File the *Letter of Attestation* (part of Attachment A) with NASD Regulation.

After firms file their *Letter of Attestation*, the Continuing Education Department will have VUE contact the firm to arrange for signing the *Software Licensing Agreement* and installing the VUE software.

**Endnotes**

1 The Council facilitates industry/regulatory coordination of the Securities Industry Continuing Education Program's administration and its future development. The Council comprises 14 individuals from a broad cross section of industry firms and six self-regulatory organizations. Industry representatives serve three-year terms and are selected through a nominating committee process. Both the SEC and the North American Securities Administrators Association (NASAA) have liaison staff assigned to the Council.

## ATTACHMENT A

### 1000. Membership, Registration And Qualification Requirements

*Text of the change to Rule 1120, Continuing Education relating to In-Firm Delivery of the Regulatory Element. New text is in [brackets].*

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### 1120. Continuing Education Requirements

This Rule prescribes requirements regarding the continuing education of certain registered persons subsequent to their initial qualification and registration with the Association. The requirements shall consist of a Regulatory Element and a Firm Element as set forth below.

**(a) Regulatory Element**

(1) through (5) No change

**[(6) In-Firm Delivery of the Regulatory Element**

Members will be permitted to administer the continuing education Regulatory Element program to their registered persons by instituting an in-firm program acceptable to the Association.

The following procedures are required:

(A) Principal/Officer In-Charge. The firm has designated a principal to be responsible for the in-firm delivery of the Regulatory Element.

(B) Site Requirements.

(i) The location of all delivery sites will be under the control of the firm.

(ii) Delivery of Regulatory Element continuing education will take place in an environment conducive to training. (Examples: a training facility, conference room or other area dedicated to this purpose would be appropriate. Inappropriate locations would include a personal office or any location that is not or cannot be secured from traffic and interruptions.)

(iii) Where multiple delivery terminals are placed in a room, adequate separation between terminals will be maintained.

(C) Technology Requirements. The communication links and firm delivery computer hardware must comply with standards defined by the Association or its designated vendor.

(D) Supervision.

(i) The firm's Written Supervisory Procedures must contain the procedures implemented to comply with the requirements of in-firm delivery of the Regulatory Element continuing education.

(ii) The firm's Written Supervisory Procedures must identify the principal designated pursuant to Rule 1120(a)(6)(A) and contain a list of individuals authorized by the firm to serve as proctors.

(iii) Firm locations for delivery of the Regulatory Element continuing education will be specifically listed in the firm's Written Supervisory Procedures.

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(E) Proctors.

(i) All sessions will be proctored by an authorized person during the entire Regulatory Element session. Proctors must be present in the session room or must be able to view the person(s) sitting for Regulatory Element continuing education through a window or by video monitor.

(ii) The individual responsible for proctoring at each administration will sign a certification that required procedures have been followed, that no material from Regulatory Element continuing education has been reproduced, and that no candidate received any assistance to complete the session. Such certification may be part of the sign-in log required under Rule 1120(a)(6)(F).

(iii) Individuals serving as proctors must be persons registered with an SRO and supervised by the designated principal for purposes of in-firm delivery of the Regulatory Element continuing education.

(iv) Proctors will check and verify the identification of all individuals taking Regulatory Element continuing education.

(F) Administration.

(i) All appointments will be scheduled in advance using the procedures and software specified by the Association to communicate with the Association's system and designated vendor.

(ii) The firm/proctor will conduct each session in accordance with the administrative appointment scheduling procedures established by the Association or its designated vendor.

(iii) A sign-in log will be maintained at the delivery facility. Logs will contain the date of each session, the name and social security number of the individual taking the session, that required identification was checked, the sign-in time, the sign-out time, and the name of the individual proctoring the session. Such logs are required to be retained pursuant to SEC Rules 17a-3 and 17a-4.

(iv) No material will be permitted to be utilized for the session nor may any session-related material be removed.

(v) Delivery sites will be made available for inspection by the SROs.

(vi) Before commencing in-firm delivery of the Regulatory Element continuing education, members are required to file with their Designated Examining Authority ("DEA"), a letter of attestation (as specified below) signed by a principal executive officer or executive representative, attesting to the establishment of required procedures addressing principal in-charge, supervision, site, technology, proctors, and administrative requirements. Letters filed with NASD Regulation, Inc. should be sent to Member Regulation, Continuing Education Department, 9509 Key West Avenue, Rockville, MD 20850.

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**Letter of Attestation for In-Firm Delivery of Regulatory Element  
Continuing Education**

{Name of member} has established procedures for delivering Regulatory Element continuing education on its premises. I have determined that these procedures are reasonably designed to comply with SRO requirements pertaining to in-firm delivery of Regulatory Element continuing education, including that such procedures have been implemented to comply with principal/officer in-charge, supervision, site, technology, proctors, and administrative requirements.

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Signature

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Printed name

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Title {Must be signed by a Principal Executive Officer (or Executive Representative) of the firm}

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Date]

**(b) Firm Element No change.**

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## ATTACHMENT B

### In-Firm Delivery Site Hardware And Software Specifications

Firms may procure the required equipment themselves or contract with Virtual University Enterprises (VUE), a division of NCS Pearson, Inc., the vendor designated to facilitate In-Firm Delivery.

#### Hardware

*Administrator Station And Training Station Specifications* — A site will need one administrator station. Administrator stations must run Windows NT. A site can have as many training stations as it would like. All of the computers must be part of a workgroup or LAN. The training stations must run Windows 98 or Windows NT-English language version only. They must meet or exceed the following minimum configuration:

- IBM PC or compatible
- Pentium 300 Mhz (or better)
- 128 MB RAM
- 17" SVGA monitor with video card, capable of 800X600 resolution and 256 colors, and 1 MB of video RAM
- Minimum 3 gigabytes of free local hard drive space
- Microsoft or compatible Mouse and associated driver
- Network interface
- Local CD ROM (8X)
- Headphones
- SoundBlaster or compatible audio card

*Communications Specifications* — Internet access via high-speed connection, e.g., ISDN, DSL, T1, etc.

*Shared Storage Space* — The Software requires at least 12 gigabytes of shared disk storage on the local area network. This space is required for the storage of the continuing education software and the required scheduling and administrative software (see below). The shared disk storage must be accessible by the training stations and the administrator station.

*Printers* — Administrator and training stations must have access to an inkjet or laserjet printer located outside the training room.

*Backups* — Shared storage must be backed up each business day.

#### Software

Firms must use the software applications of the VUE Testing System and execute a *Software License Agreement* with VUE. There is a \$600 **per site** charge to install the software. VUE will provide firms with the *VUE Testing Center Guide*, which contains information about using the Testing System applications and about In-Firm Delivery site policies and procedures. VUE will also provide technical support for software installation, and ongoing operations of the site.

*Hardware specifications as of 01/12/01*

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