

INFORMATIONAL

Continuing Education

Industry/Regulatory Council On Continuing Education Issues *Firm Element Advisory*

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 Testing/Qualifications
- Legal & Compliance
- Senior Management

KEY TOPICS

- Continuing Education
- Firm Element

Executive Summary

The Securities Industry/Regulatory Council on Continuing Education (Council) has issued a *Firm Element Advisory*, a guide for firms to use when developing their Continuing Education Firm Element training plans. The attached *Firm Element Advisory* lists topics that the Council considers to be particularly relevant to the industry at this time. The list is based on a review of recent regulatory events, as well as advisories issued by industry self-regulatory organizations (SROs) since the last *Firm Element Advisory* of September 1999.

Firms should review the training topics listed in the *Firm Element Advisory* in conjunction with their annual Firm Element Needs Analysis in which firms identify training issues to be addressed by their written Firm Element Training Plan(s). The Council is providing this advisory so that Firm Element Continuing Education may be as pertinent and enriching as possible to financial professionals in the securities industry.

Questions/Further Information

Questions about this *Notice* may be directed to John Linnehan, Director, Continuing Education, NASD Regulation, Inc. (NASD RegulationSM), at (240) 386-4684; or Daniel Sibears, Senior Vice President, Member Regulation, NASD Regulation, at (202) 728-6911.

Background

The Council includes 13 members representing a cross-section of securities firms and six SROs.¹ Both the Securities and Exchange Commission (SEC) and the North American Securities Administrators Association (NASAA) have appointed liaisons to the Council.

The Council facilitates industry/regulatory coordination of the administration and future development of the Continuing Education Program. Council duties include recommending and helping to develop specific content and questions for the Regulatory Element programs and minimum core curricula for the Firm Element. One responsibility of the Council is to identify and recommend pertinent regulation and sales practice issues for inclusion in Firm Element training plans.

Endnote

¹The American Stock Exchange, Inc., the Chicago Board Options Exchange, Inc., the Municipal Securities Rulemaking Board, the National Association of Securities Dealers, Inc., the New York Stock Exchange, Inc., and the Philadelphia Stock Exchange, Inc.

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The Securities Industry Continuing Education Program

The Securities Industry Continuing Education Program *Firm Element Advisory*

Each year the Securities Industry/Regulatory Council on Continuing Education (Council) identifies and recommends to firms pertinent regulation and sales practice issues for possible inclusion in Firm Element training plans. Included in this *Firm Element Advisory* are topics which the Council considers to be particularly relevant to the industry at this time. The list is based on a review of recent regulatory events, as well as advisories issued by industry self-regulatory organizations (SROs) since the last *Firm Element Advisory* of September 1999.

The Council recommends using the *Firm Element Advisory* when

undertaking your annual Firm Element Needs Analysis to identify training topics. Select the training topics from the *Firm Element Advisory* that are relevant to your firm's business and use the related training point and reference material (available on the SRO Web Sites) as part of the training specified in your written Firm Element training plan. Other training topics may be prompted by a review of previous issues of the *Firm Element Advisory*, new rules, customer complaints, regulatory examination findings, or new products or services your firm plans to offer to investors. Remember that the topics included in your written training plan should be relevant to your firm's unique

situation including any supervisory needs you identify. Training programs should be appropriate to your firm's size and structure.

The Council will periodically highlight additional relevant regulatory areas to assist the industry and it invites your assistance. Please direct your comments, suggestions or questions about this and future issues of the *Firm Element Advisory* to either Roni Meikle, Continuing Education Manager, the New York Stock Exchange (NYSE), at (212) 656-2156; or John Linnehan, Director, Continuing Education, NASD Regulation, Inc. (NASD RegulationSM), at (240) 386-4684.

Training Topic	Relevant Training Point(s) and Reference(s)
Decimalization	The securities industry is preparing to convert to decimal pricing. The industry began conversion on a pilot basis in August 2000, consistent with the timetable set by Securities and Exchange Commission (SEC) order. Decimal trading will ultimately increase the number of possible trading increments within a dollar from 16 to 100. Decimal pricing should make prices more easily understood by individual investors. Spreads in highly liquid stocks may tighten, thereby providing potential savings for investors, particularly if the minimum price variation is reduced to a penny. Decimalization may also improve the competitiveness of U.S. markets on a global basis. See <i>SEC Release No. 34-42914</i>, "Order Directing the Exchanges and the National Association of Securities Dealers, Inc. to Submit a Phase-In Plan to Implement Decimal Pricing in Equity Securities and Options Pursuant to Section 11 (a)(3)(B) of the Securities Exchange Act of 1934," dated June 8, 2000. Also see these Web Sites: NASD Regulation (www.nasdr.com); New York Stock Exchange (www.nyse.com/decimalization); Securities Industry Association (www.sia.com/decimalization)
Foreign Jurisdictions Sales Practices	It has come to the attention of the SROs that persons associated with broker/dealers may be soliciting business in the regulators' jurisdictions in violation of local foreign laws. Members considering soliciting business in foreign jurisdictions should ensure that such activities comply with all applicable laws. The consequences of breaching applicable foreign laws can be far-reaching, and broker/dealers in violation of particular foreign laws may be committing a criminal offense and be liable to prosecution. See <i>NASD Notice to Members 00-02</i>, NASD Alerts Members To Their Obligations Concerning Soliciting Business In Foreign Jurisdictions, January 2000.

Investment Banking

Securities Offerings Under SEC Rule 504
And Intra-State Offerings

SEC Rule 504 provides an exemption from registration under Section 5 of the Securities Act of 1933 (Securities Act) for offerings of up to \$1 million of securities. The SEC amended Rule 504 in early 1992 to provide that securities sold under Rule 504 will be deemed "restricted securities" under SEC Rule 144, and general solicitation and advertising will be prohibited unless the offering is:

- 1) registered in at least one state that requires public filing and delivery of a disclosure document before sale; or
- 2) offered exclusively in states that provide exemptions from registration and permit general solicitation and advertising, but that require that sales be made only to "accredited investors."

Securities deemed to be "restricted securities" under SEC Rule 144 may only be sold into the public market in compliance with the holding period, manner of sale, and volume restrictions of that rule.

The NASD has amended its rules to clarify that Rule 504 offerings that are public offerings of unrestricted securities are required to be filed with NASD Regulation for review of underwriting terms and arrangements under NASD Rules 2710 and 2810, and compliance with the requirements of NASD Rule 2720.

See *NASD Notice to Members 00-12, Amendments Adopted To Clarify The Application Of NASD Rules To Offerings Under SEC Rule 504 And Intra-State-Only Offerings, February 2000.*

Margin

Options

Changes to Option Margin Rules – Effective January 20, 2000, the SEC approved changes to the margin rules of the Chicago Board Options Exchange (CBOE) and NYSE. Some of the changes include, but are not limited to, loan value on long-term options (LEAPS); reduced maintenance requirements for stock hedged with options; certain spreads, if comprised of European style index options, can be carried in a cash account.

Training Topic	Relevant Training Point(s) and Reference(s)
Margin Options (<i>continued</i>)	The significant changes are summarized below: • The types of option strategies eligible for cash accounts have been expanded; • The amendments establish reduced maintenance margin requirements for certain hedged option strategies; • The amendments also allow for loan value on certain LEAPS; • The minimum margin requirement on short, uncovered puts is now based on the exercise price of the option; and • New definitions of butterfly spreads and box spreads have been added. See <i>CBOE Regulatory Circular RG00-22</i>, Option Margin Rule Changes, and <i>NYSE Information Memo No. 99-59</i>, "Amendments to Rule 431("Margin Requirements") Regarding Options", <i>December 31, 1999</i>.
Municipal Securities Consultants	Municipal Securities Rulemaking Board (MSRB) Rule G-38 defines a consultant as any person used by a dealer to obtain or retain municipal securities business through direct or indirect communication by such person with an issuer on the dealer's behalf where the communication is undertaken by such person in exchange for, or with the understanding of receiving, payment from the dealer or any other person. Dealers must disclose to issuers certain information about their consultants and report certain information about their consultants to the MSRB on Form G-37/G-38, including certain of their consultants' political contributions to issuer officials and payments to state and local political parties. See MSRB Rule G-38: Consultants, <i>MSRB Rule Book</i>.

Training Topic	Relevant Training Point(s) and Reference(s)
Municipal Securities Delivery Of Official Statements And Advance Refunding Documents To The MSRB	Managing underwriters are required to deliver to the MSRB, among other things, copies of final official statements for most primary offerings of municipal securities, if such documents are prepared by or on behalf of the municipal securities issuer. For refunding issues, dealers must send to the MSRB two copies of the refunding escrow agreement, or its equivalent, if prepared by or on behalf of the municipal securities issuer. Dealers must send these documents to the MSRB using the appropriate form—Form G-36(OS) to be sent with official statements and Form G-36(ARD) to be sent with advance refunding documents. See MSRB Rule G-36: Delivery of Official Statements, Advance Refunding Documents and Forms G-36(OS) and G-36(ARD) to Board or its Designee, <i>MSRB Rule Book</i>. See also <i>Form G-36 Manual</i> published by the MSRB.
Municipal Securities Delivery Of Official Statements To Customers And Other Dealers	During the underwriting period, a dealer is prohibited from selling new issue municipal securities (other than commercial paper) to a customer unless the dealer delivers to the customer by settlement of the transaction a copy of the final official statement if one is prepared by or on behalf of the issuer. If a municipal securities issuer will prepare only a preliminary official statement and not a final official statement, a dealer must deliver the preliminary version along with a written notice to customers that no final official statement will be prepared. See MSRB Rule G-32: Disclosures in Connection with New Issues, <i>MSRB Rule Book</i>.
Municipal Securities Political Contributions And Prohibitions On Municipal Securities Business	Dealers are prohibited from engaging in municipal securities business with a municipal securities issuer within two years after any contribution to an official of such issuer made by the dealer, any municipal finance professional associated with such dealer, or any political action committee controlled by the dealer or any municipal finance professional. The only exception to this absolute prohibition on municipal securities business is for certain contributions made to issuer officials by municipal finance professionals, but only if the municipal finance professional is entitled to

Training Topic	Relevant Training Point(s) and Reference(s)
Municipal Securities Political Contributions And Prohibitions On Municipal Securities Business (<i>continued</i>)	vote for such official and provided any contributions by such municipal finance professional do not exceed, in total, \$250 to each official, per election. Dealers must report certain information about political contributions, political party payments, municipal securities business, and consultants to the MSRB on Form G-37/G-38 or, if appropriate, dealers may file a Form G-37x with the MSRB. See MSRB Rule G-37: Political Contributions and Prohibitions on Municipal Securities Business, <i>MSRB Rule Book</i>.
Mutual Funds Advertising Recent Performance	Broker/dealers have a responsibility to present fund performance information in a fair and balanced manner and not to create unrealistic investor expectations with regard to future fund performance. Recent unusually strong equity market performance helped some mutual funds, particularly those that are heavily invested in technology stocks, to achieve extraordinary total return figures during the last year (or shorter period). Some members are using advertisements that promote this total return information to attract new investors. Broker/dealers have a responsibility to base their communications on principles of fair dealing and good faith and to avoid statements that are exaggerated, unwarranted, or misleading. See <i>NASD Notice to Members 00-21</i>, NASD Regulation Reminds Members Of Their Responsibilities When Advertising Recent Mutual Fund Performance, <i>April 2000</i>. [This <i>Notice</i> cautions NASD members that if they choose to present extraordinary recent fund performance information, they should do so in a manner designed to lessen the possibility that investors will have unreasonable expectations concerning the future performance of these mutual funds.]

Training Topic	Relevant Training Point(s) and Reference(s)
Mutual Funds Bond Fund Volatility Ratings	Bond mutual fund volatility ratings describe the sensitivity of bond mutual fund portfolios to changing market conditions. Previously, NASD Regulation interpreted its rules to prohibit members from using bond mutual fund volatility ratings in supplemental sales literature. New NASD Rule IM-2210-5 permits members and associated persons to include bond mutual fund volatility ratings in supplemental sales literature for an 18-month pilot period. The pilot program expires August 31, 2001, unless extended or permanently approved by the NASD at or before such date. See <i>NASD Notice to Members 00-23, SEC Approves New Rules Relating To Bond Mutual Fund Volatility Ratings, April 2000.</i>
Mutual Funds Sales Charges Of Investment Companies And Variable Contracts	On October 20, 1999, the SEC approved amendments to NASD Rules 2820 (Variable Contracts Rule) and 2830 (Investment Company Rule) that regulate the sales charges imposed by investment companies and variable annuity contracts sold by broker/dealers. Generally, the amendments revise the Investment Company Rule to: • provide maximum aggregate sales charge limits for fund-of-funds arrangements; • permit mutual funds to charge installment loads; • prohibit loads on reinvested dividends; • impose redemption order requirements for shares subject to contingent deferred sales loads (CDSLs); and • eliminate duplicate prospectus disclosure. The amendments revise the Variable Contracts Rule to eliminate the specific sales charge limitations in the rule and a filing requirement relating to changes in sales charges. See <i>NASD Notice to Members 99-103, SEC Approves Rule Change Relating To Sales Charges For Investment Companies And Variable Contracts; Effective Date: April 1, 2000. December 1999.</i>

Training Topic	Relevant Training Point(s) and Reference(s)
Options Communications With The Public	<u>Options Worksheets</u> – On February 1, 2000, the SEC approved a rule change permitting the use of worksheets that are not standardized throughout a member organization provided such worksheets meet the requirements applicable to sale literature. This change gives broker/dealers or their associated persons the ability to tailor worksheets to specific prospective or existing clients, to utilize worksheets that may be commercially available, or to use industry developed worksheets. See <i>CBOE Regulatory Circular RG00-43</i> “Communications to Customers.”
Options Order Entry	<u>Access to Retail Automatic Execution System (RAES)</u> It is a violation of CBOE rules to enter, at or about the same time and for the same account (or for accounts with any common ownership), multiple RAES orders in the same or similar options series for the purpose of circumventing the limitation on RAES order size. It is also a violation of CBOE rules to enter a limit order for placement on the Exchange’s limit order book, or on the book of a competing exchange, for the purpose of effecting the execution price of a RAES transaction. If a member grants a non-member direct access to the Exchange’s limit order book or to RAES through the member’s order routing systems, it is a violation for such member either to knowingly facilitate the non-member’s violation of Exchange rules through such systems and/or to fail to establish procedures reasonably designed to prevent the non-member’s access to such systems from being used to effect such violations. See <i>CBOE Regulatory Circular RG00-27</i> “Access to Retail Automatic Execution System (RAES).”
Options Sales Practices	<u>Day Trades Exceeding Account Approval Level</u> — The CBOE has issued guidelines that its member organizations are required to follow with respect to proper identification of options day trades that exceed an account’s approved strategy level. As part of a member organization’s supervisory program, member organizations are required to establish and maintain reasonable procedures to identify, on at least a post-trade date basis, options day trades in customer accounts that exceed an account’s approved strategy level.

Training Topic	Relevant Training Point(s) and Reference(s)
Options Sales Practices (<i>continued</i>)	See CBOE Regulatory Circular RG00-08 "Options Day Trades Exceeding Account Approval Level."
Short Selling	A long-standing position of NASD Regulation and Nasdaq® states that broker/dealers must comply with the rules concerning short sales regardless of how a short-sale order is received, e.g., through the telephone, an electronic transmission, the Internet, or otherwise. Accordingly, firms must comply with the bid test, make affirmative determinations, and identify short sales in the Automated Confirmation Transaction ServiceSM (ACTSM) for all proprietary and customer short-sale orders that are received electronically through proprietary electronic order routing systems, the Internet, or otherwise. See NASD Notice to Members 99-98, NASD Regulation Reiterates That Members Must Comply With All Short Sale Rules When Receiving Orders Through Electronic Order Systems Or The Internet And Reiterates The Operation Of The Affirmative Determination Rule, <i>December 1999</i>.
Suitability & Disclosure Of Risk Callable Common Stock	Suitability and disclosure of risk are relevant topics for all Firm Element training plans. Applicable SRO rules are NASD Conduct Rule 2310 — Recommendations to Customers (Suitability) and NYSE 405 — Diligence as to Accounts. The specific training topics listed in this <i>Firm Element Advisory</i> should also be considered. An investor purchasing callable common stock is subject to unique risks not typically associated with ownership of common stock, even when such stock is called away at a premium. Moreover, the ability of an issuer's common stock to be called away from a shareholder generally will be a material fact to an investor. Accordingly, high standards of commercial honor and just and equitable principles of trade require that any member that provides a written confirmation for a transaction involving callable common stock must disclose on the confirmation that the security is callable and that the customer may contact the member for more information. Interpretive Material (IM-2110-6) states that a member that provides a confirmation pursuant to SEC Rule 10b-10 in connection with any transaction in callable common stock shall disclose on such confirmation

Training Topic	Relevant Training Point(s) and Reference(s)
Suitability & Disclosure Of Risk Callable Common Stock <i>(continued)</i>	that the security is callable and that the customer may wish to contact the member for more information regarding the security. Disclosure of the call feature on the confirmation in no way relieves a member of its obligation to consider the callable nature of the security when complying with any applicable suitability obligations. See <i>NASD Notice to Members 00-33</i>, NASD Regulation Adopts New Rule Interpretation To Require Confirmation Disclosure Of Callable Common Stock, <i>May 2000</i>.
Suitability & Disclosure Of Risk Certificates Of Deposit	Broker/dealers that offer brokered certificates of deposit to investors have an obligation to disclose all relevant features of these investments, such as variable rates, call features, early withdrawal penalties, liquidity, etc. See "Certificates of Deposit: Tips for Investors," SEC Web Site at www.sec.gov/consumer/certific.htm, and <i>NASD Regulation Regulatory & Compliance Alert</i>, "Regulatory Short Takes — Investment Instruments Offered By CD Brokers," <i>Summer 2000</i>.
Suitability & Disclosure Of Risk Extended Hours Disclosures	Broker/dealers have an obligation under just and equitable principles of trade and the advertising rule to disclose to customers the material risks of extended hours trading. See <i>NASD Notice to Members 00-07</i>, Disclosure To Customers Engaging In Extended Hours Trading, <i>January 2000</i>. [A model disclosure statement is included with this <i>Notice</i>.]
Suitability & Disclosure Of Risk Joint Regulatory Advisory On Margin Debt	The NYSE and NASD issued a Joint Statement concerning the continuing growth of investor margin debt. The Joint Statement asked NYSE and NASD members to review their maintenance margin policies for any necessary changes and to take the following steps relative to the extension of margin credit: • Continue to advise individual investors about the risk of investing on margin.

Training Topic	Relevant Training Point(s) and Reference(s)
Suitability & Disclosure Of Risk Joint Regulatory Advisory On Margin Debt (<i>continued</i>)	• Advise sales managers and account executives of the appropriate steps to be taken when and if individual investors significantly change their levels of margin borrowings. • Carefully review and curtail any account executive incentive programs that would promote the solicitation of margin accounts, if appropriate. See <i>NYSE Information Memo No. 00-5</i>, "Joint Statement by NYSE and NASD on the Continuing Growth in Investor Margin Debt," dated February 28, 2000.
Supervision Municipal Securities Review And Retention Of Correspondence With The Public	Each dealer is required to develop written policies and procedures for review of correspondence with the public relating to its municipal securities activities, and tailored to its structure and the nature and size of its business and customers. See MSRB Rule G-27: Supervision, and related recordkeeping requirements in rules G-8(a)(xx) and G-9(b)(xiv), <i>MSRB Rule Book</i>.
Supervision Research Reports That Are Independently Prepared	Many independent research firms publish reports that analyze and provide information about a wide variety of investment companies, including their performance, fees, and expenses, and a description and narrative analysis of their investment strategies and portfolio management style. Broker/dealers use these independently prepared research reports in a number of ways. For example, a member may make an independent research firm's entire research service available to customers at a branch office. A member may also distribute or make available an independently prepared research report concerning a particular investment company as part of its selling process. Amendments to NASD Rule 2210, which governs member communications with the public, exempt from Rule 2210's filing requirements certain types of

Training Topic	Relevant Training Point(s) and Reference(s)
Supervision Research Reports That Are Independently Prepared (continued)	independently prepared research reports concerning investment companies. See <i>NASD Notice to Members 00-15</i>, SEC Approves Rule Change Relating To Filing Requirements For Independently Prepared Research Reports, <i>March 2000</i>.
Supervision Risk Management Practices	The SEC, NASD Regulation, and the NYSE issued a joint statement regarding broker/dealer risk management practices. Risk management is the identification, management, measurement, and oversight of various business risks and is part of a firm's internal control structure. These risks typically arise in such areas as proprietary trading, credit, liquidity, and new products. The examination staffs from these organizations formed a task force several years ago to assess risk management practices. Among the goals of the task force was to assess the industry's awareness of the need for stringent risk management supervisory systems, and compile a compendium of sound practices and weaknesses noted during task force members' review of risk management systems. The task force's statement emphasizes the importance of maintaining an appropriate risk management system. The statement also provides examples of weaknesses and strengths in various broker/dealers' risk management policies and practices. See <i>NASD Notice to Members 99-92</i>, and <i>NYSE Information Memo 99-42</i>, SEC, NASD Regulation, And NYSE Issue Joint Statement On Broker/Dealer Risk Management Practices, <i>November 1999</i>.

Training Topic	Relevant Training Point(s) and Reference(s)
Trade Reporting Municipal Securities Reports Of Sales Or Purchases	MSRB Rule G-14 requires dealers to report all transactions in municipal securities to the MSRB by midnight of trade date. The dealer must obtain and use an NASD-assigned symbol to identify itself in reporting its transactions. Dealers report their transactions with other dealers as a consequence of their submission of trade information to the automated comparison system operated by National Securities Clearing Corporation (NSCC). Dealers report their transactions with customers to the MSRB using file formats designed solely for customer trade data. While dealers may employ an agent or use a clearing/introducing broker arrangement to report transactions, the primary responsibility for timely and accurate submission of data remains with the dealer that effected the transaction. See MSRB Rule G-14: Reports of Sales or Purchases, and associated procedures, <i>MSRB Rule Book; User's Manual for Customer Transaction Reporting</i> and various notices on the MSRB Web Site (www.msrb.org) and <i>NASD Notice to Members 00-08, NASD Reminds Members Of Their Obligations Regarding Municipal Securities Transaction Reporting, January 2000</i>.
Trade Reporting Order Audit Trail (OATSSM) Information	When recording and reporting information on certain customer orders, members must indicate whether the customer provided instructions concerning the display or non-display of limit orders. It has come to the attention of NASD Regulation staff that several broker/dealers consistently misreport this information to the NASD's OATS. See <i>NASD Notice to Members 00-26, NASD Regulation Reiterates Requirement That Members Correctly Report Order Audit Trail Information, May 2000</i>.
Trade Reporting Riskless Principal Transactions	On March 24, 1999, the SEC approved amendments to NASD rules regarding trade reporting of riskless principal transactions by market makers. The rule change permits market makers in Nasdaq and other over-the-counter securities to report trades under the current riskless principal rules that exist for non-market makers. The effect of the change is that

Training Topic	Relevant Training Point(s) and Reference(s)
Trade Reporting Riskless Principal Transactions (<i>continued</i>)	instead of reporting both “legs” of a riskless principal transaction, market makers (like non-market makers currently) now will only report one portion of the transaction if it meets the definition of riskless principal. The rule defines riskless principal as a trade in which a member, after having received an order to buy (sell) a security, buys (sells) the security at the same price, as principal, in order to satisfy the order to buy (sell). <i>See NASD Notice to Members 99-65, SEC Approves Rule Changes To NASD Trade-Reporting Rules For Riskless Principal Transactions In Nasdaq And OTC Securities, August 1999.</i>
Trading Trading Collars And Circuit Breakers	NYSE Rule 80A (Index Arbitrage Trading Restrictions) addresses the change in the Dow Jones Industrial Average (DJIA) that triggers the Rule’s tick restrictions. NYSE Rule 80B (Trading Halts Due to Extraordinary Market Volatility) addresses halt provisions and circuit breakers levels. The NYSE changes the trading collars and circuit breaker levels on a quarterly basis. <i>See NYSE Information Memo Nos. 00-1, 00-7, and 00-17, “New Rule 80A collars and Rule 80B Circuit Breaker Levels,” dated January 3, 2000, April 3, 2000, and July 3, 2000.</i>
Trading/Markets Blank Check Companies	In most, if not all, cases, the resale of securities of blank check companies¹ is restricted and such securities can only be resold through registration under the Securities Act. In addition, Rule 144 is not available to promoters or affiliates of blank check companies or to their transferees either before or after a business combination with an operating company or other person.

¹A blank check company is a development stage company that has no specific business plan or purpose or has indicated its business plan is to engage in a merger acquisition with an unidentified company or companies, or other entity or person.

Training Topic	Relevant Training Point(s) and Reference(s)
Trading/Markets Blank Check Companies (<i>continued</i>)	NASD Regulation staff requires a market maker, when seeking NASD Regulation clearance pursuant to NASD Rule 6740 to initiate or resume quotation of a security of a blank check company, to provide an independent opinion from its own counsel detailing why the sale of such securities would not violate the registration requirements of the Securities Act. NASD Regulation staff will continue to scrutinize closely such filings and will vigorously pursue disciplinary action and/or refer the staff's findings to the SEC for further action. See <i>NASD Notice to Members 00-49</i>, SEC Issues Staff Interpretation On The "Free Trading" Status Of Blank Check Company Securities Under Certain Scenarios, <i>July 2000</i>.
Trading/Markets Limit Order Display Obligations	The NASD, after consultation with the staff of the SEC, is reiterating the limit order display obligations imposed on members under SEC Rule 11Ac1-4 (Display Rule). One of the primary purposes of this <i>Notice</i> is to reiterate that the 30-second requirement to display limit orders does not operate as a safe harbor. See <i>NASD Notice to Members 99-99</i>, NASD Reiterates Obligations To Display Customer Limit Orders Pursuant To SEC Rule 11Ac1-4, <i>December 1999</i>.
Trading/Markets Locked And Crossed Markets	On February 7, 2000, the SEC approved changes to NASD Rule 4613(e), which relates to the entering of locking and crossing quotes by Nasdaq market participants (market makers and electronic communications networks (ECNs)). The rule change alters market participants' obligations regarding the entry of locking/crossing quotes prior to the opening of the Nasdaq market at 9:30 a.m. Eastern Time (ET), and sets out specific obligations for parties to a lock/cross, which are determined based on the time the locked/crossed market occurs. See <i>NASD Notice to Members 00-29</i>, SEC Approves Changes To Nasdaq Locked/Crossed Markets Rule; Effective Date: June 5, 2000, <i>May 2000</i>, and <i>Special NASD Notice to Members 00-42</i>, NASD Regulation, Inc. Reiterates The Obligation Of Member Firms To Comply With Trading Rules, Particularly Immediately Prior To The Close On Expiration Fridays And Index Rebalancing Days, <i>June 2000</i>.

Training Topic	Relevant Training Point(s) and Reference(s)
Trading/Markets Records Of Orders	NYSE Rule 410 requires that, before an order is executed on the Floor, the name or designation of the account for which the order is to be executed must be placed upon the record of the order. Similarly, SEC Rule 17a-3(a)(6) requires a record of each order to be prepared at the time of the transaction and that it include the account name. It has come to the SROs' attention that member organization employees are, in some instances, delaying entry of account designation on order tickets. Broker/dealers must ensure that each order is documented prior to, or simultaneous with, the order's entry. Records must include account designations as well as the number of shares to be allocated per account. See <i>NYSE Information Memo No. 00-19, Timely Designation and Allocation of Account Information – Record of Orders, dated July 21, 2000.</i>
Variable Contracts Sales Of Variable Life Insurance	Variable life insurance and variable annuity contracts (Variable Contracts) are securities, and accordingly, their distribution is subject to NASD rules. Of particular importance are: • Rule 3010 (Supervision), which requires each member to establish and maintain systems to supervise the activities of each registered representative and associated person in order to achieve compliance with the securities laws, regulations, and NASD rules; and • Rule 2310 (Suitability), which requires that a member, when recommending the purchase, sale, or exchange of any security to a customer, have reasonable grounds for believing that the recommendation is suitable for the customer upon the basis of the facts disclosed by the customer. See <i>NASD Notice to Members 00-44, The NASD Reminds Members Of Their Responsibilities Regarding The Sale Of Variable Life Insurance, July 2000.</i> [This <i>Notice</i> focuses on retail sales of variable life insurance, including both scheduled premium and flexible premium products, and provides a set of guidelines to assist members in developing sales-related supervisory procedures.]

Training Topic	Relevant Training Point(s) and Reference(s)
Variable Contracts Variable Annuities	Guidelines intended to assist broker/dealers in developing appropriate procedures relating to variable annuity sales to customers. The guidelines identify areas of concern such as customer information, product information, liquidity and earnings accrual, customer's income and net worth, contract size thresholds, investments in tax-qualified accounts, and variable annuity replacements expected to be addressed in the procedures of broker/dealers that offer and sell variable annuities. <i>See NASD Notice to Members 99-35, The NASD Reminds Members Of Their Responsibilities Regarding The Sales Of Variable Annuities, May 1999.</i> <i>See also "Variable Annuities: What You Should Know," SEC Web Site at: www.sec.gov/consumer/varannty.htm</i>

To Obtain More Information

For more information about publications, contact the SROs at these addresses:

American Stock Exchange

NASD MediaSource
P.O. Box 9403
Gaithersburg, MD 20898-9403
(301) 590-6142
www.nasd.com

Chicago Board Options Exchange

Investor Services
Chicago Board Options Exchange
400 S. LaSalle Street
Chicago, IL 60605
(800) OPTIONS
www.cboe.com

Municipal Securities Rulemaking Board

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