

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 topics are drawn from a review of the performance of registered persons in the Regulatory Element computer-based training as well as regulatory advisories issued by industry self-regulatory organizations (SROs) since the publication of the last *Firm Element Advisory* in March 1998.

Firms should review the training topics listed in the *Firm Element Advisory* in conjunction with their annual Firm Element Needs Analysis whereby 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 Regulation®), at (301) 208-2932; 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*

One function of the Securities Industry/Regulatory Council on Continuing Education (Council) is to identify and recommend pertinent regulation and sales practice issues for possible inclusion in Firm Element training plans.

Attached are 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 March 1998.

These issues are listed here to *complement* topics that firms may have already determined to be

appropriate to their specific Firm Element Needs Analysis and training plan. It is not mandatory for firms to address every topic listed here in their Firm Element training. However, each firm should review this list of topics *vis a vis*:

- 1) relevance to the financial products and services it offers to investors; and
- 2) its overall performance in related topic areas of the Regulatory Element.

Each firm has an obligation to determine the relevancy of these topics to its lines of business and training needs. However, firms should not limit their review of

relevant topics to those listed in the *Advisory* as they are obligated to undertake a comprehensive Firm Element Needs Analysis.

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 *Advisories* to either Christian Billet, Continuing Education Manager, the New York Stock Exchange, at (212) 656-2156; or John Linnehan, Director, Continuing Education, NASD Regulation, Inc. (NASD Regulation®) at (301) 208-2932.

Training Topic	Relevant Training Point(s) and Reference(s)
Arbitration	There have been amendments to the New York Stock Exchange (NYSE) arbitration rules that expedite and streamline the process by encouraging early resolution through mediation. See Arbitration, <i>NYSE Information Memo 98-42</i>, December 1998 and <i>NYSE Information Memo 98-44</i>, December 1998.
Books and Records Requirements	Amendments to National Association of Securities Dealers, Inc. (NASD[®]) Rule 3110 (the Books and Records Rule) change the definition of “institutional account” to include the accounts of investment advisers that are now required to register with the states pursuant to the National Securities Markets Improvement Act of 1996 (NSMIA), and exclude certain customer accounts from the requirement to obtain certain tax and employment information from the customer. See SEC Approves Changes To Books And Records Requirements, <i>NASD Notice to Members 98-47</i>, July 1998.
Clearing Agreements	On June 2, 1999, the SEC approved amendments to the Clearing Agreement Rules of the NASD (Rule 3230) and NYSE (Rule 382). The amendments govern clearing agreements between members with respect to: (1) the handling of customer complaints about introducing firms that are received by their clearing firms; (2) exception and other reports clearing firms make available to their introducing firm clients to assist them in their supervisory obligations; and (3) clearing firms granting their introducing firm clients check writing privileges on the clearing firm's account. See Amendment to Rule 382, (“Carrying Agreements”) <i>NYSE Information Memo 99-33</i>, July 1, 1999, and SEC Approves Rule Amendments Governing Clearing Firms And Their Introducing Firm Clients' Relationship; Effective Date: July 19, 1999, <i>NASD Notice to Members 99-57</i>, July 1999.
COD Orders	Certain private vendors, which meet prescribed standards, may now provide electronic confirmation/affirmation services for COD (“Collection on Delivery”) and POD (“Payment on Delivery”) delivery-eligible transactions of customers of members and member organizations. See Amendment to Rule 387 (“COD Orders”), <i>NYSE Information Memo 99-25</i>, May 1999.

Training Topic	Relevant Training Point(s) and Reference(s)
Cold Calling The Use of Aliases	The use of aliases when making cold calls violates NASD Rule 2211 and the Federal Communications Commission's telephone solicitation rules, 47 C.F.R. 64.1200(e)(iv) (1997)1, which require anyone calling a residence for the purpose of solicitation to identify themselves; NASD Rule 2210, which requires members to observe high standards of commercial honor and just and equitable principles of trade; and NASD Interpretive Material 2310-2, which requires that sales efforts be undertaken only on a basis that can be judged as being within the ethical standards of the NASD's rules, with particular emphasis on the requirement to deal fairly with the public. See Use Of Alias Prohibited During Cold Calling, <i>For Your Information</i>, May 1998.
Cold Calling and Advertising to Persons in the United Kingdom	The Financial Services Authority (FSA) in the United Kingdom (U.K.) detected an increase in the frequency with which NASD member firms were soliciting U.K. citizens and asked NASD Regulation to alert its members to the standards governing the solicitation of U.K. citizens generally and implications of cold calling and advertising to persons in the U.K. in particular. See NASD Alerts Members To Their Obligations Concerning Cold Calling And Advertising To Persons In The United Kingdom, <i>NASD Notice to Members 98-91</i>, November 1998.
Compensation Non-Cash Compensation for Mutual Funds and Variable Products	New rules regulate compensation arrangements for the sale and distribution of variable products and investment company securities. See SEC Approves Rule Change Relating To Non-Cash Compensation For Mutual Funds And Variable Products, <i>NASD Notice to Members 98-75</i>, September 1998, and Questions And Answers Relating To Non-Cash Compensation Rules, <i>NASD Notice to Members</i>, 99-55 July 1999.
Continuing Education Amendments to SRO Continuing Education Rules	Effective July 1, 1998, participation in the Regulatory Element portion of Continuing Education is required within 120 days of the 2nd anniversary of a registered person's initial securities registration, and every three years thereafter, with no graduation from the program. In addition, there is a new Regulatory Element program for persons registered in supervisory capacities. See Amendments to the Board's Continuing Education Program: Rule G-3, <i>MSRB Reports, Vol. 18, No. 2 (August 1998)</i> at 33-35, Amendment to Rule 345A ("Continuing Education for Registered Persons"),

Training Topic	Relevant Training Point(s) and Reference(s)
	<i>NYSE Information Memo 98-19</i>, June 1998, and <i>SEC Approves Changes To Continuing Education Rules, NASD Notice to Members 98-35</i>, April 1998.
Continuing Education Status Report, Q&A	A status report and updated brochure on Questions and Answers regarding the Continuing Education Program have been published that address new Continuing Education initiatives, provide updated information and clarification of the amendments to the Continuing Education rules, and answer frequently asked questions regarding both the Regulatory and Firm Element components of the program. See <i>NYSE Information Memo 98-28</i>, September 1998 and <i>NASD Notice to Members 98-68</i>, August 1998.
Correspondence Standards for Written or Electronic Individual Correspondence	The SEC approved amendments to NASD Rule 2210 to require that written or electronic communications prepared for a single customer be subject to the general standards and those specific standards of NASD Rule 2210 that prohibit misleading statements, but not to the specific standards of the rule that prescribe specific disclosure or the filing and review requirements. See <i>SEC Approves Rule Change Relating To Standards For Individual Correspondence, NASD Notice to Members 98-83</i>, October 1998.
Customer Account Transfer Contracts	The required time period for the transfer of accounts between member organizations has been reduced from seven days to six days, effective February 8, 1999. See Amendment to Rule 412 (Customer Account Transfer Contracts), <i>NYSE Information Memo 99-1</i>, January 1999.
Customer Complaint Reporting Procedures	There have been three significant changes to customer complaint reporting procedures: 1) the product and problem codes have been expanded; 2) all complaint statistics must be reported electronically; and 3) "individual amendment records" for reports filed under Rule 351(d) will no longer be accepted. See <i>Changes to Customer Complaint Reporting Procedures, NYSE Information Memo 99-32</i>, June 1999.

Training Topic	Relevant Training Point(s) and Reference(s)
Free-Riding and Withholding	See SEC Approves Amendments To Free-Riding And Withholding Interpretation; Effective August 17, 1998, <i>NASD Notice to Members 98-48</i>, July 1998. These amendments address direct and indirect owners of broker/dealers, investment grade debt offerings, foreign investment companies, secondary offerings, issuer directed share programs, and accounts under the Employment Retirement Income Security Act.
Gifts and Entertainment	Members and member organizations are reminded of the NYSE's policy relating to gifts, gratuities, and entertainment. See Exchange Guidelines on Gifts and Entertainment, <i>NYSE Information Memo 98-40</i>, December 1998.
Margin Calculating Margin for Day-Trading and Cross-Guaranteed Accounts	The NASD expects that members will calculate margin for day traders and cross-guaranteed accounts in a manner that is consistent with Regulation T and Rule 2520. Accordingly, members are advised to review their margin calculation practices to ensure that they conform to the requirements of these rules, which are in the best interest of the investing public and serve to protect the financial security of members that extend credit. In addition, members are reminded to take certain account-related charges when computing their net capital pursuant to SEC Rule 15c3-1. These charges include those specified in Rule 2520(f)(4) for certain guaranteed accounts. Members should review the requirements of SEC Rule 15c3-1 and Rule 2520 to determine whether they are in compliance with these rules. The NASD intends to examine member firms for compliance with these rules. See Calculating Margin For Day-Trading And Cross-Guaranteed Accounts, <i>NASD Notice to Members 98-102</i>, December 1998.

Training Topic	Relevant Training Point(s) and Reference(s)
Margin Changes to Margin Rules	Effective April 1, 1998, the Board of Governors (Board) of the Federal Reserve System (FED) adopted several amendments to Regulation (Reg) T, as well as to Regs U and X. In addition, it eliminated Reg G, which had applied to credit extended by “other lenders” (<i>i.e.</i>, other than banks and broker/dealers). These changes were made to reflect changes to the FED’s statutory authority under the Securities Exchange Act of 1934, as amended by NSMIA. See Federal Reserve System Amends Regulations T, U, And X, <i>NASD Notice to Members 98-43</i>, June 1998.
Margin Maintenance Margin Rules for Certain Volatile Stocks	Information about current margin requirements and steps taken by the industry to increase maintenance margin requirements for certain volatile stocks. See NASD Regulation Advises Members About Maintenance Margin Requirements For Certain Volatile Stocks And Solicits Comment On Margin Practices; Comment Period Expires May 31, 1999, <i>Special NASD Notice to Members 99-33</i>, April 1999.
Mini Tender Offers	In a mini tender offer, the offeror makes an offer directly to an issuer’s shareholders to purchase a small number or percentage (under five percent of the total shares outstanding) of an issuer’s securities, often at a price below the current market price, by a certain day. The offer also contains a promise to pay for the tendered shares within a specified period. When the offeror obtains tendered shares, the offeror resells the shares in the open market, pays the tendering shareholder, and retains the difference as profit. The NASD has alerted its members to the practice of mini tender offers and discusses the steps members can take to reduce the risk that customers and others tendering shares in a mini tender offer will be victimized. See NASD Regulation Offers Guidance To Members Forwarding Mini Tender Offers To Their Customers, <i>NASD Notice to Members 99-53</i>, July 1999, and Member organizations should review tender offer materials for shares at or below market prices before the materials are disseminated to customers, <i>NYSE Information Memo 99-11</i>, February 1999.
Municipal Securities Consultants	See MSRB Rule G-38: Consultants. <i>MSRB Manual ¶13686</i>.

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Municipal Securities Delivery of Official Statements	See MSRB Rule G-32: Disclosures in Connection with New Issues. <i>MSRB Manual</i> ¶3656; and 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 Manual</i> ¶3676.
Municipal Securities Electronic Delivery and Receipt of Information	See Notice entitled “Electronic Delivery and Receipt of Information by Brokers, Dealers and Municipal Securities Dealers,” <i>MSRB Reports</i> , vol 19, no.1, p.3; February 1999.
Municipal Securities Political Contributions	See MSRB Rule G-37: Political Contributions and Prohibitions on Municipal Securities Business. <i>MSRB Manual</i> ¶3681.
Municipal Securities Reporting Sales and Purchases	See MSRB Rule G-14: Reports of Sales and Purchases, and MSRB Rule G-14: Transaction Reporting Procedures, <i>MSRB Manual</i> ¶3566, and “User’s Manual for Customer Transaction Reporting” contained on MSRB’s Web Site at www.msrb.org .
Municipal Securities Suitability Issues	See MSRB Rule G-19: Suitability of Recommendations and Transactions; Discretionary Accounts. <i>MSRB Manual</i> ¶3591.
Mutual Funds Breakpoint Sales	The application of the mutual fund breakpoint sales rule to modern portfolio investment strategies. See SEC Approves Rule Change Relating To Mutual Fund Breakpoint Sales, <i>NASD Notice to Members</i> 98-98, December 1998.
Mutual Funds Fees and Using the Term “No Load”	Discussions concerning fees and expenses in mutual fund advertisements and sales literature as defined in NASD Rule 2210(a) must be fair, balanced, and not misleading. See NASD Reminds Members Of Their Obligations To Disclose Mutual Fund Fees, <i>NASD Notice to Members</i> 98-107, December 1998, for guidance concerning fee and expense disclosure in certain types of mutual fund sales material.

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Options Guidelines Concerning Discretionary Accounts	The Division [of Regulatory Services, Chicago Board Options Exchange] believes that some clarification regarding the use of discretion in public customer accounts, including time and price discretion and third-party discretion, is warranted. See Guidelines Concerning Discretionary Accounts, <i>CBOE Regulatory Circular</i> , RG99-115, April 28, 1999.
Options Guidelines Concerning Uncovered (short) Options Accounts	See Guidelines Concerning Uncovered (short) Options Accounts, <i>CBOE Regulatory Circular</i> , RG99-109, April 26, 1999.
Options Independent Contractors	Individuals compensated as independent contractors are considered associated persons under [CBOE] rules if they directly or indirectly control a member, are controlled by a member, or are under common control of a member. See Independent Contractors, <i>CBOE Regulatory Circular</i> , RG98-122, November 9, 1998.
Options Index Options – Margin Accounts	See Margin Accounts - Writing Index Options on a Covered Basis and Eligibility for Covered Writing Approval, <i>CBOE Regulatory Circular</i> , RG99-09, January 12, 1999.
Options Index Options – Restrictions on Exercise of American-Style, Cash Settled Index Options	See Restrictions on Exercise of American-Style, Cash Settled Index Options, <i>CBOE Regulatory Circular</i> , RG 99-44, February 17, 1999.
Options Types of Orders Permitted on the Exchange's Public Limit Order Book	The Equity Floor Procedure Committee ("the Committee") has received recent member inquiries regarding the handling of contingency orders on the Exchange Floor. Exchange Rule 7.4 - <u>Obligations for Orders</u> states that the Committee may specify the types of orders for acceptance into the Exchange's Public Limit Order Book ("the Book"). The [Equity Floor Procedure Committee of the CBOE] has determined not to allow the entry of contingency orders, including <i>all or none</i> orders into the Book. In addition, no member, without prior knowledge and consent from the subject customer, may change, alter, or remove a contingency placed on an order ticket such as to allow the order to be entered onto the Book. Changing, altering, or removing a contingency placed on an order without the subject customer's prior

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	knowledge and consent constitutes a violation of Exchange Rules 4.6 - <u>False Statements</u> and 7.4 - <u>Obligations for Orders</u>. See Types of Orders Permitted on the Exchange's Public Limit Order Book, <i>CBOE Regulatory Circular</i>, RG98-44, April 30, 1998.
Registration – Conditions, Restrictions, and Requirements When Updating Form U-4	Significant changes have been made to the customer complaint questions of Form U-4. These questions have been revised so as to require disclosure of all pending arbitrations and civil proceedings that relate to securities or commodities transactions; pending written customer complaints alleging sales practice violations and compensatory damages of \$5,000 or more for 24 months from original posting, if closed without a settlement by the firm; and settlements of \$10,000 or more of arbitrations, civil suits, and customer complaints involving securities or commodities transactions. See Interim Forms U-4 And U-5 Go Into Effect; Interim Form BD Also Approved, <i>Special NASD Notice to Members 98-27</i>, March 1998. This <i>Special Notice to Members</i> provides guidance to members in filling out the Interim Forms U-4 and U-5, which became effective on March 16, 1998, and in understanding what information NASD Regulation will release as part of its Public Disclosure Program. See also SEC Approves and Adopts Revised Forms and Electronic Filing Requirement, <i>NASD Notice to Members 99-63</i>, August 1999.
Registration NYSE Floor Employees	The Exchange has requirements about the registration, termination, dual employment, and compensation with respect to Floor Employees, including, but not limited to, Post Clerks and Booth Clerks, also known as Trading Assistants. See Reminder of the Exchange's requirements with respect to registration of Floor Employees, <i>NYSE Information Memo 99-20</i>, April 1999.
Registration Requirements of the SROs	NASD Regulation receives numerous inquiries regarding whether certain individuals are required to be registered with the NASD under Rules 1021 and 1031, and has issued a <i>Notice to Members</i> to provide interpretive guidance to members on some of these issues. See NASD Regulation Provides Interpretive Guidance On Registration Requirements, <i>NASD Notice to Members 99-49</i>, June 1999.

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Short Sales	Certain NASD members may be assisting customers in the circumvention of the Short-Sale Rule (Rule 3350). Specifically, these members are failing to net security positions of accounts for customers who maintain accounts in their name and exercise control over, or operate in concert with, other accounts with a strategy designed to circumvent the Short-Sale Rule. The failure to net these positions has permitted these customers, who operate the two accounts with a single investment strategy, to avoid application of the Short-Sale Rule. Members are expected to establish and maintain supervisory procedures to detect and deter this improper trading activity. See NASD Reminds Members Of Obligations Relating To The Short-Sale Rule, <i>NASD Notice to Members 99-28</i>, April 1999.
Supervision Research Reports/Supervisory Analysts	On June 22, 1998, the SEC approved amendments to NASD Rule 2210 (Communications with the Public) that permit the approval of research reports by a supervisory analyst approved by the NYSE to satisfy NASD requirements that research reports be approved by a registered principal. See SEC Approves Rule Change Regarding Approval Of Research Reports, <i>NASD Notice to Members 98-54</i>, July 1998, and Revised Interpretation To Rule 344 ("Supervisory Analysts"), <i>NYSE Interpretation Memo 99-3</i>, February 22, 1999.
Supervision Responsibilities for Trade Reporting and Market-Making Activities	Many of the failure-to-supervise charges recently imposed on NASD members have been for inadequacies revealed in the NASD Regulation's Trading and Market Maker Surveillance (TMMS) examination process. See NASD Elaborates On Member Firms' Supervision Responsibilities For Trade Reporting And Market-Making Activities, <i>NASD Notice to Members 98-96</i>, December 1998. This <i>Notice</i> highlights common supervisory deficiencies relating to trade reporting, market making, and equity order handling areas, and gives guidance for preventing these deficiencies.

Training Topic	Relevant Training Point(s) and Reference(s)
Supervision Review of Incoming Written Correspondence	On November 30, 1998, the SEC approved amendments to NASD Rule 3010, requiring firms to review incoming, written correspondence to identify customer complaints and funds and to ensure they are properly handled. See New Rules – Supervision and Review of Communications with the Public, <i>NYSE Information Memo 98-03</i>, January 1998 and SEC Approves Rule Amendments Requiring Review Of Incoming, Written Correspondence; Effective March 15, 1999, <i>NASD Notice to Members 99-03</i>, January 1999, which provides guidance on how to implement this rule.
Supervision Supervisory and Inspection Obligations	See NASD Reminds Members Of Supervisory And Inspection Obligations, <i>NASD Notice to Members 98-38</i>, May 1998, which addresses firm obligations to supervise associated persons located in Offices of Supervisory Jurisdiction (OSJs), branch offices, and all other offices, and to inspect these offices.
Supervision Supervisory Responsibilities	See NASD Provides Guidance On Supervisory Responsibilities, <i>NASD Notice to Members 99-45</i>, June 1999, for guidance on the sections of NASD Rule 3010 that require firms to establish a supervisory system and develop and maintain written supervisory procedures.
Supervision Taping	On April 17, 1998, the SEC approved an amendment to NASD Rule 3010 to require members to establish special supervisory procedures, including the tape recording of conversations, when they have hired more than a specified percentage of registered persons from certain firms that have been expelled or that have had their broker/dealer registrations revoked for violations of sales practice rules. See SEC Approves Taping Rule; Effective August 17, 1998, <i>NASD Notice to Members 98-52</i>, July 1998.
Trading/Markets Alternative Trading Systems	On April 21, 1999, SEC Rules 3a1-1, 3b-16, and Regulation Alternative Trading System (ATS) took effect. Regulation ATS established certain thresholds for share volume of trading. See Implementation of Securities Exchange Act Regulation ATS, Forms ATS, ATS-R and new additions to Rules 17a-3, 17a-4, <i>NYSE Information Memo 99-23</i>, May 13, 1999 and NASD Offers Guidance On Complying With New SEC Rule Regarding Alternative Trading Systems; <i>NASD Notice to Members 99-34</i>, May 1999.

Training Topic	Relevant Training Point(s) and Reference(s)
Trading/Markets Changes to NASD Rules on SOES Orders Entered Within Five Minutes of Each Other	On January 13, 1999, The Nasdaq Stock Market, Inc. filed a rule change with the SEC that eliminates the single investment decision aggregation presumption for Small Order Execution SystemSM (SOESSM) orders entered within five minutes of each other (<i>NASD Notice to Members 88-61</i>). The elimination of the presumption was effective immediately. See The Nasdaq Stock Market Eliminates The SOES Five-Minute Presumption, <i>NASD Notice to Members 99-21</i>, March 1999.
Trading/Markets Firm Quotation Requirements	On June 22, 1999, the SEC approved changes to NASD Rule 4613(b) regarding quotation updates following execution of an order. NASD Rule 4613(b), as now amended, will require a Market Maker to disseminate an inferior quote whenever the Market Maker fails to execute the full size of an incoming order that is at least one normal unit of trading greater than the Market Maker's published quotation size. The rule change will also modify IM-4613 to prohibit the use of automatic quote updating in violation of Rule 4613(b). See SEC Approves Changes To Rule 4613—Firm Quotation Requirements; Effective Date: August 2, 1999, <i>NASD Notice to Members 99-61</i>, July 1999.
Trading/Markets Index Arbitrage Trading Restrictions	There has been a revision to the rule that governs the advance/decline of the Dow Jones Industrial Average that triggers Rule 80A's tick restrictions. In addition, the amendment to Rule 80A eliminates sidecar provisions and codifies the definition of index arbitrage. See Amendment to Rule 80A (Index Arbitrage Trading Restrictions), <i>NYSE Information Memo 99-8</i>, February 1999.
Trading/Markets Order Handling Rules During Market-Wide Trading Halts	On September 9, 1998, the SEC Division of Market Regulation (the Division) issued Staff Legal Bulletin No. 8 setting forth the Division's views on the appropriate handling of customer orders when market-wide circuit breakers halt trading. In addition, the SEC again stressed that broker/dealers must have sufficient internal system capacity to operate properly during periods of market stress. See SEC Issues Guidance On Handling Customer Orders During Market-Wide Trading Halts, <i>NASD Notice to Members 99-05</i>, January 1999.

Training Topic	Relevant Training Point(s) and Reference(s)
Trading/Markets Percentage Order Rules	The way percentage orders are handled has changed effective March 1999. See Amendment to Percentage Order Rules, <i>NYSE Information Memo 99-13</i>, February 1999.
Trading/Markets Stock Volatility Disclosures	The sharp increase in price volatility and volume in many stocks, particularly of companies that sell products or services via the Internet (Internet issuers) suggests that firms should make certain disclosures to retail customers to educate them about the risks of price and volume volatility. See NASD Regulation Issues Guidance Regarding Stock Volatility, <i>NASD Notice to Members 99-11</i>, February 1999.
Trading/Markets The Operation of Automated Order Execution Systems During Turbulent Market Conditions	In light of the recent dramatic intraday volatility and significant surges in trading volume with respect to certain issues, particularly Internet-based issues, firms' best execution obligations require that firm procedures treat customer orders in a fair, consistent, and reasonable manner. To the extent that firms (particularly wholesale firms) deviate from or alter their execution algorithms or procedures during turbulent market conditions, they should consider disclosing such altered procedures and the basis for activating such altered procedures to their customers and firms sending them order flow. See NASD Regulation Issues Guidance Concerning The Operation Of Automated Order Execution Systems During Turbulent Market Conditions, <i>NASD Notice to Members 99-12</i>, February 1999.
Trading/Markets Trade Reporting. The Order Audit Trail System	On March 6, 1998, the SEC approved new NASD Rules 6950 through 6957 which establish an Order Audit Trail System (OATSSM). OATS imposes obligations on member firms to record in electronic form and to report to NASD Regulation certain items of information with respect to orders they receive to effect transactions in equity securities traded on The Nasdaq Stock Market[®]. NASD Regulation combines this order information with transaction data currently reported by members through the Automated Confirmation Transaction ServiceSM (ACTSM) and quotation information disseminated by members through Nasdaq to construct an integrated audit trail of quotation, transaction, and order data. See SEC Approves New Order Audit Trail System (OATS), <i>Special NASD Notice to Members 98-33</i>, March 1998.

Training Topic	Relevant Training Point(s) and Reference(s)
Trading/Markets Transaction Reporting and Quotation Obligations Under the Fixed Income Pricing SystemSM (FIPS[®])	As the list of bonds requiring FIPS reporting continues to expand, members are reminded of their reporting and quotation obligations. See Transaction Reporting And Quotation Obligations Under The Fixed Income Pricing System (FIPS), <i>NASD Notice to Members 98-55</i>, July 1998.
Variable Annuities Sales of Variable Annuities	Guidelines intended to assist members 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 that NASD Regulation would expect to be addressed in the procedures of members that offer and sell variable annuities. See The NASD Reminds Members Of Their Responsibilities Regarding The Sales Of Variable Annuities, <i>NASD Notice to Members 99-35</i>, May 1999.

To Obtain More Information

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

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