

NASD NOTICE TO MEMBERS 98-23

SEC Requests Comment On Proposed Amendments To Continuing Education Rules

Suggested Routing

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Executive Summary

Members are advised that the National Association of Securities Dealers, Inc. (NASD[®]) has filed a proposed rule change to its Membership and Registration Rule 1120 (Continuing Education Requirements) with the Securities and Exchange Commission (SEC). The SEC noticed the proposed change and assigned Release Number 34-39574 on January 23, 1998. The text of the filing as it appears in the *Federal Register* is attached, and member firms have until February 19, 1998, to submit comments on the rule (refer to File No. SR-NASD-98-03) to the SEC. See 63 FR 4510 (January 29, 1998). If approved by the SEC, the changes will become effective July 1, 1998.

Questions concerning this *Notice* may be directed to John Linnehan, Director, Continuing Education, NASD Regulation, Inc., at (301) 208-2932, or Daniel M. Sibears, Vice President, Member Regulation, NASD RegulationSM, at (202) 728-6911.

The following is a synopsis of the proposed changes to Rule 1120.

Changes To The Regulatory Element A New Regulatory Element Training Module For Registered Principals

Currently, the Regulatory Element computer-based training does not distinguish between registered representatives and principals. All registered persons take the same computer-based training material. The proposed rule calls for the development of a new Regulatory Element computer-based training module related to the specific needs of registered principals. Persons registered as principals who are required to take the Regulatory Element will participate in the training module designed

for principals, while all other registrations will participate in the current Regulatory Element module.

The new module for registered principals will have the scenario-based format of the current Securities Industry Continuing Education Program (Program). What will be different is that the scenarios illustrate principal-specific situations and will be rendered more realistic through multimedia use of audio and visual techniques.

One-Time Grandfathering From The Program

Proposed Rule 1120 allows a one-time exemption for persons currently graduated from the Program by providing that those persons who have been registered for more than 10 years as of the effective date of the proposed rule (anticipated to be July 1, 1998), and who have not been the subject of a disciplinary action during the past 10 years, will continue to be excluded from required ongoing participation in the Regulatory Element. However, persons registered as principals will have to have been registered in this capacity for more than 10 years in order to be grandfathered from participation in the program. Therefore, those principals who have graduated from the Program requirements based on their initial registration date, but who have not been registered as a principal for over 10 years, will be required to re-enter the Program.

Required Regulatory Element Training Time Frames

The proposed rule also addresses the time frames in which registered persons must participate in the Regulatory Element computer-based training. Currently, all registered persons are required to complete Regulatory Element training on three occasions, *i.e.*, within 120 days of the second, fifth and 10th anniversaries

of their initial securities registration. After a person completes the 10th anniversary training requirement, he or she is graduated from the program and is not required to participate further in the Regulatory Element unless he or she is subject to significant disciplinary action. The revised rule does away with graduation from the Program by requiring ongoing participation in the Program throughout registered persons' careers, specifically, on the second anniver-

sary of their initial securities registration and every three years thereafter.

Changes To The Firm Element

Finally, the current rule requires that, for the Firm Element, each member conduct an annual analysis of its training needs and administer such training, as is appropriate, to its registered persons on an ongoing basis. Training topics must be specifically related to its business, such as new

products, sales practices, risk disclosure, and new regulatory requirements and concerns. The proposed rule will require members to also focus specifically on supervisory needs in conducting their analysis of training needs, and if it is determined that there is a specific need for supervisory training for registered principals, it must be addressed in the Firm Element training plan.

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