

NASD Notice to Members 98-28

Industry/Regulatory Council On Continuing Education Issues Firm Element Advisory

Suggested Routing

- ☒ Senior Management
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Executive Summary

The Securities Industry/Regulatory Council on Continuing Education (Council) includes 13 members representing a cross-section of securities firms and six self-regulatory organizations (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 Securities Industry 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 function of the Council is to identify and recommend pertinent regulation and sales practice issues for inclusion in 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 drawn from a review of the performance of registered persons in the Regulatory Element computer-based training and regulatory advisories issued by industry SROs since the publication of the initial Firm Element Advisory in March 1997. Firms should review this list and decide whether the topics are relevant to the training needs identified in their Firm Element Needs Analysis. 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 about this *Notice* may be directed to any of the following NASD Regulation, Inc., staff: John Linnehan, Director, Continuing Education, at (301) 208-2932; Frank J. McAuliffe, Vice President, Qualifications and Exams, at (301) 590-6694; or Daniel Sibears, Vice President, District Oversight, at (202) 728-6911.

Endnote

¹ The 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 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 initial Firm Element Advisory of March 1997.

These issues are listed here to complement topics that firms 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) the financial products and services it offers to investors, and 2) its overall performance in related topic areas of the Regulatory Element. While each firm has discretion in deciding the relevancy of these topics to its lines of business and training needs, each firm also has the obligation to include

topics not listed in the Advisory but otherwise identified by its 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 Coordinator, the New York Stock Exchange, at (212) 656-2156, or John Linnehan, Director, Continuing Education, NASD Regulation, Inc., at (301) 208-2932.

Training Topic	Relevant Training Point(s) and Reference(s)
Module 2 of the Regulatory Element computer-based training—Communications with the Public	Electronic delivery of information to customers. <i>See Securities Exchange Act Release 34-37182, May 19, 1996, NYSE Information Memo 97-32, June 13, 1997, and NASD Notice to Members 98-3, Electronic Delivery Of Information Between Members And Their Customers, January 1998.</i> <i>See Cold Calling Amendments to NYSE Rules 440A (Telephone Solicitation) and 472 (Communications With The Public), NYSE Information Memo 97-26, May 19, 1997.</i>
Module 4 of the Regulatory Element computer-based training—Handling Customer Accounts	Transfer-On-Death Accounts. <i>See</i> Uniform Transfer-On-Death Account Security Registration Act. Also determine applicability in, and specific provisions of, various states where business is conducted.
Module 6 of the Regulatory Element computer-based training—Customer Accounts, Trade and Settlement Practices	Marking Sell Orders “Long” or “Short.” <i>See NYSE Information Memo 97-3, January 17, 1997.</i> Trading Halts Due to Extraordinary Market Volatility (Circuit Breakers). NYSE Rule 80B. <i>See NYSE Information Memos 97-7, February 3, 1997, and 98-5, January 30, 1998.</i> Change to Minimum Exchange Trading Variation. <i>See</i> NYSE Rule 62; <i>NYSE Information Memos 97-33, June 19, 1997; 97-35, June 23, 1997; and 97-37, July 11, 1997.</i> Customer Account Statement Requirement Changes (NYSE Rule 409). <i>See NYSE Information Memo 97-56 and Interpretation Memo 97-7, both dated December 18, 1997.</i> Amendments to Federal Reserve Board Regulation T (and G, U and X) regarding the arrangement and extension of securities credit. <i>See</i> Federal Reserve System, April 1996 (Docket R-0923), November 1996 (Docket R-0944), and final rules resulting from these releases.
Module 7 of the Regulatory Element computer-based training—New and Secondary Offerings	Exchange Notification Requirements for Offerings and Distributions. <i>See NYSE Information Memos 97-12, February 28, 1997, and 97-41, July 30, 1997; and SEC Regulation M.</i>

Training Topic	Relevant Training Point(s) and Reference(s)
Distribution of Information Concerning NASD Regulation's Public Disclosure Program	Certain NASD members must provide customers with the following information not less than once every calendar year: (1) the NASD Regulation, Inc., Public Disclosure Program hotline number; (2) the NASD Regulation Web Site address; and (3) a statement regarding the availability of an investor brochure that includes information describing the Public Disclosure Program. <i>See NASD Notice to Members 97-78, November 1997.</i>
Syndicate Short Covering Requirements	Members must maintain information on the amount of a syndicate short position in their files; members are required to request an Underwriting Activity Report (UAR) with respect to a security that is considered "actively-traded" under Rule 101 of SEC Regulation M (all exchange-listed securities excluded). Members are required to submit pricing information with respect to any security considered "actively-traded" under Rule 101, regardless of whether listed on a national securities exchange. <i>See NASD Notice to Members 97-80, November 1997.</i>
Short Sales	Legal Definition of Short Sale: an SEC-approved amendment to the NASD Short Sale Rule provides that a legal short sale can be effected at a price equal to or greater than the offer price when the inside spread is less than 1/16th. <i>See NASD Notice to Members 97-74, October 1997.</i> Effecting an Exempt Short Sale: an SEC-approved amendment to ACT rules to require market makers to denote when they have effected an exempt short sale. <i>See NASD Notice to Members 97-15, March 1997.</i>
Mergers, Acquisitions and Exchange Offers	Amendments to Conduct Rules 2710 and 2720 regarding mergers, acquisitions and exchange offers. <i>See NASD Notice to Members 97-82, November 1997.</i>
Order Handling Rules, NASD Limit Order Protection Rules, and Member Best Execution Obligations and Responsibilities	Interpretive advice regarding a member's best execution obligations when handling a customer order. <i>See NASD Notice to Members 97-57, September 1997.</i> SEC Market 2000 Study. <i>NYSE Information Memo 97-8, February 5, 1997.</i>
Limit-On-Close (LOC) Orders	<i>NYSE Information Memo 97-25, May 13, 1997.</i>
Changes to Third Market Trading Rules	A new SEC rule—11Ac1-4 (Limit Order Display Rule) and amendments to existing SEC Rule 11Ac1-1 (Quote Rule) effect changes to NASD rules governing trading in exchange-listed securities in the over-the-counter market (the Third Market.) <i>See NASD Notice to Members 98-5, January 1998.</i>

Training Topic	Relevant Training Point(s) and Reference(s)
Changes to NASD Rules on Market Maker Withdrawals and Reinstatements	Amendments to NASD Rules 4619 (Withdrawal of Quotations and Passive Market Making), 4620 (Voluntary Termination of Registration), and 4730 (Participant Obligations in SOES). <i>See NASD Notice to Members 98-6</i> , January 1998.
Transaction Reporting and Quotation Obligations Under the Fixed Income Pricing System (FIPS)	<i>See NASD Notice to Members 98-10</i> , January 1998.
Market Making	NASD Rule 2460 explicitly prohibits any payment by issuers or the issuers' affiliates and promoters, directly or indirectly, to a member for publishing a quotation, acting as a market maker, or submitting an application in connection therewith. The Rule is intended, among other things, to assure that members act in an independent capacity when publishing a quotation or making a market in an issuer's securities. <i>See NASD Notice to Members 97-46</i> , August 1997.
Release of Disciplinary Information	SEC-approved amendments to the Interpretation on the Release of Disciplinary Information (NASD IM-8310-2) authorize the release of public information on disciplinary complaints and non-final disciplinary decisions that present significant investor protection issues, provided that such releases are accompanied by appropriate disclosures concerning the status of the complaint or decision. <i>See NASD Notice to Members 97-42</i> , July 1997.
Registered Persons Have a Continuing Obligation to Update NASD Records	Every person registered with a member of the NASD must notify the NASD of his or her current mailing address. This obligation exists while a registrant is associated with any NASD member firm, and continues for as long as the NASD retains jurisdiction to bring a disciplinary action against the registrant, which may be up to four years after the registrant's association ends. <i>See NASD Notice to Members 97-31</i> , May 1997.
Transactions for or by Associated Persons	The applicability of Paragraph (d) of Rule 3050 (Transactions for or by Associated Persons) to nonmember financial service entities. <i>See NASD Notice to Members 97-35</i> , May 1997.
Group Variable Contracts and Other Securities Exempted Under the Securities Exchange Act of 1934	NASD Conduct Rules apply to group variable contracts and other exempted securities. <i>See NASD Notices to Members 97-27</i> , May 1997, and <i>96-66</i> , October 1996.
Hiring Practices; Heightened Supervision of Registered Representatives with Disciplinary History	<i>See NASD Notice to Members 97-19</i> , April 1997, and <i>NYSE Information Memo 97-20</i> , April 5, 1997. <i>Joint Regulatory Sales Practice Sweep Report</i> .

Training Topic	Relevant Training Point(s) and Reference(s)
Supervision, Review and Record Retention of Correspondence	Appropriate supervision, review, and retention of communications with the public, including electronic delivery of information between members and their customers. <i>See NYSE Interpretation Memo 98-1, Revised Interpretation to Rule 342—Review of Incoming Mail, and NYSE Information Memo 98-3, New Rules—Supervision and Review of Communications with the Public</i> , both dated January 14, 1998.
Tracing Funds Through the Funds—Transmittal Process	For transmittals of funds of \$3,000 or more, broker/dealers are required to obtain and keep certain specified information concerning the transmitter and the recipient of those funds. In addition, broker/dealers must include this information on the actual transmittal order. <i>See NASD Notice to Members 97-13</i> , March 1997.
Market Activities of Persons with an Interest in the Outcome of an Offering of Securities	<i>See SEC Regulation M and NASD Notice to Members 97-10</i> , March 1997.
Members' Obligations to Comply with SEC Rule 15c2-4	SEC Rule 15c2-4 is applicable to public and private offerings of securities on a best-efforts basis. <i>See NASD Notice to Members 98-4</i> , January 1998.
Year 2000 Compliance	<i>See NYSE Information Memo 97-30</i> , May 22, 1997, and <i>NASD Notice to Members 98-22, Year 2000 Frequently Asked Questions</i> , February 1998.
Gifts and Entertainment	<i>NYSE Information Memo 97-53</i> , November 21, 1997.
Tax Law Changes	Federal tax law changes applicable to capital gains, tax benefits, etc. New IRA types for educational purposes. Short vs. The Box—tax changes.
Suitability Issues	MSRB Rule G-19: Suitability of Recommendations and Transactions; Discretionary Accounts. MSRB Manual, ¶3591.
Political Contributions	MSRB Rule G-37: Political Contributions and Prohibitions on Municipal Securities Business. MSRB Manual ¶3681.
Consultants	MSRB Rule G-38: Consultants. MSRB Manual ¶3686.

Training Topic	Relevant Training Point(s) and Reference(s)
Reporting Sales and Purchases of Municipal Securities	MSRB Rule G-14: Reports of Sales and Purchases, and MSRB Rule G-14: Transaction Reporting Procedures. MSRB Manual ¶3566.
Delivery of Official Statements	MSRB Rule G-32: Disclosures in Connection with New Issues. MSRB Manual ¶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. MSRB Manual ¶3676.

Where To Obtain More Information

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

American Stock Exchange

American Stock Exchange
Publications Fulfillment
86 Trinity Place
New York, NY 10006
212-306-1886
www.amex.com

Chicago Board Options Exchange

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

Municipal Securities Rulemaking Board

MSRB
Publications Department
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New York Stock Exchange

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Philadelphia Stock Exchange

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