

NASD Notice to Members 98-60

NASD Extends Filing Period For New Equity Trader Examination And Responds To Questions Regarding New Equity Trader Qualification Rule

Suggested Routing

- Senior Management
- Advertising
- Continuing Education
- Corporate Finance
- Executive Representatives
- Government Securities
- Institutional
- Insurance
- Internal Audit
- Legal & Compliance
- Municipal
- Mutual Fund
- Operations
- Options
- Registered Representatives
- Registration
- Research
- Syndicate
- Systems
- Trading
- Training
- Variable Contracts

Executive Summary

On April 1, 1998, NASD Regulation, Inc., implemented amendments to the National Association of Securities Dealers, Inc. (NASD[®]) Registration Rules regulating the qualification of representatives who trade equity securities in The Nasdaq Stock Market[®] (Nasdaq[®]) and/or over-the-counter (OTC) (see *Notice to Members 98-17* for full details on the amendments to the Registration Rules). There is no grandfather provision in the amended rules for persons who functioned as equity traders before April 1, 1998. Such persons may continue functioning as equity traders but must pass the new Equity Trader Examination (Series 55) by May 1, 2000. To be eligible for this extended qualification period, equity traders had to submit applications to NASD RegulationSM before May 1, 1998. The NASD now has amended its Registration Rules to extend the filing period to August 31, 1998, for persons who were functioning as equity traders before May 1, 1998, and who missed that cut-off date for filing their applications for the Series 55 Examination.

Qualification Requirements

The amendments to the Registration Rules establish a registration category (ET) and qualification examination (Series 55) for equity traders. In the context of this new qualification requirement, the term "equity trader" includes Market Makers, agency traders, and proprietary traders in equity or convertible debt securities and persons who directly supervise these activities. The amendments provide a single exemption for traders whose primary activities are executing orders on behalf of an affiliated investment company that is registered with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940. In addition to the required examination (Series 55), equity

traders must pass (or have passed) either the General Securities Registered Representative Examination (Series 7) or the Corporate Securities Limited Representative Examination (Series 62).

The new qualification requirement for equity traders does *not* have a "grandfather" provision. Individuals have until May 1, 2000, to pass the Series 55 Examination if they were functioning as equity traders before May 1, 1998, and filed their applications for the Series 55 Examination by that date. The period was extended administratively by NASD Regulation through May 15, 1998, to accommodate a very heavy volume of filings received immediately before May 1, 1998.

Extended Filing Period

The NASD now has amended its Registration Rules to extend the filing deadline for the two-year qualification period to August 31, 1998. The extended filing period is available only for persons who were functioning as equity traders for members before May 1, 1998, and who missed the earlier deadline. Members must submit an application with a letter that states the applicant was functioning as an equity trader before May 1, 1998, to:

NASD Regulation
Qualification Examinations
1390 Piccard Drive, 2nd Floor
Rockville, MD 20850

Persons availing themselves of the extended filing period may continue to function as equity traders until May 1, 2000, but must pass the Series 55 Examination by that date.

Equity traders who are eligible for the extended filing period, but who fail to file their applications by the August 31, 1998, deadline must cease trading in the Nasdaq or OTC markets until

they satisfy the qualification requirements. Market Makers and other proprietary traders who fail to file by that date may continue to effect liquidating transactions to the market or to retail and/or institutional customers, but may not establish new long or short positions after August 31, 1998. After this date, agency traders must cease effecting transactions as agent for customers in the Nasdaq or OTC markets until they satisfy the qualification requirements.

Questions Submitted By Members

Following are responses from NASD Regulation to a number of members' questions regarding the scope of the new equity trader registration category.

Question: Are listed stock traders who sometimes execute transactions in 19c-3 securities in the Nasdaq market included in the definition of equity trader?

Answer: Yes. The definition of equity trader in Rule 1032(f) includes all traders who effect any transactions in equity, preferred or convertible debt securities in the Nasdaq or OTC markets. No exemption is provided to traders whose primary trading activities take place on a securities exchange and who only occasionally effect transactions in Nasdaq or OTC.

Question: Are listed stock traders who effect after-hours transactions in foreign markets engaged in OTC trading and, therefore, subject to the Series 55 requirement?

Answer: No. The new rule is not intended to include trading activity conducted in foreign markets.

Question: Are institutional salespersons who report trades executed by their firms' traders for the salesper-

sons' customers to the Automated Confirmation Transaction ServiceSM (ACTSM) included in the definition of equity trader?

Answer: No. The mere reporting of trades to ACT does not bring institutional salespersons within the scope of the rule. If, however, institutional salespersons effect transactions on behalf of their institutional customers in the Nasdaq or OTC markets, then they are acting as agency traders and must qualify on the Series 55 examination.

Question: Are "order processors" who receive and transmit orders to a trading desk, either in their own firms or at another dealer, included in the definition of equity trader?

Answer: No. Such persons are not effecting trades in the Nasdaq or OTC markets. Such persons would be subject to the Series 55 requirement only if they themselves executed a principal or agency transaction for their firms to fill the orders.

Question: Are a firm's proprietary traders included in the definition of equity trader, especially proprietary traders whose primary activities are in exchange-listed securities?

Answer: Yes. Rule 1032(f) explicitly covers without exception proprietary traders who effect any transactions in equity, preferred or convertible debt securities in the Nasdaq or OTC markets. For purposes of this rule, "program" or "basket" traders would be considered proprietary traders.

Question: Does the definition of equity trader include persons in foreign offices who effect transactions in non-U.S. securities in non-U.S. markets that are reported to a non-U.S. exchange or regulatory body?

Answer: No. Rule 1032(f) is intend-

ed for traders executing transactions in covered securities in the Nasdaq or domestic OTC market.

Question: Are bond traders who effect a small number of transactions in convertible securities included in the definition of equity trader?

Answer: Yes. There is no de minimis exemption for bond traders who do an occasional small dollar volume business in convertible securities.

Question: Are "buy side" traders in a member acting solely on behalf of advisory accounts under management by the member included in the definition of equity trader?

Answer: Yes. Rule 1032(f) only exempts traders whose activities are conducted in behalf of an affiliated investment company that is registered under the Investment Company Act of 1940. This exemption does not apply to traders for advisory accounts managed by a member.

Contact Persons

The following persons in NASD Regulation's Testing and Continuing Education Department may be contacted for additional information concerning the new qualification requirements and the Series 55 Examination:

Carole B. Hartzog, Lead Qualifications Analyst, at (301) 590-6696.

Elaine P. Warren, Senior Qualifications Analyst, at (301) 590-6135.

Eva E. Cichy, Qualifications Analyst, at (301) 208-2789.

© 1998, National Association of Securities Dealers, Inc. (NASD). All rights reserved.