

Special NASD Notice to Members 98-62

District Committee And District Nominating Committee Election Procedures And National Adjudicatory Council Nomination Procedures

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Executive Summary

The purpose of this *Notice* is to advise members of the impending election to fill forthcoming vacancies on the District Committee and next year's District Nominating Committee and to communicate with all members the procedures to fill these vacancies. The procedures are described in detail in Exhibit A: 1998 District Election Procedures.

This *Notice* also serves to advise members of the nomination process for industry members to serve on the National Adjudicatory Council (NAC) next year. The procedures are described in detail in Exhibit B: 1998 Regional Nominating Committee Nomination Procedures.

Questions concerning these procedures may be directed to the member's District Director or Alden S. Adkins, General Counsel, NASD Regulation, Inc. (NASD RegulationSM), at (202) 728-8332, Joan C. Conley, Corporate Secretary, National Association of Securities Dealers, Inc. (NASD[®]), at (202) 728-8381, or Mary Dunbar, Assistant General Counsel, NASD Regulation, at (202) 728-8252.

District Nominating Committee And District Committee

The District Nominating Committee is comprised of five members who serve a one-year term of office. The function of the District Nominating Committee is to nominate a slate of candidates to fill the vacancies that occur annually on the District Committee and to replace the District Nominating Committee itself. In the past, the practice has been to allow one or two of the current members to succeed themselves; this practice provides some continuity from one year to the next.

Members of the District Committee serve as hearing panelists in disciplinary proceedings and the Committee serves as a policy advisor to the Board of Directors with respect to regulatory trends, issues, and concerns, including matters such as Sanction Guidelines, new rule initiatives, and preventive compliance. In selecting a slate of candidates for the District Committee, the Nominating Committee endeavors, as nearly as practicable, to secure appropriate and fair representation of the various sections of the District, and of all classes and types of firms engaged in the investment banking and securities business within the District.

National Adjudicatory Council

In 1999, the NAC will be a 12-member committee with half of the members representing industry and half representing non-industry. The industry members serve as volunteers, and five of the six industry members will be nominated by region (a map of the five regions is attached) and approved by the NASD's National Nominating Committee (NNC). One industry member will be nominated by the NNC as an at-large member. In 1999, half of the industry and non-industry members will be appointed for one-year terms, with the remaining members appointed for two-year terms. These one- and two-year term appointments will be determined by the NNC after the regional nomination and the at-large selection have been approved by the NNC. After 1999, all terms will be two-year terms, and service of two consecutive terms is permissible. The Chairman of the NAC will be elected by the incoming NAC members, and, in accordance with relevant By-Laws, has a seat on the NASD Regulation Board of Directors and NASD Board of Governors.

The NAC is the successor to the National Business Conduct Commit-

tee (NBCC). As such, it is responsible for the oversight of the disciplinary program of NASD Regulation, the most active of all securities industry self-regulatory programs. The NAC also is responsible for the development of regulatory and enforcement policy and rule changes relating to the business and sales practices of NASD members.

The NAC's mission is to assure fairness, expedition, and consistency in the disciplinary and regulatory actions for which it is responsible; to identify and address potential regulatory issues; and to enforce current and establish new disciplinary policy.

The NAC meets at least six times a year. It always meets every other month for a full day to decide appellate cases, rule on applications and exemption requests, and to address policy matters. It may transact addi-

tional business through supplementary telephone meetings. In preparation for these meetings, NAC members receive "kits" consisting of draft decisions on appellate cases and memoranda discussing proposed rules and other matters. The draft decisions range in number from 5 to 20 per kit, and in length up to 20 pages each. Required preparation time for each meeting is extensive, and is in addition to time required to travel to the meetings and the meetings' time. Most meetings are held in Washington D.C. or New York City, but this year the NAC also met in Denver and San Francisco in order to meet with District Committees to discuss issues of common interest.

NAC members also serve about every other month on two-person Hearing Panels designated to hear appeals or calls for review in disciplinary, membership, or financial and

operational limitation cases, as well as on Hearing Panels designated to conduct initial hearings in summary and non-summary suspension, eligibility, and statutory qualification cases. In addition, two to four NAC members also serve as members of the Review Subcommittee, which meets from one to four hours weekly by telephone to discuss and accept or reject proposed settlements in disciplinary actions, to review all non-default initial decisions in disciplinary and membership cases, and to rule on miscellaneous motions or requests. The members of the NAC are supported by the staff of the NASD Regulation Office of General Counsel in connection with the foregoing adjudicatory and policymaking responsibilities.

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NASD Notices to Members (December 1996 to current) are also available on the Internet at www.nasdr.com.

**1998
DISTRICT
ELECTION PROCEDURES**

REGULAR ELECTION

1. Each NASD Regulation, Inc. (NASD RegulationSM) District shall maintain a District Nominating Committee in the manner specified in Article VIII of the By-Laws of NASD Regulation.
2. The Secretary of NASD Regulation (the Corporation) will notify in writing the Chairman of each District Committee of the upcoming vacancies on both the District Committee and the District Nominating Committee, and the procedures to follow to fill the vacancies.
3. The Chairman of the District Committee will advise the District Nominating Committee to proceed with its work of soliciting, identifying, and nominating candidates to fill open positions on the District Committee. The District Nominating Committee will be provided by Corporation staff with information considered relevant to the nominating process, including profiles of the NASD members in each District (the member).
4. The Secretary of NASD Regulation and the CRD/Public Disclosure Department will prepare a *Notice to Members* (NtM) reminding all members of their obligation to keep current and accurate the information in the Central Registration Depository (CRDSM) system pertaining to Executive Representatives and branch office addresses. This NtM will note that failure to keep this information accurate may jeopardize the member's ability to participate in District elections as well as other member votes.
5. Each member having a headquarters or branch office in a District will be eligible to cast one vote in a District election through its Executive Representative.
6. The District Committee Chairman will send notification of the forthcoming elections to the Executive Representative and each branch office of all members eligible to vote in that District. Members will be requested to submit names of candidates to the District Nominating Committee or the District Director.
7. The District Nominating Committee will review the background and qualifications of the proposed candidate and the profile information provided by Corporation staff, and will determine its slate of candidates for the election.
8. The District Nominating Committee will certify to the District Committee each candidate nominated by the District Nominating Committee.
9. Within five (5) calendar days after this certification, the District Committee will send to the Executive Representative, who will be eligible to cast one vote in the District, and each branch office in the District a copy of the certified District Nominating Committee document.
10. If an officer, director, or employee of an NASD member is interested in being considered as an additional candidate, he/she must indicate his/her interest to the District Director within fourteen (14) calendar days of the date of the District Nominating Committee document. The District Director will make a written record of the time and date of such notification.
11. A list of all the members eligible to vote in the District (the Executive Representatives) will be mailed to the additional candidate immediately following his/her notification of interest to the District Director.

12. Additional candidate(s) may be nominated if a petition signed by the Executive Representative of at least 10 per cent of the members eligible to vote in the District is filed with the District Nominating Committee within 30 calendar days from the mailing date of the list of members eligible to vote (the Executive Representatives - see procedure #11), unless the Secretary of NASD Regulation grants additional time for good cause shown.

13. If no additional candidate(s) are nominated within the 30-calendar-day period then the candidate or candidates nominated by the District Nominating Committee shall be considered duly elected, and the District Committee shall certify the election to the Board of Directors of NASD Regulation.

14. If any additional candidate(s) are nominated, the procedures outlined in the Contested Election Procedures will apply.

CONTESTED ELECTION PROCEDURES

If any additional candidate or candidates are nominated by petition or by the District Nominating Committee, the election will be considered a contested election and the following procedures will apply:

1. The District Committee will send a notice to the Executive Representatives of the members eligible to vote in the District, announcing the contested election and outlining the procedures for such election.
2. The District Committee shall send notice to the Executive Representatives of the members eligible to vote, a reminder to review, and if needed, update their Executive Representative designation and address. Each member will be eligible to cast one vote through its designated Executive Representative.
3. The District Nominating Committee will prepare a ballot with the names of the District Nominating Committee's candidate(s) and the additional nominated candidate(s) for any contested position, which shall be sent to the Executive Representatives of all members eligible to vote in the District. A date before which ballots must be returned will be indicated on the ballot. Instructions will be included with the ballot requesting that the completed ballot be returned to an independent agent of the Corporation.
4. Eligibility for receipt of the ballot will be based upon the Corporation's membership records as of a date determined by the Secretary of NASD Regulation, which will be on a date not more than 30 days from which the ballots are mailed. This membership list will be used for vote qualification purposes. The list will be provided to all candidates.
5. The Corporation's independent agent will receive all of the ballots for the election.
6. The Corporation's independent agent will open all of the envelopes returned undelivered and will determine whether they were sent to the member's address of record. If incorrectly addressed, the agent will send the ballot to the address of record.
7. Following the election period, on a date or dates designated by the Secretary of NASD Regulation, the qualification and accounting of ballots will take place. Representatives of the candidates will be allowed to be in attendance. Representation for each candidate will be limited to two individuals.
8. Under the direction of the Secretary of NASD Regulation or an officer or employee of the Corporation chosen by the Secretary, an independent agent chosen by the Secretary of NASD Regulation will open and count the ballots, pursuant to the procedures described below in paragraph nine.
9. On the date designated by the Secretary of NASD Regulation, the representative of the independent agent will bring to the District Office all of the ballots received prior to the close of the election period and, in the presence of the candidates and/or their representative, will open the election ballots. For ballot qualification purposes, the representative will identify to the candidates each member firm ballot that has been received (including the name of the Executive Representative) and inform each candidate of the representative's determination of whether or not the ballot is

qualified for voting purposes. (Determination shall be based upon a comparison of ballots received against the list of members and their Executive Representatives eligible to vote.) The Secretary of NASD Regulation or his/her designee will make the final determination of the qualification. Upon the qualification of each ballot, the representative will then record the vote indicated on the ballot. (Neither the candidate nor his/her representative will be allowed to see the actual vote of any member firm).

10. Only ballots signed by the Executive Representative of a member eligible to vote shall be counted. The only exception is where a ballot has been received from a member eligible to vote and the member has noted on the ballot a change in Executive Representative and the reasons for such a change. All ballots received in this manner will be set aside, and if these ballots are determined to be material to the outcome of the election, the Secretary of NASD Regulation will contact the firm to confirm the reasons noted. Upon a determination by the Secretary of NASD Regulation that such an exception would be appropriate, the representative will then be asked to contact the new Executive Representative for his/her vote.

11. The following circumstances will each result in an invalid ballot, and therefore will not be counted:

- If a ballot is not signed by the Executive Representative.
- If a vote is not indicated on a ballot.
- If a vote for multiple candidates is indicated on the same ballot.

12. If two or more properly executed ballots are received from the same member firm, these ballots will be set aside. If these ballots are determined to be material to the outcome of the election, the representative will contact the Executive Representative at the member firm to obtain the firm's vote. (A list of firms that indicated their ballots were lost or not received and were provided with duplicate ballots will be provided to the independent agent.)

13. The independent agent will count the votes received for each candidate under the direction of the designated officer or employee. The candidate receiving the largest number of votes cast shall be declared elected. Certification of the election results will be made to the Board of Directors of NASD Regulation.

14. The roles of the parties involved in the contested election are defined as follows:

- The Corporation will provide a list of members eligible to vote as of the date of record to each candidate. Except as provided below, the Corporation will not provide other logistical or administrative support to candidates in the election.
- The Board of Directors of NASD Regulation, the District Nominating Committee, or any other committee acting in its official capacity may not openly communicate its support of any candidate(s) to the members of the Corporation eligible to vote. However, members of the Board, the District Nominating Committee, or any other committee members acting solely in their individual capacity may openly communicate support of any candidate(s) to the members of the Corporation eligible to vote.
- Any additional candidate and his/her representatives and supporters may openly communicate to the members of the Corporation in support of the additional candidate's candidacy.
- The District staff will provide administrative support to the candidates with the preparation of up to two mailings to the members eligible to vote. The Corporation will pay the postage for these mailings. The mailings will be prepared on the personal stationery provided by each candidate, and will state that the mailings represent the opinions of the candidates. The District Nominating Committee Candidate may identify himself/herself as such in his/her mailings. Additional mailings may be made by the candidates, but at their own expense.

- The District staff and Corporation staff will not take any position publicly, or with the membership, indicating a preference for a specific candidate during the contested election period.
- The administration of the contested election, other than as provided for in these Election Procedures, shall be as directed by the Secretary of NASD Regulation.

Additional information pertaining to the District Election Procedures can be found in Article VIII of the NASD Regulation By-Laws. The By-Laws can be found in the *NASD Manual* on-line at www.nasdr.com.

1998
REGIONAL NOMINATING COMMITTEE
NOMINATION PROCEDURES

REGULAR NOMINATIONS

1. Each NASD Regulation, Inc. (NASD RegulationSM) District shall maintain a District Nominating Committee in the manner specified in Article VIII of the By-Laws of NASD Regulation.
2. The Secretary of NASD Regulation (the Corporation) will notify in writing the Chairman of each District Nominating Committee and the District Director of the need to establish a Regional Nominating Committee for purposes of nominating industry members to serve on the National Adjudicatory Council (NAC), and the procedures to follow to fill the vacancies.
3. The District Director and the Chair of the District Nominating Committee will advise the District Nominating Committee to proceed with its work of electing two members from the District Committee to serve as members of the Regional Nominating Committee. Two members from each District Committee will serve for a two-year term on the Regional Nominating Committee. (If the region consists of one District, then the District Nominating Committee must elect four District Committee members to serve on the Regional Nominating Committee.) At the first meeting of the Regional Nominating Committee, a Chairman will be selected from among the members. The District Directors in the specified regions will work together to establish meeting dates, places, and agendas.
4. On or before August 1, 1998, the Secretary of NASD Regulation shall send written notice to the Chairman of the Regional Nominating Committee to advise the Regional Nominating Committee to initiate the process for nominating individuals to represent the region on the NAC for a period of one or two years. The Regional Nominating Committee will be provided by NASD Regulation staff with information considered relevant to the nominating process, including profiles of the NASD members in each region.
5. The Secretary of NASD Regulation and the CRD/Public Disclosure Department will prepare a *Notice to Members* (NtM) describing the nomination procedures and reminding all members of their obligation to keep current and accurate the information in the Central Registration Depository (CRDSM) system pertaining to Executive Representatives and branch office addresses. This NtM will note that failure to keep this information accurate may jeopardize the member's ability to participate in regional nominations as well as other member votes.
6. Each member having a headquarters or branch office in a specified region will be eligible to cast one vote in the NAC nominations through its Executive Representative.
7. The Regional Nominating Committee Chairman will send written notice of the upcoming nomination to the Executive Representative and each branch office of all members in the region eligible to vote in that region. Members will be requested to submit names of candidates to the Regional Nominating Committee or the Secretary of NASD Regulation.
8. The Regional Nominating Committee will review the background and qualifications of the proposed candidate and the description of the NASD membership provided by NASD Regulation staff, and shall propose one or more candidates for nomination to the National Nominating Committee for the election to the NAC from the region.
9. The Regional Nominating Committee will certify to the National Nominating Committee each candidate nominated by the Regional Nominating Committee.

10. Within five (5) calendar days after this certification, the NASD will send to the Executive Representative, who will be eligible to cast one vote in the region, and each branch office a notice of the Regional Nominating Committee's nominations.

11. If an officer, director, or employee of an NASD member is interested in being considered as an additional candidate, he/she must indicate his/her interest to the Secretary of NASD Regulation or the Regional Nominating Committee Chairman in the Region within fourteen (14) calendar days of the date of the Regional Nominating Committee document. The Secretary of NASD Regulation or the Regional Nominating Committee Chairman shall make a written record of the time and date of such notification.

12. A list of all the members and their specified Executive Representative eligible to vote in the region will be mailed to the additional candidate by the Secretary of NASD Regulation immediately following his/her notification of interest to the Secretary of NASD Regulation or the Regional Nominating Committee Chairman.

13. Additional candidate(s) may be nominated if a petition signed by the Executive Representative of at least 10 percent of the members eligible to vote in the region is filed with the Corporate Secretary of NASD Regulation within 30 calendar days from the mailing date of the list of members eligible to vote (the Executive Representatives - see procedure #11), unless the Corporate Secretary of NASD Regulation grants additional time for good cause shown.

14. If no additional candidate(s) are nominated within the 30-calendar-day period, then the candidate nominated by the Regional Nominating Committee shall be considered officially nominated, and the Regional Nominating Committee shall certify the nomination to the National Nominating Committee.

15. If any additional candidate(s) are nominated or the Regional Nominating Committee nominates more than one candidate, the procedures outlined in the Contested Nomination Procedures will apply.

CONTESTED NOMINATION PROCEDURES

If more than one candidate is nominated, the election will be considered a contested nomination and the following procedures will apply:

1. The Regional Nominating Committee will send a notice to the Executive Representatives of the members eligible to vote in the region, announcing the contested nomination and outlining the procedures for such nomination.

2. The Regional Nominating Committee will send notice to the Executive Representatives of the members eligible to vote, a reminder to review, and if needed, update their Executive Representative designation and address. Each member will be eligible to cast one vote through its designated Executive Representative.

3. The Regional Nominating Committee will prepare a ballot with the names of the Regional Nominating Committee's candidate(s) and the additional nominated candidate(s) for any contested position, which shall be sent to the Executive Representatives of all members eligible to vote in the District. A date before which ballots must be returned to be counted will be indicated on the ballot. Instructions will be included with the ballot requesting that the completed ballot be returned to an independent agent of the Corporation.

4. Eligibility for receipt of the ballot will be based upon the Corporation's membership records as of a date determined by the Secretary of NASD Regulation not more than 30 calendar days before the mailing of the ballot. This membership list will be used for vote qualification purposes. The list will be provided to all candidates.

5. The Corporation's independent agent will receive all of the ballots for the election.

6. The Corporation's independent agent will open all of the envelopes returned undelivered and will determine whether they were sent to the member's address of record. If incorrectly addressed, the agent will send the ballot to the address of record.

7. Following the election period, on a date or dates designated by the Secretary of the Corporation, the qualification and accounting of ballots will take place. Representatives of the candidates will be allowed to be in attendance. Representation for each candidate will be limited to two individuals.

8. Under the direction of the Secretary of NASD Regulation or an officer or employee of the Corporation chosen by the Secretary of NASD Regulation, an independent agent chosen by the Secretary of the Corporation will open and count the ballots, pursuant to the procedures described below in paragraph nine.

9. On the date designated by the Secretary of NASD Regulation, the representative of the independent agent will bring to the designated District Office all of the ballots received prior to the close of the election period and, in the presence of the candidates and/or their representative, will open the election ballots. A District Office will be designated by agreement between the Secretary of NASD Regulation and the additional candidate(s). For ballot qualification purposes, the representative will identify to the candidates each member firm ballot that has been received (including the name of the Executive Representative) and inform each candidate of the representative's determination of whether or not the ballot is qualified for voting purposes. (Determination shall be based upon a comparison of ballots received against the list of members and their Executive Representatives eligible to vote.) The Secretary of NASD Regulation or his/her designee will make the final determination of the qualification. Upon the qualification of each ballot, the representative will then record the vote indicated on the ballot. (Neither the candidate nor his/her representative will be allowed to see the actual vote of any member firm.)

10. Only ballots signed by the Executive Representative of a member eligible to vote shall be counted. The only exception is where a ballot has been received from a member eligible to vote and the member has noted on the ballot a change in Executive Representative and the reasons for such a change. All ballots received in this manner will be set aside, and if these ballots are determined to be material to the outcome of the election, the Secretary of NASD Regulation will contact the firm to confirm the reasons noted. Upon a determination by the Secretary of NASD Regulation that such an exception would be appropriate, the representative will then be asked to contact the new Executive Representative for his/her vote.

11. The following circumstances will each result in an invalid ballot, and therefore will not be counted:

- If a ballot is not signed by the Executive Representative.
- If a vote is not indicated on a ballot.
- If a vote for multiple candidates is indicated on the same ballot.

12. If two or more properly executed ballots are received from the same member firm, these ballots will be set aside. If these ballots are determined to be material to the outcome of the election, the representative will contact the Executive Representative at the member firm to obtain the firm's vote. (A list of firms that indicated their ballots were lost or not received and were provided with duplicate ballots will be provided to the independent agent.)

13. The independent agent will count the votes received for each candidate under the direction of the designated officer or employee. The candidate receiving the largest number of votes cast shall be declared the nominee. Certification of the nomination results will be made to the National Nominating Committee.

14. The roles of the parties involved in the contested election are defined as follows:

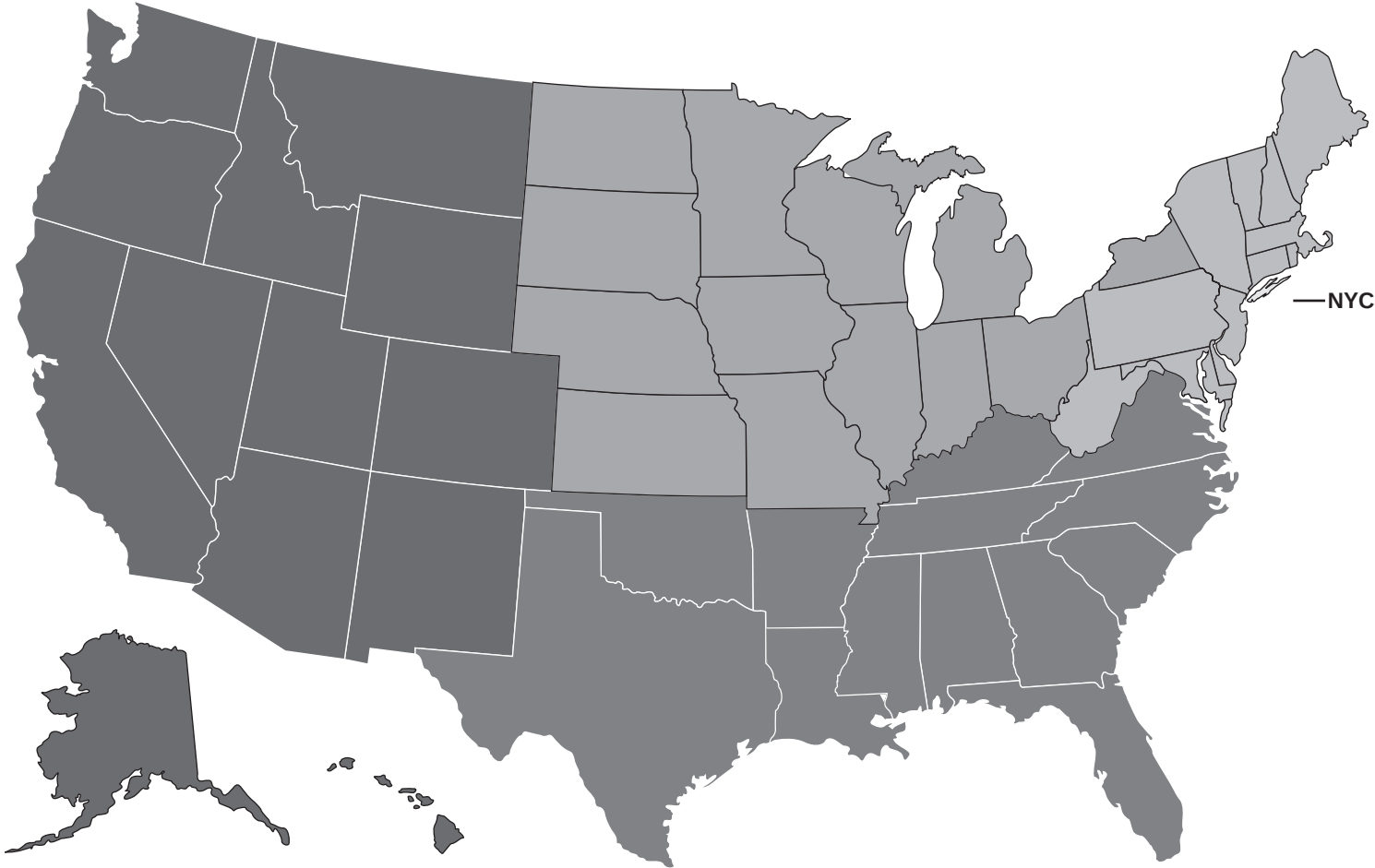
- The Corporation will provide a list of members eligible to vote as of the date of record to each candidate. Except as provided below, the Corporation will not provide other logistical or administrative support to candidates in the election.
- The Board of Directors of NASD Regulation, the Regional Nominating Committee, or any other committee acting in its official NASD capacity may not openly communicate its support of any candidate(s) to the members of the Corporation eligible to vote. However, members of the Board, the Regional Nominating Committee, or any

other committee members acting solely in their individual capacity may openly communicate support of any candidate(s) to the members of the Corporation eligible to vote.

- Any additional candidate and his/her representatives and supporters may openly communicate to the members of the Corporation in support of the additional candidate's candidacy.
- The District staff will provide administrative support to the candidates with the preparation of up to two mailings to the members eligible to vote. The Corporation will pay the postage for these mailings. The mailings will be prepared on the personal stationery provided by each candidate, and will state that the mailings represent the opinions of the candidates. The Regional Nominating Committee Candidate may identify himself/herself as such in his/her mailings. Additional mailings may be made by the candidates, but at their own expense.
- The District staff and Corporation staff will not take any position publicly, or with the membership, indicating a preference for a specific candidate during the contested election period.
- The administration of the contested election, other than as provided for in these Election Procedures, shall be as directed by the Secretary of NASD Regulation.

Additional information pertaining to the Regional Nominating procedures can be found in Article VI of the NASD Regulation By-Laws. The By-Laws and can be found in the *NASD Manual* on-line at www.nasdr.com.

Regional Map for National Adjudicatory Council Nominations



Region	Districts	No. Of Members
West	1, 2, 3a, 3b	1019
South	5, 6, 7	1117
Central	4, 8a, 8b	1040
North	9, 11	1182
New York City	10	1172