

NASD NOTICE TO MEMBERS 97-9

Industry/Regulatory Council On Continuing Education Issues Continuing Education Program Firm Element Advisory

Suggested Routing

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Executive Summary

On February 8, 1995, the Securities and Exchange Commission (SEC) approved Rule 1120 of the NASD[®] Membership and Registration Rules which prescribes requirements for the Securities Industry Continuing Education Program (Program). The Program has two elements—a Regulatory Element and a Firm Element, and became effective July 1, 1995.

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 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 Program. Council duties include recommending and helping to develop specific content and questions for the Regulatory Element, 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.

The attached *Firm Element Advisory* is a list of topics that the Council considers to be particularly relevant to the industry at this time. The list is based on a review of the performance of registered persons in the Regulatory Element computer-based training and recent regulatory advisories issued by industry SROs over the past 18 months. 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 pro-

viding this list so that 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 M. 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 responsibility 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 is a list of topics which the Council considers to be particularly relevant to the industry at this time. The list is based on a review of the performance of registered persons in the Regulatory Element computer-based training and recent regulatory advisories issued by industry self-regulatory organizations (SROs) over the past 18 months. The Council is providing this list so that continuing education may be as pertinent and enriching as possible to financial professionals in the securities industry.

These are topical issues. They are listed here to *complement* issues that firms have already determined to be appropriate to their specific situation, but it is not mandatory for firms to address each and every one of them in their Firm Element training. Each firm should review this list of topics *vis a vis* 1) the financial products and services it offers to investors, and 2) its performance in the Regulatory Element. Each firm has discretion in deciding the relevancy of these topics to its lines of business and training needs, but it also has the obligation to include topics not listed but identified by its Firm Element Needs Analysis.

The Council will periodically highlight additional relevant regulatory areas to assist the industry and invites your assistance. Please direct your comments, suggestions or questions about this and future Advisories to either John Linnehan, Director, Continuing Education, NASD Regulation, Inc., at (301) 208-2932 or Anthony Colonna, Senior Specialist, New York Stock Exchange, at (212) 656-2741.

Training Topic	Relevant Training Point(s) and Reference(s)
Module 1 of the Regulatory Element computer-based training Registration and reporting issues	Registered representatives must update their U-4 disclosure when certain events occur, including: • criminal convictions or charges • regulatory disciplinary actions • certain civil judicial actions • customer complaints and arbitrations • certain employment terminations • financial proceedings such as bankruptcies and unsatisfied judgements or liens. Certain of these and other events are also to be reported to the SROs under other reporting requirements. <i>See NASD® Conduct Rule 3070, Reporting Requirements, and NYSE Rules 345 and 351.</i> Selling away. <i>See NASD Conduct Rule 3040, Private Securities Transactions of an Associated Person; NYSE Rule 346.</i> Registration requirements of registered representatives in light of National Securities Markets Act of 1996
Module 3 of the Regulatory Element computer-based training Suitability issues	Qualify customer's investment objectives in light of different types of risk: • principal risk • purchasing power (inflation) risk • reinvestment risk • liquidity risk • market risk • political risk. <i>See AMEX Rules 411 and 923; NASD Conduct Rule 2310, Recommendations to Customers (Suitability); NYSE Rules 345 and 743.</i>

Training Topic	Relevant Training Point(s) and Reference(s)
Module 4 of the Regulatory Element computer-based training Handling customer accounts issues	• Insider trading restrictions—to whom do they apply? <i>See SEC Rule 10b-5 and related references on the subject of insider trading.</i> • Personal accounts with other broker/dealers require approval by designated supervisor. <i>See NASD Conduct Rule 3050, Transactions for or by Associated Persons; NYSE Rule 407.</i> • Trust accounts—disclosure to supervisor if registered representative is a beneficiary. <i>See NASD Conduct Rule 3050, Transactions for or by Associated Persons; NYSE Rule 407.</i> • Definition of conversion of funds. <i>See NASD Conduct Rule 2330, Customer's Securities or Funds; NASD IM-2310-2, Fair Dealing with Customers.</i> • Distributing private offerings for not-for-profit organizations requires disclosure to, and approval of, broker/dealer. <i>See NASD Conduct Rule 3040, Private Securities Transactions of an Associated Person.</i> • Ownership of assets in a joint account. When may transfers of funds be made? • Permitted activities upon the death of a client.
Telemarketing	The requirement to make and maintain a do-not-call list. FTC regulations prescribing deceptive and abusive acts and practices in connection with telephone solicitation to market products and services. <i>See MSRB Rule G-39; NASD Notice To Members 97-1, January 1997; NYSE Rule 440A.</i>
Mutual funds	Disclosure, suitability, presentation of performance information, switching issues, print and electronic communications. <i>See Special NASD Notice To Members 95-80, September 26, 1995.</i>
Variable contracts	Suitability and sales practice considerations. <i>See NASD Conduct Rule 2310 and IM-2310-2, and NASD Notice To Members 96-86, December 1996.</i>
FRB Regulation T—recent amendments	<i>See NASD Notice To Members 96-37, June 1996; NYSE Information Memo 96-19, June 11, 1996.</i>

Training Topic	Relevant Training Point(s) and Reference(s)
Index and currency warrants—new rules for trading	<i>See AMEX Rules 1100-1110; NASD Conduct Rule 2840, Trading in Index Warrants, Currency Index Warrants, and Currency Warrants; NYSE Information Memo 96-33, November 5, 1996.</i>
Options position and exercise limits—recent amendments	<i>See AMEX Rules 904(b) and 905(b); CBOE Rule 4.11; NASD Notice to Members 96-15, March 1996; NYSE Information Memo 96-28, September 18, 1996; PHLX Circular, Number 176-96, July 1996.</i>
New SEC order execution rules	<i>See NASD Notice To Members 96-65, October 1996 and Federal Register, Vol. 61, No. 178, September 12, 1996, Rules and Regulations; NYSE Information Memo 96-30, October 3, 1996.</i>
Firmness of quotations	<i>See SEC Rule 11Ac1-1, NASD IM-3320.</i>
Transaction reporting	<i>See NASD Rules 4630, 4640, 4650, 6400 Series, 6550, 6600 Series, 6700 Series.</i>
Limit orders	<i>See Special NASD Notice To Members 95-43, June 5, 1995; NASD Notice to Members 95-67, August 1995 and 96-10, February 1996; NASD IM-2110-2, Trading Ahead of Customer Limit Order.</i> <i>See also New SEC order execution rules (above).</i>
Short sales	<i>See SEC Rules 10a-1, 10a-21; NASD Rules 3350, 3360, 4612, 11830; NYSE Rule 440B and NYSE Information Memo 97-3, January 17, 1997.</i>
Activities deemed to be collusive and therefore prohibited	<i>NASD Rule 2110, Standards of Commercial Honor and Principles of Trade; NASD Rule 2440, Fair Prices and Commissions and related Interpretive Material to these Rules.</i>
IPOs and secondary issues	The use of research reports during the period of time after a registration statement has been filed, but before the effective date. <i>See SEC Rules 137, 138, and 139.</i> Circumstances requiring the delivery of a preliminary prospectus to prospective investors. <i>See SEC Rules 430, 460, and 15c2-8.</i>

Training Topic	Relevant Training Point(s) and Reference(s)
Market volatility	Trading halts due to extraordinary market volatility. <i>See AMEX Rule 117; NYSE Rule 80B.</i>
Speculative securities—best practices	Suitability, disclosure of material adverse facts and interests, valuations, supervision, cold call requirements. <i>See Special NASD Notice To Members 96-32, May 9, 1996 and NASD Notice To Members 96-60, September 1996.</i>
Registered representatives who are also investment advisers—clarification of NASD rules governing them	Private securities transactions, record keeping, supervision, etc. <i>See NASD Notice To Members 96-33, May 1996.</i>
Electronic media (e.g. the Internet)—supervisory and other obligations related to their use	Disclosure of material adverse facts and interests, suitability, communications with the public rules. <i>See NASD Notice To Members 96-50, July 1996, and proposed amendments to NYSE Rules 342, 440 and 472.</i>
Reporting obligations under Municipal Securities Rulemaking Board (MSRB) Rules G-37 and G-38	Rule G-37: Political Contributions and Prohibitions on Municipal Securities Business, MSRB Manual ¶3681, and amendments. <i>See MSRB Reports, January 1997, pp. 11-13.</i> Rule G-38: Consultants, <i>MSRB Manual</i> ¶3686. <i>See also NASD Notice To Members 96-54, August 1996.</i>

Training Topic	Relevant Training Point(s) and Reference(s)
Reporting purchases and sales of municipal securities—pertinent topics	MSRB Rule G-14: Reports on Sales and Purchases, <i>MSRB Manual</i> ¶3566, and amendments. <i>See MSRB Reports, January 1997, pp. 3-9.</i> Board to Proceed with Customer Transaction Reporting Program, <i>MSRB Reports</i>, September 1996, page 3. Specifications for Reporting Customer Transactions to the MSRB, <i>MSRB Reports</i>, September 1996, page 10. Reporting Time of Trade to the Board in Inter-Dealer Transactions, <i>MSRB Reports</i>, January 1996, page 23; June 1996, page 7. MSRB Rule G-14 Transaction Reporting Procedures—Time of Trade Reporting, <i>MSRB Reports</i>, September 1996, page 17. Guidelines for Reporting Inter-Dealer Transactions under Rule G-14, <i>MSRB Reports</i>, June 1996, page 9. Reporting Executing Dealer Identities in Inter-Dealer Transactions to the Board, <i>MSRB Reports</i>, October 1995, page 35.
Municipal securities—delivery of Official Statements	Rule G-36 on Delivery of Official Statements, Advance Refunding Documents and Forms G-36(OS) and G-36(ARD) to the Board or its Designee, <i>MSRB Manual</i>, ¶3676. Reminder to Dealers Regarding Delivery of Official Statements to the Board: Rule G-36, <i>MSRB Reports</i>, September 1996, page 37.

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) 306-1391
<http://www.amex.com>

Chicago Board Options Exchange

Chicago Board Options Exchange
Investor Services
400 S. LaSalle Street
Chicago, IL 60605
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Municipal Securities Rulemaking Board

MSRB
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