Notices to Members

YEAR 2000 UPDATE

November 1998

Mandatory Testing

On October 5, 1998, the National Association of Securities Dealers, Inc. (NASD®) filed a proposed rule change with the Securities and Exchange Commission (SEC) that would mandate Year 2000 testing for clearing firms, market makers, and government securities firms. The proposed rule also would strongly encourage testing between correspondent clearing firms and introducing firms with a proposed requirement for clearing firms to report test results. Members required to test may be able to satisfy the requirement by participating in all or a combination of the following types of tests: connectivity, point-to-point, Securities Industry Association (SIA)-sponsored extended point-to-point, and SIA-sponsored industry testing.[1] All firms would be required to report test results to the NASD. It is expected that the SEC will publish the proposal of comment in the next few weeks. Firms should register for industry testing with the SIA. The phone number is (888) Y2K-4SIA.

New Education Workshops That Require No Travel!

The NASD Year 2000 Program Office expanded its education and awareness activities to include Virtual Workshops. Virtual Workshops will be delivered through an MCI conference call-in session. These sessions—targeted to smaller firms and introducing firms—are intended to make educational workshops more accessible to members. Workshop outlines can be viewed on the NASD Regulation Web Site (*www.nasdr.com*). During the call-in sessions, members will hear a presentation, followed by a question and answer period. These sessions will provide an opportunity for members to share ideas and learn from other firms' experiences.

To participate in the Virtual Workshops, the NASD strongly encourages registration, but it is not required. Call MCI at (800) 839-8316, listen to the greeting, and provide the following information when prompted: firm name, Broker/Dealer #, and workshop date. For more information see the workshop schedule in the next column.

[1] Definitions:

Connectivity/Point-to-Point—*Point-to-Point is a one-day test in a Year 2000 environment between firms, a firm and an exchange, or a firm and a utility. This test, which covers the communication links/external interfaces, can be initiated between any facilities with an electronic connection to each other.*

Extended Point-to-Point—*This mimics the Point-to-Point test, but is sponsored by the SIA, with testing dates available between Nov. 14, 1998 and Feb. 13, 1999. Extended Point-to-Point also is a one-day test, but includes all participating exchanges/utilities acting together.*

Industry Testing—*Industry testing is sponsored by the SIA, and is a four-date test, allowing for rollover of trade dates/settlements. Participants must have completed either Point-to-Point or Extended Point-to-Point testing as a pre-requisite for registration, which closes Nov. 30, 1998.*

Virtual Workshop Schedule

Contingency Planning

Password: Contingency Plan98
Conference Leader: Lyn Kelly

- Introducing Firms:
  December 1 and December 10 @ 11:00 a.m.
- Clearing Firms:
  December 3 and December 8 @ 11:00 a.m.

End User Plans & Best Practices

Password: EndUser98
Conference Leader: Lyn Kelly
December 15 @ 1:00 p.m.

On the day of the session, call (888) 282-9568 and indicate the password and conference leader provided for the workshop.

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Year 2000 Activity Countdown

What are firms doing today? Are you ...

- ❏ Continuing to monitor mission-critical, third-party, and service provider Year 2000 progress, including clearing organizations, banks, and utilities?
- ❏ Adding Year 2000 warranty language to new contracts?
- ❏ Registering for SIA-sponsored industry testing?
- ❏ Revalidating inventory of mission-critical business systems to identify any missed or newly added systems due to business changes?
- ❏ Completing remediation of mission-critical business systems, facilities, and equipment?
- ❏ Continuing to test mission-critical business systems, facilities, and equipment, including testing with external parties?
- ❏ Developing plans to keep mission-critical business systems, facilities, and equipment Year 2000 compliant over the next 15 months?
- ❏ Verifying all desktop applications are Year 2000 compliant?
- ❏ Conducting legal reviews of Year 2000 plans and progress?
- ❏ Developing first draft of contingency plans for mission-critical business functions and service providers?
- ❏ Attending SIA workshops on industry testing?
- ❏ Registering for NASD Fall and Winter workshop series?
- ❏ Lining up auditors to perform required review of 1999 BD-Y2K reports?

Test With The NASD

To schedule testing or obtain information about NASD, NASD Regulation, or Nasdaq applications please contact:

Nasdaq Customer Test System
(800) 288-3783

NASD, NASD Regulation Testing
(888) 227-1330 (select Option 3)

Year 2000 Disciplinary Actions

NASD Regulation brought disciplinary actions against 59 brokerage firms for late filing of required BD-Y2K Forms; 37 of the firms entered into settlements agreeing to be censured and pay fines ranging from $2,300 to $3,200. Complaints have been issued against the remaining 22 firms.

NASD Regulation's actions were coordinated with 37 separate disciplinary proceedings instituted by the SEC against firms that failed to file the required reports.

Upcoming Education and Events

NASD Workshops (See previous page for details)

Topic	Date	Location
Contingency Planning	December	Virtual
End User & Best Practices	December	Virtual
Legal Issues	January	Virtual
Mandatory Testing	January	District Offices

SIA Events

Operations Update	December 3	NYC

*For more information, visit the SIA Web Site (*www.sia.com*).*

NASD & SEC Rules In The Works

Mandatory Testing	*NASD*
Amendment to 17a-5	*SEC*

Reports & Other Filing Requirements

BD-Y2K Report #1	*August 31, 1998*
BD-Y2K Report #2	*April 30, 1999*
Test Results Report	*Third Quarter 1999*

More Information/Questions

NASD Year 2000 Program Office
e-mail: *y2k@nasd.com*
phone: (888) 227-1330