

Notices to Members

YEAR 2000 UPDATE

December 1998

SEC 1999 BD-Y2K Independent Public Accountant's Report

As discussed in earlier issues of *Notices to Members*, and in other National Association of Securities Dealers, Inc. (NASD®) publications, the Securities and Exchange Commission (SEC) adopted an amendment to its Rule 17a-5 requiring that broker/dealers file Year 2000 readiness reports (BD-Y2K); the first report was due August 31, 1998, and a second report is due April 30, 1999. Broker/dealers with minimum net capital requirements of \$100,000 or greater as of March 15, 1999, and broker/dealers that were required to file Part II of Form BD-Y2K on August 31, 1998, are required to file both Part I and Part II of Form BD-Y2K due April 30, 1999.

As part of the amendments to SEC Rule 17a-5, Part II filers must also file a report prepared by an independent public accountant regarding the broker/dealer's process for addressing Year 2000 problems. The independent accountant's report must be prepared in accordance with standards that have been reviewed by the SEC and that have been issued by a national organization that is responsible for promulgating authoritative accounting and auditing standards. Such standards do not have to involve an attestation engagement.

In conjunction with adopting the independent public accountant reporting requirement, the SEC reviewed the procedures included in Statement of Position 98-8 (SOP 98-8), issued by the American Institute of Certified Public Accountant's Auditing Standards Board, and concluded that an independent public accountant's report prepared in accordance with SOP 98-8 would satisfy the independent public accountant reporting requirement. Details of the amendment to SEC Rule 17a-5 are available on the SEC Web Site (www.sec.gov). Details of SOP 98-8 are available on the American Institute of Certified Public Accountants' Web Site (www.aicpa.org). The independent public accountant's report becomes Part III of the Form BD-Y2K submission due to the SEC and the NASD by April 30, 1999.

August 31, 1998 BD-Y2K Report Update

After reviewing member firms' BD-Y2K reports that were due on August 31, 1998, the NASD Year 2000 Program Office has discovered a number of firms that have issues regarding their Part II submissions and will require NASD Regulation follow-up. A common example is inconsistencies in the information presented in Part I and Part II of their respective reports. NASD Year 2000 staff will contact these firms by phone to discuss problem areas and clarify the firms' Year 2000 readiness. The SEC has requested that the NASD provide a list of firms with issues that are still unresolved by January 25, 1999.

Important Notes For Independent Accountant's Report (these notes supplement the instructions found on the Form BD-Y2K):

- ◆ *The broker/dealer must complete its Form BD-Y2K before the auditor's review.*
- ◆ *The broker/dealer must engage a firm to do this based on the "as of March 15, 1999" reporting date. The auditor providing the independent public accountant's report does not have to be the same as the financial auditor.*
- ◆ *Submissions must include the name and address of the auditor.*
- ◆ *The broker/dealer must submit the independent public accountant's report as Part III with Part I and Part II; Form BD-Y2K will not be considered "filed" unless all three parts are received together with the signed cover sheet by the April 30th due date.*
- ◆ *All Parts must contain the BD#, BD Name, and SEC 8-Number.*
- ◆ *All Parts of Form BD-Y2K will be made available to the public.*



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More Virtual Workshops

Last month we highlighted the first in a series of Year 2000 Virtual Workshops—workshops in which NASD members may hear about important Year 2000 issues via conference call-in sessions. During the call-in sessions, members will hear a presentation, followed by a question and answer period. The following sessions will provide an opportunity for members to share ideas and learn from other firms' experiences. The phone number to register for all virtual workshops listed here is (800) 839-9159.

Workshops In Districts To Discuss Mandatory Testing

The NASD Year 2000 Program Office is holding mandatory testing workshops in selected NASD Regulation District Offices in January. To register for on-site training, call the Program Office at (888) 227-1330. Once you are registered, you will be sent a confirmation letter. You **must** bring your confirmation letter to the seminar. Unfortunately, because of limited space, we will not be able to accommodate on-site registrants.

January 20, Dallas District Office, 8:00 a.m. - 5:00 p.m.

January 25, Denver District Office, 8:00 a.m. - 5:00 p.m.

January 26, Los Angeles District Office, 8:00 a.m. - 5:00 p.m.

Virtual Workshops

January 12 - Legal Issues

Password: Legal

Leader: Lyn Kelly

Conf: # 2519205

Call-in phone number:

(888) 282-9568

Issues to be covered:

- ◆ due diligence efforts for brokers/dealers
- ◆ litigation helpful hints
- ◆ recent developments in disclosure

January 14 - Mandatory Testing (also offered January 28, see last column)

Password: Mandatory Testing

Leader: Lyn Kelly

Conf: # 3402274

Call-in phone number:

(888) 455-5419

Issues to be covered:

- ◆ internal testing
- ◆ SIA-sponsored industry-wide testing
- ◆ testing with the NASD

January 20 - BD-Y2K for Small Firms

Password: BD-Y2K

Leader: Lyn Kelly

Conf: # 3402355

Call-in phone number:

(888) 455-5419

Issues to be covered:

- ◆ upcoming BD-Y2K Report and a small firm approach
- ◆ 1999 Report vs. 1998 Report

January 27 - SOP; Part III of BD-Y2K

Password: SOP

Leader: Lyn Kelly

Conf: # 3402391

Call-in phone number:

(888) 455-5419

Issues to be covered:

- ◆ how completing Part III of your BD-Y2K Form affects you
- ◆ what does the SOP cover
- ◆ helpful hints in the completion of Part III

January 28 - Mandatory Testing

Password: Mandatory Testing

Leader: Lyn Kelly

Conf: # 3402436

Call-in phone number:

(888) 455-5419

Issues to be covered:

- ◆ internal testing
- ◆ SIA-sponsored industry-wide testing
- ◆ testing with the NASD

To participate in the Virtual Workshops, the NASD strongly encourages registration, but it is not required. Call MCI at (800) 839-9159, listen to the greeting, and provide the following information when prompted: firm name, Broker/Dealer #, and workshop date. On the day of the session, call the phone number listed above with the associated workshop, and indicate the password and conference leader provided for the workshop.

Voluntary Testing

NASD Test Centers are open with scheduling opportunities available to test NASD, NASD Regulation, and Nasdaq applications. Enclosed are updated NASDR and Nasdaq Year 2000 Service and Product flyers that indicate the status of each major system/application as it relates to Year 2000 readiness and ability to test. The NASD encourages firms to participate in voluntary testing 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

Mandatory Testing

The SEC approved a new NASD rule that would mandate Year 2000 testing for clearing firms, market makers, and government securities firms. Members should check the NASD Regulation Web Site (www.nasdr.com) and watch for the January *Notices to Members* for details. Clearing firms should already have registered for Securities Industry Association (SIA)-sponsored industry testing and have performed all prerequisite testing such as point-to-point testing. To schedule industry-wide testing with the SIA call (888) Y2K-4SIA (888-925-4742).

More Information/Questions

NASD Year 2000 Program Office

e-mail: y2k@nasd.com

phone: (888) 227-1330

Important Publishing Note

Beginning January 1999, the primary method of publishing *Notices to Members* and NASD Regulation's other major member publication—the *Regulatory & Compliance Alert*—will be via the Internet. To continue to read these newsletters, and find out timely information about the NASD's Year 2000 efforts, please visit the NASDR or NASD Web Sites (www.nasdr.com and www.nasd.com, respectively) on a regular basis.

To place your name on an e-mail list that will alert you to new issues of these publications, go to the NASDR Web Site and click on the button on the Home Page that says "Subscribe To Our E-Mail Notifications." Each Executive Representative will be eligible for one subscription to a hard-copy version of *Notices to Members* at cost, \$15 per year. Each branch office will be eligible for one subscription to the hard-copy version of the *Regulatory & Compliance Alert* at cost, also \$15 per year. Hard-copy versions of these publications can be purchased by calling NASD MediaSourceSM at (301) 590-6142.

Upcoming NASD Education And Events

Topic	Date	Location
Legal Issues	January 12	Virtual
Mandatory Testing	January 14	Virtual
BD-Y2K for Small Firms	January 20	Virtual
Mandatory Testing	January 20	Dallas District
Mandatory Testing	January 25	Denver District
Mandatory Testing	January 26	Los Angeles District
SOP; Part III of BD-Y2K	January 27	Virtual
Mandatory Testing	January 28	Virtual

SIA Events

Year 2000 Industry Testing Seminar; February 2-3; New York City ♦ Visit SIA Web Site (www.sia.com) to register and for more information.