

NASD NOTICE TO MEMBERS 96-77

CRD Will Provide Firms With Advisory Messages When Significant Disciplinary Actions Require Reentry Of Individuals Into The Regulatory Element Of The Continuing Education Program

Suggested Routing

- ☒ Senior Management
- ☐ Advertising
- ☐ Corporate Finance
- ☐ Government Securities
- ☐ Institutional
- ☐ Internal Audit
- ☒ Legal & Compliance
- ☐ Municipal
- ☐ Mutual Fund
- ☐ Operations
- ☐ Options
- ☒ Registration
- ☐ Research
- ☐ Syndicate
- ☐ Systems
- ☐ Trading
- ☐ Training

Executive Summary

Effective December 1, 1996, the Central Registration Depository (CRD) will send an individual *Continuing Education Program Advisory Message* for both Regulatory Element Directed Sequences (see Exhibit 1) and Regulatory Element Directed Sessions (see Exhibit 2) to notify member firms of Continuing Education Regulatory Element requirements for their registered employees who have become the subject of a significant disciplinary action as defined in Rule 1120 of the NASD® Membership and Registration Rules (formerly Schedule C, Part XII of the NASD By-Laws). Previously, firms were notified of this information only by the monthly Requirement Summary report.

Questions about this Notice may be directed to John Linnehan, Director, Continuing Education, NASD Regulation, at (301) 208-2932 or to your CRD Quality & Service Team.

Quality & Service Team 1
(301) 921-9499
Quality & Service Team 2
(301) 921-9444
Quality & Service Team 3
(301) 921-9445
Quality & Service Team 4
(301) 921-6664
Quality & Service Team 5
(301) 921-6665.

Background

A registered person must reenter the Regulatory Element of the Securities Industry Continuing Education Program and satisfy all of its requirements if he or she becomes the subject of a significant disciplinary action. A significant disciplinary action occurs when a registered person:

- becomes subject to a statutory disqualification pursuant to the Securities Exchange Act of 1934. Such

disqualifications include bars, suspensions, and civil injunctions involving securities matters, any felony convictions, or a misdemeanor conviction that involves investments or an investment-related business, any fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses;

- becomes subject to suspension or is solely or jointly and severally subject to the imposition of a fine of \$5,000 or more for violating any provision of any securities law or regulation, or any agreement with, or rule or standard of conduct of, any securities self-regulatory organization (SRO), or as imposed by any such regulatory or SRO in connection with a disciplinary proceeding; or

- is ordered to reenter the Regulatory Element as a sanction in a disciplinary action by any securities governmental agency or securities SRO.

A significant disciplinary action “resets the clock” for an individual who is already covered by or who has previously met the requirements of the Regulatory Element. Reentry into the Regulatory Element is initiated when certain disciplinary information is posted to CRD creating a Regulatory Element Directed Sequence or Directed Session.

Directed Sequences

A Directed Sequence is a series of four Regulatory Element computer-based training sessions. The first session is required within 120 days beginning from the Directed Sequence Effective Date. The three subsequent sessions are required within 120 days beginning from the second, fifth, and tenth anniversaries of the Directed Sequence Effective

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Date. The Directed Sequence Effective Date is the 45th day after the Date of Action specified in the official disciplinary decision document. Reentry applies regardless of whether a registered person has fulfilled all or part of an existing Regulatory Element requirement.

Directed Sequence Example

Michael S. is fined \$5,000 by an SRO in a disciplinary proceeding dated March 1, 1997.

Michael S. receives a Regulatory Element Directed Sequence because of the fine. The effective date of his Directed Sequence is April 15, 1997 (45 days after the Date of Action of the disciplinary ruling). Michael's Directed Sequence requires him to take four sessions of the Regulatory Element computer-based training. The initial requirement is within 120 days beginning April 15, 1997, and then within 120 days beginning April 15, 1999, April 15, 2002, and April 15, 2007.

Directed Sessions

A securities regulator may require a single Regulatory Element Directed Session as part of a disciplinary action. When information about the disciplinary action is entered into CRD, the Directed Session is recorded with an effective date which is 45 days from the Date of Action. The individual will have 120 days begin-

ning from the Directed Session Effective Date to satisfy the Regulatory Element requirement.

Directed Session Example

Sarah M. is required by a state securities regulator to complete one Regulatory Element computer-based training session. The date of the state's action is March 1, 1997. The effective date of this Directed Session is April 15, 1997, 45 days after the Date of Action of the disciplinary ruling. Sarah must complete the Directed Session within 120 days beginning April 15, 1997.

Continuing Education Advisory Messages

Beginning December 1, 1996, CRD will produce Continuing Education Program Advisory Messages in the form of individual notifications about Directed Sequences or Directed Sessions and send them to every firm where CRD shows the person to have an active registration. The firm must notify its employee of the Regulatory Element requirement and monitor compliance. Failure to complete a required Regulatory Element computer-based training session during the prescribed time period will result in a person's registration becoming inactive. A person with an inactive registration cannot conduct a securities business, perform any of the functions of a registered person, or receive compensation for activities

that require registration until the requirements of the Regulatory Element are met.

The individual notification will contain the individual's name, CRDSM number and social security number, the regulatory authority initiating the disciplinary action, the action date of the action, the effective date of the action, and the begin and end dates of the directed sequence windows or directed session window. See Exhibits 1 and 2 of this Notice.

A firm's monthly Continuing Education Program Summary Report also shows all of the firm's registered persons who are in open 120-day Regulatory Element windows for any reason.

For More Information

Questions about this Notice may be directed to John Linnehan, Director, Continuing Education, NASD Regulation, at (301) 208-2932 or to your Quality & Service Team.

Firms should direct their questions for clarification about a Directed Sequence or Directed Session to their Quality & Service Team.

If you are uncertain as to your Quality & Service Team, please contact the NASD at (301) 590-6500.

EXHIBIT 1

Advisory Message For A Directed Sequence

CENTRAL REGISTRATION DEPOSITORY

P.O. BOX 9401 * GAITHERSBURG, MARYLAND 20898-9401 * (301) 590-6500

CONTINUING EDUCATION PROGRAM ADVISORY MESSAGE

REGISTERED REPRESENTATIVE NAME
RR CRD#

REPORT DATE 11/01/97

DIRECTED SEQUENCE DISCIPLINARY NOTICE

The individual listed above is subject to the Continuing Education Program due to a DISCIPLINARY ACTION. This action has been initiated by <regulatory authority> on 9/6/97. The individual is required to comply with the following schedule, starting from 10/21/97.

REQUIREMENT	BEGIN DATE	END DATE
Initial Requirement	10/21/97	2/17/98
2-year Anniversary	10/21/99	2/17/00
5-year Anniversary	10/21/02	2/17/03
10-year Anniversary	10/21/07	2/17/08

*** Avoid surprises! Always determine a new-hire's CE status ***

BD NUMBER

BD NAME

BD STREET ADDRESS
BD CITY, STATE AND ZIP

ATTN: BD CONTACT

EXHIBIT 2

Advisory Message For A Directed Session

CENTRAL REGISTRATION DEPOSITORY

P.O. BOX 9401 * GAITHERSBURG, MARYLAND 20898-9401 * (301) 590-6500

CONTINUING EDUCATION PROGRAM ADVISORY MESSAGE

REGISTERED REPRESENTATIVE NAME
RR CRD#

REPORT DATE 11/01/97

DIRECTED SESSION DISCIPLINARY NOTICE

The individual listed above is subject to the Continuing Education Program due to a
DISCIPLINARY ACTION. This action has been initiated by <regulatory authority> on 9/6/97.
The individual will be required to complete the following requirement, starting from 10/21/97.

REQUIREMENT	BEGIN DATE	END DATE
Directed Session	10/21/97	2/17/98

*** Avoid surprises! Always determine a new-hire's CE status ***

BD NUMBER
BD NAME
BD STREET ADDRESS
BD CITY, STATE AND ZIP
ATTN: BD CONTACT