

Notice to Members

NOVEMBER 30, 2004

INFORMATIONAL

SUGGESTED ROUTING

Executive Representatives

NASD Notice of Meeting and Proxy

KEY TOPICS

Board Elections

Executive Summary

The Annual Meeting of Members of NASD will be held on January 4, 2005, at 11:00 am, at the NASD Visitors Center, 1735 K Street, NW, in Washington, DC. The purpose of the meeting is to conduct the election of Governors to the NASD Board. Members can raise other topics for discussion by properly notifying NASD of these topics.¹ The record date for the Annual Meeting is the close of business on November 29, 2004.

It is important that all members be represented at the Annual Meeting. Members are urged to vote in the election of Board members using one of the methods described below.

Board of Governors Election

There are seven vacancies to be filled at this meeting: four Industry governorships and three Public governorships. The nominees for the vacancies are listed in Attachment A. The nominees elected will serve for terms specified in Attachment A.

Attachment B includes the biographies of the nominees of the NASD National Nominating Committee (NNC). Attachment C contains the names of the current Board of Governors.

Voting Methods

Members will be able to vote using one of the following methods:

- ▶ U.S. mail
- ▶ Internet
- ▶ Phone

The enclosed proxy contains detailed instructions on the voting procedures.

Questions/Further Information

Questions regarding this *Notice* may be directed to:

Barbara Z. Sweeney
NASD
Office of the Corporate Secretary
1735 K Street, NW
Washington, DC 20006-1500

ATTACHMENT A

NASD Board of Governors Nominees

The following seven persons have been nominated by the NNC to serve on the Board of Governors of NASD for a term of three years or until their successors are duly elected or qualified. Terms of office run from January 4, 2005 to January 2008.

Terms of Office 2005-2008

INDUSTRY

John W. Bachmann	Senior Partner, Edward D. Jones & Company
Richard F. Brueckner	Chief Executive Officer, Pershing LLC (Representative of a Firm that Provides Clearing Services to other NASD Members)
William Heyman	Executive Vice President and Chief Investment Officer, The St. Paul Travelers Companies, Inc. (Representative of an Insurance Company)
Raymond A. Mason	Chairman and CEO, Legg Mason, Inc. (Representative of a Regional Retail Firm)

PUBLIC

James E. Burton	Chief Executive Officer, World Gold Council
Sir Brian Corby	Chairman (retired), Prudential Corporation plc
John Rutherford, Jr.	Chairman and CEO, Moody's Corporation

ATTACHMENT B

NASD Profiles of Board Nominees for Industry Governor

John W. Bachmann is Senior Partner of Edward Jones. Mr. Bachmann has been with Edward Jones in various positions since 1959. He became managing principal in 1980. Mr. Bachmann served as Chairman of the Securities Industry Association and on the Board of Governors of the Chicago Stock Exchange and on the Regional Firm's Advisory Board of the New York Stock Exchange. He has also served as Chairman of the NASD District 4 Committee. Mr. Bachmann is currently Chairman of the U. S. Chamber of Commerce and a Director of AMR American Airlines and the Monsanto Company. He holds a degree in economics from Wabash College and a Master's in finance from Northwestern University.

Richard F. Brueckner is Chief Executive Officer of Pershing LLC, a wholly owned subsidiary of The Bank of New York (BNY). Mr. Brueckner joined BNY in May 2003 when BNY acquired Pershing from Credit Suisse First Boston. He served as CEO of Pershing and as a member of the CSFB Executive Board after CSFB's acquisition of Donaldson, Lufkin and Jenrette and Pershing in November 2000. Mr. Brueckner joined DLJ in 1978 and has served as Treasurer of DLJ Securities Corporation, Chief Financial Officer of Pershing, and has held a variety of senior management positions in administration, finance, marketing, and operations at Pershing. Prior to 1978, he was in the management group of the Investment Services Department of KPMG Peat Marwick. Mr. Brueckner served as Chairman of the Securities Industry Foundation for Economic Education and is a trustee of its successor organization, Foundation for Investor Education. He is a director of the Securities Industry Association and has served as the founding Chairman of the Clearing Firms Committee, Chairman of the Membership Committee and Chairman of the New York District. He has also served on various boards and committees for the NASD. Mr. Brueckner holds a B.A. in economics from Muhlenberg College, where he is Vice Chairman of the Board of Trustees. He is also a CPA.

William Heyman is Executive Vice President and Chief Investment Officer of The St. Paul Travelers Companies, Inc. Until March 15, 2002, Mr. Heyman was Chairman of Citigroup Investments, a subsidiary of Citigroup that managed most of Citigroup's proprietary investments. His responsibilities included all public and private equity-related investments, real estate and alternative investments, as well as Citigroup's pension fund. He founded and was until his departure Chief Executive Officer of Tribeca Investments, a Citigroup subsidiary that conducts proprietary trading and investment activities, including merger arbitrage and convertible hedging. He was a Senior Vice President of various Citigroup insurance subsidiaries, including Travelers, and served as a Citigroup representative on several boards. Prior to joining Citigroup in 1995, he was, successively, a Managing Director and head of the private investment department of Soloman Brothers; Director of the Division of Market Regulation of the U.S. Securities and Exchange Commission in Washington, DC (1991-1993); and a Managing Director and head of the arbitrage department of Smith Barney. He began his career in the securities business in 1979, when he co-founded Mercury Securities, a broker-dealer specializing in merger arbitrage of which he was the Chief Operating Officer for nine years. Prior to that, he was a securities lawyer, principally with Cravath, Swaine & Moore. Mr. Heyman graduated *magna cum laude* from Princeton University, where he was elected to Phi Beta Kappa, and *cum laude* from Harvard Law School.

Raymond A. Mason is Chairman of the Board, President and Chief Executive Officer of Legg Mason, Inc. and Chairman and CEO of Legg Mason Wood Walker, Inc. Mr. Mason founded Mason and Company in 1962, and in 1970 the company merged to form Legg Mason, Inc. He has been very active in the securities industry, serving as Chairman of the Securities Industry Association in 1986, Chairman of the Board of Governors of the NASD in 1974 and Chairman of the Regional Firms Committee of the New York Stock Exchange in 1978. He was appointed by the SEC to serve on a broker compensation practices committee in May 1994. Currently, he is Chairman of the Board of Trustees of Johns Hopkins University and a member of the executive committee of both the Johns Hopkins University and Johns Hopkins Medicine, and Chairman of the Maryland Business Roundtable for Education. Mr. Mason received a bachelor's degree in economics from the College of William and Mary.

NASD Profiles of Board Nominees for Public Governor

James E. Burton is the Chief Executive Officer of World Gold Council in London, England. Previously, he served as Chief Executive Officer of California Public Employees Retirement System (CalPERS) since 1994. Prior to joining CalPERS, Mr. Burton was Deputy State Controller, advising the State Controller on public pension, government borrowing and other state finance issues. He has also held various government positions, including Deputy Chief of Staff to Governor Jerry Brown. Mr. Burton is a past officer of the National Association of State Retirement Administrators and the Council of Institutional Investors. Mr. Burton holds a degree from the University of San Francisco.

Sir Brian Corby served as Chairman of Prudential Corporation plc from 1990 until his retirement in 1995. Prior to this, he was Group Chief Executive. Sir Brian has also served as President of the Confederation of British Industry, President of the National Institute of Economic and Social Research, and President of the "Association de Geneve," an insurance industry "think tank." He was made a Knight Bachelor in the Queen's Birthday Honours in June 1989. Sir Brian graduated with an honours degree in mathematics from St. John's College Cambridge.

John Rutherford, Jr. is Chairman and Chief Executive Officer of Moody's Corporation. He was elected Chairman in October 2003. Mr. Rutherford was named CEO when the firm became an independent public company in October 2000. Previously, Moody's was part of the Dun & Bradstreet Corporation. He joined the company in 1995 to develop new business activities with the title of Managing Director, Moody's Holdings. He was appointed Chief Administrative Officer in 1996 and President in 1998. Prior to joining Moody's, he was President of Interactive Data Corporation (IDC) from 1990 to 1995, Executive Vice President of Dun & Bradstreet Financial Information Services (North America) from 1989 to 1990, and Vice President and Chief of Staff from 1980 to 1985 of Chase Information Services Group, an affiliate of Chase Manhattan Bank. Mr. Rutherford received an AB from Princeton University and an LLB from Harvard Law School.

ATTACHMENT C

Current Board of Governors

Governors with Terms Expiring in January 2005

INDUSTRY

John W. Bachmann	Senior Partner, Edward D. Jones & Company
Richard F. Brueckner	Chief Executive Officer, Pershing LLC (Representative of a Firm that Provides Clearing Services to other NASD Members)
Raymond A. Mason	Chairman and CEO, Legg Mason, Inc. (Representative of a Regional Retail Firm)
Barbara L. Weaver ²	Vice President, Legal & Compliance, Howard Weil, Incorporated (Chair of the National Adjudicatory Council)

NON-INDUSTRY

Harry P. Kamen*	Retired Chairman and Chief Executive Officer, Metropolitan Life Insurance Company (Representative of an Insurance Company)
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PUBLIC

James E. Burton	Chief Executive Officer, World Gold Council
Sir Brian Corby	Chairman (retired), Prudential Corporation plc
John Rutherford, Jr.	Chairman and CEO, Moody's Corporation

Governors with Terms Expiring in January 2006

INDUSTRY

David A. DeMuro	Managing Director, Director of Global Compliance and Regulation, Lehman Brothers, Inc. (Representative of a National Retail Firm)
M. LaRae Bakerink*	Chief Executive Officer, Westfield Bakerink Brozak, LLC

NON-INDUSTRY

John J. Brennan	Chairman and CEO, The Vanguard Group (Representative of an Issuer of Investment Company Shares)
Eugene M. Isenberg*	Chairman and CEO, Nabors Industries, Inc.

PUBLIC

Kenneth M. Duberstein*	Chairman and CEO, The Duberstein Group, Inc.
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* Not eligible for re-election

Governors with Terms Expiring in January 2007

INDUSTRY

William C. Alsover, Jr.* Chairman, Centennial Securities Company, Inc. (Representative of an NASD Member having not more than 150 Registered Persons)

PUBLIC

Charles A. Bowsher Former Comptroller General of the United States

Joel Seligman Dean, Washington University School of Law

Sharon P. Smith* Dean, College of Business Administration, Fordham University

* Not eligible for re-election

Endnotes

- 1 Pursuant to Sections 1 and 3(b) of Article XXI of the NASD By-Laws, an NASD member may properly bring any other business before the Annual Meeting by giving timely notice in writing to the Secretary of NASD. In addition, the member must be an NASD member at the time of the delivery of such notice, and the other business must be a proper matter for member action. To be timely, a member's notice must be delivered to the Secretary at NASD's principal executive offices (the address is listed above) within 25 days after the date of this notice.
- 2 The Chair of the National Adjudicatory Council serves a one-year term on the NASD Board.

The member's notice must offer a brief description of the other business, any material interest of the member in such business, and the reasons for conducting such business at the Annual Meeting.

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