

Notice to Members

FEBRUARY 2005

SUGGESTED ROUTING

Continuing Education
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KEY TOPICS

Qualification Examinations
Registration
Research Reports
Rule 1050
Supervision

GUIDANCE

Research Analysts and Research Reports

NASD Announces Exemption from the Analysis Portion of the Research Analyst Qualification Examination (Series 86) for Certain Applicants Who Prepare Only “Technical Research Reports”

Executive Summary

NASD has amended NASD Rule 1050 to provide an exemption from the analysis portion of the Research Analyst Qualification Examination (Series 86) for certain applicants who prepare only “technical research reports” and have passed Levels I and II of the Chartered Market Technician (CMT) Certification Examination administered by the Market Technicians Association (MTA). There will be no extension to the April 4, 2005, grace-period deadline for applicants who are eligible for the grace period to satisfy the research analyst registration requirements. Therefore, those individuals who wish to avail themselves of the CMT exemption must complete the process set forth below and meet the other registration requirements by that date.

Questions/Further Information

Questions concerning this *Notice* may be directed to Joe McDonald, Associate Director, NASD Testing and Continuing Education Department (TCE), at (240) 386-5065; or Carole Hartzog, Senior Analyst, TCE, at (240) 386-4678.

Background and Discussion

NASD Rule 1050 requires all persons associated with a member who function as research analysts to be registered as such with NASD and pass a qualification examination. Rule 1050 is intended to ensure that research analysts possess a certain competency level to perform their jobs effectively and in accordance with applicable rules and regulations. In the context of this requirement, Rule 1050 defines "research analyst" as "an associated person who is primarily responsible for the preparation of the substance of a research report or whose name appears on a research report." The term "research report" in Rule 1050 has the meaning as defined in Rule 2711(a)(8): "a written or electronic communication that includes an analysis of equity securities of individual companies or industries, and that provides information reasonably sufficient upon which to base an investment decision."

Pursuant to Rule 1050, and in conjunction with the New York Stock Exchange (NYSE), NASD in 2004 implemented the Research Analyst Qualification Examination (Series 86/87) (See *NASD Notice to Members 04-25*). The examination consists of an analysis part (Series 86) and regulatory part (Series 87). Prior to taking either the Series 86 or 87, a candidate also must have passed the General Securities Representative Examination (Series 7), the Limited Registered Representative (Series 17), or the Canada Module of Series 7 (Series 37 or 38). Persons who were functioning as research analysts on the effective date of March 30, 2004, and submitted a registration application to NASD by June 1, 2004, have until April 4, 2005, to meet the registration requirements. Individuals who applied for registration as a research analyst after June 1, 2004, are not eligible for the grace period and are subject to NASD's normal qualification requirements.

The Series 86 examination consists of 100 multiple-choice questions that test fundamental analysis and valuation of equity securities. In contrast, technical research is a discipline that eschews fundamental analysis of companies and valuation of their securities and instead focuses on stock price movements and trading volume. For the purposes of NASD Rule 2711, technical research of securities is treated the same as fundamental research because the same conflicts that the rule addresses can exist, and investors similarly benefit from the required disclosures under the rule. However, the content of the Series 86 examination focuses exclusively on fundamental analysis and does not test technical research concepts.

NASD believes that investors will be better served by having a qualification standard directly applicable to persons preparing technical research reports, which will demonstrate their competency based on the job functions and knowledge needed to perform such functions. NASD staff has analyzed the process in which the MTA has developed its examination and is satisfied that it meets generally accepted test development procedures.

Therefore, NASD has added an exemption from the Series 86 for certain associated persons who function as a research analyst but prepare only “technical research reports.” Such a technical research analyst who has passed both Levels I and II of the CMT Certification Examination that is administered by the MTA may request an exemption from Part I (Series 86), the analysis portion of the Research Analyst Qualification Examination. To be eligible for the exemption, an applicant must have passed Levels I and II of the CMT Certification Examination and must either (1) have functioned continuously as a research analyst since having passed Level II of the CMT Certification Examination, or (2) have passed Level II of the CMT Certification Examination within two years of application for registration as a research analyst. These requirements parallel a similar existing exemption for research analysts who have passed Levels I and II of the Chartered Financial Analysts examination.

For the purposes of this exemption, a “technical research report” is a research report (as that term is defined in NASD Rule 2711(a)(8)) that is based solely on stock price movement and trading volume and not on the subject company’s financial information, business prospects, contact with the subject company’s management, or the valuation of the subject company’s securities. The exemption is available only to research analysts who exclusively prepare technical research reports. An associated person who prepares any research report or whose name appears on a research report that does not meet this definition of a “technical research report” would be required to pass the Series 86 or qualify for another exemption or waiver.

Exemption Procedures

In addition to submitting to NASD via Web CRD a Uniform Application for Securities Industry Registration or Transfer Form (Form U4) to register a person as a Research Analyst, member firms are also required to request the exemption in writing for eligible candidates. To request the exemption, the member must submit the following information to the NASD Testing and Continuing Education Department via e-mail at RSCMT@nasd.com:

- ◆ Candidate’s name (Last, First, Middle Initial)
- ◆ Candidate’s CRD Number
- ◆ Candidate’s Birth Date (MM/DD/YR)
- ◆ Broker-Dealer Name and CRD#
- ◆ A statement of which prerequisite the candidate meets (*i.e.*, whether candidate has either (1) functioned continuously as a research analyst since having passed Level II of the CMT examination, or (2) passed Level II of the CMT examination within two years of application for registration as a research analyst.)

NASD staff will then contact MTA to confirm the candidate's eligibility. Upon receipt of a positive response from MTA, the exemption will be posted to the candidate's CRD record and notification will be sent to the member firm. Candidates who have not completed the required MTA examinations must pass both the Series 86 and 87. For candidates seeking a Series 86 exemption, note that registration approval will not be posted until the candidate also passes the Series 87.

As stated above, candidates who were functioning as research analysts on the effective date of March 30, 2004, have been granted a grace period until April 4, 2005, to meet the research analyst registration requirements. NASD will not extend the grace period to individuals who are seeking the exemption from the Series 86 portion of the exam discussed in this *Notice*.