

Notice to Members

JUNE 2005

SUGGESTED ROUTING

Executive Representatives
Legal & Compliance
Senior Management

KEY TOPICS

Annual Compliance Meetings
Rule 3010

GUIDANCE

Annual Compliance Meetings

SEC Approves Amendments Relating to Annual Compliance Meetings; **Effective Date: July 25, 2005**

Executive Summary

On April 25, 2005, the Securities and Exchange Commission (SEC) approved amendments to Rule 3010(a)(7) to require that registered principals, in addition to registered representatives, attend an annual compliance meeting. The SEC also approved amendments to Rules 3010(a), 3010(a)(3), and 3010(b)(1) to clarify that the scope of these rules specifically extends to registered representatives, registered principals, and other associated persons.¹

The rules, as amended, are set forth in Attachment A. The amendments become effective on **July 25, 2005**.

Questions/Further Information

Questions concerning this *Notice* may be directed to Afshin Atabaki, Counsel, Office of General Counsel, Regulatory Policy and Oversight, at (202) 728-8902.

Background and Discussion

Prior to the rule amendments discussed in this *Notice*, Rule 3010(a)(7) required the attendance of registered representatives at annual compliance meetings, but it did not require the attendance of registered principals. Given the supervisory and compliance-related functions that principals perform and that the primary purpose of annual compliance meetings is to discuss compliance issues and keep registered persons current on changing compliance requirements or changes in the firm, NASD has amended Rule 3010(a)(7) to require that all registered principals, in addition to registered representatives, attend an annual compliance meeting in accordance with the Rule.

As amended, Rule 3010(a)(7) now requires that each registered representative and registered principal participate, at least once each year, in an interview or meeting at which compliance matters relevant to the activities of the particular representative and principal are discussed. These interviews or meetings can be held individually or with a group and can be held at a central or regional location or at the representative's or principal's place of business. As discussed in *Notice to Members (NTM) 99-45* (June 1999), members are provided with substantial flexibility in implementing the annual compliance meeting. For instance, as further detailed in *NTM 99-45*, the interview or meeting may be conducted by video conference, interactive classroom setting, telephone, or other electronic means (including webcast), provided that certain safeguards are in place.

NASD also has made technical amendments to Rules 3010(a), 3010(a)(3), and 3010(b)(1) to clarify that the scope of these rules specifically extends to registered representatives, registered principals, and all other associated persons.

Endnote

- 1 See Securities Exchange Act Release No. 51605 (April 25, 2005), 70 FR 22732 (May 2, 2005) (Order Approving Proposed Rule Change and Amendment Nos. 1 and 2 Thereto Relating to Annual Compliance Meetings; File No. SR-NASD-2005-004).

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ATTACHMENT A

New language is underlined; deleted language is in brackets.

3010. Supervision

(a) Supervisory System

Each member shall establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules. Final responsibility for proper supervision shall rest with the member. A member's supervisory system shall provide, at a minimum, for the following:

(1) through (2) No Change.

(3) The designation as an office of supervisory jurisdiction (OSJ) of each location that meets the definition contained in paragraph (g) of this Rule. Each member shall also designate such other OSJs as it determines to be necessary in order to supervise its registered representatives, registered principals, and other associated persons in accordance with the standards set forth in this Rule, taking into consideration the following factors:

(A) whether registered persons at the location engage in retail sales or other activities involving regular contact with public customers;

(B) whether a substantial number of registered persons conduct securities activities at, or are otherwise supervised from, such location;

(C) whether the location is geographically distant from another OSJ of the firm;

(D) whether the member's registered persons are geographically dispersed; and

(E) whether the securities activities at such location are diverse and/or complex.

(4) through (6) No Change.

(7) The participation of each registered representative and registered principal, either individually or collectively, no less than annually, in an interview or meeting conducted by persons designated by the member at which compliance matters relevant to the activities of the representative(s) and principal(s) are discussed. Such interview or meeting may occur in conjunction with the discussion of other matters and may be conducted at a central or regional location or at the representative's(') or principal's(') place of business.

(b) Written Procedures

(1) Each member shall establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable Rules of NASD [this Association].

(2) through (4) No Change.

(c) through (g) No Change.