

Notice to Members

NOVEMBER 2006

SUGGESTED ROUTING

Legal & Compliance
Registered Representatives
Registered Principals
Senior Management

KEY TOPICS

Continuing Education
Rule 1022 (Categories of Principal Registration)
Rule 1032 (Categories of Representative Registration)
Security Futures

GUIDANCE

Security Futures Rules

Amendments to Registration Rules Extending the Date by which Eligible Registrants must Complete Continuing Education Program before Engaging in Security Futures Activities; **Effective Date: November 15, 2006**

Executive Summary

On October 16, 2006, NASD filed with the Securities and Exchange Commission (SEC) for immediate effectiveness a rule change to amend Rule 1022 (Categories of Principal Registration) and Rule 1032 (Categories of Representative Registration) to extend to December 31, 2009 the date by which all eligible registrants must complete a firm-element continuing education program to qualify to engage in security futures activities.¹ Rules 1022 and 1032, as amended, are set forth in Attachment A of this *Notice*. The implementation date of the amendments is November 15, 2006.

Questions/Further Information

Questions regarding this *Notice* may be directed to Patricia Albrecht, Assistant General Counsel, Office of General Counsel, at (202) 728-8026.

Discussion

In 2003, NASD modified the following registration categories to include the activities of engaging in and supervising securities futures: (1) Registered Options and Security Futures Principal (Series 4); (2) Limited Principal - General Securities Sales Supervisor (Series 9/10); (3) General Securities Representative (Series 7); and (4) Limited Representative - Options and Security Futures (Series 42). NASD also required that persons registered or becoming registered in these categories complete a firm-element continuing education requirement addressing security futures before conducting any security futures business.

NASD instituted this continuing education requirement to ensure that registered personnel, who may not be familiar with the risks, trading characteristics, terms and nomenclature of these products, or the fact that they are subject to the joint jurisdiction of the SEC and CFTC, receive appropriate training. The rules specified, however, that any person that intends to qualify to engage in security futures activities by completing a firm-element continuing education program must complete such program by December 31, 2006.

As noted in *Notice to Members 02-73* (November 2002), NASD initially considered creating new, or revising existing, qualification examinations for the registration categories listed above that would qualify a registrant to engage in security futures activities. The December 31, 2006 date was intended to be a cutoff date for existing registrants, who were qualified in a registration category for which a qualification examination was going to be created or revised, to complete the firm-element continuing registration requirement in lieu of taking the new or revised qualification examination.

However, there are no plans at present to create new or revised qualification examinations that would address security futures, and NASD believes that the continuing education requirement has been an effective method of ensuring that registered personnel are properly informed about security futures products. Accordingly, NASD has extended to December 31, 2009 the date by which all eligible registrants must complete a firm-element continuing education program to qualify to engage in security futures activities. Firms should be aware, however, that irrespective of the cutoff date, no eligible registrant may engage in any security futures business for which registration is required before completing the mandated firm-element continuing education requirement. The December 31, 2009 date serves merely as a cutoff date for eligible registrants to complete firm-element continuing education as an alternative to taking any new or revised qualification examinations addressing security futures that may be developed in the future.

The implementation date of the amendment is November 15, 2006.

Endnote

- 1 See Exchange Act Rel. No. 54617 (Oct. 16, 2006), 71 FR 62498 (Oct. 25, 2006) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Extend the Date by Which Eligible Registrants Must Complete Firm-Element Continuing Education to Qualify to Engage in a Securities Futures Business; SR-NASD-2006-118).

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ATTACHMENT A

New text is underlined; deletions are in brackets.

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1022. Categories of Principal Registration

(a) through (e) No change.

(f) Limited Principal-Registered Options and Security Futures

(1) through (4) No change.

(5) Any person who is registered with NASD as a Registered Options and Security Futures Principal, or who becomes registered as a Registered Options and Security Futures Principal before a revised examination that includes security futures products is offered, must complete a firm-element continuing education program that addresses security futures and a principal's responsibilities for security futures before such person can supervise security futures activities. After a revised examination that includes security futures products is offered, a person associated with a member who passes such a revised Qualification Examination for Registered Options and Security Futures Principal (or any other examination covering security futures that is acceptable to NASD) is not required to complete a firm-element continuing education program that addresses security futures and a principal's responsibilities for security futures to supervise activities in such products, except as otherwise required by Rule 1120 generally or by the member firm. Any Registered Options and Securities Futures Principal who intends to qualify to supervise security futures activities by completing a firm-element continuing education program must complete such a program by December 31, 2009^[6]. Any Registered Options and Securities Futures Principal who has not completed a firm-element continuing education program by that date will be required to pass an appropriate qualification examination covering security futures to supervise security futures activities.

(g) Limited Principal-General Securities Sales Supervisor

(1) through (2) No change.

(3) Any person who is registered with NASD as a Limited Principal-General Securities Sales Supervisor, or who becomes registered as a Limited Principal-General Securities Sales Supervisor before a revised examination that includes security futures products is offered, must complete a firm-element continuing education program that addresses security futures and a principal's responsibilities for security futures before such person can supervise security futures activities. After a revised examination that includes security futures products is offered, a person associated with a member who passes such a revised Qualification Examination for Limited Principal-General Securities Sales Supervisor (or any other examination covering security futures that is acceptable to NASD) is not required to complete a firm-element continuing education program that addresses security futures and a principal's responsibilities for security futures to supervise such products, except as otherwise required by Rule 1120 generally or by the member firm. Any Limited Principal-General Securities Sales Supervisor who intends to qualify to supervise security futures activities by completing a firm-element continuing education program must complete such a program by December 31, 2009^[6]. Any Limited Principal-General Security Sales Supervisor who has not completed a firm-element continuing education program by that date will be required to pass an appropriate qualification examination covering security futures to supervise security futures activities.

(h) No change.

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1032. Categories of Representative Registration

(a) General Securities Representative

(1) No change.

(2) Except as provided in Rule 1031(c):

(A) A person who is registered with the Association as a General Securities Representative, or who becomes registered as a General Securities Representative before a new examination that includes security futures is offered, must complete a firm-element continuing education program that addresses security futures products before such person can act as a General Securities Representative with regard to security futures products. After a new examination that includes security futures products is offered, a person associated with a member who passes such a new Qualification Examination for General Securities Representative (or any other examination covering security futures that is acceptable to NASD) is not required to complete a firm-element continuing education program that addresses security futures to act as a General Securities Representative with regard to such products, except as otherwise required by Rule 1120 generally or by the member firm. Once the new examination that includes security futures becomes available, persons seeking to become a General Securities Representative will be required to pass such new examination (or any other examination covering security futures that is acceptable to NASD) to act as a General Securities Representative with regard to security futures products. Only persons registered as a General Securities Representative prior to the time that the new examination is available ("eligible General Securities Representatives") will be eligible to use a firm-element continuing education program in lieu of passing the new examination or module to engage in a security futures business. Any eligible General Securities Representative who intends to qualify as a General Securities Representative with regard to security futures products by completing a firm-element continuing education program must complete such a program by December 31, 2009^[6]. Any eligible General Securities Representative who has not completed a firm-element continuing education program by that date will be required to pass an appropriate qualification examination to engage in security futures activities.

(B) through (D) No change.

(3) No change.

(b) through (c) No change.

(d) Limited Representative-Options and Security Futures

(1) through (3) No change.

(4) Any person who is registered with the Association as a Limited Representative-Options and Security Futures, or who becomes registered as a Limited Representative-Options and Security Futures before a revised examination that includes security futures is offered, must complete a firm-element continuing education program that addresses security futures. After a revised examination that includes security futures products is offered, a person associated with a member who passes such a revised Qualification Examination for Limited Representative-Options and Security Futures (or any other examination covering security futures that is acceptable to NASD) is not required to complete a firm-element continuing education program that addresses security futures to act as a limited representative with regard to such products, except as otherwise required by Rule 1120 generally or by the member firm. Any Limited Representative-Options and Security Futures who intends to qualify as a Limited Representative with regard to security futures products by completing a firm-element continuing education program must complete such a program by December 31, 2009^[6]. Any Limited Representative-Options and Security Futures who has not completed a firm-element continuing education program by that date will be required to pass an appropriate qualification examination covering security futures to engage in security futures activities.

(e) through (h) No change.

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