

June 12, 1998

Katherine A. England
Assistant Director
Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549
Mail Stop 10-1/Room [to be inserted]

Re: **File No. SR-NASD-98-43**- Extension of application deadline Series 55 Examination,
Equity Trader

Dear Ms. England:

Pursuant to Rule 19b-4, enclosed herewith is the above-numbered rule filing. Also enclosed is a 3-1/2" disk containing the rule filing in Microsoft Word 7.0 to facilitate production of the Federal Register release.

If you have any questions, please contact Peter R. Geraghty, Assistant General Counsel, Office of General Counsel, NASD Regulation, Inc., at (202) 728-8227; e-mail geraghpr@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Joan C. Conley
Secretary

Attachment

File No. SR-NASD-98-43
Consists of 15 Pages

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C.

Form 19b-4

Proposed Rule Change

by

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 ("Act"), NASD Regulation, Inc. ("NASD Regulation") is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change to amend Rule 1032(f) of the National Association of Securities Dealers, Inc. ("NASD" or "Association") to change the date by which registered representatives who currently trade equity securities in the Nasdaq Stock Market (Nasdaq) and/or over-the-counter must apply for Equity Trader registration. Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

Rule 1032. Categories of Representative Registration

(f) Limited Representative - Equity Trader

(2) Before registration as a Limited Representative - Equity Trader as defined in subparagraph (1) hereof may become effective, an applicant must:

(B) pass an appropriate Qualification Examination for Limited Representative-Equity Trader. Any person who was performing any of the activities described in paragraph (f)(1) above on or prior to May 1, 1998 and who has filed an

application to take this examination by [(date thirty (30) days after the effective date of this rule)] August 31, 1998 must pass the examination by [(24 months after effective date above)] May 1, 2000. Any person who is eligible for this extended qualification period and who fails this examination during [such] the twenty-four (24) month time period commencing on May 1, 1998 and ending on May 1, 2000 must wait thirty (30) days from the date of failure to take the examination again. Any person, other than a person who is eligible for the extended qualification period, who files an application to take this qualification examination after [(date thirty (30) days after the effective date of this rule)] May 1, 1998 must pass this examination before conducting such activities as described in paragraph (f)(1) above. In no event may a person who is eligible for the extended qualification period function as an Equity Trader beyond the 24 - month period without having successfully passed the appropriate qualification examination.

(b) Not applicable

(c) Not applicable

2. Procedures of the Self-Regulatory Organization

(a) The proposed rule change extends the deadline from May 1, 1998 until August 31, 1998 for registered persons to apply for Equity Trader registration under Rule 1032(f). The Board of Directors of NASD Regulation authorized the filing with the Securities and

Exchange Commission (“SEC”) of proposed Rule 1032(f), File No. SR-NASD-97-21, at its meeting on November 14, 1996. The Nasdaq Stock Market had an opportunity to consult with respect to the original proposed rule change, pursuant to the Plan of Allocation and Delegation of Functions by the NASD to its Subsidiaries. The NASD Board of Governors had an opportunity to review the original proposed rule change at its meeting on December 12, 1996. No other action by the NASD is necessary for the filing of the instant proposed rule change. Section 1(a)(ii) of Article VI of the By-Laws permits the NASD Board of Governors to adopt NASD Rules/amendments to NASD Rules without recourse to the membership for approval. The original rule filing, File No. SR-NASD-97-21, specified that the deadline for applying for Equity Trader Registration was thirty (30) days after the effective date of Rule 1032(f). The effective date was April 1, 1998, which was announced by a notice to members in February 1998.¹ The original filing intended to give currently registered persons sufficient time to apply for the two-year grace period to pass the new Series 55 Examination. Thus, by extending the deadline for making such application, the instant rule filing is consistent with prior authorization.

(b) Questions regarding this rule filing may be directed to Peter R. Geraghty, Assistant General Counsel, NASD Regulation, Office of General Counsel, at (202) 728-8227.

¹ See Notice to Members 98-17 (February 1998).

1. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) **Purpose**

On January 2, 1998, the SEC approved File No. SR-NASD-97-21, which proposed amending NASD Rule 1032 to add an additional category of representative registration.² Specifically, Rule 1032(f) requires each registered representative who engages in proprietary or agency trades of equities, preferred securities or convertible debt securities otherwise than on a securities exchange, or who directly supervises such activities (*i.e.*, functioning as an “Equity Trader”), to register as a Limited Representative-Equity Trader. In order to register as a Limited Representative-Equity Trader, the representative must be registered as a General Securities Representative or as a Limited Representative-Corporate Securities, and must pass the Series 55 Examination.³ The rule contains an exemption for representatives whose principal trading activities involve executing orders on behalf of an affiliated investment company that is registered with SEC under the Investment Company Act of 1940.

The rule provides that presently registered representatives who file an application to take the Series 55 Examination within thirty (30) days of the effective date of the rule must pass the Series 55 Examination within two (2) years of the effective date of the rule. The effective date of the rule was April 1, 1998, which was announced in Notice to Members 98-17. Accordingly, a presently registered representative had until May 1, 1998 to file an

² Securities Exchange Act Release No. 39516, 63 FR 1520 (January 9, 1998).

³ Representatives who have been “grandfathered” from taking the Series 7 or the Series 62 Examinations

application to take the Series 55 Examination and until May 1, 2000 to receive a passing score on the exam. The rule also provides that any person, including a presently registered representative, who files an application to take the Series 55 examination after May 1, 1998 must pass the Series 55 Examination before functioning as an Equity Trader.

It has come to NASD Regulation's attention that many presently registered representatives who would have been eligible for the two year grace period to pass the Series 55 Examination failed to file applications by May 1, 1998. Thus, such registered representatives must immediately cease functioning as Equity Traders until they pass the exam. As discussed above, the original proposal provided presently registered representatives thirty (30) days from the effective date of the rule to file applications to take the Series 55 Examination. NASD Regulation believed this would provide such representatives sufficient time to file applications. Unfortunately, this has not been the case. If the deadline is not extended, those registered representatives who failed to file applications by the deadline will be forced to cease certain activities, which could cause disruptions at NASD member firms and could cause harm to customers. NASD Regulation does not believe the markets or customers will be served by a strict application of this administrative deadline. Consequently, NASD Regulation is proposing to extend the deadline for filing an application from May 1, 1998 until August 31, 1998. Thus, a registered representative who was eligible for the two year grace period but who failed to file an application by May 1, 1998, but who files an application by August 31, 1998, can continue functioning as an Equity Trader until he/she

will not be required to take either examination in order to take the Series 55.

receives a passing score on the Series 55 Examination. However, such registered representative cannot continue functioning as an Equity Trader after May 1, 2000 unless he/she receives a passing score on the Series 55 Examination before May 1, 2000. Any person not functioning as an Equity Trader on or before May 1, 1998 must pass the Series 55 Examination before functioning as such.

(b) Statutory Basis

NASD Regulation believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act, which requires, among other things, that the Association's rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. NASD Regulation believes that the proposal is consistent with Act because it continues to require presently registered representatives to receive a passing score on the Series 55 examination before May 1, 2000 and to cease conducting certain specified activities if a passing score is not received by that date. The proposed change only allows certain registered representatives additional time to file applications to take the Series 55 Examination.

4. Self-Regulatory Organization's Statement on Burden on Competition

NASD Regulation does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

1. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

Not applicable.

2. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The rule change is effective upon filing pursuant to Section 19(b)(3)(A)(i) and Rule 19b-4(e)(1) thereunder because the proposal constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule.

3. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Exhibits

Completed notice of proposed rule change for publication in the Federal Register. Pursuant to the requirements of the Securities Exchange Act of 1934, NASD Regulation has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

NASD REGULATION, INC.

BY: _____
Joan C. Conley, Secretary

Date: December 9, 1999

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASD-98-43)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Extending the Deadline for Presently Registered Representatives to Apply for the Series 55 Examination, Equity Trader

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on , NASD Regulation, Inc. ("NASD Regulation") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASD Regulation. NASD Regulation has designated the proposed rule change, pursuant to paragraph (e)(1) of Rule 19b-4 under the Act,¹ as constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule, which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. SELF-REGULATORY ORGANIZATION'S STATEMENT OF THE TERMS OF SUBSTANCE OF THE PROPOSED RULE CHANGE

NASD Regulation is proposing to amend Membership and Registration Rule 1032 of the National Association of Securities Dealers, Inc. ("NASD" or "Association"), to change the

date by which registered representatives who currently trade equity securities in the Nasdaq Stock Market (Nasdaq) and/or over-the-counter must apply for Equity Trader registration. Below is the text of the proposed rule change. Proposed new language is in italics; proposed deletions are in brackets.

Rule 1032. Categories of Representative Registration

Limited Representative - Equity Trader

Before registration as a Limited Representative - Equity Trader as defined in subparagraph (1) hereof may become effective, an applicant must:

(B) pass an appropriate Qualification Examination for Limited Representative-Equity Trader. Any person *who was performing any of the activities described in paragraph (f)(1) above on or prior to May 1, 1998 and* who has filed an application to take this examination by [(date thirty (30) days after the effective date of this rule)] *August 31, 1998* must pass the examination by [(24 months after effective date above)] *May 1, 2000*. Any person who is eligible for this extended qualification period and who fails this examination during [such] the twenty-four (24) month time period *commencing on May 1, 1998 and ending on May 1, 2000* must wait *thirty (30) days* from the date of failure to take the examination again. Any person, *other than a person who is eligible for the extended qualification period,* who files an

¹ 17 CFR § 240.19b-4(e)(1).

application to take this qualification examination after [(date thirty (30) days after the effective date of this rule)] *May 1, 1998* must pass this examination before conducting such activities as described in paragraph (f)(1) above. In no event may a person who is eligible for the extended qualification period function as an Equity Trader beyond the 24 - month period without having successfully passed the appropriate qualification examination.

II. SELF-REGULATORY ORGANIZATION'S STATEMENT OF THE PURPOSE OF, AND STATUTORY BASIS FOR, THE PROPOSED RULE CHANGE

In its filing with the Commission, NASD Regulation included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. NASD Regulation has prepared summaries, set forth in Sections (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) **Purpose**

On January 2, 1998, the SEC approved File No. SR-NASD-97-21, which proposed amending NASD Rule 1032 to add an additional category of representative registration.² Specifically, Rule 1032(f) requires each registered representative who engages in proprietary or agency trades of equities, preferred securities or convertible debt securities otherwise than on a securities exchange, or who directly supervises such activities (*i.e.*, functioning as an “Equity Trader”), to register as a Limited Representative-Equity Trader. In order to register

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Securities Exchange Act Release No. 39516, 63 FR 1520 (January 9, 1998).

as a Limited Representative-Equity Trader, the representative must be registered as a General Securities Representative or as a Limited Representative-Corporate Securities, and must pass the Series 55 Examination.³ The rule contains an exemption for representatives whose principal trading activities involve executing orders on behalf of an affiliated investment company that is registered with SEC under the Investment Company Act of 1940.

The rule provides that presently registered representatives who file an application to take the Series 55 Examination within thirty (30) days of the effective date of the rule must pass the Series 55 Examination within two (2) years of the effective date of the rule. The effective date of the rule was April 1, 1998, which was announced in Notice to Members 98-17. Accordingly, a presently registered representative had until May 1, 1998 to file an application to take the Series 55 Examination and until May 1, 2000 to receive a passing score on the exam. The rule also provides that any person, including a presently registered representative, who files an application to take the Series 55 examination after May 1, 1998 must pass the Series 55 Examination before functioning as an Equity Trader.

It has come to the NASD Regulation's attention that many presently registered representatives who would have been eligible for the two year grace period to pass the Series 55 Examination failed to file applications by May 1, 1998. Thus, such registered representatives must immediately cease functioning as Equity Traders until they pass the 55 exam. As discussed above, the original proposal provided presently registered representatives thirty (30) days from the effective date of the rule to file applications to take the Series 55

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Representatives who have been grandfathered" from taking the Series 7 or the Series 62 Examinations will not

Examination. NASD Regulation believed this would provide such representatives sufficient time to file applications. Unfortunately, this has not been the case. If the deadline is not extended, those registered representatives who failed to file applications by the deadline will be forced to cease certain activities, which could cause disruptions at NASD member firms and could cause harm to customers. NASD Regulation does not believe the markets or customers will be served by a strict application of this administrative deadline. Consequently, NASD Regulation is proposing to extend the deadline for filing an application from May 1, 1998 until August 31, 1998. Thus, a registered representative who was eligible for the two year grace period but who failed to file an application by May 1, 1998, but who files an application by August 31, 1998, can continue functioning as an Equity Trader until he/she receives a passing score on the Series 55 Examination. However, such registered representative cannot continue functioning as Equity Trader after May 1, 2000 unless he/she receives a passing score on the Series 55 Examination before May 1, 2000. Any person not functioning as an Equity Trader on or before May 1, 1998 must pass the Series 55 Examination before functioning as such.

Statutory Basis

NASD Regulation believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act, which requires, among other things, that the Association's rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect

investors and the public interest. NASD Regulation believes that the proposal is consistent with the Act because it continues to require presently registered representatives to receive a passing score on the Series 55 examination before May 1, 2000 and to cease conducting certain specified activities if a passing score is not received by that date. The proposed change only allows certain registered representatives additional time to file applications to take the Series 55 Examination.

(B) Self-Regulatory Organization's Statement on Burden on Competition

NASD Regulation does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. DATE OF EFFECTIVENESS OF THE PROPOSED RULE CHANGE AND TIMING FOR COMMISSION ACTION

The foregoing proposed rule change has become effective upon filing pursuant to Section 19(b)(3)(A)(i) of the Act⁴ and Rule 19b-4(e)(1)⁵ promulgated thereunder because the proposal constitutes a stated policy, practice or interpretation with respect to the meaning, administration, or enforcement of an existing rule.

⁴ 15 U.S.C. § 78s(b)(3)(A)(i).

⁵ 17 CFR §240.19b-4(e)(1).

At any time within 60 days of this filing, the Commission may summarily abrogate this proposal if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. SOLICITATION OF COMMENTS

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to the file number in the caption above and should be submitted by [insert date 21 days from the date of publication].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority, 17 CFR 200.30-3(a)(12).

Jonathan G. Katz
Secretary