

December 1, 2000

Mr. Jack Drogin
Assistant Director
Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-1001

**Re: File No. SR-NASD-99-46; Proposed Rule Change and Amendment No. 2 to
Rule 1022, Chief Compliance Officer Registration**

Dear Mr. Drogin:

NASD Regulation hereby amends the above-referenced rule filing as follows and as reflected in the proposed rule language attached as Exhibit 1. The filing of this Amendment No. 2 was authorized by NASD Regulation's Board of Directors at its meeting on October 4, 2000.

In SR-NASD-99-46, NASD Regulation proposed that all persons designated as a Chief Compliance Officer ("CCO") on Schedule A of a member's Form BD, would be required to register with the Association as a General Securities Principal and pass an appropriate Qualification Examination. NASD Regulation proposed that it would apply the rule change prospectively only, i.e., any person listed as a CCO on a Form BD before the effective date of the rule change would not be required to take any examination in order to serve in that position for his or her current or future firm (referred to as "grandfathered" individuals). As stated in Amendment No. 1, filed with the Commission on October 28, 1999, a person who becomes a CCO for the first time after the effective date of the rule for a dual NYSE/NASD member may elect to take the NYSE Series 14 examination, and would not be required to take the NASD Series 24 examination to serve in that position.

NASD Regulation is amending the proposed rule change to limit grandfathering to individuals who have been designated as a CCO on Schedule A of Form BD for at least two years and who have not been subject within the previous ten years to: (1) any statutory disqualification as defined in Section 3(a)(39) of the Act; (2) a suspension; or (3) the imposition of a fine of \$5,000 or more for violation of any provision of any securities law or regulation, or any agreement with or rule or standard of conduct of any securities governmental agency, securities self-regulatory organization, or as imposed by any such regulatory or self-regulatory organization in connection with a disciplinary proceeding. Individuals who meet these qualifications for grandfathering will be required to register as a principal but will be exempt from taking a Qualification Examination; however, individuals who have been CCOs for members

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whose business is limited to the activities described in Rule 1022(d)(1)(A) or (e)(2) may only register as a limited principal in the appropriate category.

Based on these more stringent qualifications for grandfathering, a CCO who meets these qualifications will be considered to be appropriately qualified as either a General Securities Principal, Limited Principal-Direct Participation Programs, or Limited Principal-Investment Company and Variable Products and may serve as a principal for any other function within the parameters of these registrations without having to take the appropriate Qualification Examination. NASD Regulation also will subject all grandfathered CCOs to continuing education requirements.

In addition, NASD Regulation is amending the proposed rule change to require CCOs to take and pass the appropriate principal Qualifications Examination within 90 days following the effective date of the rule change. The Association will announce the effective date of this requirement and the date upon which the 90-day period ends in a Notice to Members.

If you have any questions, please contact Shirley H. Weiss, Office of General Counsel, NASD Regulation, Inc., at (202) 728-8844; e-mail Shirley.Weiss@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Alden S. Adkins
Senior Vice President
and General Counsel

Attachment

Exhibit A

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

1022. Categories of Principal Registration

(a) General Securities Principal

(1) Each person associated with a member who is included within the definition of principal in Rule 1021, and each person designated as a Chief Compliance Officer on Schedule A of Form BD, shall be required to register with the Association as a General Securities Principal and shall pass an appropriate Qualification Examination before such registration may become effective unless [his] such person's activities are so limited as to qualify [him] such person for one or more of the limited categories of principal registration specified hereafter. A person whose activities in the investment banking or securities business are so limited is not, however, precluded from attempting to become qualified for registration as a General Securities Principal, and if qualified, may become so registered. Each person seeking to register and qualify as a General Securities Principal must, prior to or concurrent with such registration, become registered, pursuant to the Rule 1030 Series, either as a General Securities Representative or as a Limited Representative-Corporate Securities. A person who has been designated as a Chief Compliance Officer on Schedule A of Form BD for at least two years immediately prior to [insert effective date of proposed rule change] and who has not been

subject within the last ten years to any statutory disqualification as defined in Section 3(a)(39) of the Act; a suspension; or the imposition of a fine of \$5,000 or more for violation of any provision of any securities law or regulation, or any agreement with or rule or standard of conduct of any securities governmental agency, securities self-regulatory organization, or as imposed by any such regulatory or self-regulatory organization in connection with a disciplinary proceeding shall be required to register as a General Securities Principal, but shall be exempt from the requirement to pass the appropriate Qualification Examination. If such person has acted as a Chief Compliance Officer for a member whose business is limited to the activities described in Rule 1022(d)(1)(A) or Rule 1022(e)(2), he or she shall be exempt from the requirement to pass the appropriate Qualification Examination only if he or she registers as a Limited Principal pursuant to Rules 1022(d) or Rule 1022(e), as the case may be, and restricts his or her activities as required by such registration category. A Chief Compliance Officer who is subject to the Qualification Examination requirement shall be allowed a period of 90 calendar days following [insert effective date of proposed rule change] within which to pass the appropriate Qualification Examination for Principals.

(a)(2) through (a)(6) No change

(b) through (g) No change

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