

February 2, 2004

Katherine A. England
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-2004-020 – Amendment to NASD Rule 1050 Related to
Registration and Qualification of Research Analysts**

Dear Ms. England:

Pursuant to Rule 19b-4, enclosed please find 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 Philip A. Shaikun, Office of General Counsel, Regulatory Policy and Oversight, NASD, at (202) 728-8451; e-mail philip.shaikun@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Barbara Z. Sweeney
Senior Vice President
and Corporate Secretary

Enclosures

File No. SR-NASD-2004-020
Consists of 23 Pages
February 2, 2004

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) of the Securities Exchange Act of 1934 (“Act”), the National Association of Securities Dealers, Inc. (“NASD”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend NASD Rule 1050 to set forth certain prerequisites and exemptions for the requirement that all associated persons who function as research analysts be registered with NASD and pass a qualification examination. Specifically, the proposed rule change would (1) establish as a prerequisite to be registered as a research analyst the requirement that an applicant first be registered pursuant to NASD Rule 1032 as a General Securities Representative and (2) provide for an exemption from the analytical portion of the Research Analyst Qualification Examination (Series 86) for certain applicants who have passed both Levels I and II of the Chartered Financial Analyst (“CFA”) Examination.

Below is the text of the proposed rule change. Proposed new language is underlined and deleted language is bracketed.

* * * * *

1050. Registration of Research Analysts

(a) All persons associated with a member who are to function as research analysts shall be registered with NASD. Before [their] registration[s] as a Research Analyst can become effective, [they]an applicant shall:

(1) be registered pursuant to Rule 1032 as a General Securities Representative;

and

(2) pass a Qualification Examination for Research Analysts as specified by the Board of Governors.

(b) For the purposes of this Rule 1050, "research analyst" shall mean 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.

(c) Upon written request pursuant to the Rule 9600 Series, NASD will grant a waiver from the analytical portion of the Research Analyst Qualification Examination (Series 86) upon verification that the applicant has passed Levels I and II of the Charter Financial Analyst Examination and has either (1) functioned as a research analyst continuously since having passed the Level II examination or (2) applied for registration as a research analyst within two years of having passed the Level II examination. An applicant who has been granted such an exemption still must become registered as a General Securities Representative and then complete the regulatory portion of the Research Analyst Qualification Examination (Series 87) before that applicant can be registered as a Research Analyst.

* * * * *

9600. PROCEDURES FOR EXEMPTIONS

9610. Application

(a) Where to File

A member seeking exemptive relief as permitted under Rules 1021, 1050, 1070, 2210, 2315, 2320, 2340, 2520, 2710, 2720, 2810, 2850, 2851, 2860, Interpretive Material 2860-1, 3010(b)(2), 3020, 3150, 3210, 3230, 3350, 8211, 8212, 8213, 11870, or 11900, Interpretive Material 2110-1, or Municipal Securities Rulemaking Board Rule G-37 shall file a written

application with the appropriate department or staff of the Association and provide a copy of the application to the Office of General Counsel of NASD Regulation.

(b) through (c) No change.

* * * * *

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

(a) The Board of Directors of NASD Regulation, Inc. approved the proposed rule change at its meeting on September 25, 2002, and authorized the filing of the rule change with the SEC. Counsel for The Nasdaq Stock Market and NASD Dispute Resolution have been provided an opportunity to consult with respect to the proposed rule change, pursuant to the Plan of Allocation and Delegation of Functions by NASD to its Subsidiaries. The NASD Board of Governors had the opportunity to review proposed rule change at its meeting on September 26, 2002. No other action by the NASD is necessary for the filing of the proposed rule change. Section 1(a)(ii) of Article VII of the NASD By-Laws permits the NASD Board of Governors to adopt NASD Rules without recourse to the membership for approval.

NASD will announce the effective date of the proposed rule change in a Notice to Members to be published no later than 60 days following Commission approval. The effective date will be not later than March 30, 2004 and no sooner than February 27, 2004 – 30 days after a

study outline for the Research Analyst Qualification Examination was filed for immediate effectiveness by NASD with the Commission.¹

(b) Questions regarding this rule filing may be directed to Philip A. Shaikun, Associate General Counsel, Office of General Counsel, Regulatory Policy and Oversight, NASD at (202) 728-8451.

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

(a) Purpose

The proposed rule change would implement certain aspects of Rule 1050, which requires that associated persons who function as research analysts register 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. The proposed rule change would require such persons not only to pass the Research Analyst Qualification Examination (Series 86/87), but also to be registered pursuant to NASD Rule 1032 as a General Securities Representative (Series 7, 17, 37 or 38). The proposed rule change further would provide for an exemption from the Series 86 analytical portion of the qualification examination for certain associated persons who have passed both Levels I and II of the CFA Examination administered by the Association for Investment Management and Research ("AIMR").

As to the General Representative qualification requirement, NASD believes it is important for those functioning as research analysts to be familiar with general industry rules and practices, particularly those of registered representatives, who are a primary source for distributing research.

¹ See Files SR-NASD-2004-010 (filed January 16, 2004) and SR-NASD-2004-017 (filed January 28, 2004).

The requirement further would develop in research analysts a sensitivity to the interests of public customers who are the end users of their work product. The proposed Series 86/87 examination program was developed jointly by NASD and NYSE staff in consultation with a committee of research analysts. Notably, the committee unanimously recommended that research analysts be required to pass the Series 7 in addition to a more job-specific research analyst qualification examination.²

NASD intends to require applicants to pass the Series 7 examination prior to taking the Series 86 or 87 examinations. NASD believes this is the most logical testing sequence and will provide a better foundation for applicants to understand and address the more specific topics and rules covered by the Series 86 and 87 examinations.

NASD has reviewed the content of the CFA examination and found the major areas tested in Levels I and II of that examination to be comparable to topics covered by the Series 86 examination. Moreover, NASD believes that the minimum passing scores for Levels I and II of the CFA examination are sufficient to ensure that those who succeed in passing those Levels have obtained a level of analytic competency commensurate with a passing score on the Series 86 examination. Accordingly, the proposed rule change would provide for an exemption³ from the Series 86 examination where an applicant has passed Levels I and II of the CFA examination and either (1) functioned as a research analyst continuously since having passed Level II or (2) applied for registration as a research analyst within two years of having passed Level II. NASD believes

² The Series 17, 37, and 38 are modified versions of the Series 7 for associated persons who are registered in good standing with the Financial Services Authority of the United Kingdom or one of the Canadian securities regulatory organizations.

³ Initially, the Series 86 exemption must be requested and granted manually; however, NASD anticipates that at some point the exemption will be granted automatically through the CRD system.

these limitations will ensure that applicants have current knowledge of the concepts covered by the CFA Level I and II examinations, as well as familiarity with the current regulatory environment. Applicants who do not meet these criteria may, based upon previous related employment/experience, make written request to NASD for a waiver.⁴

An applicant who has been granted such an exemption still must become registered as a General Securities Representative and then complete the regulatory portion of the Research Analyst Qualification Examination (Series 87) before the applicant can be registered and function as a Research Analyst.

(b) Statutory Basis

NASD 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 NASD 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 believes that that the proposed rule change is consistent with the provisions of the Act noted above in that it will ensure that those functioning as research analysts possess a minimum competency level and knowledge of applicable laws, rules and regulations, thereby enhancing investor protection.

⁴

Pursuant to Rule 1070 and the Rule 9600 Series, NASD may, in exceptional cases and where good cause is shown, waive the applicable qualification examination and accept other standards as evidence of an applicant's qualifications for registration. While NASD will consider waivers of the Series 86/87 in extraordinary circumstances, in light of the purpose of the new research analyst qualification requirements, NASD does not intend to grant waivers except to those who have either passed the Series 86/87 or the CFA Levels I and II.

To request either the CFA exemption or a waiver, a member must submit a written request to NASD's Testing and Qualification Department on behalf of the applicant that sets forth the basis for the request. If granted, NASD will then enter the exemption or waiver in the CRD system, which will register the applicant as a research analyst when the other examination requirements have been satisfied.

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

NASD 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.

5. 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

NASD does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.

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

Not applicable.

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

Not applicable.

9. Exhibits

1. Completed notice of proposed rule change for publication in the Federal Register.

Pursuant to the requirements of the Securities Exchange Act of 1934, NASD has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

NASD, INC.

BY: _____
Barbara Z. Sweeney, Senior Vice President and
Corporate Secretary

Date: February 2, 2004

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASD-2004-020)
[date]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Registration and Qualification of Research Analysts

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on , the National Association of Securities Dealers, Inc. (“NASD”), 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. 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 is proposing to amend NASD Rule 1050 to set forth certain prerequisites and exemptions for the requirement that all associated persons who function as research analysts be registered with NASD and pass a qualification examination. Specifically, the proposed rule change would (1) establish as a prerequisite to be registered as a research analyst the requirement that an applicant also be registered pursuant to NASD Rule 1032 as a General Securities Representative and (2) provide for an exemption from the analytical portion of the Research

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Analyst Qualification Examination (Series 86) for certain applicants who have passed both Levels I and II of the Chartered Financial Analyst (“CFA”) Examination.

Below is the text of the proposed rule change. Proposed new language is in italics.

1050. Registration of Research Analysts

(a) All persons associated with a member who are to function as research analysts shall be registered with NASD. Before [their] registration[s] as a Research Analyst can become effective, [they]an applicant shall:

(1) be registered pursuant to Rule 1032 as a General Securities Representative;

and

(2) pass a Qualification Examination for Research Analysts as specified by the Board of Governors.

(b) For the purposes of this Rule 1050, "research analyst" shall mean 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.

(c) Upon written request pursuant to the Rule 9600 Series, NASD will grant a waiver from the analytical portion of the Research Analyst Qualification Examination (Series 86) upon verification that the applicant has passed Levels I and II of the Charter Financial Analyst Examination and has either (1) functioned as a research analyst continuously since having passed the Level II examination or (2) applied for registration as a research analyst within two years of having passed the Level II examination. An applicant who has been granted such an exemption still must become registered as a General Securities Representative and then complete the

regulatory portion of the Research Analyst Qualification Examination (Series 87) before that applicant can be registered as a Research Analyst.

* * * * *

9600. PROCEDURES FOR EXEMPTIONS

9610. Application

(a) Where to File

A member seeking exemptive relief as permitted under Rules 1021, 1050, 1070, 2210, 2315, 2320, 2340, 2520, 2710, 2720, 2810, 2850, 2851, 2860, Interpretive Material 2860-1, 3010(b)(2), 3020, 3150, 3210, 3230, 3350, 8211, 8212, 8213, 11870, or 11900, Interpretive Material 2110-1, or Municipal Securities Rulemaking Board Rule G-37 shall file a written application with the appropriate department or staff of the Association and provide a copy of the application to the Office of General Counsel of NASD Regulation.

(b) through (c) No change.

* * * * *

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 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 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

The proposed rule change would implement certain aspects of Rule 1050, which requires that associated persons who function as research analysts register 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. The proposed rule change would require such persons not only to pass the Research Analyst Qualification Examination (Series 86/87), but also to be registered pursuant to NASD Rule 1032 as a General Securities Representative (Series 7, 17, 37 or 38). The proposed rule change further would provide for an exemption from the Series 86 analytical portion of the qualification examination for certain associated persons who have passed both Levels I and II of the CFA Examination administered by the Association for Investment Management and Research ("AIMR").

As to the General Representative qualification requirement, NASD believes it is important for those functioning as research analysts to be familiar with general industry rules and practices, particularly those of registered representatives, who are a primary source for distributing research. The requirement further would develop in research analysts a sensitivity to the interests of public customers who are the end users of their work product. The proposed Series 86/87 examination program was developed jointly by NASD and NYSE staff in consultation with a committee of research analysts. Notably, the committee unanimously recommended that research analysts be

required to pass the Series 7 in addition to a more job-specific research analyst qualification examination.³

NASD intends to require applicants to pass the Series 7 examination prior to taking the Series 86 or 87 examinations. NASD believes this is the most logical testing sequence and will provide a better foundation for applicants to understand and address the more specific topics and rules covered by the Series 86 and 87 examinations.

NASD has reviewed the content of the CFA examination and found the major areas tested in Levels I and II of that examination to be comparable to topics covered by the Series 86 examination. Moreover, NASD believes that the minimum passing scores for Levels I and II of the CFA examination are sufficient to ensure that those who succeed in passing those Levels have obtained a level of analytic competency commensurate with a passing score on the Series 86 examination. Accordingly, the proposed rule change would provide for an exemption⁴ from the Series 86 examination where an applicant has passed Levels I and II of the CFA examination and either (1) functioned as a research analyst continuously since having passed Level II or (2) applied for registration as a research analyst within two years of having passed Level II. NASD believes these limitations will ensure that applicants have current knowledge of the concepts covered by the CFA Level I and II examinations, as well as familiarity with the current regulatory

³ The Series 17, 37, and 38 are modified versions of the Series 7 for associated persons who are registered in good standing with the Financial Services Authority of the United Kingdom or one of the Canadian securities regulatory organizations.

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environment. Applicants who do not meet these criteria may, based upon previous related employment/experience, make written request to NASD for a waiver.⁵

An applicant who has been granted such an exemption still must become registered as a General Securities Representative and then complete the regulatory portion of the Research Analyst Qualification Examination (Series 87) before the applicant can be registered and function as a Research Analyst.

(b) Statutory Basis

NASD 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 NASD 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 believes that that the proposed rule change is consistent with the provisions of the Act noted above in that it will ensure that those functioning as research analysts possess a minimum competency level and knowledge of applicable laws, rules and regulations, thereby enhancing investor protection.

⁵

Pursuant to Rule 1070 and the Rule 9600 Series, NASD may, in exceptional cases and where good cause is shown, waive the applicable qualification examination and accept other standards as evidence of an applicant's qualifications for registration. While NASD will consider waivers of the Series 86/87 in extraordinary circumstances, in light of the purpose of the new research analyst qualification requirements, NASD does not intend to grant waivers except to those who have either passed the Series 86/87 or the CFA Levels I and II.

To request either the CFA exemption or a waiver, a member must submit a written request to NASD's Testing and Qualification Department on behalf of the applicant that sets forth the basis for the request. If granted, NASD will then enter the exemption or waiver in the CRD system, which will register the applicant as a research analyst when the other examination requirements have been satisfied.

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

NASD 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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

A. by order approve such proposed rule change, or

B. institute proceedings to determine whether the proposed rule change should be disapproved.

IV. SOLICITATION OF COMMENTS

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change [as amended] is consistent with the act. 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. Comments may also be submitted electronically at the following e-mail address: rule-comments@sec.gov. All comment letters should refer to File No. SR- NASD-2004-020. This file number should be

included on the subject line if e-mail is used. To help us process and review comments more efficiently, comments should be sent in hardcopy or by e-mail but not by both methods. 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 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).

Margaret H. McFarland
Deputy Secretary