

July 29, 2003

BY ELECTRONIC MAIL AND HAND DELIVERY

Ms. Katherine A. England
Assistant Director
Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: **File No. SR-NASD-2003-55** – Response to Comments on Proposed
Amendments to Article VIII (District Committees and District Nominating
Committees) of the By-Laws of NASD Regulation, Inc.

Dear Ms. England:

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934 (“Act”), the National Association of Securities Dealers, Inc. (“NASD” or “Association”) is filing with the Securities and Exchange Commission (“SEC”) this response to comments to SR-NASD-2003-55, relating to proposed amendments to Article VIII (District Committees and District Nominating Committees) of the By-Laws of NASD Regulation, Inc.¹ The SEC received two comment letters on SR-NASD-2003-55.² The comments raise one principal issue. NASD’s response is set forth below.

Article VIII of the By-Laws of NASD Regulation, Inc. (“Article VIII”) sets forth provisions relating to the operation of District Committees and District Nominating Committees (collectively, “Committees”), including specifically, provisions regarding District Committee meetings, vacancies, and elections. Currently, there are 11 District

¹ SR-NASD-2003-55 was filed on March 21, 2003 pursuant to Section 19(b)(3)(A) and Rule 19b-4(f)(6)(iii) of the Securities Exchange Act of 1934 (the “Act”). NASD subsequently filed three amendments to such rule filing, Amendment No. 1 on April 17, 2003, Amendment No. 2 on April 25, 2003, and Amendment No. 3 on June 6, 2003. Pursuant to the Act, the amendments would become operative 30-days from the date of filing. See 68 FR 35926 (June 17, 2003), Release No. 48015 (June 11, 2003). On July 7, 2003, NASD filed SR-NASD-2003-107 to delay the implementation date of the amendments until January 1, 2004.

² Comment letter from Benjamin Gray, Director of Compliance, Seidel & Shaw, LLC, to the Secretary, Securities and Exchange Commission, date received by Division of Market Regulation July 8, 2003 (“Gray Comment Letter”); and comment letter from Daniel W. Roberts, President, Roberts & Ryan Investments Inc., to the Secretary, Securities and Exchange Commission, date received by Division of Market Regulation July 23, 2003 (“Roberts Comment Letter”).

Committees, divided by geographic region. The proposed amendments are designed to streamline the nomination and election processes by, among other things, centralizing the communication procedures in the Corporate Secretary's Office, revising the nomination and election timeline, and modernizing the methods of communication by permitting electronic delivery of documents.

NASD believes the proposed amendments to Article VIII are necessary to improve the coordination and consistency among District Committees across the districts. Both the Gray Comment Letter and the Roberts Comment Letter assert that the amendments to Section 8.2 and Section 8.9 of the By-Laws which clarify the qualifications to serve on the District Committees and the District Nominating Committees, respectively, act to exclude candidates for election to District Committees (because associated persons who do not "work primarily from such NASD member's principal office or branch office that is located within the district where the member serves on a Committee," do not satisfy the qualification requirements).

Section 8.2 (Composition of District Committees) and Section 8.9 (Composition of District Nominating Committees) of the By-Laws currently require that each District Committee or District Nominating Committee member must be employed by an NASD member eligible to vote in such district where the District Committee member serves. It has been NASD's long-standing position, as codified in this rule filing, that this requires District Committee members to be employed by an NASD member eligible to vote in the district for District Committee elections and work primarily from such NASD member's principal office or a branch office that is located within the district where the member serves on a District Committee.

In contrast to NASD's national standing committees, District Committees have as their primary focus local representation and local issues. Importantly, the District Committees already have a formal mechanism to participate in national issues through the Advisory Council. The Advisory Council is a national committee comprised of the Chairpersons of the eleven District Committees, as well as the Chair of the Market Regulation Committee. Put simply, District Committees are designed for local representation. As a result, District Committees have consistently been populated with persons who primarily work from the principal office or branch office of a member firm in that region. Another model would dilute the voice of the members in the region that such District Committee is intended to represent. In this regard, the proposed amendment is intended to clarify the importance of a nexus between a member firm and the district in which associated persons of such member serve. This connection is essential to ensuring, to the fullest extent practicable, that District Committee members represent the views and concerns of the member firms in that geographic region. Further, when District Committee members work primarily from the same geographic region in which they serve, travel, communication, and meetings are less burdensome and less costly to NASD. More

Katherine A. England

July 29, 2003

Page 3

importantly, District Committee members are more knowledgeable about the local conditions that impact member firms in that region. Experience has shown that this type of direct input, knowledge, and accessibility fosters participation and discussion of ideas that furthers the core purpose for establishing District Committees.

NASD recognizes that certain registered representatives are not associated primarily with one member firm, or do not work primarily from the principal office or a branch office of a member firm within such region. However, based on experience, persons who do not work primarily from a particular region generally do not seek to serve as members of the District Committee in such region. As a result, NASD believes the number of persons affected by clarifying the qualification requirements is very limited in relation to NASD's overall membership of approximately 5,300 member firms and approximately 664,000 registered representatives. Based on the significant policy issue that each District Committee accurately reflect and fully represent the members in such region, NASD believes that this qualification standard is both reasonable and necessary.

If you have any questions, please contact me at (202) 728-6903, e-mail kosha.dalal@nasd.com.

Very truly yours,

Kosha K. Dalal
Assistant General Counsel

cc: Ann Leddy