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July 15, 2004

Catherine McGuire
Chief Counsel
Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-1001

Re: File No. SR-NASD-2003-176 – Amendment No. 2

Dear Ms. McGuire:

Pursuant to discussions with the staff of the Division of Market Regulation, NASD hereby submits Amendment No. 2 to the above-referenced rule filing, a proposal to require members to designate a chief compliance officer (“CCO”) and to require the CCO and chief executive officer (“CEO”) to certify annually that a member has in place processes to establish, maintain, review, modify and test policies and procedures reasonably designed to achieve compliance with applicable securities laws, rules and regulations. The proposed rule change was published for comment in the Federal Register on December 31, 2003.¹ On March 8, 2004, NASD filed with the Commission a response to comments and Amendment No. 1, which added a requirement that the mandated meetings between the CEO and CCO include discussion of compliance system deficiencies, risks and resources.

Attached to this letter are two exhibits. Exhibit 3 shows all of the changes from current NASD rules that would result from approval of the proposed rule change as amended. Exhibit 4 shows the changes between Amendment No. 1 and this Amendment No. 2. With respect to both exhibits, proposed new language is underlined and proposed deletions are in brackets.

For the reasons detailed in its response to comments, NASD believes the current proposal, as amended, effectively and efficiently achieves its goal to improve compliance – and by extension, investor protection – by fostering significant and regular interaction between senior management and compliance personnel. Nonetheless, at the request of the staff of the Division of Market Regulation, NASD has explored alternative means to accomplish the same objective. As a result, NASD is amending the proposal to eliminate the CCO certification requirement and instead incorporate into the accompanying interpretive material comprehensive language that describes the obligations of the CCO with respect to a member’s compliance scheme and the

¹ Exchange Act Release No. 48961 (December 23, 2003), 68 FR 75704 (December 31, 2003).

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indispensable role the CCO must play to enable the CEO to make the certification that a member has in place compliance processes. The amendment therefore maintains the pivotal function of the CCO in the certification and compliance processes. At the same time, it distinguishes the advisory role of the CCO in compliance matters from line supervisory responsibility.

The amendment also would require the CEO to certify that one or more meetings with the CCO have taken place in the preceding 12 months. NASD notes that, for certain members, the size, nature and complexity of their business may warrant more than one annual meeting between the CEO and CCO. Finally, the amendment would make certain non-substantive changes.

We encourage the Commission to approve the rule proposal as amended as soon as possible. Please feel free to contact me at (202) 728-8451 if you wish to discuss this matter further.

Sincerely,

Philip A. Shaikun
Associate General Counsel