

Proposed Rule Change by National Association of Securities Dealers
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input type="checkbox"/>	Section 19(b)(3)(A) <input checked="" type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
			Rule		
			<input checked="" type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description
Provide a brief description of the proposed rule change (limit 250 characters).

Proposed Rule Change to Provide an Exemption from the Research Analyst Qualification Examination for Certain Associated Persons Who Prepare Technical Research Reports

Contact Information
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name	<input type="text" value="Philip"/>	Last Name	<input type="text" value="Shaikun"/>
Title	<input type="text" value="Associate General Counsel"/>		
E-mail	<input type="text" value="philip.shaikun@nasd.com"/>		
Telephone	<input type="text" value="(202) 728-8451"/>	Fax	<input type="text" value="(202) 728-8264"/>

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date	<input type="text" value="02/04/2005"/>
By	<input type="text" value="Patrice Gliniecki"/>
	(Name)
	<input type="text" value="Senior Vice President and Deputy General Counsel"/>
	(Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

Add Remove View

Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(3) 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 provide for an exemption from the analytical portion of the Research Analyst Qualification Examination (Series 86) for certain applicants who prepare only “technical research reports” and have passed Levels I and II of the Chartered Market Technician (“CMT”) certification Examination administered by the Market Technicians Association (“MTA”).

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

* * * * *

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 registration as a Research Analyst can become effective, 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: _

(1) Levels I and II of the Charter Financial Analyst (“CFA”)

Examination; or

(2) if the applicant functions as a research analyst who prepares only technical research reports as defined in paragraph (e), Levels I and II of the Chartered Market Technician (“CMT”) Examination; and

(3) has either [(1)] functioned as a research analyst continuously since having passed the Level II CFA or CMT examination or [(2)] applied for registration as a research analyst within two years of having passed the Level II CFA or CMT examination.

(d) An applicant who has been granted [such] an exemption pursuant to paragraph (c) 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.

(e) For the purposes of paragraph (c)(2), a “technical research report” shall mean a research report, as that term is defined in Rule 2711(a)(8), that is based solely on stock price movement and trading volume and not on the subject company’s financial information, business prospects, contact with subject company’s management, or the valuation of a subject company’s securities.

* * * * *

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

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 has filed the proposed rule change for immediate effectiveness. The effective date and the implementation date will be the date of filing, February 4, 2005.

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

(a) Purpose

NASD Rule 1050 requires an associated person who functions as a research analyst to register as such 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. In the context of this requirement, Rule 1050 defines “research analyst” as “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.” The term “research report” in Rule 1050 has the meaning as defined in Rule 2711(a)(8): “a written or electronic communication that includes an analysis of equity securities of individual companies or industries, and that provides information reasonably sufficient upon which to base an investment decision.”

Pursuant to Rule 1050, and in conjunction with the New York Stock Exchange (“NYSE”), NASD has implemented the Research Analyst Qualification Examination (Series 86/87). The examination consists of an analysis part (Series 86) and a regulatory part (Series 87). Prior to taking either the Series 86 or 87, a candidate also must have passed the General Securities Registered Representative Examination (Series 7), the Limited Registered Representative (Series 17), or the Canada Module of Series 7 (Series 37 or 38). Persons who were functioning as research analysts on the effective date of March 30, 2004 and submitted a registration application to NASD by June 1, 2004, have until April 4, 2005 to meet the registration requirements.

Rule 1050 provides an exemption from the Series 86 examination for an applicant that has passed Levels I and II of the Chartered Financial Analyst (“CFA”) examination and has either (1) functioned continuously as a research analyst since having passed Level II of the CFA examination or (2) passed Level II of the CFA examination within two years of application for registration as a research analyst.

The Series 86 examination consists of 100 multiple-choice questions that test fundamental analysis and valuation of equity securities. In contrast, technical research is a discipline that eschews fundamental analysis of companies and valuation of their securities and instead focuses on stock price movements and trading volume. For the

purposes of Rule 2711, technical research of securities is treated the same as fundamental research because the same conflicts that the rule addresses can exist, and investors similarly benefit from the required disclosures under the rule, including, for example, price charts. However, the content of the Series 86 examination focuses exclusively on fundamental analysis and does not test technical research concepts.

The MTA and CMT

The MTA was established in 1973 and began the development of the CMT examination program in 1985. The program was developed by conducting job analysis surveys and working with a group of subject matter experts to determine the tasks and knowledge required to perform the job of a technical research analyst.

MTA first administered the exam in 1988. Through 2002, MTA relied on outside consultants to revise and update the examination program. According to the MTA, these consultants also contributed to the development of the CFA examination program. In 2002, the MTA retained the Chauncey Group¹ to manage the CMT Examination Program. As part of its review, Chauncey utilized subject matter and testing experts to review the exam and developed one form of each examination for the past three administrations. In addition, the MTA retained Chauncey to conduct a job analysis study, otherwise referred to as a body of knowledge study. Such studies are conducted periodically to ensure that the existing job analysis/body of knowledge reflects current practice.

¹ Chauncey recently merged with Thomson Prometric, and is now known as Thomson Prometric.

In sum, the MTA has subjected its examination program to standard testing practices that includes job analysis studies and regular updating of the CMT examination in consultation with content experts. These activities conform to the Standards for Educational and Psychological Testing (1999)² that were developed jointly by the American Psychological Association, the American Educational Research Association, and the National Council on Measurement in Education. These same standards are followed for the development and maintenance of NASD qualification examinations.

NASD has reviewed descriptions of the subject matter that is covered on the CMT examination and compared it to the subject matter that is covered on the Series 86 examination. The results of the review indicate that the subject matter is different. As such, the Series 86 examination does not test for the job functions identified by the MTA as applicable to technical analysts. In addition, staff has analyzed the process in which the MTA has developed its examination and is satisfied that it meets generally accepted test development procedures. NASD believes that investors will be better served by proposing a qualification standard directly applicable to persons preparing technical research reports, which will demonstrate their competency based on the job functions and knowledge needed to perform such functions.

The proposed rule change therefore would add an exemption from the Series 86 for certain associated persons who function as a research analyst but prepare only technical research reports. Like the CFA exemption, such analysts would be eligible for an exemption from the Series 86 if they have passed both Levels I and II of the CMT

² The Standards for Educational and Psychological Testing is a technical guide that provides criteria for evaluating tests, testing practices and the effects of test use.

examination and also have functioned continuously as a research analyst since having passed Level II of the CMT examination or passed Level II of the CMT examination within two years of application for registration as a research analyst. Eligible applicants would remain obligated to meet all other qualification requirements, including the Series 7 or an equivalent examination (e.g., Series 17, 37 or 38 examination) and the Series 87 before being qualified as a research analyst.

For the purposes of eligibility for the exemption, the proposed rule change would establish a definition of a “technical research report” as a research report (as that term is defined in Rule 2711(a)(8)) that is based solely on stock price movement and trading volume and not on the subject company’s financial information, business prospects, contact with subject company’s management, or the valuation of a subject company’s securities.

NASD believes that the proposed exemption is appropriate for this specific class of research analysts because the Series 86 does not test the functions associated with technical analysis. NASD has reviewed the CMT examination development program and found it to meet generally established psychometric standards.

Importantly, the exemption is available only to research analysts who *exclusively* prepare technical research reports. An associated person who prepares any research report or whose name appears on a research report that does not meet this definition of a “technical research report” would be required to pass the Series 86 or qualify for another exemption or waiver.

(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. 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

Not applicable.

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

The proposed rule change is effective upon filing pursuant to Section 19(b)(3) of the Act and paragraph (f)(1) of Rule 19b-4 thereunder, in that the proposed rule change constitutes a stated policy, practice or interpretation with respect to the meaning, administration, or enforcement of an existing rule.

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

NASD understands that the New York Stock Exchange has filed a substantially similar rule filing.

9. Exhibits

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

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-2005-022)

SELF-REGULATORY ORGANIZATIONS

Proposed Rule Change by National Association of Securities Dealers, Inc. to Provide an Exemption from the Research Analyst Qualification Examination for Certain Associated Persons Who Prepare Technical Research Reports

Pursuant to Section 19(b)(3) 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”) and 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

Pursuant to the provisions of Section 19(b)(3) 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 provide for an exemption from the analytical portion of the Research Analyst Qualification Examination (Series 86) for certain applicants who prepare only “technical research reports” and have passed Levels I and II

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

of the Chartered Market Technician (“CMT”) certification Examination administered by the Market Technicians Association (“MTA”).

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

* * * * *

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 registration as a Research Analyst can become effective, 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:

(1) Levels I and II of the Charter Financial Analyst (“CFA”) Examination; or

(2) if the applicant functions as a research analyst who prepares only technical research reports as defined in paragraph (e), Levels I and II of the Chartered Market Technician (“CMT”) Examination; and

(3) has either [(1)] functioned as a research analyst continuously since having passed the Level II CFA or CMT examination or [(2)] applied for registration as a research analyst within two years of having passed the Level II CFA or CMT examination.

(d) An applicant who has been granted [such] an exemption pursuant to paragraph (c) 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.

(e) For the purposes of paragraph (c)(2), a “technical research report” shall mean a research report, as that term is defined in Rule 2711(a)(8), that is based solely on stock price movement and trading volume and not on the subject company’s financial information, business prospects, contact with subject company’s management, or the valuation of a subject company’s securities.

* * * * *

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

1. Purpose

NASD Rule 1050 requires an associated person who functions as a research analyst to register as such 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. In the context of this requirement, Rule 1050 defines “research analyst” as “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.” The term “research report” in Rule 1050 has the meaning as defined in Rule 2711(a)(8): “a written or electronic communication that includes an analysis of equity securities of individual companies or industries, and that provides information reasonably sufficient upon which to base an investment decision.”

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proposing a qualification standard directly applicable to persons preparing technical research reports, which will demonstrate their competency based on the job functions and knowledge needed to perform such functions.

The proposed rule change therefore would add an exemption from the Series 86 for certain associated persons who function as a research analyst but prepare only technical research reports. Like the CFA exemption, such analysts would be eligible for an exemption from the Series 86 if they have passed both Levels I and II of the CMT examination and also have functioned continuously as a research analyst since having passed Level II of the CMT examination or passed Level II of the CMT examination within two years of application for registration as a research analyst. Eligible applicants would remain obligated to meet all other qualification requirements, including the Series 7 or an equivalent examination (e.g., Series 17, 37 or 38 examination) and the Series 87 before being qualified as a research analyst.

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2. 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.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and paragraph (f) of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change 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.

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IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASD-2004-159 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609.

All submissions should refer to File Number SR-NASD-2004-159. This file number should be included on the subject line if e-mail is used. To help the Commission

process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). 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, 450 Fifth Street, NW, Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of NASD. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to the File Number SR-NASD-2004-159 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁵

Secretary

⁵ 17 CFR 200.30-3(a)(12).