

MEMO# 21397

July 27, 2007

SEC Approves Consolidation of NASD and NYSE Member Regulation Operations

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TO: CLOSED-END INVESTMENT COMPANY MEMBERS No. 45-07
COMPLIANCE MEMBERS No. 41-07
ETF ADVISORY COMMITTEE No. 26-07
EQUITY MARKETS ADVISORY COMMITTEE No. 41-07
FIXED-INCOME ADVISORY COMMITTEE No. 17-07
SEC RULES MEMBERS No. 95-07
SMALL FUNDS MEMBERS No. 63-07
UNIT INVESTMENT TRUST MEMBERS No. 15-07
VARIABLE INSURANCE PRODUCTS ADVISORY COMMITTEE No. 10-07 RE: SEC APPROVES
CONSOLIDATION OF NASD AND NYSE MEMBER REGULATION OPERATIONS

This week, the Securities and Exchange Commission approved the consolidation of the NASD and NYSE member regulation operations into a single self-regulatory organization. [\[1\]](#) The consolidation is intended to help streamline the broker-dealer regulatory system, combine technologies, and permit the establishment of a single set of rules governing membership matters.

The consolidated organization will be known as the Financial Industry Regulatory Authority, or FINRA. FINRA will operate under SEC oversight and will be responsible for regulating all securities firms that do business with the public, including with respect to professional training, testing and licensing of registered persons, arbitration and mediation. It also will be responsible, by contract, for regulating Nasdaq, AMEX, and ISE. Finally, FINRA will be responsible for operating industry utilities, such as trade reporting facilities and other OTC operations. NYSE Regulation will continue to be responsible for the regulatory oversight of trading on the NYSE.

According to the Release, a 23-person Board of Governors will oversee FINRA's activities for a three-year transition period. [2] One Governor will be associated with an "investment company" affiliate. NYSE Regulation's CEO Rick Ketchum will serve as Chair of FINRA's Board of Governors and remain CEO of NYSE Regulation. NASD Chairman and CEO Mary Schapiro will serve as CEO of FINRA.

The Release notes that FINRA is expected to submit to the SEC within one year of the closing of the transaction [3] proposed rule changes that will harmonize a significant portion of the duplicative NASD and NYSE rules (and interpretations of those rules) governing member firm regulation, with the remaining rules being submitted to the SEC within two years of the closing.

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endnotes

[1] See SEC Release No. 34-56145 (July 26, 2007) ("Release") and accompanying press release (No. 2007-151, July 26, 2007) ("Press Release"). The Release and the Press Release are available on the SEC's website at <http://sec.gov/rules/sro/nasd/2007/34-56145.pdf> and <http://sec.gov/news/press/2007/2007-151.htm>, respectively.

[2] After the transitional period, the term of office of the CEO of NYSE Regulation as a member of FINRA's Board will automatically terminate and the authorized number of members of the Board will be reduced by one. The Governors then will be divided into classes to ensure staggered board seats.

[3] According to the Release, the closing of the transaction and the consolidation of the NASD and the NYSE member regulation operations are still subject to the execution of definitive agreements between NASD and NYSE Group and certain additional regulatory approvals.