

**MEMO# 20987**

March 23, 2007

# **Consolidation of NASD and NYSE Member Regulation Operations**

[20987]

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TO: SEC RULES MEMBERS No. 39-07  
COMPLIANCE MEMBERS No. 15-07  
CLOSED-END INVESTMENT COMPANY MEMBERS No. 21-07  
EQUITY MARKETS ADVISORY COMMITTEE No. 15-07  
UNIT INVESTMENT TRUST MEMBERS No. 7-07  
VARIABLE INSURANCE PRODUCTS ADVISORY COMMITTEE No. 3-07  
ETF ADVISORY COMMITTEE No. 14-07 RE: CONSOLIDATION OF NASD AND NYSE MEMBER  
REGULATION OPERATIONS

The Securities and Exchange Commission has published for comment a proposed rule change filed by NASD to facilitate the consolidation of the NASD and NYSE member regulation operations into a new, independent self-regulatory organization. [\[1\]](#) The new SRO will be responsible for the examination, enforcement, arbitration and mediation functions of all brokers and dealers doing business with the public in the United States. NYSE Regulation will continue to oversee the NYSE market, through its market surveillance division, related enforcement functions, and listed company compliance.

The proposal sets forth the governance changes necessary to accommodate the consolidation. Under the proposal, a 23-person Board of Governors would oversee the new SRO's activities for a three-year transition period. [\[2\]](#) At least one Governor would be associated with an "investment company affiliate." NYSE Regulation's CEO Rick Ketchum would serve as the non-executive Chairman of the organization's Board of Governors and would remain CEO of NYSE Regulation. NASD Chairman and CEO Mary Schapiro would serve as CEO of the combined organization.

Independent of this proposal, combining the NASD and NYSE member regulation operations will require amendments to NASD and NYSE rules. These amendments will be subject to SEC approval after the opportunity for public comment.

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**endnotes**

[1] SEC Release No. 34-55495 (March 20, 2007). The proposal can be found on the SEC's website at <http://www.sec.gov/rules/sro/nasd/2007/34-55495.pdf>. Comments on the proposal are due to the SEC no later than 21 days after publication of the notice in the Federal Register.

[2] After the transitional period, the term of office of the CEO of NYSE Regulation as a member of the new SRO Board will automatically terminate and the authorized number of members of the new SRO Board will be reduced by one, with such number being no fewer than 16 and no more than 25 Governors. The Governors then will be divided into classes to ensure staggered board seats. In addition, a new Nominating Committee will be determined by the new SRO Board.

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