

MEMO# 1248

July 5, 1989

NASD SUPERVISORY PROCEDURES

July 5, 1989 TO: SEC RULES MEMBERS NO. 31-89 UNIT INVESTMENT TRUST MEMBERS NO. 33-89 BROKER/DEALER ADVISORY COMMITTEE NO. 30-89 CLOSED-END FUND MEMBERS NO. 27-89 RE: NASD SUPERVISORY PROCEDURES

The Institute has received several inquiries concerning the recent amendments by the National Association of Securities Dealers, Inc. to its rules on supervision. For your information, a general discussion of the amended rules is set forth below. The general purpose of the amended rules, which are attached, is to ensure that persons associated with NASD members are subject to adequate on-going supervision. At a minimum, an NASD member must establish a supervisory system that includes: 1) written procedures, including the information specified in paragraph (b) of the rules, to supervise the business in which it is engaged and the activities of its registered representatives and associated persons engaging in that business; 2) the designation of appropriately registered principal(s) to supervise each of the member's activities for which registration is required; 3) the designation as an office of supervisory jurisdiction (OSJ) each location that meets the definition of paragraph (f) in the rules. The definition of OSJ has been expanded to include any business location at which certain functions are performed such as final approval of advertising or sales literature; 4) the designation of appropriately registered persons in each OSJ and non-OSJ branch office to carry out the supervisory responsibilities and activities assigned to that office by the member; - 2 - 5) the assignment of each registered person to an appropriately registered representative and/or principal to supervise that person's activities; 6) reasonable efforts to ensure that supervisory personnel are properly qualified; 7) annual review of registered representatives by persons designated by the member at which relevant compliance matters are discussed; 8) the designation and identification to the NASD of a principal(s) to review the supervisory system and perform other related functions; and 9) establishment of a schedule to review the businesses in which the member engages and the activities of each office and to inspect each branch office. Amy B. Rosenblum Assistant General Counsel Attachment