

MEMO# 6538

January 9, 1995

SEC PROPOSAL TO AMEND RULES OF SELF-REGULATORY ORGANIZATIONS TO ADOPT CONTINUING EDUCATION REQUIREMENTS

January 9, 1995 TO: DIRECT MARKETING COMMITTEE No. 2-95 HUMAN RESOURCES AND TRAINING No. 2-95 HUMAN RESOURCES AND TRAINING WORKING GROUP No. 2-95 MARKETING POLICY COMMITTEE No. 3-95 MEMBERS - ONE PER COMPLEX No. 3-95 OPERATIONS COMMITTEE No. 2-95 SALES FORCE MARKETING COMMITTEE No. 2-95 SEC RULES COMMITTEE No. 3-95 SHAREHOLDER COMMUNICATIONS COMMITTEE No. 2-95 RE: SEC PROPOSAL TO AMEND RULES OF SELF-REGULATORY ORGANIZATIONS TO ADOPT CONTINUING EDUCATION REQUIREMENTS

As we previously advised you, in August 1994 the National Association of Securities Dealers ("NASD") issued for comment a proposal to require NASD registrants (e.g., registered representatives, assistant representatives, principals, etc.) to complete continuing education requirements commencing in July 1995. (See Memorandum to Direct Marketing Committee No. 23-94, Human Resources and Training No. 3-94, Human Resources and Training Working Group No. 10-94, Marketing Policy Committee No. 37-94, Members 58-94, Operations Committee No. 23-94, Sales Force Marketing Committee No. 31-94, SEC Rules Committee No. 92-94, and Shareholder Communications Committee No. 22-94, dated August 17, 1994.) The NASD's proposal was the result of a task force formed to study the continuing education needs of the securities industry by the following self-regulatory organizations: the NASD, the Chicago Board Options Exchange, the Municipal Securities Rulemaking Board, and the American, New York, and Philadelphia Stock Exchanges. In December 1994, each of these self-regulatory organizations filed proposed rule changes with the Securities and Exchange Commission ("SEC") to adopt the same two part continuing education program that was proposed by the NASD in August 1994. A copy of the SEC's notice proposing adoption of the rule changes filed by these self-regulatory organizations is attached. As filed with the SEC and as previously proposed for comment by the NASD, the self-regulatory organizations have proposed a continuing education program comprised of two components, a Regulatory Element and a Firm Element. To maintain an existing registration, all persons that have been registered with the NASD for less than ten years must complete the Regulatory Element, which will be a standardized computer based training program. The Firm Element will require firms to establish a training process for registrants that have direct contact with firm customers and the immediate supervisors of such registrants. According to the SEC, three technical changes have been made to the

version of the rule published for comment by the NASD in August 1994. These changes, which are based on comments received on the proposal, are: (1) a clarification that registered persons must participate in the Regulatory Element on three occasions -- after the occurrence of their second, fifth, and tenth registration anniversary dates; (2) an additional statement that a registration that is inactive for two calendar years would be terminated administratively and anyone so terminated must requalify by examination prior to being reinstated; and (3) a clarification that the SEC, a state securities regulator, or a self-regulatory organization could require re-entry into the program only as a result of a sanctioning in a formal disciplinary action. Though other commenters requested that the rule be amended to permit firms to administer the Regulatory Element in-house, the NASD believes this will require further study of technology and administrative issues. The self-regulatory organizations have proposed that the requirements of the Regulatory Element portion of the continuing education program become effective on July 1, 1995, and that the Firm Element be implemented in two steps whereby members would be required to have completed their Firm Element plans by July 1 1995, and have implemented their plans no later than January 1, 1996. Tamara K. Cain Assistant Counsel Attachment

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