

MEMO# 18248

November 24, 2004

GIFT POLICIES AND PRACTICES; REPORTED SEC AND NASD INVESTIGATIONS

[18248] November 24, 2004 TO: BOARD OF GOVERNORS No. 80-04 CHIEF COMPLIANCE OFFICER COMMITTEE No. 29-04 CLOSED-END INVESTMENT COMPANY COMMITTEE No. 43-04 COMPLIANCE ADVISORY COMMITTEE No. 114-04 EQUITY MARKETS ADVISORY COMMITTEE No. 47-04 INDEPENDENT DIRECTORS COUNCIL No. 13-04 PRIMARY CONTACTS - MEMBER COMPLEX No. 100-04 SEC RULES COMMITTEE No. 92-04 RE: GIFT POLICIES AND PRACTICES; REPORTED SEC AND NASD INVESTIGATIONS It has been reported in the media that the SEC and the NASD are investigating whether certain brokerage firms have provided gratuities, through gifts and entertainment, to employees of investment advisers in violation of NASD Rule 3060. NASD Rule 3060 generally prohibits broker-dealers from giving "anything" valued in excess of \$100 per year to any person where such gift is "in relation to the business" of the recipient's employer. The NASD staff has interpreted Rule 3060 to "not limit ordinary and usual business entertainment" provided by an NASD member to clients and guests, so long as it is "neither so frequent nor so extensive as to raise any question of propriety." * Receipt of gifts or entertainment that are deemed to be improper could raise issues under the federal securities laws. No further details of the NASD's or SEC's inquiry are available at this time. Nonetheless, in light of these reports, Institute members may wish to review policies and practices in this area. Paul Schott Stevens President * NASD Interpretive Letter dated June 10, 1999. A copy of the NASD interpretive letter is attached. The text of Rule 3060 is available on the NASD's website (www.nasd.com).