

MEMO# 13054

January 18, 2001

NASDR PROPOSES RULE AMENDMENT TO REQUIRE DESIGNATED CHIEF COMPLIANCE OFFICERS TO BE REGISTERED PRINCIPALS

[13054] January 18, 2001 TO: COMPLIANCE ADVISORY COMMITTEE No. 4-01 SEC RULES COMMITTEE No. 8-01 RE: NASDR PROPOSES RULE AMENDMENT TO REQUIRE DESIGNATED CHIEF COMPLIANCE OFFICERS TO BE REGISTERED PRINCIPALS The Securities and Exchange Commission has published for comment a proposal to amend NASD Rule 1022(a) to require the person who is designated on Schedule A of Form BD as the member's chief compliance officer to pass a specified principals qualification examination and register with the NASD as a general securities principal.¹ Comments on the proposal must be filed with the SEC no later than January 25, 2001. A copy of the SEC's Release is attached. SUMMARY OF AMENDMENTS PROPOSED TO RULE 1022(a) As proposed, unless otherwise grandfathered, the person designated on Schedule A of Form BD as the member's chief compliance officer must have passed the qualification examination for a general securities principal and be registered with the NASD as such. If, however, the member's activities are limited to particular areas of the investment banking or securities business, in lieu of registering as a general securities principal the chief compliance officer may apply for limited principal registration. For example, according to the Release, if a member sells only mutual funds, the chief compliance officer of that member may apply for registration as a Series 26 Limited Principal-Investment Company and Variable Contracts Products. For those persons who have not previously passed the necessary principal qualification examination, the rule would provide them 90 calendar days from the rule's effective date to comply with this requirement. The rule would grandfather from the examination requirement any person who has been designated as a chief compliance officer on Schedule A of Form BD for at least two years immediately prior to the effective date of the rule change provided the person has not been the subject of specified disciplinary proceedings. ¹ See Release No. 34-43765, 66 Fed. Reg. 830 (January 4, 2001) (the "Release"). ²IMPACT ON GENERAL COUNSELS The issue of the registration of chief compliance officers was most recently raised by NASDR in Notice to Members 99-51.² In that Notice, NASDR sought comment on whether a general counsel who directly supervises a registered chief compliance officer should also be required to register. In response to NASDR's request for comment on this issue, the Institute filed a comment letter opposing NASDR requiring such registration.³ We are pleased to report that, in its current proposal, NASDR has reaffirmed an interpretation announced in Notice to Members 99-49 that the general counsel of a member is not required to be registered unless he or she sits on the member's board of directors or otherwise participates in the management of the member's securities or investment

banking business. NASDR has determined that this interpretation will continue to apply notwithstanding any of the amendments proposed to Rule 1022(a). As stated in the SEC's Release, "[NASDR] does not believe that it is necessary at this time to impose a general registration requirement on general counsels, or to require them to be registered simply because registered persons may report to them." Tamara Reed Associate Counsel Attachment Attachment (in .pdf format) 2 See Memorandum to Compliance Advisory Committee No. 25-99 and SEC Rules Committee No. 48-99, dated June 24, 1999. 3 See Memorandum to Compliance Advisory Committee No. 28-99 and to SEC Rules Committee No. 55-99, dated July 19, 1999.

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