

MEMO# 6141

August 17, 1994

NASD ISSUES CONTINUING EDUCATION PROPOSAL FOR COMMENT

August 17, 1994 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 - ONE PER COMPLEX NO. 58-94 OPERATIONS COMMITTEE NO. 23-94 SALES FORCE MARKETING COMMITTEE NO. 31-94 SEC RULES COMMITTEE NO. 92-94 SHAREHOLDER COMMUNICATIONS COMMITTEE NO. 22-94 RE: NASD ISSUES CONTINUING EDUCATION PROPOSAL FOR COMMENT

The National Association of Securities Dealers ("NASD") has 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. The NASD proposal is 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. The Firm Element will only be required of registrants that have direct contact with firm customers and the immediate supervisors of such registrants. Each of these Elements is summarized below.

1. The Regulatory Element

The Regulatory Element is expected to consist of a computer-based training session that will be designed to transmit information broadly applicable to all registered persons. There will be no grading of individual performance on the Regulatory Element, though information feedback will be provided to individuals and their firms regarding areas of strengths and weaknesses as indicated by the program. Though the content of the Regulatory Element is yet to be prescribed by the NASD, it is expected to focus on compliance, regulatory, ethical, and sales-practice standards. The only persons exempt from the Regulatory Element would be those that have been registered with the NASD for more than ten years and that have not been the subject of a serious disciplinary action. Persons subject to the Regulatory Element would be expected to complete the computer-based training program 2, 5, and 10 years from the date of such person's original registration with the NASD. A person would have 120 days from its 2, 5, and 10 year anniversaries to comply with the requirement. Failure to comply with the Regulatory Element timely would result in the registrant's registration with the NASD being deemed "inactive", which would preclude such person from engaging in any activities requiring registration with the NASD. The NASD proposes to fully implement the Regulatory Element by July 1, 1995.

2. The Firm Element

The Firm Element would require each member of the NASD to establish a training process for all registrants who conduct business with retail, institution, or investment banking customers of the firm and the immediate supervisors of such registrants. After an analysis of its training needs, a firm would be required to prepare a training program that (1) is appropriate based upon its type(s) of business and (2) includes the following relating to the securities, products, services, and strategies offered by the firm: general investment

features and associated risk factors, suitability and sales practice considerations, and applicable regulatory requirements. The NASD does not intend to pre-approve training material and programs developed by firms. There are no specific annual or cumulative training requirements specified in the Firm Element. Each firm, however, would, at a minimum, be required to annually evaluate and prioritize its training needs and develop a written training plan. Unlike the Regulatory Element, the Firm Element requirement is ongoing, regardless of how long a person remains registered with the NASD. While no specific sanctions are provided for failure to complete the Firm Element, the NASD may require a firm, individually or as part of a group, to provide specific training in such areas as the NASD deems appropriate. Also, failure to comply with the Firm Element may subject the firm and individuals to disciplinary action by the NASD. The Firm Element is expected to be implemented in two stages. By July 1, 1995, firms would be required to complete their training needs analyses and develop written training plans that would be available for review by regulators. Such training plans would be implemented as soon as practicable thereafter, but no later than January 1, 1996. * * * * * A copy of the NASD Notice to Members announcing the proposal is attached along with additional information released by the NASD discussing the proposal. Comments on the proposal should be submitted to the NASD no later than October 15, 1994. If there are issues you would like the Institute to consider submitting to the NASD, please contact me by phone at 202/326-5825 or by fax at 202/326-5828 no later than Friday September 23, 1994. Tamara K. Cain Assistant Counsel

Attachments

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