

**MEMO# 8531**

January 7, 1997

## **NASDR SOLICITS COMMENT ON RULES REGARDING REVIEW OF CORRESPONDENCE**

\* NASD Notice to Members 96-82 (December 1996). January 7, 1997 TO: ADVERTISING SUBCOMMITTEE No. 3-97 SEC RULES COMMITTEE No. 2-97 RE: NASDR SOLICITS COMMENT ON RULES REGARDING REVIEW OF CORRESPONDENCE

NASD Regulation, Inc. is soliciting comment on proposed changes to its rules governing review of correspondence. The proposed amendments are specifically intended to accommodate the use of electronic communications. They are designed to be consistent with a similar proposal recently issued by the New York Stock Exchange. A copy of the NASDRs Notice soliciting comments is attached.\* Under the proposal, every NASD member firm would be required to establish procedures for the supervision of all correspondence relating to the firms business, as opposed to only correspondence relating to the solicitation or execution of a securities transaction. Firms, however, no longer would be required to review each item of correspondence. Instead, according to the NASDRs Notice, "[F]irms could use reasonable sampling techniques, such as random spot-checking of e-mail logs." The Notice goes on to state that, in order for this method to be effective, review of "some portion" of the e-mail sent by each representative would be required, with special emphasis on messages delivered to customers. In addition, member firms would be required to maintain evidence that the procedures have been implemented, and make this evidence available to NASDR upon request. The proposal also would require the procedures of firms that do not review all correspondence prior to use to include provisions for education and training of representatives as to the firms procedures, as well as documentation of such education and training and surveillance and follow-up to ensure that the procedures are implemented and adhered to. The Notice states that firms should consider, in adopting these procedures, whether it would be preferable to implement uniform procedures or procedures tailored to specific functions, offices, or persons. The Notice also states that firms supervisory systems should have specific processes for the handling of incoming checks and customer complaints, as well as standards for correspondence. 2Correspondence would be required to be maintained in accordance with the NASDs books and records rule. The names of the persons who prepared and reviewed the correspondence would have to be ascertainable from the records. Finally, the proposal would amend the books and records rule to clarify that such records must comply with Rules 17a-3 and 17a-4 under the Securities Exchange Act. Comments on the proposal are due January 30, 1997. Please provide any comments you may have on the proposal to Alex Gavis at 202/326-5923 or gavis@ici.com by no later than Tuesday, January 21. Craig S. Tyle Vice President and Senior Counsel Attachment (in

.pdf format)

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