

MEMO# 18473

January 27, 2005

NASD ISSUES NOTICE TO MEMBERS REGARDING BAN ON DIRECTED BROKERAGE; EFFECTIVE DATE IS FEBRUARY 14, 2005

[18473] January 27, 2005 TO: CHIEF COMPLIANCE OFFICER COMMITTEE No. 8-05 COMPLIANCE ADVISORY COMMITTEE No. 8-05 SEC RULES MEMBERS No. 17-05 SMALL FUNDS MEMBERS No. 11-05 RE: NASD ISSUES NOTICE TO MEMBERS REGARDING BAN ON DIRECTED BROKERAGE; EFFECTIVE DATE IS FEBRUARY 14, 2005 As we previously informed you in December, the Securities and Exchange Commission approved amendments to NASD Conduct Rule 2830(k) that would prohibit broker-dealers from receiving mutual fund brokerage commissions as compensation for the sale of fund shares.¹ The NASD recently published a Notice to Members regarding the new amendments, which become effective on February 14, 2005.² The Notice reminds NASD members that the amendments prohibit the sale and distribution of a fund's shares by a member "even where a directed brokerage arrangement is known to exist between the fund and a different broker- dealer" (emphasis added). Rachel H. Graham Assistant Counsel 1 See Institute Memorandum to Compliance Advisory Committee No. 122-04, Pension Committee No. 60-04, Pension Operations Advisory Committee No. 85-04, SEC Rules Committee No. 100-04, and Small Funds Committee No. 53-04 [18369], dated Dec. 22, 2004, which summarizes the NASD amendments. 2 See NASD Notice to Members 05-04 (Jan. 2005), which is available on the NASD's website at http://www.nasd.com/web/idcplg?ldcService=SS_GET_PAGE&ssDocName=NASDW_013001&ssSourceNodeId=1 174.