

MEMO# 9805

March 27, 1998

SEC ADOPTS REVISIONS TO THE SECURITIES INDUSTRY CONTINUING EDUCATION PROGRAM

[9805] March 27, 1998 TO: COMPLIANCE ADVISORY COMMITTEE No. 10-98 CONTINUING EDUCATION AND TRAINING ADVISORY COMMITTEE No. 5-98 CONTINUING EDUCATION/TRAINING MEMBERS No. 4-98 OPERATIONS COMMITTEE No. 20-98 RE: SEC ADOPTS REVISIONS TO THE SECURITIES INDUSTRY CONTINUING EDUCATION PROGRAM

As we previously informed you, the National Association of Securities Dealers, Inc. (the "NASD") recently proposed amendments to NASD Membership and Registration Rule 1120-- Continuing Education Requirements, which requires its members to participate in the Securities Industry Continuing Education Program (the "Program"). On March 3, 1998, the Securities and Exchange Commission approved the rule revisions, which primarily affect persons acting in a supervisory or principal capacity and persons that may have been grandfathered under the existing rule. The revisions, which are summarized below, will become effective on July 1, 1998. Background Since 1995, members of the NASD (and the other five securities industry self-regulatory organizations) have been required to participate in the Program. The Program includes a Regulatory Element (which requires certain registrants to complete a computer-based training program at various intervals after their registration anniversaries) and a Firm Element (which requires member firms annually to assess the training needs of their covered persons; develop a written training plan; deliver the training described in the plan; and document the delivery of the training). The Program is administered by the Securities Industry/Regulatory Council on Continuing Education. Revisions to the Continuing Education Program The changes that have been adopted to the rule effective July 1st include the following: Grandfathering Provisions ` Those persons who have been registered for ten years or less as of July 1, 1998, will be required to complete their Regulatory Element training within 120 days of the second anniversary of their date of first registration, and every three years thereafter. (Accordingly, a person that became registered in 1990 would be required to complete the Regulatory Element in 1992, 1998, and every three years thereafter.) Unlike the existing Rule, there will be no graduation from the Program. ` Those persons who have already graduated from the Regulatory Element of the Program as of July 1, 1998 (i.e., those persons who have been registered with the NASD for ten or more years), will continue to be grandfathered, provided they have not been the subject of a significant disciplinary action during the past ten years. Similarly, only those registered principals and sales supervisors who have been registered in a principal or supervisory capacity for more than ten years will be grandfathered. Supervisors and principals who have been registered in such a capacity for less than ten years lose their grandfathered status, even if they have been registered in a

representative capacity for more than ten years. Treatment of Supervisors and Principals ` A new Regulatory Element computer-based training session will be developed by the Council for registered principals. The current session is "one-size fits-all," meaning that assistant representatives, registered representatives, and registered principals all receive the same Regulatory Element training. ` The revised rule will also require firms to focus specifically on supervisory needs when conducting their annual training needs analysis. If a member's analysis determines that there is a need for supervisory training for individuals with supervisory responsibilities, such training must be included in the member's Firm Element training plan. Attached is NASD Notice to Members 98-35, which further describes the rule revisions. Questions may be directed to John Linnehan, Director, Continuing Education, NASD Regulation, Inc. at 301/208-2932. Stephanie Brown Assistant Vice President, Training and Marketing Attachment

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