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Sending Customer Confirms

Q: XYZ is a self-clearing firm and we have a representative who is an independently registered investment advisor. If this rep has an account under one of his managed programs, can XYZ stop sending confirmations on this account if the account owner requested to have the confirms stopped as long as we continue to mail monthly statements?

A: There are really two parts to this question. First, can a BD stop sending confirms to a customer if the customer makes that request. Second, can the BD consider their registered representative to be the "customer" on the grounds that the RR is acting as an IA managing money for a customer, and in effect send confirms to the IA and not send them to the IA's customer.

As to the first question, Rule 10b-10 states that "It shall be unlawful for any broker or dealer to effect for or with the account of a customer any transaction in ... any security ...

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** In most cases, it was also recommended that a representative of the appropriate SRO or other governing body of the member's firm be consulted to confirm proposed solutions to the problem at hand.*

Regulation of Electronic Communication, Execution and Delivery of Documents to Customers of Broker-Dealers

by Paul B. Uhlenhop and John D. Ruark

Communications between broker-dealers and their customers were once limited to what could be conveyed by mail, telephone or telegram. Regulatory requirements placed on such communications reflected the fact that, by and large, communications were expected to be conveyed in hard-copy paper form.

Today, improvements in electronic communications threaten to make these older methods of communications the exception in communications between brokers and customers. As more and more brokers and customers gained access to and experience with electronic forms of communications, and as the popularity of online trading soared, pressure grew to shift more broker-customer communications from the older methods mentioned above to electronic methods. A regulatory scheme designed for such electronic communications, after a slow start, now seems to have caught up with the desire and need to communicate electronically.

This article reviews the principal elements in the regulatory framework

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for communications between brokers and customers; in particular, issues related to online trading. This article does not review the regulation of electronic communications related to new offerings of securities, such as initial public offerings and secondary offerings, nor does it review regulation as it relates to electronic marketplaces. For purposes of analyzing the various regulatory requirements, the article will divide the requirements into two sections, one regarding broker-customer communication before any trade is made, *i.e.* during what might be thought of as the "account set-up" phase of the broker-customer relationship, and one regarding broker-customer communications during and after a trade, during what might be thought of as the "operational" phase of the relationship.

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Part A. "Before the Trade" — The Account Set-Up Phase

I. Customer Agreements, Consents, Account Opening Disclosures

a. Contract Law Issues

Customer contracts executed in the United States are controlled by state law. In the past, execution of contracts by electronic signature in lieu of handwritten signature was permitted in some states, but its legal status was unclear in many states. For example, it was unclear whether a choice of law provision in a customer agreement specifying a state where electronic execution of a contract is permitted would bind a customer residing in another state. For this reason, most Broker-Dealers ("BDs") have required handwritten signatures to customer agreements. Typically, the customer agreement and relevant consents, disclosures and other account documents may be accessed at the BD's website. To open an account, a potential customer would download, print out, execute manually the customer agreement and mail it to the BD before commencement of trading. However, with the recent enactment of the Electronic Signatures in Global and National Commerce Act ("Electronic Signatures Act"), signed by President Clinton on June 30, 2000, it is likely that, in the future, more and more BDs will permit the online execution by electronic signature of the customer agreement and other documents necessary to open customer accounts.

b. Regulatory Issues

The SEC permits electronic consent and delivery of documents and disclosures provided that the consent to electronic delivery is informed, meaning that certain disclosures must first be made, including the following:

1. Specification of the electronic medium or source by which the information is to be delivered.
2. The period during which the consent will be effective.
3. A description of the information to be delivered.

4. Disclosure of any potential cost associated with electronic delivery, such as online charges.¹

Most disclosures may be made on the broker-dealer's website or other electronic medium. The SEC has provided specifically that the following disclosures may be made or consent obtained electronically:

1. Rule 3c-1 and Rule 15c2-1 consent to hypothecation.
2. Rule 9b-1 option disclosure.
3. Rule 11Ac1-3 disclosure regarding order flow and order routing.
4. Rules 15c1-5, 15c1-6 and 15c2-12 disclosures concerning certain municipal securities activities.
5. Rule 10b-10 confirmations.
6. Rule 10b-16 margin disclosures.
7. Rule 15c2-1 financial and other information.
8. Rule 15c2-5 insurance premium funding disclosures.
9. Rule 15c2-11 information provided by market makers.
10. Rule 15c3-2 notification under records of free credit balance.
11. Rule 15c3-3 repurchase agreement consents and confirmation.
12. Rule 17a-5 disclosure of broker-dealer financial position to customers.
13. Rules 15g-3 through 15g-8 disclosures regarding certain penny stock. (However, while penny stock disclosures can be delivered electronically, a written consent is required).

Recently, the SEC released an interpretive statement permitting broker-dealers to obtain consent to electronic delivery on a "global multiple issuer basis." This new release also clarifies that PDF format is acceptable, so long as investors are provided instructions on the use of PDF and the necessary software without cost. The SEC also confirmed that telephone consent is a permitted form of electronic consent, so long as an "appropriate" record is retained.

Importantly, the SEC's recent release emphasized that a consent provision buried in a customer

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agreement would not be an informed consent. The SEC release suggests either a separate disclosure or a highlighted separate section in a customer agreement with a separate signature line. The release takes the position that if a global consent is a condition of opening an account, the consent would not be an "informed" consent. This position seems to be at odds with another statement in the release that an issuer could require a consent to electronic transactions as a condition to doing business if the consent were revocable. The SEC again makes clear that a customer may revoke a consent to receive documents electronically at any time.²

Although the SEC permits electronic signatures, to date most broker-dealers have required a handwritten signature for account and other agreements because state law in many states was unclear as to the effectiveness of electronic signatures. As described above, the recent passage of the Electronic Signatures Act makes it likely that, in the future, many BDs will move the account-opening process entirely online. (See Section III below for discussion of current regulatory requirements for reviewing and approving accounts online.)

II. Online Disclosures

The SEC and the NASD have advised, urged and come close to mandating that broker-dealers make specific online disclosures to customers trading online, even if the firm does not recommend any securities or type of trading.³ These disclosures include the following:

1. The potential for loss, particularly if there is frequent in and out trading.
2. Capacity limitations of the system.
3. Alternative communications system for execution and problems.
4. The potential for failure of the system.
5. Types of orders and how they function.
6. Execution delays and risks.
7. Quotation and pricing delays.
8. Execution of orders for new issues.

9. Particular types of risks involved in margin, short selling and day trading.⁴

Some firms have warnings that pop up on a customer's screen regarding certain types of transactions.

Recently, in the context of announcing disciplinary sanctions against several BDs for failure to comply with advertising requirements, NASD Regulation emphasized the importance of appropriate disclosure in advertisements regarding electronic trading and day trading.⁵ The NASD warned member firms against exaggerated and unwarranted statements in the following areas:

1. Market access – statements exaggerating customer's ability to access particular markets.
2. Immediate execution – references to fast or instantaneous executions must be balanced with disclosing that there may be delays and that the system may go through filters.
3. Disclosures regarding risk – success of any trading, including electronic trading, requires an adequate discussion of risk and costs that are associated with a high volume of trades.
4. Cost of trading – incomplete comparison of cost of day trading versus costs associated with other forms of securities trading at other firms.

III. Online Approval of Accounts

The NASD has, through interpretive letters, permitted the use of online electronic signatures to acknowledge review and approval of new accounts by principals.⁶ In an interpretive letter dated November 26, 1997, under NASD Rule 3110(c) & (d), the NASD indicated that it requires the following:

1. The system must have adequate security and be restricted to authorized employees.
2. The member must monitor current written procedures and policies at each site using the system.
3. The system must allow NASD and their regulatory staff immediate access to records.
4. The system must have certain indexing and cross-referencing capability.

ity.

5. The system must maintain records as requested by the SEC. (See Part B, Section VI on page 14.)

6. The system must have capability to download and print all documents.

7. The firm must renew and test systems periodically (at least once a year) to be certain the system operates as designed and meets the requirements listed above.

The NASD has recently indicated that it will permit a BD to use pre-set criteria to electronically sort new account applications into batches, and then have a principal electronically review and approve all accounts in a batch on an aggregate basis.⁷

IV. Capacity Issues

The SEC and securities markets have been concerned about capacity limitations of electronic order entry and trading systems for some time because the huge amount of trading on certain days has caused trading disruptions, delays and shut downs. In September 1998, the SEC Division of Market Regulation staff issued a bulletin entitled "Staff Legal Bulletin" No. 8 (MR) dealing with capacity disruption and other key market issues.⁸ These releases discuss the staff's view on handling electronic orders in times of volatility and fast markets. Importantly, the SEC requires firms with electronic online trading to provide notices on their web page or other disclosures regarding trading halts and the effect on orders. In this release, the SEC also stated that broker-dealers should have adequate capacity to handle average to heavy traffic at multiple, above average trading volumes. Many broker-dealers with electronic execution capability have had their systems crash because of system problems and lack of capacity caused by high volume, notwithstanding their efforts to enhance their system's capacity. The NASD has also provided guidance concerning fast market issues.⁹

In March 1999, the SEC proposed a new rule, Rule 15b7-2, requiring broker-dealers to have and maintain operational capacity for execution and trading systems. The proposed rule discusses areas encompassed

within the definition of operational capability and capacity, and articulates many of the things that should be considered. However, the proposed Rule did not appear to have any specific standards. It is interesting to note that the proposed Rule states that it is not intended to address the occasional delay or outage.¹⁰ The proposed rule received substantial criticism and, to date, has not been adopted.

Capacity issues have figured prominently in recent reports reviewing the online brokerage business that have been issued by SEC Commissioner Laura S. Unger, New York Attorney General Eliot Spitzer, and the General Accounting Office.¹¹ All the reports recommended additional disclosure by broker-dealers regarding capacity.¹² In light of the attention which capacity issues have received, it seems likely that issues of regulating additional disclosure of capacity will be revisited.

V. Electronic Promotional Material Including Advertisements and Websites

a. General

The NASD has taken the position that any information displayed by a broker-dealer on its website is subject to its advertising and sales literature provisions.¹³ Thus, if the broker-dealer displays recent press releases or articles regarding a completed IPO or a security it is recommending, those materials would be required to comply with the NASD standards and, if applicable, filing requirements. Hyperlinks to research also raise a host of unanswered questions described below. The SEC and the NASD have been reviewing broker-dealer's websites and banner advertisements, focusing on the following:

1. Misleading statements that a customer has direct access to a particular exchange or marketplace without recognizing the transaction must go through a broker-dealer filter.
2. Implication that active trading results in high profits.
3. Implication that third-party research is in fact the research of the broker-dealer.

4. Misleading information that an advertised single discount commission would apply to all types of transactions where there are various types of commissions for different types of transactions.

As noted above, the NASD Notice to Members 99-11 cautions members that statements in advertising or sales literature about speed and reliability of their services may not be exaggerated. Further, risk involved with online trading, including outages and capacity and alternative execution methods, should be disclosed.

b. Banner Advertisements

Many broker-dealers have arrangements with online service providers, such as CompuServe and America On-Line, to have a banner advertising the broker-dealer and its services (web portals). The banners, by their very nature, must be extremely short and can contain generally no more than a few words or a trade name at a maximum. This creates a conflict with the affirmative disclosure requirements mentioned above. While the NASD has been understanding in this regard, the broker-dealer's website to which the banner hyperlinks must clearly have the required disclosures. Another issue with respect to banners is the compensation of online service providers. Payment of transaction-based compensation is not permissible. However, by SEC no-action letter, a nominal or flat rate per order (paid regardless of whether the order is ever actually executed) may be provided to an online service provider.¹⁴

c. Hyperlinks to Third-Party Internet Sites

The NASD has established certain other requirements for hyperlinks, including the following:

1. The hyperlink must be continuously available.
2. A broker-dealer cannot alter the information on a third-party site.
3. A broker-dealer cannot suspend or terminate the hyperlink due to the presentation of unfavorable information (or the absence of favorable information) about the broker-dealer's products and services.¹⁵

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Hyperlinks to third-party Internet sites for research and other information is problematic for broker-dealers. The problem is the position of the NASD and the apparent position of the SEC that broker-dealers may not hyperlink to a site that the broker-dealer knows or has reason to know contains false or misleading information. The NASD and the SEC appear to indicate that broker-dealers must periodically review third-party sites. The frequency of the review and the degree of the review are problematic because, if there is a fraudulent site, the broker-dealer is likely to be held liable in hindsight. The NASD has recently stated in the interpretive letter cited above that a hyperlink to a third-party site, which is intended for use by the public for general reference purposes and which does not refer to a broker-dealer, would not be subject to the NASD advertising, sales literature or other constraints mentioned above.¹⁶

The SEC in a recent release addressed the issue of hyperlinks on issuer websites.¹⁷ The release states that the issuer's responsibility for information on a hyperlinked site depends upon "adoption" of the hyperlink site. In determining whether an issuer will be deemed to have "adopted" a site to which it has hyperlinked, the SEC has stated that three non-exclusive factors should be considered:

1. The context of the link.
2. The risk of investor confusion.
3. The presentation of the information on the website.

Although articulated differently, these tests parallel the NASD interpretation discussed above. If there is an ongoing hyperlink, an issuer, by the very nature of the tests, would have to monitor the hyperlinked site and information on the site. The recent SEC release states: "We are not suggesting, however, that statements and disclaimers will insulate an issuer from liability for hyperlinked information when the relevant facts and circumstances otherwise indicate that the issuer has adopted the information."¹⁸

If a broker-dealer is "involved" in preparation of material on a hyperlinked website, the broker-dealer would potentially be liable for the content of the hyperlinked material under an "Entanglement" theory. Entanglement is a "facts and circumstances" test focusing on the amount of involvement with the information on the hyperlink site.

VI. International Problems
a. United States

The SEC has issued an instructive release on use of websites and other electronic means across national borders.¹⁹ The basic SEC concept is that an offer of securities or investment service offered by website or other electronic means will not violate the securities law of the United States provided the site makes clear that the securities or service are offered only to residents of certain foreign states and are not offered in the United States or to United States residents. The SEC release discusses, in detail, security measures to avoid violation of the United States securities law. Most states acquiesce in this procedure.

b. United Kingdom/FSA and European Union

The Financial Services Authority of the United Kingdom (FSA) has taken the position that website offers of investments or services accessible by United Kingdom residents require compliance with the Financial Services Act. The FSA has recently stated that it would accept security measures limiting offers of service to United Kingdom persons similar to that in the SEC release noted above. Other European states are following the United Kingdom lead.

Part B. "During And After the Trade" — The Operational Phase
I. Confirmation and Account Statement Delivery

As discussed in Part A, Section I, the SEC permits use of electronic means to deliver customer confirmations and account statements and other documents. The SEC requires customers to consent electronically or otherwise on a revocable basis,

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subject to the disclosures that are set forth and discussed in A.I above.

II. Online Supervision

Online broker-dealers have the same duty to supervise as any other broker-dealer.²⁰ Most online broker-dealers do not make explicit recommendations to their customers; however, the SEC and the NASD appear to be taking the position that targeted research to a customer based upon a customer's past trading, request for information or investment profile may be a type of solicitation and recommendation.²¹ The SEC and the NASD have also taken the position that recommending particular styles of trading, such as day trading, may involve a suitability obligation.²² Online brokers must have a system of supervisory and compliance procedures to monitor all online trading. It should be noted that electronic systems can provide outstanding tools for review by supervisors and compliance procedures through the use of filters, exception reports and warnings.

III. Order Placement and Execution

The SEC, as noted in Part A, Section I.b, has permitted electronic signatures for a variety of consents, disclosures and confirmations. Consequently, electronic placement and execution of orders is not precluded by any SEC or securities self-regulatory organization ("SRO") constraints. These regulators have required, as a condition for approval of electronic executions systems, an adequate showing of audit trail and recordkeeping capability. As described in Part A, Section II, the SEC and the NASD require extensive disclosures for online execution systems. The disclosures include potential for loss, capacity, alternative communication methods for execution and potential for system failure, types of orders, executions and quote and price delays and risks and a variety of other issues.²³

Many broker-dealers require customers to sign a customer agreement with special online supplement provi-

sions or execute a separate online services agreement before permitting online electronic order placements and executions. The issue of whether such agreement may be manually or electronically signed is discussed in Part A, Section I.

IV. Day Trading

Day trading through electronic execution has received an enormous amount of publicity. Most online firms have promoted active trading and some firms have actively promoted day trading by offering instruction on day trading, facilities for day traders and seminars. Some of the advertisements have been very aggressive in promoting day trading. A number of national television advertisements have, without explicitly mentioning day trading, implied that active trading can generate huge profits. The number of active day traders has skyrocketed along with complaints of loss to the SEC. Congress, the state regulators, the SEC and the NASD have reacted as expected, calling for substantial additional regulation.²⁴

In a series of releases and statements relating to day trading, the SEC and the NASD have strictly interpreted various current rules applicable to online trading. In addition to interpretations of current rules and Notices to Members, the NASD has proposed two rules regarding day trading, Rules 2360 and 2361.²⁵ The proposed Rules attempt to characterize certain strategies as a day trading strategy. The rules would apply to broker-dealers that promote day trading. They would apply to new accounts and any other accounts where activity in the account demonstrates a pattern of day trading. This necessarily means that a firm will have to monitor all accounts for a pattern of day trading. Thus, if a firm promotes day trading strategies, the broker-dealer would have to approve non-institutional customer accounts for day trading based upon reasonable grounds to believe that day trading is appropriate for the customer in view of the customer's circumstances. Firms would be required to monitor accounts that are not opened as day

trading accounts. If such an account showed a day trading pattern, the firm would be required to determine whether day trading strategy is appropriate for the customer. The Rules would require explicit risk disclosures to day trading accounts. The risk disclosure statement would advise the client that:

1. Day trading is not generally appropriate for investors with limited resources, limited experience or low risk tolerance.
2. Day trading is risky and only risk capital should be used.
3. Claims of large profits from day trading should be viewed with caution.
4. In-depth knowledge of the securities markets is required for day trading.
5. Day trading requires understanding of the operations of the execution and clearing firms' policies and procedures.
6. Day trading will generate large commissions and other costs.
7. Day trading on margin or short selling may result in losses beyond the original investment.

Day trading also has raised various margin issues. The SEC, NASD and state regulators have targeted a number of abuses involving arranging credit, cross guarantees and a variety of other issues involving day traders. The NASD has also reminded members of their obligations regarding short selling and related margin issues during periods of market volatility.²⁶ The NASD provided advice regarding the calculation of margin for day trading and cross-margined accounts.²⁷ The NASD has also proposed additional margin requirements for particular types of volatile stock.²⁸ The proposed NASD rule has been recently amended by the NASD as a result of SEC staff and public comments.²⁹ Further, the proposed rule defines day trading for margin purposes and imposes additional margin requirements on "pattern day traders" as defined in the rule, including a minimum equity requirement of \$25,000. Pattern day

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traders cannot trade equity securities in excess of their "day trading buying power," which is account equity (minus any maintenance margin requirement) times four.

V. E-Mail and Customer Correspondence

The SEC has approved rules of the NASD and rules of the NYSE with respect to supervision of e-mail and other electronic communications with customers.³⁰ These rules, in essence, require that a broker-dealer have written supervisory procedures and policies for reviewing different types of electronic communications. The procedures must identify how reviews will be conducted and memorialized. The rules specifically allow procedures to include post-review or audit of communications. The procedures are required to specify the medium frequency of reviews and procedures for periodic review. The procedures should also include training with respect to reviewing electronic communication. E-mail communications must be preserved and reviews documented. It should be noted that electronic communication outside a broker-dealer's house system (such as e-mail sent by a registered representative from his home computer) may be difficult or impossible to supervise.

VI. Electronic Recordkeeping

The SEC allows recordkeeping by means of electronic storage media provided certain conditions are met, which are described in the SEC's release adopting Rule 17a-4.³¹ The primary conditions include, among other things, the following:

1. Notification to the SRO 90 days prior to use and representation (or have third party represent to SRO) that the firm meets the specific requirements of the rule.
2. Preservation of the records exclusively in a non-rewriteable, non-erasable format.
3. Verification automatically of the quality and accuracy of the storage media recording process.
4. Serialization of the original and, if

applicable, duplicate units of storage media and time-date for the required period of retention.

5. Capacity to readily download indexes and records in any medium acceptable to the SRO or SEC.
6. Equipment to display information stored electronically to provide for production of easily readable facsimile copies or enlargements in hard copy or in machine-readable form.
7. Separate storage of the original and duplicate copy.
8. All information organized and indexed.
9. Indexes available for examination with duplicate copies stored separately from the original copy of each index for the required time.
10. An audit system providing for accountability.
11. All current information necessary to access records and indexes or escrow of a current copy of the physical and logical file format of the electronic storage media, the field format of all different information types written on the electronic storage media and the source code, together with the appropriate documentation and information necessary to access records and indexes.

Additionally, the SEC requires that files be compatible with the securities regulators' systems. □

1. See Use of Electronic Media by Broker-Dealers, Transfer Agents and Investment Advisors for Delivery of Information; Additional Examples Under the Securities Exchange Act of 1933, Securities Exchange Act of 1934, Investment Company Act of 1940, Release No. 33-7288, 61 F.R. 24646 (May 15, 1996); SEC Final Rules: Use of Electronic Media for Delivery Purposes, Release No. 33-7289, 61 F.R. 24652 (May 15, 1996); SEC Interpretation: Use of Electronic Media for Delivery Purposes, Release No. 33-7233, 60 F.R. 53457 (October 13, 1995). See also NASD Notice to Members 98-3 (January 1998).
2. See Use of Electronic Media: Interpretation and Solicitation of Comments, Release Nos. 33-7856 and 34-42728, 65 F.R. 25843 at 25845 (May 5, 2000).
3. While NASD Regulation has not mandated specific disclosures for online trading, in April 2000, it posted a web page with a question-and-answer section regarding electronic trading, and has requested that online brokers link to that page. <http://www.nasdr.com/2500_online.htm>
4. See NASD Notice to Members 99-32 (day

trading); Notice to Members 99-33 (margin disclosures); Notice to Members 99-11 (price and volume volatility and execution risk); and Notice to Members 98-102 (calculating margin for day trading).

5. NASD Regulation, Inc. Regulatory and Compliance Alert, pp. 7-8 (NASDR Spring 2000).
6. See NASD Reg. Staff Interpretation on Use of Electronic Signatures.
7. NASDR Interpretive Letter to Steven F. Gatti, Esq. (June 15, 2000).
8. See Release No. 34-29185, 56 F.R. 22490 (May 9, 1991); Release No. 34-27445 54 F.R. 48703 (November 16, 1989). See also NASD Notice to Members 99-11 (February 1999).
9. See NASD Guidance to Investors Regarding Stock Volatility and Online Trading (January 26, 1999). See also NASD Notice to Members 99-33 (April 1999).
10. See Release No. 34-41142, 64 F.R. 12127 (March 2, 1999).
11. "On-Line Brokerage: Keeping Apace of Cyberspace," Report of Commissioner Laura S. Unger (Nov. 22, 1999) ("Unger Report"), available at <<http://www.sec.gov/pdf/cybrtrnd.pdf>>; "From Wall Street to Web Street: A Report on the Problems and Promise of the Online Brokerage Industry," Report of the Office of New York State Attorney General Eliot Spitzer (Nov. 22, 1999) ("AG Report") available at <http://www.oag.state.ny.us/investors/1999_online_brokers/full.pdf>; "On-Line Trading: Better Investor Protection Information Needed on Brokers' Web Sites," Report of the United States General Accounting Office (May 9, 2000) ("GAO Report"), available at <<http://www.gao.gov/new.items/gg00043.pdf>>
12. See, e.g., Unger Report at page 5, AG Report at page 187, and GAO Report at page 30.
13. Report of NASDR Concerning the Advertisement of On-Line Brokerage (September 21, 1999).
14. See Atkisson, Carter & Akers, 1998 SEC No-Act. LEXIS (Jun. 23, 1998); No Action Letter to Charles Schwab & Co., Inc., 1977 SEC No-Act. LEXIS 920 (Sept. 18, 1997); Charles Schwab & Co., Inc., 1996 SEC No-Act. LEXIS 976 (Nov. 27, 1996).
15. NASDR Interpretive Letter to Craig S. Tyle, Investment Company Institute (November 11, 1997).
16. *Id.*, at p. 3.
17. Use of Electronic Media, *supra* note 3.
18. *Id.*, at 25849.
19. See SEC Interpretation: Use of Internet Websites to Offer Securities, Solicit Securities Transactions or Advertise Investment Services Offshore, Release No. 33-77516, 63 F.R. 14806 (March 27, 1998).
20. See NASD Notice to Members 98-11 (January 1998).
21. Remarks at National Regulatory Service Fall 1999 Compliance Meeting by Laura Unger (September 14, 1999).
22. See NASD Notice to Members 99-32 (April 15, 1999) (Proposed NASDR Rules 2360, 2361).
23. See NASD Notices to Members 99-32 (April 1999), 99-11 (January 1999), 98-102 (December 1998).

24. Report of NASDR Concerning the Advertisement of On-Line Brokerage (September 21, 1999).
25. See NASD Notice to Members 99-32 (April 1999). The NASD has made various changes as a result of public and SEC staff comment. See Release No. 34-42452, 65 F.R. 11353 (February 23, 2000).
26. See Notice to Members 99-33 (April 1999).
27. See Notice to Members 98-102 (December 1998).
28. See Notice to Members 99-33 (April 1999).
29. See Release No. 34-42418, 65 F.R. 8461 (February 11, 2000).
30. See SEC Approval of NYSE Customer Communications Rules, Release No. 34-39510, 63 F.R. 113 (January 8, 1998); SEC Approval of Electronic Messaging Rules of the NASD, Release No. 34-3955, 63 F.R. 1135 (January 8, 1998). See also NASD Notices to Members 98-11 (January 1998) and 96-50 (July 1996).
31. See SEC Rule 17a-4, 17 C.F.R. 240.17a-4; Reporting Requirements for Brokers or Dealers Under the Securities Exchange Act of 1934, Release No. 34-38245, 62 F.R. 6469 (February 12, 1997).

Return of Proxy Materials

In connection with the election of five 2001 - 2003 directors, proxy materials were sent to every NSCP member-of-record on August 3. In order to insure that NSCP meets quorum requirements for the annual business meeting on Thursday, October 5, NSCP must receive your executed proxy form. Please, if you have not sent in an executed proxy form, fax it to 860-435-3005 today! Thank you!

DC is where it's happening...

The JW Marriott will be the site of NSCP's 2000 National Membership Meeting. The full-color brochure was sent out in late July, and every NSCP member should now be in receipt of it. If you have not received the agenda, please request a copy by calling the office at (860) 435-0843. You may also download it from <http://www.nscp.org>. Just click on "Calendar of Events" in the left panel.

Remember, the National Meeting is being held on October 4, 5 and 6 this year. This is three days of education, CLE credits and networking with other compliance professionals from across the country. There are other conferences that are one day shorter, feature fewer speakers, lesser accommodations, no receptions, no Dine Around – and cost three times as much. If you haven't been to NSCP's National Meeting yet, it's time to take a look!

Located at 1331 Pennsylvania Avenue, the JW Marriott is just steps away from the lobby of National Place with 80 shops and boutiques, as well as the Warner Theatre and National Theater. The first-class facilities of the JW Marriott include an indoor pool, health club, whirlpool, sauna and massage. Be sure to make your reservations early by calling 202-393-2000. Don't forget to ask for NSCP's special room rate!

Wednesday, October 4th begins with registration and continental breakfast for all attendees and faculty. Two workshops, Fundamentals of Broker-Dealer Compliance and Fundamentals of Investment Adviser Compliance, will be our morning agenda. Always well attended, these two workshops are very informative to newcomers, as well as to veterans of the Compliance Industry. After lunch, three sessions of concurrent workshops will complete the afternoon. At 5:00, be sure you don't miss the casual, hosted beer and wine reception which is open to all attendees, guests, and faculty. The day finishes up with the popular Dine Around at 6:30, the perfect opportunity to network with others in your field of expertise.

Thursday begins with our Keynote Speaker's address. John R. Stark, Chief, Office of Internet Enforcement at the SEC, will deliver a speech focusing on online securities fraud. Two General Sessions will follow, IA Regulatory Developments and BD Regulatory Developments. Lunch follows these panels, then three sessions of concurrent workshops. Thursday evening is completed by an upscale hosted reception with full bar and hors d'oeuvres at 5:30 PM.

Friday, October 6th begins after breakfast with two sessions of concurrent workshops. The Compliance Director Forums run from 11:00 to noon with a sit-down (not a boxed) lunch to follow.

Next year's meeting dates are October 17th, 18th and 19th at the JW Marriott in Washington DC. Don't miss out, mark your 2001 calendar today!

Registration Fee Schedule

<i>If received by NSCP...</i>	by 8/28	by 9/11	by 9/29	On Site*
NSCP Member of Record	\$300	\$375	\$450	\$750
Nonmember associated with				
NSCP member	\$325	\$400	\$475	\$800
Each additional person from				
same firm	\$250	\$325	\$400	\$650
Nonmember	\$450	\$525	\$600	\$1,050
Guest	\$50	\$50	\$50	\$50

* Credit card only for on site registrations.