

NASD NOTICE TO MEMBERS 98-18

NASD Regulation Permits Electronic Methods For Holding Annual Interviews Or Meetings With Registered Representatives

Suggested Routing

- ☒ Senior Management
- ☒ Advertising
- ☐ Continuing Education
- ☐ Corporate Finance
- ☐ Executive Representatives
- ☐ Government Securities
- ☐ Institutional
- ☐ Insurance
- ☐ Internal Audit
- ☒ Legal & Compliance
- ☐ Municipal
- ☒ Mutual Fund
- ☐ Operations
- ☐ Options
- ☐ Registered Representatives
- ☐ Registration
- ☐ Research
- ☐ Syndicate
- ☐ Systems
- ☐ Trading
- ☒ Training
- ☐ Variable Contracts

Executive Summary

NASD Regulation, Inc. (NASD RegulationSM) is clarifying the application of the annual compliance meeting requirements of National Association of Securities Dealers, Inc. (NASD[®]) Rule 3010. Such meetings may be conducted by electronic means, provided certain safeguards are met.

Questions concerning this *Notice* should be directed to Daniel M. Sibears, Vice President, Member Regulation, NASD Regulation, at (202) 728-6911.

Interpretation

Rule 3010 governs supervisory issues for NASD members. Under subpart (a)(7), the rule requires the participation of each registered representative, either individually or collectively, no less than annually, in an interview or meeting conducted by persons designated by the member at which compliance matters relevant to the activities of the representative are discussed (hereinafter "compliance conference" or "conference"). Compliance conferences may occur in conjunction with the discussion of other matters and may be conducted at a central or regional location or at the representative's place of business.

Technological advances in electronic communications led NASD Regulation to consider the various means of communication through which members can effectively conduct the compliance conference required by Rule 3010(a)(7). In this regard, NASD Regulation will permit members to hold the required conference with registered representatives via video conference, interactive classroom setting, or other electronic means, provided certain safeguards are in place.¹

Members choosing to conduct compliance conferences other than in

person with representatives must ensure that the communication means used permit interactive communication. This means, at a minimum, that the representatives that attend the compliance conference must be able to hear presenters live and, in an interactive environment, ask questions and engage in dialogue with the presenters. Presenters may use supplemental learning and communications tools such as video tapes or computer programs that include informational or instructional materials from persons who are not physically present.

In addition to ensuring an interactive environment for all compliance conferences, members conducting such conferences through electronic means or aids may bear a heightened responsibility associated with electronic communications. As with all compliance conferences, members must ensure that representatives scheduled to appear at a particular location in fact arrive at and stay for the entire conference.

While no standardized procedures are mandated, firms' written supervisory procedures must be designed and implemented to reasonably ensure compliance with Rule 3010(a)(7). These procedures may include, among other things:

- designating an appropriate person to oversee compliance with the rule;
- implementing and maintaining a tracking system that includes the identities of representatives participating in compliance conferences, the time and place of the conference for each representative, the means through which the conference was conducted, the identity of the person conducting the conference, and the substantive areas covered during the conference; and

- proctoring the compliance conference to ensure that representatives required to be present attend and remain at the conference for the designated period of time.

Endnote

¹ This position reflects the reversal of a previous staff position with respect to the holding of compliance meetings via video conference technology in a letter dated March 31, 1997.

© 1998, National Association of Securities Dealers, Inc. (NASD). All rights reserved.