

business of a member who are to function as principals shall be registered as such with [the Association] *NASD* in the category of registration appropriate to the function to be performed as specified in rule 1022. Before their registration can become effective, they shall pass a Qualification Examination for Principals appropriate to the category of registration as specified by the Board of Governors. A member shall not maintain a principal registration with [the Association] *NASD* for any person (1) who is no longer active in the member's investment banking or securities business, (2) who is no longer functioning as a principal, or (3) where the sole purpose is to avoid the examination requirement prescribed in paragraph (c). A member shall not make application for the registration of any person as principal where there is no intent to employ such person in the member's investment banking or securities business. A member may, however, maintain or make application for the registration as a principal of a person who performs legal, compliance, internal audit, *back-office operations*, or similar responsibilities for the member or a person engaged in the investment banking or securities business of a foreign securities affiliate or subsidiary of the member.

(b) through (c) No change.

(d) Application for Principal Status

(1) Any person associated with a member as a Registered Representative whose duties are changed by the member so as to require registration in any principal classification shall be allowed a period of 90 calendar days following the change in his duties during which to pass the appropriate Qualification Examination for Principals. Upon elevation, the member shall submit to [the Association] *NASD* an [elevation form] amended "*Uniform Application for Securities Industry Registration or Transfer*" [designated by the Board of Governors] and the applicable fees. In no event may a person function as a Principal beyond the initial 90 calendar day period following the change in his duties without having successfully passed the appropriate Qualification Examination.

(2) No Change.

[(3) If an applicant does not take the examination within the ninety calendar day period or if the applicant fails the examination, a new principal elevation form and examination fee shall be required.]

(e) Requirement of Two Registered Principals for [New Applicants for] Membership] *Members*

(1) An [applicant for membership in the Association] *NASD member*, except a sole proprietorship, shall have at least two officers or partners who are [qualified to become] registered as principals with respect to each aspect of the [applicant's] *member's* investment banking and securities business pursuant to the *applicable* provisions of rule 1022[(a), (d) and (e), whichever are applicable, before it shall be admitted to membership]. *This requirement applies to persons seeking admission as members and existing members.*

(2) through (3) No change.

1022. Categories of Principal Registration

(a) General Securities Principal

(1) through (2) No Change.

(3) Except as provided in rule 1021(c), a person who was registered with [the Association] *NASD* as a Principal [or a Financial Principal.] shall not be required to pass a Qualification Examination for General Securities Principal and shall be qualified as a General Securities Principal.

(4) A person registered solely as a General Securities Principal shall not be qualified to function as a Limited Principal—Financial and Operations; *Limited Principal—Registered Options and Security Futures; Limited Principal—General Securities Sales Supervisor; Municipal Securities Principal, or Municipal Fund Securities Limited Principal*, unless [he] *that person* is also qualified and registered as such [pursuant to paragraph (b)].

[(5) A person registered solely as a General Securities Principal shall not be qualified to function as a Registered Options Principal unless he is also qualified and registered as such pursuant to the provisions of paragraph (f).]

[(6) A person qualified solely as a General Securities Principal shall not be qualified to be registered as a Limited Principal—General Securities Sales Supervisor unless he is also qualified and registered as such pursuant to the provisions of paragraph (g)(1).]

(b) Limited Principal—Financial and Operations

(1) through (2) No change.

[(3) Except as provided in rule 1021(c), a person designated pursuant to the provisions of subparagraph (1) hereof shall not be required to take the Limited Principal—Financial and Operations Examination and shall be

qualified for registration as a Limited Principal—Financial and Operations if:

(A) such person had been performing the functions of a Limited Principal—Financial and Operations as defined in subparagraph (2) hereof on or before September 1, 1972; or

(B) such person was registered with the Association as a Financial Principal.]

(4) Renumbered as (3).

(c) through (e) No change.

(f) *Limited Principal—Registered Options and Security Futures* [Principals]

No change to rule language.

(g) Limited Principal—General Securities Sales Supervisor

(1) No change.

(2) A person registered in this category solely on the basis of having passed the Qualification Examination for Limited Principal—General Securities Sales Supervisor shall NOT be qualified to:

(A) [be registered in any other category of principal registration] *function in a principal capacity with responsibility over any area of business activity not prescribed in subparagraph (1);*

(B) through (C) No change.

(3) No change.

(h) *Limited Principal—Government Securities*

(1) All persons associated with a member not previously registered as a principal who are to function as government securities principals shall be registered as such with *NASD*.

(2) Each person associated with a member must be registered as a Limited Principal—Government Securities if such person is:

(A) Engaged in the management or supervision of the member's government securities business, including:

(i) Underwriting, trading or sales of government securities;

(ii) Financial advisory or consultant services for issuers in connection with the issuance of government securities;

(iii) Research or investment advice, other than general economic information or advice, with respect to government securities in connection with the activities described in (i) and (ii) above;

(iv) Activities other than those specifically described above that involve communication, directly or indirectly, with public investors in government securities in connection with the activities described in (i) and (ii) above; or

(B) Responsible for supervision of: