

including, but not limited to, cashiering, accounting, settling, and the record keeping of customers' cash or margin accounts, also should be included under this limited exception. Accordingly, NASD is proposing to add the term "back-office operations" before the terms "or similar responsibilities" in rules 1021(a) and 1031(a). Rule 1021(d)(1) states that a person who is currently a registered representative may function as a principal for 90 calendar days before he or she is required to pass the appropriate qualification examination for principal. This rule requires that a member submit an "elevation form" for a representative who has been elevated to principal. NASD no longer uses an "elevation form." Rather, NASD now requires members to submit an amended "Uniform Application for Securities Industry Registration or Transfer" (Form U-4). NASD is proposing to amend the rule to reflect this change.

Rule 1021(d)(3) suggests that an applicant who does not take the examination within 90 days or fails the examination can submit a new form and continue to function as a principal until qualified. This is inconsistent with rule 1021(d)(1), which states that in no event may a person function as a principal beyond the initial 90-day period. Therefore, NASD is proposing to delete rule 1021(d)(3).

Rule 1021(e) requires applicants for NASD membership to have at least two principals with respect to each aspect of the applicant's investment banking and securities business. NASD has interpreted rule 1021(e) to generally require all members, including new applicants, to have at least two principals with respect to each aspect of the member's investment banking and securities business. Therefore, NASD is proposing to amend rule 1021(e) to clarify that this requirement applies to existing members as well as new applicants.

Rules 1022 and 1032 (Principal and Representative Registration Categories)

Rule 1022(a)(3) states that a person who was registered with NASD as a principal or financial principal is not required to pass a qualification examination for general securities principal to be qualified as a principal. The term "financial principal" refers to an examination that is no longer administered and thus should be deleted from rule 1022(a)(3).

Rules 1022(a)(4), (5), and (6) provide that a person registered solely as a general securities principal is not automatically qualified to function in certain limited principal capacities.

NASD is proposing to combine these rules to eliminate certain redundancies in the language. Further, NASD is proposing to clarify that a person registered solely as a general securities principal is not automatically qualified to function as a municipal securities principal or municipal fund securities limited principal.

Rule 1022(b)(3) provides an exception from the limited principal—financial and operations examination for those persons who were performing these functions before September 1, 1972, and those persons who were registered as a financial principal. NASD is proposing to delete rule 1022(b)(3) because the grandfather clause and the reference to "financial principal" relate to changes made in the 1970s.

For consistency with the other headings under rule 1022, NASD is proposing to amend the headings for rule 1022(f) and IM-1022-1 to state: "Limited Principal—Registered Options and Security Futures."

Rule 1022(g)(2)(A) provides that a limited principal general securities sales supervisor cannot be qualified to be registered in any other principal registration category. NASD believes that rule 1022(g)(2)(A) is inaccurate. Accordingly, NASD is proposing to replace the current language in rule 1022(g)(2)(A) to state that a person registered solely as a Limited Principal—General Securities Sales Supervisor shall not be qualified to function in a principal capacity with responsibility over any of the areas of business not described in that rule. This will clarify that such persons may be registered in other categories, if applicable.

Rules 1032(a)(2)(A)–(D) and 1032(a)(2)(F) relate to the transition from the Series 1 to the Series 7, which took place in the 1970's. NASD is proposing to delete rules 1032(a)(2)(A)–(D) and 1032(a)(2)(F) because these sections are no longer relevant to a vast majority of our members and NASD could provide waivers if necessary. Rule 1032(a)(2)(G) provides that persons registered and in good standing with the Securities and Futures Authority ("SFA") and who have passed the Modified General Securities Representative Qualification Examination for United Kingdom Representatives are qualified to be registered as general securities representatives, with certain restrictions. Under the previous regulatory framework in the United Kingdom, certain persons engaged in the securities and derivatives business were required to register with the SFA before they could engage in such

business. The Financial Services Authority ("FSA") has consolidated the regulatory duties that were carried out by the previous regulatory bodies, including the SFA. The FSA is an independent non-governmental body with statutory powers under United Kingdom legislation to regulate the financial services industry in the United Kingdom. Under the FSA structure, persons that plan to perform specified functions, known as regulated activities or controlled functions, must be either authorized or approved by the FSA before they can carry out these functions. Therefore, NASD is proposing to revise the language in rule 1032(a)(2)(G) to reflect the FSA's new authorization and approval process.

Rule 1032(f)(2)(B) sets forth the grace periods for passing the equity trader examination. For instance, registered representatives who were eligible for the two-year grace period were given until October 1, 2000, to pass the examination. Because the grace period deadlines have passed, NASD is proposing to delete the periods specified under rule 1032(f)(2)(B).

Rule 1032(g)(3) provides a grandfathering provision for persons who were performing the functions of a government securities limited representative on or before April 1, 1996. NASD believes that it is no longer necessary to keep this section because most persons who were eligible for grandfathering have been processed and, if necessary, the staff may provide waivers to new applicants. Accordingly, NASD is proposing to eliminate rule 1032(g)(3) in its entirety.

Rule 1070 (Qualification Examination and Waiver of Requirements)

Rule 1070(c) provides that qualification examination results will be reported to members on a pass/fail basis only. NASD is proposing to delete the phrase "on a pass/fail basis only" because NASD provides more than just pass/fail information to members.

Rule 1070(d) prohibits an applicant from receiving assistance while taking an examination. Rule 1080 requires that examinations be kept confidential. NASD is proposing to combine the language in rule 1070(d) and rule 1080 because these sections cover similar topics. Consequently, NASD is proposing to incorporate rule 1070(d) into rule 1080 and delete rule 1070(d).

Rule 1070(e) provides that experience in fields ancillary to investment banking or securities business will not in and of itself constitute sufficient grounds for waiving an examination. NASD is proposing to amend rule 1070(e) to clarify that although age or physical