EXHIBIT # 3

Begins on next page

American Council of Life Insurance

Carl B. Wilkerson
Senior Counsel

September 30, 1996

Ms. R. Clark Hooper, Senior Vice President
NASD Regulation, Inc.
1735 K Street, NW
Washington, D.C. 20006

RE: Interpretative Clarification of NASD Conduct Rule 3070

Dear Ms. Hooper:

We are writing to obtain interpretative clarification and guidance on NASD Conduct Rule 3070, which became effective October 1, 1995 and was circulated in Special NASD Notice to Members 95-81. In brief, the new rule requires broker/dealers to report to the NASD the occurrence of ten specified events, and to submit summary statistics concerning customer complaints. The rule was designed to parallel comparable provisions of New York Stock Exchange Rule 351.

The Council is a national trade association with 554 member life insurance companies which represent 95% of the total assets of all US life insurance companies. Many of our member companies offer and distribute variable annuities, variable life insurance and mutual funds directly or through affiliated and independent broker/dealers subject to the NASD conduct rules. A substantial number of our member companies and their broker/dealer affiliates have raised significant concerns about the application of NASD Conduct Rule 3070. These companies report confusion in clearly understanding the rule's scope, required statistical compilations, and definitions.

We greatly appreciate your willingness to address these concerns, and to work toward clarification of the rule's application to broker/dealers affiliated with life insurers. Our letter seeks to obtain interpretative guidance on the order of a "no-action" letter.

SUMMARY OF POSITION

The life insurance industry strongly supports sensible regulatory enhancements that facilitate a broker/dealer's ability to execute compliance and supervisory responsibilities concerning securities related activities of their associated persons. In many respects, new NASD Rule 3070 provides worthwhile tools for broker/dealers and the NASD in identifying compliance problems at an early stage. The life insurance industry participated in a constructive dialogue

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with the NASD as Rule 3070 was developed. Several aspects of the rule reflect specific comments suggested by the life insurance industry. Nevertheless, several other aspects of the rule are particularly confusing when applied to broker/dealers affiliated with life insurance companies. The uncertain application of the rule could unintentionally generate excessive reporting of customer complaints that would dilute the significance of the information the rule seeks to elicit. Collecting and reviewing unfocused volumes of statistics ineffectively burdens the resources of broker/dealers and the NASD.

Registered representatives and broker/dealers affiliated with life insurance companies engage in product, service and regulatory environments significantly different from those confronting full service or "wire-house" broker/dealers. Compliance with Rule 3070, therefore, is not automatic or simple for all broker/dealers affiliated with life insurers, even though the rule parallels NYSE Rule 351. Most broker/dealers affiliated directly or indirectly with life insurance companies are not members of the New York Stock Exchange. In addition, several companies have reported conflicting responses from NASD staff persons and district offices concerning the rule's interpretation and scope. This has thwarted the industry's ability to understand and fulfill Rule 3070. Moreover, the ill-fitting application of the rule to these broker/dealers could unfairly and incorrectly exaggerate the incidence of actual sales practice problems.

For these reasons, the NASD's interpretative guidance is necessary to make the rule more fully and equitably useful for all registered representatives and broker/dealers subject to the NASD's rules. Moreover, in clarifying the rule's scope and application, the NASD will obtain more responsive information consistent with the rule's regulatory objective. Interpretative clarifications will also reduce unnecessary and unintended reporting burdens.

SUMMARY OF THE RULE

Subsection (a) of Rule 3070 requires broker/dealers to file a report with the NASD when any of ten specified events occur. These ten events vary significantly, and range from situations where a court, governmental agency, or SRO has determined there has been a violation of the securities law, to circumstances where a firm has received a written customer complaint alleging theft, misappropriation of funds or securities, or forgery. The ten conditions also include any claim for damages by a customer, broker, or dealer which is settled for an amount exceeding $15,000, and situations where registered representatives or broker/dealers are associated in any business or financial activity with persons who are subject to a "statutory disqualification" as defined in the Securities Exchange Act of 1934.

Subsection (b) of the Rule requires each associated person to promptly report the existence of any of the ten conditions to their broker/dealer. In turn, the broker/dealer must report these events to the NASD within ten business days of when the broker/dealer knows, or should have known, of the event.

Subsection (c) of the Rule further requires broker/dealers to report to the NASD statistical and summary information regarding written customer complaints received by the broker/dealer or relating to the firm or any of its associated persons.

REGULATORY OBJECTIVES OF RULE 3070

The purpose of Rule 3070 provides helpful benchmarks in clarifying its scope and application. According to the SEC, the cardinal purpose of Rule 3070 is a reporting of information on a timely basis "so that the NASD can more aggressively detect and investigate *sales practice violations*."[1] In its large firm project report, the SEC supported NASD adoption of a rule paralleling NYSE Rule 351, and the General Accounting Office "recommended that the broker/dealers' customer complaint information be computer captured and utilized as an additional tool by regulators for identifying potentially problem firms."

The SEC release further noted that Rule 3070 "is designed to act as an early warning system for potential sales practice problems engaged in by identified registered representatives."[2] To achieve these results, the SEC explained that the information collected will be analyzed for patterns of customer complaints involving broker/dealers and their registered representatives, whether or not all of the complaints are ultimately substantiated. In sum, the ten conditions in subsection (a) of Rule 3070 are designed to flag situations evidencing sales practice problems of registered representatives and broker/dealers.

The NASD recently clarified the scope and purpose of Rule 3070 further in an interpretative letter issued to the American Funds Distributors, Inc. on May 28, 1996. This letter emphasized that Rule 3070 describes customer complaints as "written grievances" by the customer. According to the NASD's letter, the "rule specifically requires the member broker/dealer to distinguish between written grievances and regular customer correspondence (i.e., customer inquiries and observations)."

Second, in applying the facts of the American Funds Group to Rule 3070, the NASD also explained that "since the administration of the funds and variable insurance products are handled by separate legal entities (i.e., fund transfer agent and insurance servicing agent) and since neither are registered with the NASD, their activities, including customer complaints, would not be subject to the NASD's jurisdiction and rules." This NASD letter and the rule's purpose provide tools for interpretative clarification.

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[1]Release No. 34-35956 (July 11, 1995); 1995 SEC Lexis 1749; 60 FR36838.

[2]*Id.* at 22.

SPECIFIC INTERPRETATIVE QUESTIONS

Our goal in the following discussion is to clarify the intent and scope of Rule 3070 to generate meaningful, informative early warning information for both the NASD and broker/dealers affiliated with life insurance companies.

1. Interpretative Questions on Subsection (a)(1) of NASD Conduct Rule 3070

A. Rules of Financial Business or Professional Organizations

Subsection (a)(1) requires prompt reporting when registered representatives or broker/dealers have

> been found to have violated any provision of any securities law or regulation, any rule or standards of conduct of any governmental agency, self regulatory organization, or *financial business or professional organization*, or engaged in conduct which is inconsistent with just and equitable principles of trade, and the member knows, or should have known that any of the above-mentioned events have occurred.

Several aspects of this subsection have generated interpretive confusion. The reference to *financial business or professional organizations* is broad in scope and difficult to apply. Unlike wire-house broker/dealers, registered representatives of broker/dealers affiliated with life insurance companies engage in a wide range of non-securities business and professional activities. There are many voluntary professional organizations and societies for life insurance salespersons, some of which function primarily as sources of continuing education and insurance industry information. Reports on voluntary organization rules may be outside the scope of Rule 3070 in many instances.

For example, a registered representative who is an insurance agent and a member of a voluntary insurance agent's professional organization may violate standards of the organization, such as the payment of dues, attendance at a minimum number of meetings, or attainment of a voluntary number of continuing education courses. This type of information does not belong in any statistics or report filed pursuant to Rule 3070.

The application of subsection (a)(1), therefore, should be clarified concerning rules violations of voluntary, financial business or professional organizations. We do not believe that the NASD intended this category of information to be reported in every instance, because it is often unrelated to the objectives of Rule 3070. Reporting such information is not useful in an early warning system designed to detect sales practice abuses in the securities industry. The sheer volume of reporting under a literal interpretation of this "financial business or professional organization" category could be extremely burdensome and would inundate the NASD with useless information that could dilute the significance of more critical barometers of abuse.

In solution to these burdens and practical ambiguity, we interpret that subsection (a)(1) triggers reports only concerning organizations in which membership is mandatory in order to conduct a business or profession. For example, it would be consistent with the purpose of Rule 3070 to report violations of state bar association codes of professional responsibility or mandatory conduct standards of certified public accounting organizations. The reporting, however, about rules of voluntary business or professional organizations is not required.

B. The "Knows or Should Have Known" Standard

Subsection (a) (1) requires reporting of events the broker/dealer "knows or should have known" to have occurred. The application of this standard to the items reportable under subsection (a)(1) has raised some interpretative inquiries, particularly with regard to events occurring at "financial business or professional organizations." Some companies have observed that ordinarily no automatic mechanism exists to learn of actions occurring at every business or professional organization in which associated persons may participate. If in the normal course of business, a broker/dealer would have known of reportable events occurring at business or professional organizations, we interpret that they would be reported pursuant to the subsection. The NASD's explanation of the "knows or should have known" standard in subsection (a)(9) was helpful in reaching this viewpoint.

In the SEC release adopting Rule 3070, the NASD explained that broker/dealers expressed concerns about a member's obligation to insure compliance with the proposed rule where an associated person fails to disclose to the member the occurrence of an event specified.[3] The SEC release notes that a resolution surfaced in the comment process suggesting that the rule require reporting of events only if the member obtains knowledge of the reportable event. We support this clarification.

The SEC release goes on to indicate that the phrase "knows or should have known" was added to subsection (a)(9) "to assure that members do not intentionally avoid becoming aware of a reportable event." The release further explained that subsection (a)(9) was modified "to obligate member reporting under this item only if the member 'knows or should have known' of the existence of the reportable event." We find this discussion in the SEC release concerning subsection (a)(9) to be helpful in interpreting that standard's application to the events reportable in subsection (a)(1). Accordingly, so long as the broker/dealer does not intentionally avoid becoming aware of a reportable event, and does not obtain knowledge or have actual notice of a

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[3] *Id.* at 24.

reportable event in the normal course of business,[4] the broker/dealer would not be deficient because it is not an event about which the member "should have known."

C. Just and Equitable Principles of Trade

Subsection (a)(1) requires reporting whenever a broker/dealer or its associated persons "engaged in conduct which is inconsistent with just and equitable principles of trade." We interpret this reporting obligation to mean the types of securities practices referenced in NASD Conduct Rule 2110. Although Rule 2110 does not define the precise meaning of "just and equitable principles of trade," the NASD Manual contains cross references to 13 NASD conduct rules covering events such as "free-riding and withholding," trading ahead of customer limit orders, and manipulative and deceptive quotations. Without reference to NASD Conduct Rule 2110 and its body of administrative and judicial history, this provision in subsection (a)(1) is infinitely broad and definitionally unclear.

So that broker/dealers are able to fulfill their reporting obligations under Rule 3070, we interpret that events reportable as conduct inconsistent with just and equitable principles of trade would encompass those securities related activities generally understood to contravene NASD Rule 2110. To conclude otherwise would be so vague as to be administratively enforceable, and would constitute an unfair noncompliance pitfall within subsection (a)(1). This interpretation also comports with the Rule's objective to flush out sales practice abuses in the securities business.

2. Interpretative Question on Subsection (a)(6) of NASD Conduct Rule 3070

Subsection (a)(6) requires reporting when a broker/dealer or registered representative is an associated person of financial institutions, or an insurance company "which was suspended, expelled or had its registration denied or revoked by any agency, jurisdiction or organization." While we understand the objectives of Rule 3070 to give early warning of sales practice abuses, this subsection could initiate reporting of events by associated financial institutions, such as an insurance company, that have nothing to do with the broker/dealer's or registered representative's sales practices or with securities activities. A brief example may help illustrate this point.

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[4] Broker/dealers regularly emphasize the importance of all NASD Conduct Rules, including Rule 3070, with their associated persons. If after appropriate exposure to the rule's purpose and responsibilities, an associated person still fails to properly inform the broker/dealer of an incident unknown to the broker/dealer but reportable pursuant to Rule 3070, we interpret that such an incident is not one in which the broker/dealer "should have known" or about which the broker/dealer intentionally avoided becoming aware.

general assets. In this case, the Insurance Commissioner suspended the company's ability to sell fixed life insurance and annuity contracts. The insurer's separate account and the variable products it funded, however, were not affected by the Insurance Department action at all. Many of the registered representatives selling the variable annuity and variable life insurance contracts issued by the separate account, however, were also agents of the life insurance company. For the broker/dealer to report multiple incidents of the life insurer's suspension by the state insurance department would highlight numerous activities irrelevant to the broker/dealer's sales practice and securities activities. Multiple reports of these events unrelated to the securities business of the broker/dealer would unfairly identify the broker/dealer as having sales practice problems and arguably could elevate the broker/dealer's stature unnecessarily for "early warning" intervention or examination.

In solution, we urge the NASD to interpret that events of this nature concerning associated financial institutions to the broker/dealer are reportable when they have involve securities sales practice abuses or activities such as a felony or misdemeanor, as referenced later in subsection (a)(6). This approach seeks to parallel the regulatory objective of Rule 3070 and the general jurisdiction of the NASD. [5] In addition, it follows the approach the NASD applied in its interpretative letter to the American Funds Distributors, Inc., on May 28, 1996 concerning entities not subject to the NASD's jurisdiction. [6]

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[5] Changes to the NASD's Rules of Fair Practice must comport with the provisions of Section 15A(b)(2) and 15 (b)(6) of the 1934 Act. Securities activities provide the fundamental threshold for these statutory provisions concerning self-regulatory rules. SRO rules, therefore, must have a tangible nexus to securities activities. Congress specifically addressed this issue when it amended the Exchange Act in 1975 concerning the rulemaking authority of self-regulatory organizations. The 1975 Senate Committee Report on this statutory amendment states that:

> The growing diversification of securities firms into non-securities activities has raised, and will continue to raise, significant questions about the adequacy of the present regulatory structure. However, the diversification of securities firms should not automatically extend the jurisdiction of the self-regulatory agencies. Until it is specifically demonstrated to the Congress that non-securities activities of firms which are members of self-regulatory agencies should be limited or regulated in the public interest, such firms should be free to undertake and pursue these activities in the same matter as other business organizations, subject only to those regulatory limitations necessary to assure protection of public investors and the public interest. S.Rep. No. 75, 94th Cong. 1st Sess. 27-28 (1975).

[6] We also interpret that such incidents properly reported by the broker/dealer pursuant to Rule 3070 need not be duplicatively reported under the rule for each associated person. Such multiple reporting would inaccurately exaggerate the incidence of a single reportable event.

3. Interpretative Question on Subsection (a)(8) of NASD Conduct Rule 3070

Subsection (a)(8) requires a report when the broker/dealer or registered representative "is the subject of *any* claim for damages by a customer, broker, or dealer which is settled for an amount exceeding $15,000." Claims for damages against a broker/dealer are reportable only when the claim is settled for an amount exceeding $25,000.

This item has been the source of the greatest concern with our members because it is extremely open-ended and may require broker/dealers affiliated with life insurers to report excessive numbers of events that have little relevance to sales practice abuses or securities related activities. Because of their volume and the wide range of activities in which they engage, life insurance companies and their affiliated broker/dealers may be the subject of numerous claims for damages that have little if anything to do with the securities business or sales practice abuses.

For example, insurers and their affiliated broker/dealers may incur and settle claims concerning property/casualty items, personal injury items, wrongful termination, health claim disputes, etc. that have no meaningful nexus to an early warning system designed to flush out sales practice abuses in the securities business. Literal interpretation of this provision could inundate the NASD with useless reportable events lacking an appropriate regulatory nexus.

In keeping with the regulatory purpose of Rule 3070, we interpret that subsection (a)(8) is designed to elicit reports of customer claims for damages relating to the broker/dealer's securities or commodities activities. This also parallels the approach taken in subsection (a)(7) in which civil litigation or arbitration judgments, awards or settlements are reportable only if they are *"securities or commodities-related."*

Subsection (a)(8) may present less of a problem for a full service or "wire-house" broker/dealers because they generally engage in a more limited range of activities and typically forbid associated persons from engaging in any unrelated employment or business activities. In contrast, the registered representatives of broker/dealers affiliated with life insurance companies often participate in other businesses in addition to securities sales, such as the sale of fixed life insurance and annuities or property and casualty insurance, among other things. In light of these factors, a literal (and unclarified) interpretation of subsection (a)(8) would subject broker/dealers affiliated with life insurance companies to an enormous and unwarranted logistical burden to produce information of little relevance to the rule's purpose.

A practical solution is called for. Analogously, the New York Stock Exchange revised NYSE Rule 351 in 1990 to increase the threshold for reporting certain awards or claims from $5,000 to $15,000 for individuals, and from $5,000 to $25,000 for broker/dealers. According to the SEC Release adopting amendments to Rule 351 in 1990, this change was developed as a practical accommodation "to more accurately reflect the realities of the current economic environment, without hindering the Exchange's ability to enforce compliance with its constitution and rules and federal securities laws." [7] In the same spirit of recognizing practical solutions and unreasonable logistical burdens, we urge the NASD to confirm that subsection (a)(8) only requires reporting of customer damage claims involving securities or commodities-related activities of the broker/dealer.

4. Interpretative Question on Subsection (a)(9) of NASD Conduct Rule 3070

Subsection (a)(9) requires a report whenever there is an association in any business or financial activity with any person who is subject to a "statutory disqualification" as the term is defined in the 1934 Act, and the broker/dealer knows or should have known of the association.

Some of our members have expressed questions about this subsection because knowledge of a registered representative's association with statutorily disqualified persons in business or financial activities may not always be available to the broker/dealer. For example, even though the registered representatives may correctly report an outside business activity under the NASD's rules, they are not required to report their associates in the business and financial activity, or whether they are statutorily disqualified. In the ordinary course of business, therefore, the broker/dealer may have no means of knowing these facts.

Our members found helpful the clarifications in the SEC's release that subsection (a)(9) was modified "to obligate member reporting under this item only if the members 'knows or should have known' of the existence of the reportable event." The SEC release explains that this "knows or should have known" standard was added to this subsection "to assure that the members do not intentionally avoid becoming aware of reporting these events." The SEC's discussion in the release is helpful in interpreting the standard to events reportable under section (a)(9) that would not be known in the normal course of business. We interpret, therefore, that so long as the broker/dealer does not intentionally avoid becoming aware of a reportable event under section (a)(9) and does not obtain actual notice of a reportable event in the normal course of business, the broker/dealer would not be deficient because it is not an event in which the broker/dealer "should have known." [8]

5. Interpretative Question on Subsection (a)(10) of NASD Conduct Rule 3070

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[7] Securities Exchange Act Release No. 27837 (March 22, 1990); 1990 SEC Lexis 518.

[8] *See* note 4 *supra* for a parallel point of clarification concerning the same language in subsection (a)(1).

Subsection (a)(10) requires reporting when a broker/dealer or registered representative is the subject of any disciplinary action taken by the broker/dealer against any associated person involving suspension, termination, the withholding of commissions or imposition of fines in excess of $2500, or otherwise disciplined in any manner which would have a significant limitation on the individual's activities on temporary or permanent basis.

A few interpretative questions have been raised concerning this item, particularly concerning the withholding of commissions in connection with variable annuity and variable life insurance sales. Occasionally, a broker/dealer or its affiliated life insurance company will withhold the payment of commissions for purely ministerial, and non-disciplinary reasons, such as obtaining receipt signatures on delivery of an insurance policy, or completion of an item in the insurance application.

The focus of subsection (a)(10) is oriented toward significant, severe actions such as suspension, termination or actions "which would have significant limitation on the individual's activities on a temporary or permanent basis." We interpret that the withholding of commissions pending the completion of ministerial, administrative items is outside the scope of subsection (a)(10). Clearly this subsection is oriented toward a different level of disciplinary action. We are not suggesting that if a broker/dealer withheld all commissions on all product sales by a registered representative that they would not be obligated to report this event. Rather, we are interpreting that if commissions on an individual variable life or variable annuity sale are temporarily withheld pending completion of ministerial or administrative matters, and are not withheld for disciplinary reasons, they are outside the scope of reportable items under subsection (a)(10).

UNIQUE, LARGE REPORTING BURDENS

The need for interpretative clarification is vivified by the extreme administrative burdens that would be experienced by many broker/dealers affiliated with life insurance companies in complying with NASD Conduct Rule 3070. Literal application of the rule to these broker/dealers, without the interpretative clarifications requested, could generate excessive numbers of individual and quarterly reports of incidents that are outside the scope and purpose of the rule. In the case of some broker/dealers affiliated with life insurance organizations, this consequence would be extremely burdensome and administratively unfair by incorrectly highlighting a broker/dealer within an early warning system designed to target sales practice abuses. Further, excessive reporting unintended by the rule could clog the NASD's data base with useless information.

We surveyed the broker/dealers affiliated with our life insurance companies to obtain tangible, numerical data on this consequence. One broker/dealer affiliated with a larger life insurance company calculated that it would report over 3,000 incidents of complaints per quarter pursuant to a literal (unclarified) interpretation of Rule 3070. In the estimation of the company, however, about 150 complaints per quarter concerned sales practice incidents intended to be elicited under the rule. On an annual basis, this company would report approximately 12,000 incidents, although only approximately 600 are within the scope and purpose of Rule 3070. Several other broker/dealers affiliated with large life insurers similarly indicate that they could generate a similar level of excessive reporting under an unclarified Rule 3070. Broker/dealers affiliated with smaller life insurance organizations also report disproportionate ratios of technically reportable events compared to events intended within the rule's scope or purpose.

These types of results were not isolated, and beg for the interpretative clarifications highlighted above. Without clarification, the deficiencies in Rule 3070 have a number of undesirable outcomes. A broker/dealer reporting an excessive, unnecessary numbers of events under Rule 3070 could be unfairly targeted in the NASD's early warning system for special examination and investigation. Some companies have expressed a lack of confidence that this data would remain available only for internal NASD purposes. Moreover, the burden and expense of accumulating excessive data on incidents outside the rule's appropriate purpose is untenable. Without interpretative clarification, the rule could also be subject to non-uniform levels of compliance as broker/dealers seek to make sense of certain aspects of the rule.

Excessive reporting of events outside the purpose of Rule 3070 could inundate the NASD with meaningless data and compromise the effectiveness of the early warning system. The interpretive guidance requested above will generate relevant information about sales practice abuses that can be used effectively in an early warning system.

The confusion, unnecessary burdens, and non-uniformity of Rule 3070 can be sensibly rectified. We greatly appreciate the NASD's willingness to address these issues and to provide clear interpretative guidance on ambiguous applications of the rule. The NASD's issuance of individual interpretative letters on this rule is commendable. Our request for additional interpretation is broad-based and reflects the consensus of our members with broker/dealer affiliations.

If you have any questions concerning this letter, please call. We greatly appreciate your attention to our views.

Sincerely,

Carl B. Wilkerson

Carl B. Wilkerson

Special NASD Notice to Members 98-27

Interim Forms U-4 And U-5 Go Into Effect; Interim Form BD Also Approved

Please review and forward within 24-48 hours.

NASD NOTICES TO MEMBERS

WILKERSON, C.

- ☐ Registered Representatives
- ■ Registration
- ☐ Research
- ☐ Syndicate
- ☐ Systems
- ☐ Trading
- ■ Training
- ☐ Variable Contracts

This *Special Notice to Members* provides guidance to members in filling out the Interim Forms U-4 and U-5, which become effective on March 16, 1998, and in understanding what information NASD Regulation, Inc., will release as part of its Public Disclosure Program. This guidance will be updated and supplemented as necessary and can be found at the NASD Regulation℠ Web Site at *www.nasdr.com.*

The recently approved Uniform Application for Broker-Dealer Registration (Form BD) will also become effective March 16, 1998. Copies of the three forms are included with this *Notice*.

Questions concerning this *Notice* may be addressed to any of the following individuals in NASD Regulation's CRD/Public Disclosure Department: Ann Bushey, at (301) 590-6389; John Vaughn, at (301) 590-6865; or Janis Paulikas, at (301) 590-6184.

Background

On January 20, 1998, the Securities and Exchange Commission (SEC) approved the rule changes filed on October 17, 1997, by the National Association of Securities Dealers, Inc. (NASD® or Association) which would amend the Interpretation on the Release of Disciplinary Information, IM-8310-2 of Rule 8310 of the Procedural Rules of the NASD, to modify the disclosure information currently released through the Program; and implement revisions to the disclosure questions on the Uniform Application for Securities Industry Registration or Transfer (Form U-4) and the Uniform Termination Notice for Securities Industry Registration (Form U-5) to facilitate the immediate release of the additional information through the PDP.[1] The SEC further approved an amendment to the proposed rule change, filed on November 12, 1997, in which the NASD further proposed that the disclosure of the additional information and use of the Interim Forms would become effective on February 17, 1998. These Interim Forms had been distributed to members for use beginning on February 17, 1998. However, in response to a request from the Securities Industry Association, we are delaying implementation of the Interim Forms U-4 and U-5 until March 16, 1998, in order to allow firms to make necessary operational changes.

To accomplish the release of the modified information, the disclosure questions set forth on the Interim Forms U-4 and U-5 and the relevant Disclosure Reporting Pages (DRPs) have been reformatted in a manner that is compatible with the current Central Registration Depository (CRD℠)[2] system architecture. There are, however, several areas that the member must keep in mind on the Interim Forms. These are detailed below.

LIMITATIONS INSERTED AT AC REQUE

Changes To The Customer Complaint Questions

Significant changes have been made to the customer complaint questions. These questions have been revised so as to require disclosure of all pending arbitrations and civil proceedings that relate to securities or commodities transactions; pending written customer complaints alleging sales practice violations and compensatory damages of $5,000 or more for 24 months from original posting if closed without a settlement by the firm; and settlements of $10,000 or more of arbitrations, civil suits, and customer complaints involving securities or commodities transactions.

Changes To Other Questions

- Items 22A and 22B: Criminal charges and convictions under