



NASAA

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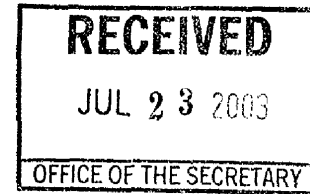
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July 23, 2003

Jonathan G. Katz, Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington DC 20549-0609



Re: File No. SR-NASD-2003-92
NASD Proposed Rule 2370, Borrowing or Lending from Customers

Dear Mr. Katz:

The North American Securities Administrators Association, Inc. (NASAA)¹ submits this comment on NASD's propose Rule 2370, as published in the Federal Register on July 2, 2003.

The proposed rule would prohibit registered persons from borrowing money from or lending money to a customer unless:

- (1) The member has written procedures allowing the arrangement;
- (2) The loan arrangement involves immediate family members, is a standard extension of credit by a business, involves two persons registered with the same firm, *is* based on a preexisting personal relationship with the customer, or is based on a business relationship outside the broker-customer relationship; and
- (3) The member has pre-approved the arrangement in writing.

NASD states that a registered person's solicitation of loans from customers, or making loans to customers in certain circumstances, has the potential for misconduct. By being specific, the rule gives member firms greater control over conduct of those supervised. It also would enhance NASD's ability to monitor loan arrangements.

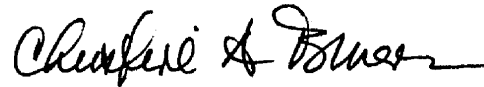
NASAA endorses further restrictions being placed on loans between registered persons and customers. Lending arrangements that occur outside standard commercial channels, even between related persons, can be problematic. The potential for conflict is particularly great when business associates enter into loan arrangements outside the normal business relationship

¹ The oldest international organization devoted to investor protection, the North American Securities Administrators, Inc. was organized in 1919. Its membership consists of the securities administrators in the 50 states, the District of Columbia, Canada, Mexico and Puerto Rico. NASAA is the voice of securities agencies responsible for grass-roots investor protection and efficient capital formation.

The Commission **and** NASD **may** wish to review a NASAA Statement of Policy that for 20 years had required broker-dealers and agents to “observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.” It prohibits an agent of a broker-dealer engaging in “the practice of lending or borrowing money or securities from a customer.”²

Thank you for the consideration of these views. If you have further questions, please do not hesitate to contact Frank Widmann, Chief of the New Jersey Bureau of Securities and Chair of NASAA’s Broker-Dealer Section, or me.

Sincerely,



Christine A. Bruenn
NASAA President
Maine Securities Administrator

² “Dishonest or Unethical Business Practices of Broker-Dealers and Agents,” May 23, 1983, ¶ 2.a.