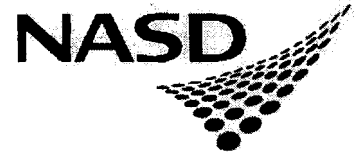


Afshin Atabaki  
Counsel

Direct: (202) 728-8902  
Fax: (202) 728-8264



April 22, 2005

Ms. Katherine A. England  
Assistant Director  
Division of Market Regulation  
U.S. Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549-1001

Re: **File No. SR-NASD-2005-004** – Proposed Rule Change Relating to Annual  
Compliance Meetings: Response to Comments

Dear Ms. England:

NASD hereby responds to the comment letters received by the Securities and Exchange Commission (“Commission” or “SEC”) in response to the publication in the Federal Register of Notice of Filing of SR-NASD-2005-004 and Amendment Nos. 1 and 2 relating to annual compliance meetings.<sup>1</sup>

I. Background

On January 13, 2005, NASD filed SR-NASD-2005-004 with the Commission to amend NASD Rule 3010(a)(7) to require that registered principals, in addition to registered representatives, attend an annual compliance meeting. NASD also proposed a technical amendment to Rule 3010(a) to clarify that each member is required to establish and maintain a system to supervise the activities of each registered representative, registered principal, and associated person.<sup>2</sup> The SEC published the proposed rule change and Amendment Nos. 1 and 2 for comment in the Federal Register on March 21,

<sup>1</sup> See Securities Exchange Act Release No. 51368 (March 14, 2005), 70 FR 13560 (March 21, 2005) (Notice of Filing of Proposed Rule Change and Amendment Nos. 1 and 2 Thereto Relating to Annual Compliance Meetings).

<sup>2</sup> On March 1, 2005, NASD filed Amendment No. 1 to the proposed rule change to further clarify that NASD Rules 3010(a), 3010(a)(3), and 3010(b)(1) specifically extend to registered representatives and registered principals, as well as other associated persons. On March 9, 2005, NASD filed Amendment No. 2 to the proposed rule change to make a technical change.

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2005, and received two comment letters on the proposal.<sup>3</sup> NASD responds to these comments below.

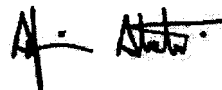
II. Response to Comments

One commenter, Bandes, raises objections to NASD proposing to require principals to attend compliance meetings conducted by NASD. The commenter however mischaracterizes the proposal. NASD is proposing to require the attendance of registered principals (in addition to registered representatives) at annual compliance meetings conducted by their respective member firms; the rule change would not require attendance at meetings conducted by NASD.

The second commenter, First Winston, raises concerns that the proposal would require several of its personnel to be out of the office at once and would result in a loss of revenue for the firm. As discussed in the rule filing, members are provided with substantial flexibility in implementing the annual compliance meeting requirement. For instance, the proposal expressly allows the annual compliance meeting to be conducted at a principal's place of business. In addition, the meeting may be conducted by video conference, interactive classroom setting, telephone, or other electronic means (including Web cast), provided that certain safeguards are in place. Moreover, a firm may conduct the meeting outside of regular business hours. As stated in the rule filing, NASD strongly believes that registered principals should be required to attend annual compliance meetings given the supervisory and compliance-related functions that principals perform and that the primary purpose of these meetings is to discuss compliance issues and keep registered persons current on changing compliance requirements or changes in the firm.

NASD believes that the foregoing fully responds to material issues raised by commenters to the rule filing. If you wish to discuss this matter further, please feel free to contact me, at (202) 728-8902.

Very truly yours,



Afshin Atabaki  
Counsel

cc: Mia C. Zur, Attorney-Advisor, Division of Market Regulation

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<sup>3</sup> Letter from Jed Bandes dated April 7, 2005 ("Bandes") and Letter from First Winston Securities, Inc. dated April 11, 2005 ("First Winston").