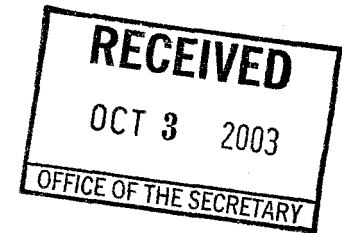




SR-NASD-2002-162

#81



ASSOCIATED SECURITIES CORP.

October 2, 2003

Mr. Jonathan G. Katz
Secretary
SEC
450 Fifth Street, N.W.
Washington, D.C. 20549

VIA OVERNIGHT MAIL

Re: Release 34-48460 and Release 34-48298
Supervisory control amendments to NASD Rules

Dear Mr. Katz,

Thank you for the opportunity to comment on the proposed supervisory control amendments as filed by the NASD.

We generally agree with the proposed amendments. We are certainly grateful that the NASD saw fit to modify its original rule proposals. We do have two further comments, however.

Written inspection reports

The proposed rules would require broker-dealers to prepare and maintain written inspection reports relating to the various branch office inspections. The rules do not seem to indicate whether such written reports will be subject to direct review by NASD examiners (or other staff) during the course of either broker-dealer examinations, or upon request. Perhaps this is a sticky subject that is better saved for resolution at a later time, but we think it would be helpful to at least offer some guidance within the context of these proposed rules, as to whether such inspection reports would be subject to review by NASD staff.

Holding of customer mail

At first glance, the two and three month time frames that act as limitations set forth in the proposed rules, seem to be quite reasonable. In practice, however, the time limits may not work in all cases. In Los Angeles, there are a number of people who work in the entertainment business, whose work often takes them away from their normal residence for periods extending beyond two and three months. Often in those cases, the clients have actually asked registered reps and broker-dealers to hold their mail until they return. We would like to see the proposed rules to allow for some reasonable exception that must be approved in writing by a registered principal and officer of the broker-dealer and must

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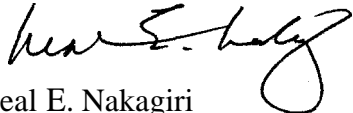
include a written request authorizing such holding of customer mail from the customer or the customer's authorized agent.

With respect to the 20% threshold, we do not disagree with the concept that a broker-dealer should take overrides and other forms of compensation into consideration in determining that their branch examination program is adequate. We are troubled by the proposal to create an absolute number for the following reasons:

1. Compensation can take many forms; hence the number can be easily manipulated by those not willing to take additional steps;
2. Providing an absolute number can create the impression of a "safe harbor" for inspections done by a manager with some lesser amount of financial dependence on the branch they are responsible.
3. The time period for review with respect the 20% requirement is not defined in the proposal. As such, an office may have "a good month" and then call into question whether such additional supervision is necessary.

We suggest that the NASD drop the proposed 20% threshold and instead provide written guidance to members (perhaps in a separate Notice to Members or in the form of an article in the Regulatory and Compliance Alert) suggesting members take into consideration the dependence of managers on income generated from branch offices under their supervision when assessing the adequacy of their branch office inspection program and supervisory systems.

Sincerely,



Neal E. Nakagiri
President and Chief Executive Officer