

Notice to Members

NOVEMBER 2002

SUGGESTED ROUTING

Legal & Compliance
Operations
Registration
Senior Management

KEY TOPICS

Compliance Programs
Money Laundering

INFORMATIONAL

EFFECTIVE DATE: DECEMBER 31, 2002

Anti-Money Laundering Compliance Programs

NASD Adopts Amendments to Rule 3011 to Require Members to Provide to NASD Contact Information for an Anti-Money Laundering Compliance Person(s)

Executive Summary

NASD has adopted amendments to NASD Rule 3011 (Anti-Money Laundering Compliance Program) to require each member to provide to NASD contact information for the individual or individuals responsible for implementing and monitoring the day-to-day operations and internal controls of the member's anti-money laundering (AML) compliance program (AML Program) and to update the contact information as necessary. The rule change became effective immediately upon filing with the Securities and Exchange Commission on October 21, 2002 and will become operative on December 31, 2002. Attachment A contains the text of the amendments.

Questions/Further Information

Questions regarding this *Notice to Members* may be directed to Grace Yeh, Assistant General Counsel, Office of General Counsel, NASD Regulatory Policy and Oversight, at (202) 728-6939.

Discussion

The USA PATRIOT Act of 2001 (PATRIOT Act),¹ which was signed into law on October 26, 2001, recognizes that effective identification of money laundering and terrorist activities requires the expedited sharing and reporting of information among governmental and law enforcement authorities and financial institutions. In furtherance of this goal, Section 314(a) of the PATRIOT Act requires the Department of Treasury (Treasury) to adopt regulations to encourage cooperation and information sharing among financial institutions, their regulatory authorities, and law enforcement

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authorities. In particular, the regulations should be designed to facilitate law enforcement authorities' ability to share information with financial institutions and to request information from financial institutions about persons suspected of engaging in money laundering or terrorist activities. Section 314(a) further provides that the regulations adopted by Treasury may require that each financial institution designate one or more contact persons to receive information concerning, and to monitor accounts of, identified individuals or entities.

On September 18, 2002, Treasury issued a final rule implementing Section 314 of the PATRIOT Act. Consistent with Section 314(a), the rule creates a system for the efficient communication of potential money laundering and terrorist information. Upon receiving a request for information by the Financial Crimes Enforcement Network (FinCEN), a bureau of Treasury, the rule requires financial institutions to identify a contact person to handle the request and to receive future information requests. When requested by FinCEN, the financial institution is required to provide the name, title, mailing address, e-mail address, telephone number, and facsimile number of the designated contact person. The financial institution must also promptly notify FinCEN of any changes to the contact information.

NASD Rule 3011 requires each member to designate an individual or individuals responsible for implementing and monitoring the day-to-day operations of the firm's AML Program. To facilitate Treasury's efforts in collecting the AML contact information set forth in Treasury's final rule, NASD has amended Rule 3011 to require that members provide to NASD contact information concerning the members' designated AML compliance person(s). The information will be used by Treasury in connection with its regulatory obligations set forth in Section 314(a) of the PATRIOT Act and the implementing regulations promulgated thereunder. Consistent with Treasury's final rule, members will be required to provide to NASD the name, title, mailing address, e-mail address, telephone number, and facsimile number of the contact person. Members also will be required to promptly notify NASD of any changes to the information.² In addition, NASD anticipates requiring members periodically to review and confirm the accuracy of the contact information. Additional information will be provided in future.

NASD intends to initially collect the contact information through the Member Firm Contact Questionnaire on the NASD Web site. NASD anticipates that form and system changes necessary to collect the contact information will be completed by November 15, 2002. Members will have until December 31, 2002 to provide NASD with the necessary contact information.³

Endnotes

- 1 Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. No. 107-56, 115 Stat. 272 (2001).
- 2 The amendments to Rule 3011 are consistent with New York Stock Exchange (NYSE) Rule 445 (AML Compliance Program) requirements that NYSE member organizations provide to the NYSE contact information identifying the member organization's designated AML compliance person and promptly notify the NYSE of any changes to the information.
- 3 New member applicants will be required to provide the contact information during the application process.

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ATTACHMENT A

New language is underlined.

3011. Anti-Money Laundering Compliance Program

On or before April 24, 2002, each member shall develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the member's compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, et seq.), and the implementing regulations promulgated thereunder by the Department of the Treasury. Each member organization's anti-money laundering program must be approved, in writing, by a member of senior management. The anti-money laundering programs required by this Rule shall, at a minimum,

- (a) Establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder;
- (b) Establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder;
- (c) Provide for independent testing for compliance to be conducted by member personnel or by a qualified outside party;
- (d) Designate, and identify to NASD (by name, title, mailing address, e-mail address, telephone number, and facsimile number) an individual or individuals responsible for implementing and monitoring the day-to-day operations and internal controls of the program and provide prompt notification to NASD regarding any change in such designation(s); and
- (e) Provide ongoing training for appropriate personnel.

Notice to Members

NOVEMBER 2002

SUGGESTED ROUTING

Executive Representatives

Board Elections

NASD Notice of Meeting and Proxy

KEY TOPICS

Board Elections

The Annual Meeting of Members of NASD will be held on December 5, 2002, at 11:00 am., at the NASD Visitors Center, 1735 K Street, NW, in Washington, DC. The purpose of the meeting is to conduct the election of Governors to the NASD Board. Members can raise other topics for discussion by properly notifying NASD of these topics.¹ The record date for the Annual Meeting is the close of business on November 1, 2002.

It is important that all members be represented at the Annual Meeting. Members are urged to vote in the election of Board members using one of the methods described below.

Board of Governors Election

There are eight vacancies to be filled at this meeting—four Industry governorships, three Non-Industry governorships, and one Public governorship. The nominees for the vacancies are listed in Attachment A. The nominees elected will serve for terms specified in Attachment A.

Attachment B includes the biographies of the nominees of the NASD National Nominating Committee (NNC). Attachment C contains the names of the current Board of Governors.

Voting Methods

Members will be able to vote using one of the following three methods:

- ♦ U.S. Mail
- ♦ Internet
- ♦ Phone

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The enclosed proxy contains detailed instructions on the voting procedures.

Questions regarding this *Notice* may be directed to:

Barbara Z. Sweeney
NASD
Office of the Corporate Secretary
1735 K Street, NW
Washington, DC 20006-1500

Endnote

- 1 Pursuant to Sections 1 and 3(b) of Article XXI of the NASD By-Laws, an NASD member may properly bring any other business before the Annual Meeting by giving timely notice in writing to the Secretary of NASD. In addition, the member must be an NASD member at the time of the delivery of such notice, and the other business must be a proper matter for member action. To be timely, a member's notice must be delivered to the Secretary at NASD's principal executive offices (the address is listed above) within 25 days of the date of this notice. The member's notice must offer a brief description of the other business, any material interest of the member in such business, and the reasons for conducting such business at the Annual Meeting.

ATTACHMENT A

NASD Board of Governors Nominees

The following three persons have been nominated by the NNC to serve on the Board of Governors of NASD for a term of **one year**, or until NASDAQ is able to operate other than as a facility of NASD, whichever occurs first. These individuals currently serve simultaneously on the NASDAQ Board. Terms of office for all nominees who simultaneously serve on the NASDAQ Board run from December 5, 2002 to December 2003.

Terms of Office 2002-2003

INDUSTRY

Richard C. Romano	Chairman, Romano Brothers & Co.
Hardwick Simmons	Chairman and CEO, The NASDAQ Stock Market, Inc.

NON-INDUSTRY

H. Furlong Baldwin	Chairman, Mercantile Bankshares Corporation
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The following five persons have been nominated by the NNC to serve on the Board of Governors of NASD for a term of three years or until their successors are duly elected or qualified. Terms of office run from December 5, 2002 to December 2005.

Terms of Office 2002-2005

INDUSTRY

M. LaRae Bakerink	Chief Executive Officer, Westfield Bakerink Brozak, LLC
David A. DeMuro	Managing Director, Director of Global Compliance and Regulation, Lehman Brothers, Inc. (Representative of a National Retail Firm)

NON-INDUSTRY

John J. Brennan	Chairman and CEO, The Vanguard Group, Inc. (Representative of an Issuer of Investment Company Shares)
Eugene M. Isenberg	Chairman and CEO, Nabors Industries, Inc.

PUBLIC

Kenneth M. Duberstein	Chairman and CEO, The Duberstein Group, Inc.
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ATTACHMENT B

NASD Profiles of Board Nominees for Industry Governors

Industry

M. LaRae Bakerink is Chief Executive Officer of Westfield Bakerink Brozak, LLC. Ms. Bakerink currently serves on the Board of Directors and serves as President for the National Association of Independent Broker Dealers. Ms. Bakerink holds a B.S. and an M.B.A. from San Diego State University.

David A. DeMuro currently serves as Chair of the National Adjudicatory Council (2001-2002). He is Managing Director, Director of Global Compliance and Regulation at Lehman Brothers. Mr. DeMuro joined Lehman Brothers in 1984. Prior to that, he held various positions with the Securities and Exchange Commission in Detroit, Chicago, Los Angeles, and Washington, DC. Mr. DeMuro is a current member of the NASD Membership Committee and the NASD Licensing and Registration Council. He has been a member of the Executive Committee of the Securities Industry Association's Compliance and Legal Division and Chairman of the Securities Industry/Regulatory Council on Continuing Education. He currently serves on the NYSE's content committee for the Continuing Education Regulatory Element supervisor's program and the advisory board of *The Journal of Investment Compliance*, a publication of Institutional Investor, Inc. Mr. DeMuro is also a member of the Board of Trustees of the Theta Xi Fraternity Foundation. He holds a B.A. from the University of Michigan and a J.D. from the University of Notre Dame.

Richard C. Romano is Chairman of Romano Brothers & Company, having joined the firm in 1964. Mr. Romano has served on the Industry/Regulatory Council for Continuing Education, the NASD District Committee, and the NASD Board of Governors (1985-1988). Mr. Romano has also served on the NASD National Nominating Committee and the NASD Small Firm Advisory Board. He holds a B.S. from the University of Illinois and an M.S. and Ph.D. from the University of Delaware.

Hardwick Simmons is Chairman and Chief Executive Officer of The NASDAQ Stock Market, Inc. Mr. Simmons joined NASDAQ in February 2001 as Chief Executive Officer, and was elected Chairman of the Board on September 26, 2001, succeeding Frank G. Zarb. Prior to joining the company, Mr. Simmons served from May 1991 to December 2000 as President and Chief Executive Officer of Prudential Securities, Incorporated, the investment and brokerage firm. Prior to joining Prudential Securities in 1991, Mr. Simmons was President of the Private Client Group at Shearson Lehman Brothers, Inc. Mr. Simmons is a member and former Chairman of the Securities Industry Association, a former Director of the Chicago Board Options Exchange, and former President and current member of The Bond Club of New York, Inc. He is a Director and executive committee member of the New York City Partnership and serves on the Board of the National Academy Foundation. Mr. Simmons is President of the Board of Trustees of the Groton School and a trustee of the Rippowam Cisca School in Mt. Kisco, New York. He has an A.B. from Harvard University, a M.B.A. from Harvard Business School, and served in the U.S. Marine Corps Reserve.

NASD Profiles of Board Nominees for Non-Industry Governors

Non-Industry

H. Furlong Baldwin is Chairman of the Mercantile Bankshares Corporation. Mr. Baldwin joined Mercantile-Safe Deposit & Trust Company in 1956 and was elected President in 1970 of Mercantile-Safe Deposit & Trust Company and Mercantile Bankshares Corporation, and served as CEO from 1976 - 2001. Mr. Baldwin serves on the Boards of W. R. Grace & Company, Wills Group, and NASDAQ. Mr. Baldwin graduated from Princeton University and served on active duty with the U.S. Marine Corps.

John J. Brennan is Chairman and Chief Executive Officer and a member of the Board of Directors of each of the mutual funds in the Vanguard Group. Mr. Brennan joined Vanguard in July 1982. He was elected President in 1989, Chief Executive Officer in 1996, and Chairman of the Board in 1998. Prior to his career at Vanguard, Mr. Brennan had been employed at S.C. Johnson & Son in Racine, Wisconsin and the New York Bank of Savings. Mr. Brennan is the past Chairman of the Investment Company Institute and is a Trustee of the Financial Accounting Foundation. He graduated from Dartmouth College in 1976 with an A.B. degree, and received an M.B.A. from the Harvard Business School in 1980.

Eugene M. Isenberg is Chairman and Chief Executive Officer of Nabors Industries, Inc., a position he has held since 1987. He serves as a Director of the American Stock Exchange and also Danielson Holding Corporation, an insurance holding company. Mr. Isenberg is also a member of the National Petroleum Council, which is an advisory panel to the United States Department of Energy. From 1969 to 1982, Mr. Isenberg was Chairman of the Board and principal shareholder of Genimar, Inc., a steel trading and building products manufacturing company, which was sold in 1982. From 1955 to 1968, Mr. Isenberg was employed in various management capacities with the Exxon Corporation. Mr. Isenberg is the founder and principal sponsor of the Parkside School for children with learning disabilities and has established the Eugene M. Isenberg Scholarships at the University of Massachusetts where the School of Management is named after him. He was an instructor at Princeton University from 1951 to 1952 and served as an officer in the U.S. Navy from 1952 to 1955. Mr. Isenberg holds a B.A. from the University of Massachusetts and an M.A. from Princeton University in 1952. Mr. Isenberg completed the program for Senior Executives at M.I.T.

NASD Profile of Board Nominee for Public Governor

Public

Kenneth M. Duberstein is Chairman and Chief Executive Officer of The Duberstein Group. Prior to this, Mr. Duberstein served as Chief of Staff to President Ronald Reagan from 1988 to 1989. During President Reagan's two terms in office, Mr. Duberstein also served in the White House as Deputy Chief of Staff (1987), as well as both the Assistant and the Deputy Assistant to the President for Legislative Affairs (1981 to 1983). Mr. Duberstein currently serves on the Board of Governors of the American Stock Exchange and on the Board of Directors of Boeing Company, Conoco, Fannie Mae, Fleming, and The St. Paul Companies, Inc. He is Vice Chairman of the Kennedy Center for the Performing Arts. Mr. Duberstein holds an A.B. from Franklin and Marshall College and an M.A. from American University.

ATTACHMENT C

Current Board of Governors Governors with Terms Expiring in 2002

Industry

M. LaRae Bakerink	Chief Executive Officer, Westfield Bakerink Brozak, LLC
David A. DeMuro	Managing Director, Director of Global Compliance and Regulation, Lehman Brothers, Inc.
Richard C. Romano	Chairman, Romano Brothers & Co.
Hardwick Simmons	Chairman and CEO, The NASDAQ Stock Market, Inc.

Non-Industry

H. Furlong Baldwin	Chairman, Mercantile Bankshares Corporation
Eugene M. Isenberg	Chairman and CEO, Nabors Industries, Inc.
James F. Rothenberg*	President, Capital Research and Management Company

Public

Kenneth M. Duberstein	Chairman and CEO, The Duberstein Group, Inc.
Donald J. Kirk*	
John D. Markese*	President, American Association of Individual Investors

* Not eligible for re-election

Governors with Terms Expiring in 2003

Industry

William C. Alsover, Jr.	Chairman, Centennial Securities Company, Inc.
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Non-Industry

Arvind Sodhani*	Vice President and Treasurer, Intel Corporation
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Public

Brian T. Borders, Esq.	Mayer, Brown, Rowe & Maw
Sharon P. Smith	Dean, College of Business Administration, Fordham University

Governors with Terms Expiring in 2004

Industry

John W. Bachmann	Managing Partner, Edward D. Jones & Company
Richard F. Brueckner	Chief Operating Officer, Pershing Division of Credit Suisse First Boston
Raymond A. Mason	Chairman & CEO, Legg Mason Wood Walker, Inc.

Non-Industry

Harry P. Kamen*	Retired Chairman and Chief Executive Officer, Metropolitan Life Insurance Company
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Public

James E. Burton	Chief Executive Officer, California Public Employees' Retirement System
Sir Brian Corby	Chairman (retired), Prudential Assurance Company
James R. Rutherford, Jr.	President and CEO, Moody's Corporation

* Not eligible for re-election