

MEMORANDUM

TO: Members, Member Organizations, Participants and Participant Organizations

FROM: Robert Kreszwick, Director, Membership Services Department

DATE: February 21, 2006

SUBJECT: Web CRD® Electronic Procedures for Forms U4 and U5

I. INTRODUCTION

Information and related requirements delineated in this notice are applicable only to Members and Member Organizations that do not currently file Forms U4 and U5 via Web CRD.

The Philadelphia Stock Exchange, Inc. (“PHLX” or “Exchange”) filed a proposed rule change with the Securities and Exchange Commission (“SEC”) to, among other things, amend Exchange Rules 600, 604, 620, 623 and 1024 to require all member organizations that do not already participate in Web CRD as a member of a participating exchange or the National Association of Securities Dealers (“NASD”), to file with the Web Central Registration Depository (“Web CRD”). This memorandum is to provide notice to members of the pending rule change and Web CRD procedures. You will be notified separately when the SEC issues an order granting approval of the proposed rule change. The Exchange will also file a proposed rule change to adopt NASD fees associated with participation in Web CRD. You will be notified separately when those fees become effective.

To simplify and expedite the licensing of broker-dealers and their associated persons, the PHLX, effective **April 10, 2006**, will require all member organizations that do not already participate in NASD’s Web CRD as a member of a participating exchange or the NASD, to promptly, electronically submit to the Exchange any required Forms U4, Forms U5 and required amendments by utilizing the NASD’s Web CRD. Web CRD is a web-based system that provides broker-dealers and their associated persons “one-stop filing” with the SEC, NASD, and other self-regulatory organizations and regulators. As a result of this change, all firms that currently would submit paper Forms U4 and U5 filings to the PHLX will be required to submit these forms electronically via Web CRD. Web CRD is operated by NASD and is utilized by participating securities regulators.

This notice delineates the process and implementation dates for transition from the current filing methodology to new requirements applicable under Web CRD.

II. NEW REQUIREMENTS & IMPLEMENTATION DATES

Pursuant to proposed Exchange Rule 600, every individual applying to become a permit holder must electronically submit the following via Web CRD: (i) Form U4; and (ii) any required amendment to Form U4.

Furthermore, proposed Exchange Rule 604 specifies that each employee of a Member Organization compensated directly or indirectly for the solicitation or handling of business in securities, including trading in securities for the account of the organization, must be registered with the PHLX. In connection with their registration, such individuals shall electronically file a Form U4 via Web CRD by appropriately checking PHLX as a requested registration on the electronic Form U4 filing. Any individual required to complete a Form U4 shall electronically file any required amendments to Form U4 via Web CRD. Registration categories are explained in more detail in step 5 of the Instruction Section.

Proposed Exchange Rule 620 specifies that each Floor Broker, Specialist and Registered Options Trader on any Exchange trading floor must be registered as such with the Exchange. The member or participant organization should utilize Web CRD as the mechanism for submitting required Forms U4 and any required amendments on behalf of the Floor Broker, Specialist or Registered Options Trader.

Pursuant to proposed Exchange Rule 604, Member Organizations are required to electronically file a Form U5 and any amendment thereto with the Web CRD promptly, upon the termination date of an employee who has been approved for Membership at the PHLX. Member Organizations are also responsible for obtaining and returning an employee's PHLX identification badge to the PHLX.

Members and member organizations will be required to submit Forms U4 and U5 to the Exchange through the Web CRD system rather than in paper form. Exchange members who are floor employees, including clerks and other non-members associated with a member organization, will submit fingerprints to Web CRD and shall be classified as Non-Registered Fingerprint ("NRF") members, subject to NASD fingerprint fees. Floor employees must continue to bring non-member forms and badge applications to Membership Services for access to the trading floor.

This notice and attachments describe how the transition to Web CRD will occur:

(1) Forms U4 for Existing Personnel

All individuals currently registered with the PHLX who previously filed a paper Form U4 will be required to re-file an initial Form U4 electronically via Web CRD between **April 10, 2006 and May 12, 2006**.

(2) Forms U4 for New Hires and Initial Registrations

After April 10, 2006, new hires must file a Form U4 via Web CRD. Paper filings will not be accepted.

(3) Forms U5

Member Organizations must file a Form U5 for a terminated employee promptly, upon the date of termination. As a result, such organizations may file a Form U5 in paper with PHLX if the member has not filed a Form U4 via Web CRD. If the member has filed a Form U4 electronically via Web CRD, the Member Organization must file a Form U5 electronically via Web CRD.

Under no circumstances will PHLX accept a Form U5 paper filing after May 12, 2006. This is the deadline by which members must file a Form U4 electronically.

III. KEY DATES FOR THE TRANSITION TO WEB CRD ARE AS FOLLOWS:

<u>February 21, 2006</u>	<i>NASD begins accepting receipt of the NASD Entitlement Agreement (“NEA”) and the Account Administrator Entitlement Form (“AAEF”). Submission of these forms is necessary to allow PHLX registrants to file Forms U4 and U5.</i>
<u>March 31, 2006</u>	<i>Deadline for the receipt of NEAs and AAEFs to NASD</i>
<u>April 5, 2006</u>	<i>Deadline for funding CRD Daily Account.</i>
<u>April 10, 2006</u>	<i>Member Organizations may begin to submit Forms U4 and Forms U5 electronically via Web CRD.</i>
<u>May 12, 2006</u>	<i>Deadline for filing transition Forms U4 with Web CRD, Individuals who miss the Web CRD filing deadline may be subject to disciplinary action.</i>
<u>November 2007</u>	<i>Commencement of CRD Annual Renewal Program for 2007.</i>

Inquiries regarding this notice and related attachments should be directed to Robert Kreszwick at 215-496-5109 or Susan Murray at 215-496-5322.

Attachments

Instructions for Filing Forms U4 and U5 via CRD

NASD Entitlement Agreement (“NEA”)

Account Administrator Entitlement Form (“AAEF”)

Proposed PHLX Registration Fee Schedule

List of Service Bureaus – contact NASD’s Gateway Call Center at (301) 869-6699 or PHLX

Membership Services at (215) 496-6430.

INSTRUCTIONS AND INFORMATION FOR FILING FORMS U4 AND U5 VIA WEB CRD

1. UPDATED USER ACCOUNTS AND ENTITLEMENT TO WEB CRD

In order to file Forms U4 and U5, all Member Organizations that do not already participate in Web CRD as a member of a participating exchange, must establish new user accounts for each Member Organization and for those persons designated by each Member Organization who will require access to Web CRD. Member Organizations can designate officers, partners, employees, or external persons/entities (e.g. service bureaus or outside counsel) to access Web CRD on their behalf. Attached is a list of service bureaus that currently file Forms U4 and U5.

Also attached are NEA and AAEF forms. The NEA must be signed by an officer of the organization or other person who otherwise has legal authority to bind the organization on behalf of which the individual is signing. This form must be mailed to NASD with original signature, to the address indicated in the document. The AAEF must be signed by an account administrator or designated firm signatory. This form may be either faxed or mailed to NASD. Beginning February 21, 2006, both forms must be completed and submitted to NASD at the address and/or fax number indicated in the document. NASD must receive these forms no later than **March 31, 2006**. Please note that failure to submit the NEA and AAEF forms by March 31, 2006 may cause delays in the Member Organization's ability to file timely Forms U4 and U5, and therefore delay approvals of personnel or submission of notices of termination.

If NASD timely receives completed NEA and AAEF forms, the organization's Web CRD account administrator will be contacted by phone with his/her user name and password on April 10, 2006. In addition, NASD will send the account administrator general information about Web CRD via e-mail. Additional information about the NASD Entitlement Program may be obtained on the NASD Web site at: www.nasd.com/entitlement.

2. CRD FINANCIAL ACCOUNTS

Web CRD uses two types of accounts, Daily and Renewal, to track financial transactions. The CRD Daily Account is the firm's primary account. The organization will send payment to this account to cover the fees for new registrations, terminations, examinations, and fingerprint processing. The Renewal Account is the account the organization will use to participate in the annual CRD Renewals Program. This account will be used to cover the costs associated with renewing broker-dealer and registered representative registrations.

CRD DAILY ACCOUNT (Daily Account)

All Member Organizations will be set up with a CRD Daily Account (for fee payment purposes) and will have the ability to view their detailed financial account information via Web CRD. Member Organizations must have a credit balance (funds on deposit) in their accounts for transactions to be processed. Attached is a copy of the proposed PHLX Fee Schedule listing associated processing and registration fees. Each firm must deposit sufficient funds in its CRD Daily Account to cover the \$85 Transition Fee that NASD will collect for each registered person converted to Web CRD, the \$35 Fingerprint Card Processing Fee, and the \$55 annual/initial PHLX registration fee, which will also be collected by NASD on behalf of the Exchange. In the event that an applicant answers “yes” to a disclosure question, there will be an additional \$95 NASD fee for filing the mandatory accompanying disclosure reporting pages (DRPs). To be on the safe side, it is recommended that member organizations deposit, approximately \$270.00 per registered person in the CRD Daily Account. If the representative does not have disclosure information to file and/or the representative already has fingerprints processed through the FBI on file with PHLX, the cost per representative will be less than \$270.00 and the excess funds will remain in the firm’s account. NASD must receive the initial deposit on or prior to April 5, 2005.

Payment Methods

There are three payment methods for funding your Daily and Renewal Accounts:

- (a) Electronic Payment via Web CRD/IARD E-Pay;
- (b) Wire Transfer; and
- (c) Check.

- **Electronic Payment via Web CRD/IARD E-Pay:**

Web CRD/IARD E-Pay allows a firm to authorize electronic payment (ACH payment) directly from its designated bank account to the organization’s Daily and/or Renewal Accounts. NASD will not charge fees to organizations for utilizing Web CRD/IARD E-Pay; however, organizations should verify with their banks whether ACH transaction fees will be assessed by the bank for using Web CRD/IARD E-Pay. Electronic payments that are submitted by 8:30 p.m., Eastern Time (ET), should be posted within two (2) business days to the organization’s Daily and/or Renewal Accounts with NASD.

The Web CRD/IARD E-Pay method is made available through a link accessible on either of the following Web sites:

www.nasd.com/crd or <https://tradelinks2.mellon.com/cgi-bin/tsmenu.pl/nasd>

- **Payment by Wire Transfers:**

Wire Transfer Deposits received before 2 p.m., ET, should be posted in the Daily Account the next business day.

Wire Transfer Deposits received after 2 p.m., ET, should be posted in the Daily Account in two (2) business days.

Instruct the organization's bank to contact: "Mellon Financial, Philadelphia, PA"

Provide the bank with the following information to initiate a wire transfer:

ABA Number: 031 000 037
Beneficiary: NASD
NASD Account Number 8-234-353
Reference Number: *Enter Firm CRD Number*

Remember to inform the bank that funds are to be credited to the NASD Bank Account and to use the organization's CRD Number as a reference number only.

- **Payment by Check**

Check Deposits received before 2 p.m., ET, should be posted in the Daily Account the next business day.

Check Deposits received after 2 p.m., ET, should be posted in the Daily Account in two (2) business days.

Please make checks payable to NASD and be sure to indicate the organization's CRD Number on the check. You may submit your check to NASD by either US Mail or overnight Express Mail.

For U.S. Mail Delivery:

NASD, CRD-IARD

P.O. Box 7777-W9995

Philadelphia, PA 19175-9995

Note: This P.O. Box will not accept courier or overnight deliveries.

For Express/Overnight Delivery:

NASD, CRD-IARD

W9995 c/o Mellon Bank, Rm. 3490

701 Market Street

Philadelphia, PA 19106

Provide the following phone number if one is required for the recipient: (301) 869-6699.

CRD Renewal Account (Renewal Account)

Renewal Fees must be deposited to a separate and distinct CRD Renewal Account. The CRD Annual Renewals Program commences in¹ November for the year 2007. For each

¹ Refer to NASD's Web site at www.nasd.com/renewals for detailed information concerning the CRD Annual Renewal Program.

registered person, NASD will collect an \$85 Renewal Fee² that will be assessed for 2007. It will be necessary for each organization to ensure that enough funds are deposited in its CRD Renewal Account to cover the costs of these fees. Information about retrieving online Renewal statement and reports via Web CRD and additional payment information will be made available by NASD in early October 2006.

Please note that the Renewal payment address differs from the CRD Daily Account address information provided above. For detailed information about the CRD Renewal Program and payment addresses, please refer to the NASD Web site: www.nasd.com/renewals

During the CRD Renewal Program, Member Organizations can link to the Web CRD/IARD E-Pay Web site directly via a link accessible on the Preliminary or Final Renewal Statement that will be available through Web CRD.

3. **Web CRD PRE-REGISTRATION FUNCTIONALITY**

As a participant in Web CRD, a PHLX firm that is not an NASD member will now be able to request a “pre-registration” report on a prospective employee. When making such request, the PHLX organization or individual must clarify (by responding “Yes” to the question, “Is this a Pre-Registration Report Request?”) that the organization is considering such subject for employment and has obtained and will keep on file such subject’s written consent to review the individual’s Web CRD record for that purpose.

4. **TRANSITION PERIOD**

During the period between April 10, 2006 and May 12, 2006, individuals who previously filed paper Form U4s with the PHLX will be required to electronically file updated Forms U4 via Web CRD.

After April 10, 2006, all individuals who seek to register with the PHLX or be approved by the PHLX for THE FIRST TIME will be required to file their Form U4 application forms electronically via Web CRD.

Member Organizations must file a Form U5 for a terminated employee promptly, upon the date of termination. As a result, such organizations may file Forms U5 in paper with PHLX if the member has not filed a Form U4 for the terminated employee via Web CRD. If the member has filed a Form U4 electronically via Web CRD, the Member Organization must file a Form U5 electronically via Web CRD.

Under no circumstances will PHLX accept a Form U5 paper filing after May 12, 2006. This is the deadline by which members must file a Form U4 electronically. Floor employees must continue to bring non-member forms and badge applications to Membership Services for access to the trading floor.

² This includes a \$55.00 PHLX Maintenance Fee and a \$30 NASD CRD System Processing Fee.

5. **REGISTRATION CATEGORIES AND QUALIFYING EXAMINATIONS AVAILABLE ON WEB CRD**

Individuals are required to register with PHLX in at least one of the following registration categories, as applicable to the type of business conducted, in Section 4 of Form U4 “SRO Registrations”:

- OP – Registered Options Principal (S4)
- GS – Full Registration/General Securities Representative (S7)
- IE – United Kingdom-Limited General Securities Registered Representative (S17)
- SU – General Securities Sales Supervisor (S9 and S10)
- ME – Member Exchange

Please note that as part of the migration to Web CRD, the NASD will add a new designation, Member Exchange (ME), to the Form U4 for registration. This designation will apply to Exchange members who have a trading permit and are otherwise members of the Exchange. As part of the registration process, Exchange members who qualify for this registration will be required to check this designation on the Form U4 and will also be subject to the fees related to the registration.

Web CRD automatically schedules an examination and deducts the examination fee from a firm’s CRD Daily Account for individuals who are registering through Web CRD for the first time, and have not previously taken the examination, in categories that require a qualifying examination administered by NASD. For example, an individual registering for the first time via Web CRD in the Full Registration/General Securities Representative (GS) category will be automatically scheduled to take the Series 7 examination and assessed the Series 7 examination fee of \$250.00.

Individuals who have been either previously granted an examination waiver by the PHLX or qualify for an exemption pursuant to an Exchange Rule should **NOT** select the applicable registration category(ies) in the first part of Section 7 of the Form U4. The individuals should proceed to the last part of Section 7 that reads “If you have taken an exam prior to registering through the CRD system enter the exam type and date taken”. Enter the exam passed and the date the exam was taken. The system will not automatically schedule the exam required for the registration category and the fee for the exam will not be deducted from the account.

After the U4 filing is submitted, NASD and/or PHLX will verify that the exam was passed and post the appropriate score if the information is available.

Important note applicable to use of either method

All individuals transitioning to Web CRD will have their Continuing Education base dates reset to the date of the Web CRD filing. For individuals with active Web CRD registrations from a prior broker-dealer, the base date will remain the same.

Primary contact for assistance with Web CRD registration is provided by the NASD Gateway Call Center at (301) 869-6699.

6. **FINGERPRINTS**

In connection with the implementation of electronic filing for Forms U4 and U5, NASD will require organizations to resubmit new fingerprint cards for individuals. In lieu of resubmitting fingerprint cards, firms that have already submitted fingerprint cards to the Federal Bureau of Investigation (“FBI”), and have dispositions available from the FBI, may submit one of the following to NASD:

1. A fingerprint card with an FBI "CLEAR" disposition stamped on the back of the card; or
2. A Civil Applicant Response Sheet (“CARS”). [Note: If the fingerprint results were returned from the FBI with a “RAPP” status, a copy of the Criminal History Record Information (“CHRI”) must be included.]

The NASD will assess a \$35 Fingerprint Card Fee for a first card submission, \$13.00 for a second card submission, and \$35.00 for a third card submission. For a card submission where the member had prints processed through a self-regulatory organization other than the NASD, the NASD fee is \$13.00. These fees are automatically collected through the Member Organization’s CRD Daily Account.

Commencing April 10, 2006, PHLX will no longer accept fingerprint cards for processing. Fingerprint cards must be submitted directly to NASD within 30 days of filing the Form U4 for individuals who seek to register with the PHLX or be approved by the PHLX. Firms may use existing stock of PHLX fingerprint cards until the supply is depleted. NASD will place a barcode sticker on the card and change the **ORI** number from PHLX to NASD. The PHLX Security Department will continue to take fingerprints on NASD approved cards, which the members will be required to submit to NASD.

Firms may request NASD-approved fingerprint cards through the Gateway Call Center at: (301) 869-6699.

Fingerprint cards should be sent directly to:

For Regular U.S. Mail:

NASD
Registration and Disclosure Department
P.O. Box 9495
Gaithersburg, MD 20898-9495
P.O. Boxes will not accept courier or overnight deliveries.

For Express/Overnight Mail Delivery:

NASD

Registration and Disclosure Department

9509 Key West Avenue

Rockville, MD 20850

If a phone number is required for the recipient, provide: (301) 869-6699.

Firms should receive the FBI research results in the “Fingerprint Status Received from FBI Notice Queue” within three business days after the card is sent to the FBI. Additional information regarding the submission of fingerprints to Web CRD may be obtained on the NASD Web site: www.nasd.com/crd.

7. **RECORD KEEPING**

Member Organizations must maintain for their records signed copies of the electronically filed Forms U4 and U5 pursuant to Exchange and SEC rules. The information contained on the Form U4 must be kept current and shall be updated by the filing of an amendment. The proposed rule change will require members and persons associated with a member firm to file any required amendments to Form U4 and Form U5 promptly, after the filer knew or should have known of the facts which gave rise to the amendment.

Forms U5 must be filed promptly upon the termination of a person associated with a member and a copy of the termination notice must be sent concurrently to the person whose association has been terminated. A copy of such amendment shall also be provided to the person whose association has been terminated.

8. **SYSTEM USAGE**

Member Organizations will need to monitor Web CRD queues for account balances, registration approvals, terminations and deficiencies, examination schedules and results, Continuing Education requirements and fingerprint card statuses. For information concerning Web CRD queue management and other topics relating to Web CRD, Navigation Guides are available under the User Support Link on the NASD Web site at: www.nasd.com/crd

9. **QUESTIONS**

Questions concerning Web CRD system usage or navigation can be directed to the Gateway Call Center at (301) 869-6699.

Questions concerning the transition process can be directed to Robert Kreszwick at (215)-496-5109 or Susan Murray at (215)-496-5322.

Proposed Phlx Registration Fee Schedule

As part of the migration to Web CRD, fees will be imposed upon non-NASD Exchange members and member organizations, which members will be instructed to pay directly to NASD through the Web CRD system. The fees will be assessed at the time the Exchange member or member organization effects a registration transaction through Web CRD. These fees include: (a) an NASD Non-Member Processing Fee of \$85.00; (b) an NASD Disclosure Processing Fee of \$95.00; (c) an NASD Annual System Processing Fee of \$30.00; and (d) fingerprinting fees which vary depending on the submission (for a first card submission the fee is \$35.00, for a second card submission the fee is \$13.00, for a third card submission the fee is \$35.00, and for a card submission, where the member had prints processed through a self-regulatory organization other than the NASD, the fee is \$13.00). The NASD will process fingerprints and provide the results via Web CRD. Fingerprinting charges (like the other fees listed above) will be paid directly to the NASD. The NASD will charge these fees to Web CRD participants and disburse to the Exchange the portion of the fee that is an Exchange fee, namely the \$55.00 initial fee; the \$55.00 annual renewal fee; the \$55.00 transfer fee; and the \$30.00 termination fee. The Exchange will eliminate the annual off-floor trader fee of \$350.00, as well as the initial off-floor registration fee of \$100.00, imposing instead a monthly off-floor examination fee of \$30.00 per registered member. This monthly off-floor examination fee will be applicable for off-floor traders associated with member organizations for which the Exchange is the Designated Examining Authority.