

**Phlx Memo No. 1260-07**

**RC No: NASD- 2006-124**

**MEMORANDUM**

To: Members and Member Organizations

From: Legal Department

Date: May 24, 2007

Re: NASD Code of Arbitration  
SR-NASD-2006-124 Notice of Filing of Amendment Nos. 1 and 2 to, and Order Granting Accelerated Approval of, a Proposed Rule Change as Modified by Amendment Nos. 1 and 2 To Require the Provision of Certain Information About the Securities Investor Protection Corporation to Customers

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Pursuant to Phlx Rule 950, Section 44, the Exchange has outsourced its arbitration and mediation program to NASD Dispute Resolution. The purpose of this memo is to update you as to proposed amendments to the NASD Code of Arbitration Procedure.

National Association of Securities Dealers, Inc. ("NASD"), through its wholly owned subsidiary, NASD Dispute Resolution, Inc. ("NASD Dispute Resolution") filed with the Securities and Exchange Commission ("SEC" or "Commission") on November 9, 2006. The Commission published the proposal for comment in the Federal Register on December 13, 2006. The Commission received nine comments in response to the Notice. On February 7, 2007, NASD filed Amendment No. 1 to the proposed rule change, which also responded to the comments. The Commission received one comment in response to Amendment No. 1. All of the comments received by the Commission regarding the proposed rule change are available on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). On April 19, 2007, NASD filed Amendment No. 2 to the proposed rule change, which also responded to the comment on the proposed rule change as modified by Amendment No. 1. On May 10, 2007 the Commission approved the proposed rule change

NASD filed the proposed rule change to adopt proposed NASD Rule 2342, which would require NASD members to advise all new customers, in writing, at the opening of an account, and all customers at least once each year that they may obtain information about SIPC, including the SIPC brochure, by contacting SIPC, and to provide such customers with SIPC's telephone number and Web site address. Amendment No. 1 proposed that firms that are excluded from membership in SIPC pursuant to Section

3(a)(2)(A)(i) through (iii) of the Securities Investor Protection Act of 1970 ("SIPA") and that are not SIPC members be exempt from the requirements of proposed Rule 2342. Amendment No. 2 proposed to exempt firms whose business consists exclusively of the sale of investments that are ineligible for SIPC protection from the requirements of proposed Rule 2342.

Below is the text of the proposed rule change as modified by Amendment Nos. 1 and 2. Proposed new language is in italics; proposed deletions are in brackets.

## **2000. BUSINESS CONDUCT**

\* \* \* \* \*

## **2300. Transactions with Customers**

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### *2342. SIPC Information*

*All members, except those members: (a) that pursuant to Section 3(a)(2)(A)(i) through (iii) of the Securities Investor Protection Act of 1970 (SIPA) are excluded from membership in the Securities Investor Protection Corporation (SIPC) and that are not SIPC members; and (b) whose business consists exclusively of the sale of investments that are ineligible for SIPC protection, shall advise all new customers, in writing, at the opening of an account, that they may obtain information about SIPC, including the SIPC brochure, by contacting SIPC, and also shall provide the Web site address and telephone number of SIPC. In addition, such members shall provide all customers with the same information, in writing, at least once each year. In cases where both an introducing firm and clearing firm service an account, the firms may assign these requirements to one of the firms.*

The text of the proposed rule change is available on NASD's Web site (<http://www.nasd.com>), at NASD's principal office, and at the Commission's Public Reference Room.

If you have any questions regarding this approved rule change, or would like a complete copy of this proposed filing, or further questions regarding the NASD Dispute Resolution Process, please click on the NASD Dispute Resolution website at [www.nasdadr.com](http://www.nasdadr.com). If you need additional help, please contact Scott Donnini at (215) 496-5358.