



National Association of Securities Dealers, Inc.

## Profile

The National Association of Securities Dealers, Inc. (NASD®) is the largest securities industry self-regulatory organization in the United States. It operates and regulates The Nasdaq Stock Market<sup>SM</sup>—the world's largest screen-based stock market and the second largest securities market in dollar value of trading—and other screen-based markets. The NASD also oversees the activities of the U.S. broker/dealer profession and regulates Nasdaq® and the over-the-counter securities markets through the largest self-regulatory program in the country.

The NASD consists of a parent corporation that sets the overall strategic direction and policy agendas of the entire organization and ensures that the organization's statutory and self-regulatory obligations are fulfilled. Through a subsidiary, The Nasdaq Stock Market, Inc., the NASD develops and operates a variety of marketplace systems and services and formulates market policies and listing criteria. Through another subsidiary, NASD Regulation, Inc., the NASD carries out its regulatory functions, including on-site examinations of member firms, continuous automated surveillance of markets operated by the Nasdaq subsidiary, and disciplinary actions against broker/dealers and their professionals.

## Origin

The NASD was organized under the 1938 Maloney Act amendments to the Securities Exchange Act of 1934 by the securities industry in cooperation with the U.S. Congress and the U.S. Securities and Exchange Commission (SEC). Securities industry representatives—recognizing the need for, and actively seeking the responsibilities of, self-regulation—worked with the SEC to obtain this legislative authority.

Putting into practice the principle of cooperative regulation, the Maloney Act authorized the SEC to register voluntary national associations of broker/dealers for the purpose of regulating themselves under SEC oversight. The NASD is the only securities industry association to have been established under the Maloney Act amendments. Presently, all securities firms in the United States that transact business with the public are required by law to be a member of the NASD.

The NASD's founding mandate was to standardize the securities industry's principles and practices, to promote high standards of commercial honor, to advance just and equitable principles of trade for the protection of investors, to adopt and enforce rules of fair practice, and to foster observance by its members of federal and state securities laws.

The NASD, taking direction from the SEC in 1963, has also adopted, as another tenet of its self-regulatory mandate, the promotion of capital formation by developing, operating, and regulating fair and efficient screen-based securities markets. The Nasdaq Stock Market was founded in 1971 to fulfill this mandate.

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## NASD Board of Governors

### MISSION

To facilitate capital formation in the public and private sectors by developing, operating, and regulating the most liquid, efficient, and fair securities markets for the ultimate benefit and protection of the investor.

# Serving Investors And Companies Worldwide

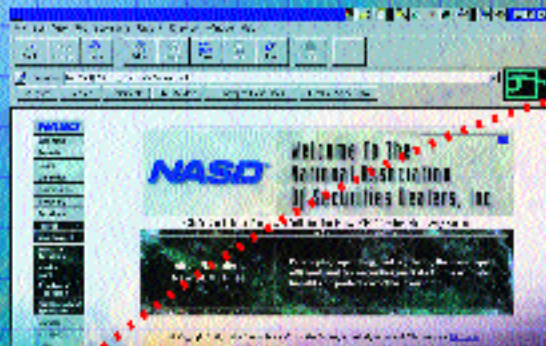
## Facilitating Economic Growth

The National Association of Securities Dealers, Inc. (NASD®) facilitates capital formation by providing fair, efficient, and liquid securities markets for the benefit of companies and investors worldwide. These Information Age markets have a solid technological foundation and are well regulated for the safety and protection of the providers of capital—investors.

The United States is fortunate to have the most efficient and best regulated markets in the world. A national network of self-regulatory organizations operating under the oversight of the U.S. Securities and Exchange Commission (SEC) plays a central role in providing quality markets deserving of investors' trust.

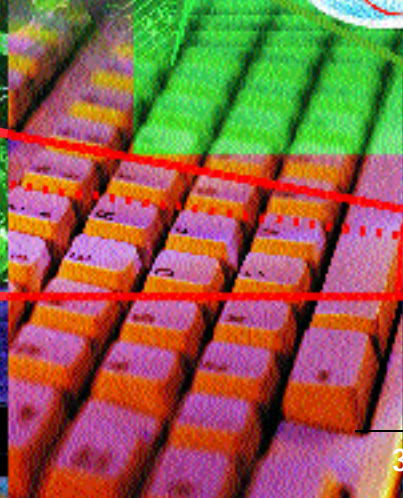
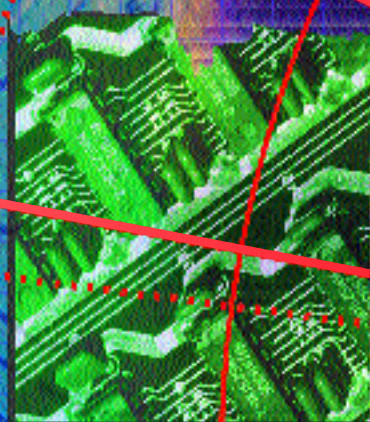
The NASD is the largest self-regulatory organization for the securities industry in the United States. Presently, every broker/dealer in the nation that conducts a securities business with the public is required by law to be a member of the NASD. The NASD's membership is comprised of more than 5,500 securities firms which operate over 60,000 branch offices and employ more than 535,000 registered representatives. The NASD serves companies and investors on all continents of the globe.

For over one-half century, the NASD has protected investors through the enforcement of federal securities laws as well as the broader ethical requirements of its own rules, which obligate members to observe high standards of commercial honor.



GROWTH

Fair  
Efficient  
Liquid Markets





## Managing an Economic Institution

Fulfilling its mission of helping the private sector raise capital to finance growth and create jobs, the NASD, through its subsidiary, The Nasdaq Stock Market, Inc., develops, operates, and regulates a variety of marketplace systems and services. Its flagship market, The Nasdaq Stock Market<sup>SM</sup>, is internationally recognized as an engine of economic growth.

Today, The Nasdaq Stock Market accounts for more than one-half of all equity shares traded in the United States each day and is the second largest stock market in dollar value of trading in the world. More companies—domestic and foreign—list their securities on Nasdaq<sup>®</sup> than on all other U.S. stock markets combined.

Presently, **EVERY** broker/  
dealer in the nation that  
conducts a securities  
business with the public **IS**  
**REQUIRED** by **LAW** to be a  
member of the **NASD**.

The Nasdaq market is the largest electronic, screen-based stock market in the world, capable of handling trading levels in excess of one billion shares a day and eventually two billion in 1998. Trading in the Nasdaq market is supported by multiple Market Makers—-independent dealers who openly compete with one another for investors' orders in each Nasdaq security.

Founded in 1971, the very design of the Nasdaq market takes advantage of Information Age technologies, many of which its listed companies developed. Using advanced computer and telecommunication systems, the Nasdaq market enables securities firms to execute transactions from anywhere they are located in an environment of real-time trade reporting and automated market surveillance.

Known for its innovative, leading-edge growth companies, Nasdaq has two tiers: the Nasdaq National Market<sup>®</sup>, with Nasdaq's larger corporations whose securities are the most actively traded, and The Nasdaq SmallCap Market<sup>SM</sup>, with emerging growth companies.

A pioneer in applying advanced technologies to securities trading, Nasdaq employs a wide range of sophisticated, interactive facilities to collect, process, and disseminate trade and quotation information; a complement of order-execution and negotiation systems; an on-line MarketWatch unit for automated market surveillance; and a variety of on-line informational and other services provided to Nasdaq companies and Nasdaq market participants.

## The NASD's Global Responsibility



Fair and efficient securities markets are the foundation upon which investment capital is raised to help companies produce new products and services, create jobs, conduct research, and innovate. In so doing, they make a better life possible, raising the standard of living for the citizens of the world.

The NASD, as the owner, operator, and regulator of The Nasdaq Stock Market, plays a vital role in the global economy as the prime economic engine for capital formation. It will continue to perform this critical function as the demand for capital continues to rise. Everything we do is carefully evaluated in terms of how it will ultimately affect the investor. We know that when regulation protects investors and markets serve them, everyone benefits—not just investors but companies and financial intermediaries alike.

To retain and enhance their relevancy, all significant institutions, particularly those serving a broad public responsibility, must periodically undergo critical evaluation. The great ones are continually learning and responding, growing better and stronger. The NASD is that kind of institution, always seeking to improve upon what it does. We believe in ourselves and our mission.

We respond with deeds, not words. We demonstrate our values through the ways in which we regulate our industry and run our markets.

Our goal for the future is to set the standard for market quality, regulatory fairness, and technology application. As the largest self-regulatory organization in the United States and the one that pioneered screen-based trading—building Nasdaq into the most active securities market in the United States and the second largest in the world—we have assumed for ourselves the role of caretaker of a public trust. This is a responsibility we aggressively sought and willingly carry out under the oversight of the SEC.

As we look to the future, all of our initiatives—regulatory and market—will be pursued with a common vision. Leadership at the NASD will consist of many people pulling in the same direction, mutually supporting each other, mutually supportive of our common goals. I am extremely proud to have been chosen to lead this organization at this important time in its continuing evolution.

As the world's economies become more interdependent, the NASD welcomes the opportunity to serve the world's growth companies with markets that are open, fair, and efficient—markets that will facilitate growth and a better tomorrow for each of us.

**Frank G. Zarb**

*Chairman, Chief Executive Officer and President  
The National Association of Securities Dealers, Inc.*



## Guiding an Industry

The NASD is also the primary self-regulator of the securities industry in the United States. Through NASD Regulation, Inc., it regulates both the broker/dealer profession and the markets operated by The Nasdaq Stock Market, Inc. Many of the NASD's responsibilities go beyond the purview of other self-regulatory organizations.

In addition, the NASD provides a variety of regulatory-related services, including arbitration and mediation, to enable investors and broker/dealer firms to resolve disputes, as well as a telephone- and Web-based service to provide investors with background information on securities firms and their sales personnel.

### **The NASD protects investors and strengthens market integrity through a variety of programs and activities, including:**

- registration, testing, and education of securities professionals;
- on-site examination of securities firms to determine and enforce their compliance with federal securities laws, the rules of the Municipal Securities Rulemaking Board (MSRB), and NASD rules and regulations;
- continuous automated surveillance of the markets operated by The Nasdaq Stock Market, Inc.;
- review of advertising and sales literature as well as underwriting arrangements proposed by securities firms in connection with new securities offerings;
- disciplinary actions against broker/dealer firms and their professionals who fail to comply with NASD rules, MSRB rules, or the federal securities laws;
- operation of a dispute resolution forum that provides mediation and arbitration services; and
- cooperative programs with governmental agencies and industry organizations to solve problems affecting investors, public companies, and securities firms.



## The NASD and its Markets



**A**s a new century approaches and a new information-driven economy emerges, securities investing has become increasingly important in the lives of millions of people around the world. There are more individual investors, with more invested. Because an increasing number are funding their own retirements, the markets are more important than ever for

the future economic security of people around the world.

At the same time, companies with global reach are seeking greater amounts of capital to respond to the increased pace of technological change. They look to raise money to improve productivity, create new jobs, and turn ideas into new industries and new products.

In today's environment of burgeoning investment, the NASD is firmly committed to meeting the needs of both providers and seekers of capital. In the last 12 months alone, it has established new standards for self-regulation, market efficiency, and fairness, continuing to earn the trust and confidence of investors and companies alike.

The extraordinary growth of The Nasdaq Stock Market has continued unabated since its founding in

1971. Nasdaq is now recognized internationally as a key global market for growth companies. Its unique combination of Information Age technology and dealer competition forged a new paradigm in the way stocks would be traded. Indeed, the Nasdaq experience is now replicated around the world. As a CNN market commentator said, Nasdaq is one of the most powerful financial market stories of our time.

For the future, Nasdaq is focusing on ways to improve liquidity, immediacy of trading, and other features of the market that have enabled it to grow and serve a diverse mix of market participants. Work has already begun on the next generation of systems that will enlarge trading capacity well beyond the present one-billion-share daily capacity.

On the regulatory front, the NASD is working to anticipate changes in markets, securities products, and technology that will require measures to educate and protect investors. The NASD is also building on a culture of vigorous enforcement and high professional standards, strengthening its processes of adjudication and dispute resolution.

The future of the global economy depends on the viability of our securities markets. The NASD is doing its part by striving for regulatory excellence and building markets that are the fairest and most efficient for investors and companies throughout the world.

***Daniel P. Tully***

*Former Chairman and Chief Executive Officer  
Merrill Lynch & Co., Inc.*



## Building the Future Through Technology

Today the NASD is at the forefront of applying advanced technology to the securities industry. The NASD recognized early on that technological enhancements to securities trading, market surveillance, and regulatory oversight could provide real benefits to investors and companies.

The application of technology to securities trading was originally envisioned to enhance both regulation and market functionality. In 1963, in a special study of the securities markets submitted to the U.S. Congress, the SEC recommended that "the Commission and the NASD should jointly consider possibilities for developing and coordinating automation programs in such manner as to fulfill their respective regulatory needs, as well as operational needs of the markets."

The NASD's answer to that mandate was The Nasdaq Stock Market. The NASD's design for Nasdaq proved to be so successful that in just two decades Nasdaq emerged as the world's largest screen-based stock market.

Over the years, the NASD has developed a vast array of trading services to complement the Nasdaq market's basic quotation service. The most recent trading service developed, in response to the new SEC Order Handling Rules, automates the display of private trading system quotes when better than the market quote, allowing investors to access those better prices

when buying and selling in The Nasdaq Stock Market.

Nasdaq's automated market surveillance systems are among the most advanced in the world. Developed with the help of two Nobel laureates, the StockWatch Automated Tracking<sup>SM</sup> system (SWAT<sup>SM</sup>) records every bid and offer quotation and every trade in every security in the market as well as the computer from which the quote was entered or the trade was made.

Currently the NASD is completing a technology system that will virtually revolutionize market





surveillance. The Order Audit Trail System<sup>SM</sup> (OATS<sup>SM</sup>) will track electronically the handling of an investor order from the moment the firm receives it through its execution and settlement. This system will enable NASD Regulation<sup>SM</sup> staff to determine more efficiently whether a customer's order is executed promptly and given priority and best execution.

Perhaps the most dramatic demonstration of the NASD's ability to design and deploy advanced technological systems is the recent migration of The Nasdaq Stock Market to an entirely new computer system and telecommunications network. This the NASD was able to achieve while the market continued normal trading operations and services, handling record levels of volume.

This project represented the largest single technology conversion undertaken by a major stock market.

The NASD is already preparing the next phase of Nasdaq's trading system expansion, taking the next step in a continuing process to anticipate and meet investor demand. To maintain its leadership in market technology, the NASD broke ground in 1996 for the construction of a state-of-the-art, \$33 million expansion of the Nasdaq data center located in Trumbull, Connecticut. One of the objectives in building this addition, two-and-a-half times larger than the current facility, is again to increase Nasdaq trading capacity substantially as the 21st century approaches.





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Access

NetScage: The Nasdaq Stock Market Home Page - National Cities

Home | Market | Full Profile | Market Activity | Market News | Market Social

Opportunities For Better Prices - [View All Growth Stocks](#)

Feb. 24, 97 2:43 PM EST - The Nasdaq Stock Market is Down 48

Advanced - 1,041    Dealt - 2,064    Uncalled - 1,428    Size 100+ - 129    Total Trades - 57

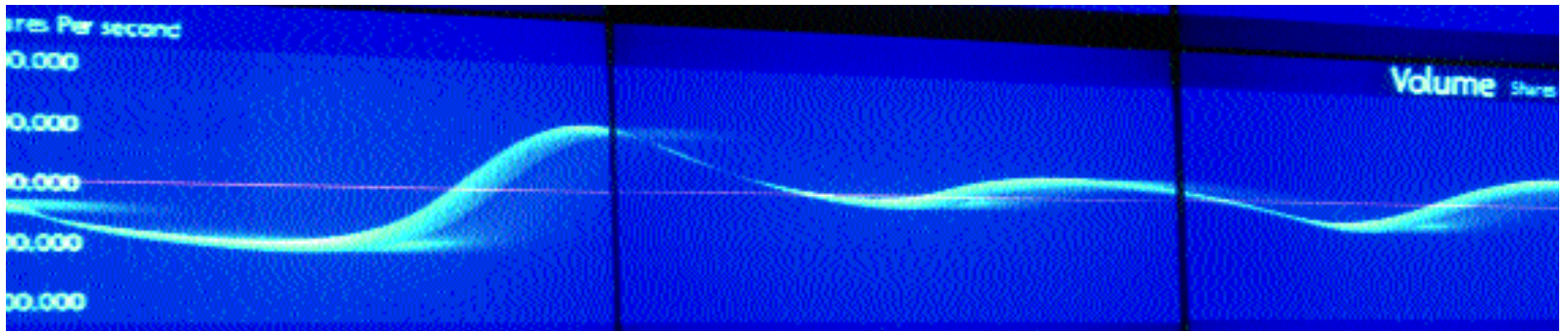
Nasdaq Composite 6,426 ▲

Nasdaq-100 Index 4,127 ▲

Daily Nasdaq Composite Index Value and Volume as of Feb. 23, 97

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Value	5,000	5,500	6,000	6,500	7,000	7,500	8,000	8,500	9,000	9,500	10,000	10,500
Volume	100	150	200	250	300	350	400	450	500	550	600	650

Liquidity



# A Global Market for Growth Companies

## Capital-Raising Potential

The fastest growing stock market in the United States, The Nasdaq Stock Market has drawn the attention of companies and investors the world over. During the last 10 years (1987-1996), annual share volume increased 264 percent to 138.1 billion, the record for any U.S. securities market, while market capitalization expanded 343 percent to \$1.52 trillion. The number of trades executed in the Nasdaq National Market grew 392 percent to over 79 million a year.

For companies, this growth signifies a market that offers them substantial capital-raising potential. Over the past 10 years, 3,691 companies have gone public on the Nasdaq market, raising \$101.3 billion. In secondary public offerings, companies raised an additional \$102.2 billion.

Companies headquartered outside of the United States also take advantage of the Nasdaq market's capital-raising potential. For many years Nasdaq has listed the shares of more foreign-based companies than any other U.S. stock market. The number of foreign securities listed on Nasdaq grew to 318 in 1996, with an additional 142 as American Depositary Receipts.

Over the past few years, a number of foreign companies have, in fact, chosen Nasdaq as their primary market, a trend on the rise. In Europe and Israel, for instance, some 64 companies chose to go public on Nasdaq rather than on their home market.

What drives the growth of Nasdaq is the phenomenal growth of the companies that list on this market. A recent study conducted by Cognetics, Inc., found that, from January 1990 through June 1994, Nasdaq companies were responsible for creating one in six new jobs in the United States, though they represented less than 1 percent of all U.S. businesses. Some 51 percent of Nasdaq companies were growing at an "explosive" rate (45 percent or greater growth in employees during study period) compared to a national average of 3 percent.

Investors who have looked to the Nasdaq market for growth companies of this caliber have, in turn, been amply rewarded. During the past decade, the Nasdaq Composite<sup>SM</sup> Index increased over 290 percent. The Nasdaq-100 Index<sup>®</sup> grew 426 percent during the same period of time and has risen 42.5 percent in each of the past two years.

# Structured for Growth

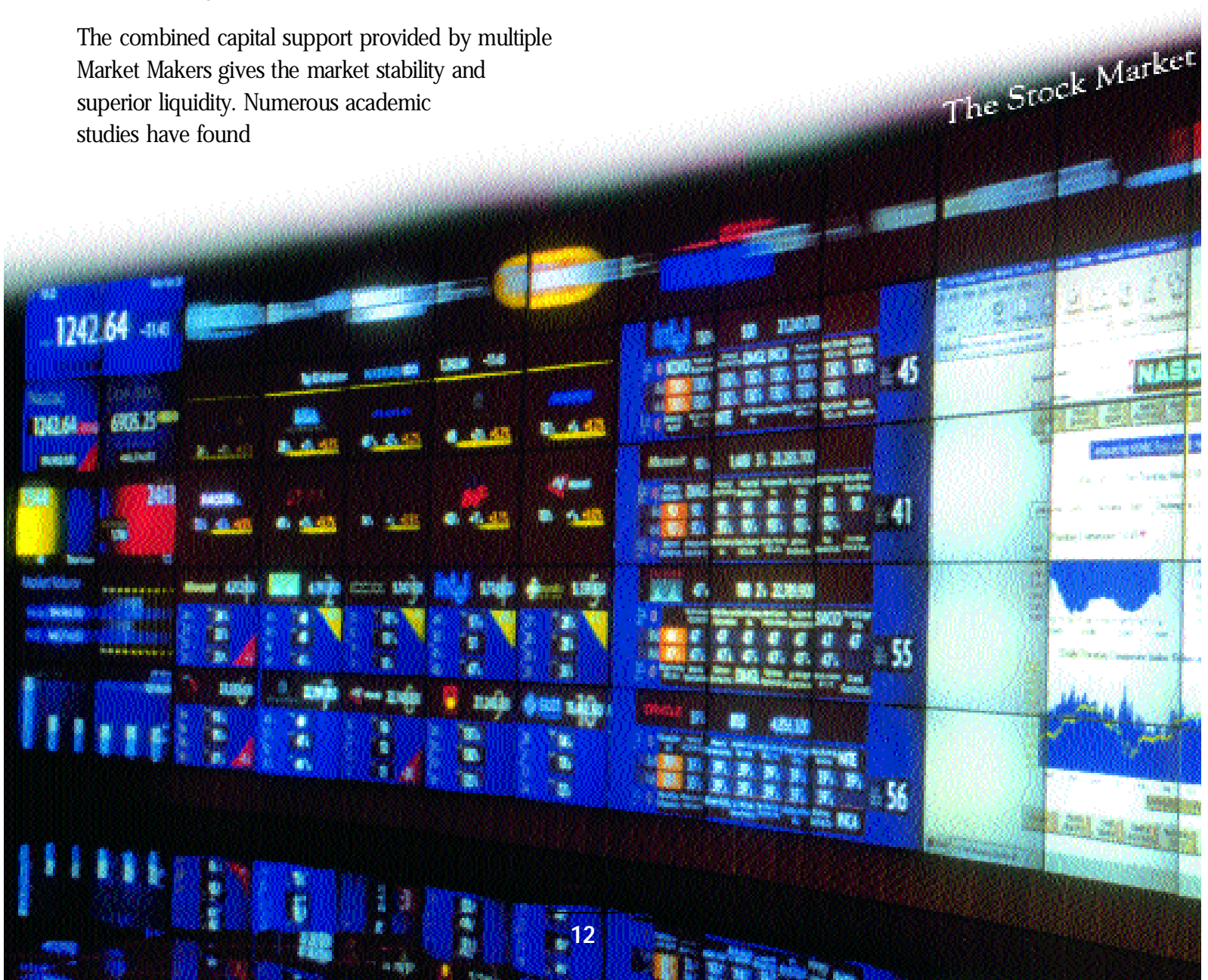
A system of multiple Market Makers serves as Nasdaq's foundation. Nasdaq Market Makers make a fundamental commitment to the success of the shares they trade beyond that of any other market. In addition to strong trading support, their sponsorship activities give Nasdaq stocks maximum visibility to create investor interest.

Each Nasdaq company has, on average, 10 Market Makers that commit their capital to support the trading of Nasdaq shares. In aggregate, this capital commitment provides substantial market depth and continuous trading opportunities for investors.

The combined capital support provided by multiple Market Makers gives the market stability and superior liquidity. Numerous academic studies have found

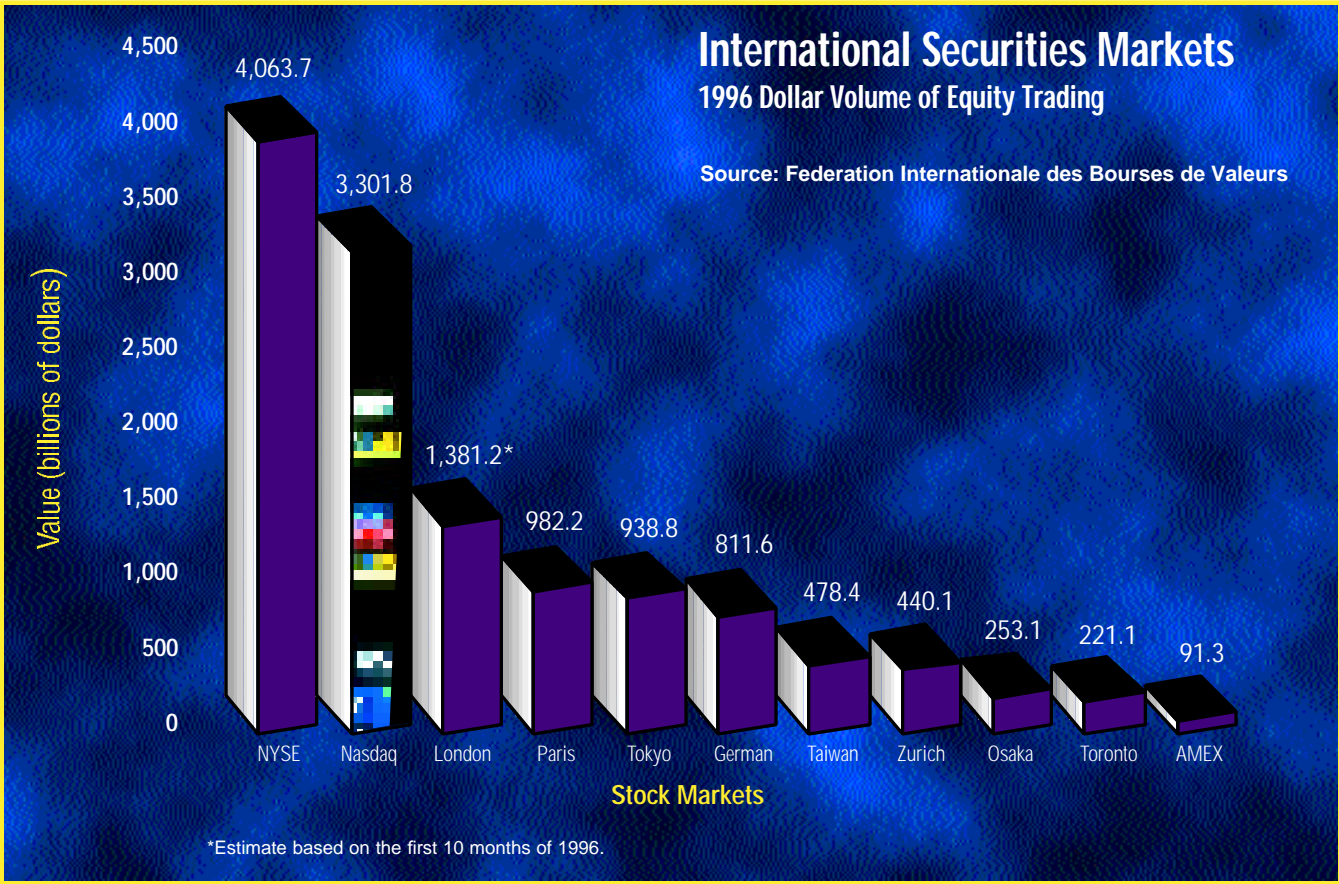
that it generally takes a much higher dollar volume of trading to cause a price change on Nasdaq.

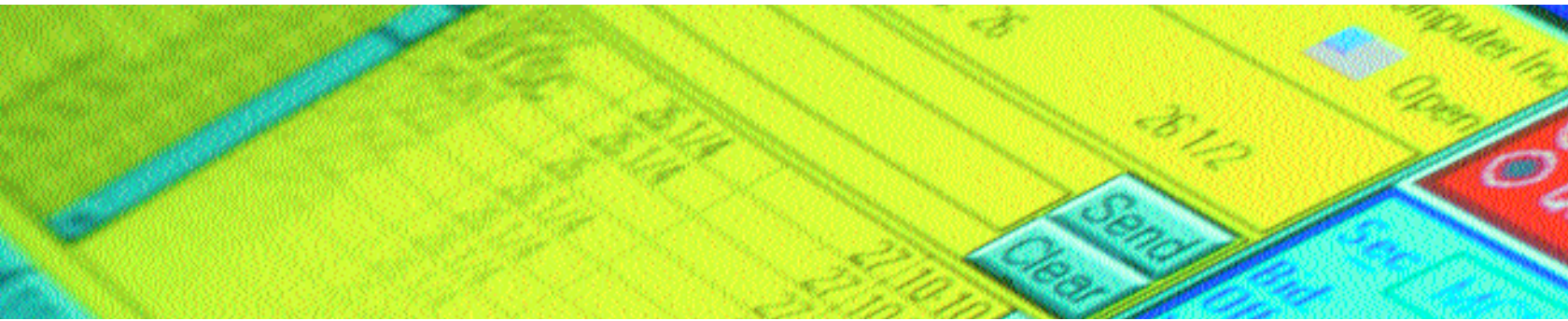
As critical as trading support is for a stock, the multiple-Market-Maker structure of Nasdaq offers another dimension of service beyond that of other kinds of markets—sponsorship. Market Makers write and distribute research reports to support their retail broker network and institutional sales force. Through these efforts, Nasdaq Market Makers increase visibility and generate demand for the stocks of the companies they trade.



With the advantages of multiple Market Makers and an electronic, screen-based system that links all trading in Nasdaq securities throughout the world and permits participation anywhere, Nasdaq is often described as the market of the future. Testimony to this fact is the number of markets around the world that have adopted screen-based trading. According to the Federation Internationale des Bourses de Valeurs, Paris, of the 45 developed stock markets in the

world today, only three still rely exclusively on a trading floor. The rest either are entirely screen-based (28) or employ screen-based trading to supplement transactions done on a trading floor (14).

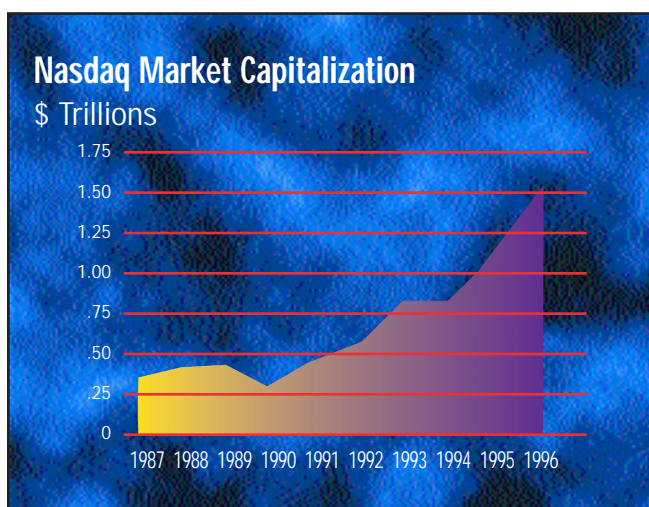




## Market Quality

The Nasdaq Stock Market is committed to being the fairest, most effective, and most efficient market in the world. We recognize that there are millions of investors—and millions more to come—who look to securities investing to create wealth that will be needed to finance education, achieve financial independence, and provide for retirement in a new, knowledge-driven economy.

Nowhere is this commitment more evident than in Nasdaq's continuing effort to improve market quality. Nasdaq has a long history of applying the most advanced technology to the trading of securities to enhance access and competitive pricing. For investors, a quality market is one in which all investors, both individual and institutional, can compete on an equal footing for the best price when buying or selling stock.



Nasdaq took a major step to improve the market for investors when, in 1997, it used advanced technology to implement the new SEC Order Handling Rules. Working closely with the SEC, Nasdaq introduced structural changes that improved prices for investors.

Nasdaq has empowered investors as never before. Today customers' orders participate directly with those of Market Makers. Specifically, investors' limit orders are now displayed by Market Makers in their quotes when they are priced better than the quote of the Market Maker receiving the order. This gives investor limit orders greater visibility, making them more likely to be executed.

Through Nasdaq technology and the new SEC rules, the world of proprietary institutional trading systems has also been opened to all investors. Market Makers now display their most competitive quotes publicly as well as over proprietary electronic trading systems. This enables investors to trade at the best prices that Market Makers offer.

Nasdaq will seek regulatory approval for a single, integrated order delivery and execution trading system to automate the features of the new SEC Order Handling Rules to make their execution even more efficient for investors and more convenient for other market participants. This advanced trading system will allow investors to reach the best price, whether displayed by a Market Maker or private trading system.



## Nasdaq, Market of Choice for Growth Companies



To compete in today's global economy, companies need prompt and efficient access to capital. They must constantly stay ahead of the curve—putting their capital to work to bring new products to market—or fall behind their more nimble international competitors. In today's information-

driven economy, companies require capital to implement the latest technology to create razor-edge efficiencies and instantaneous communication.

The Nasdaq Stock Market is a leading economic engine of capital formation. Over 85 percent of newly public domestic companies list their shares on Nasdaq, and a growing number of international growth companies are bypassing their home markets, electing a U.S. distribution and a Nasdaq listing as the preferred choice for raising capital. The reasons for this are clear.

First, Nasdaq is a securities market that is in tune with the times. It capitalizes on computers and telecommunications and electronic networks to gather and provide market information in real time to investors, broker/dealers, issuers, regulators, and other constituents around the world. Many technology companies list on Nasdaq because they relate well to a market that is itself based on technology.

Second, The Nasdaq Stock Market employs a system of competing Market Makers, securities firms that

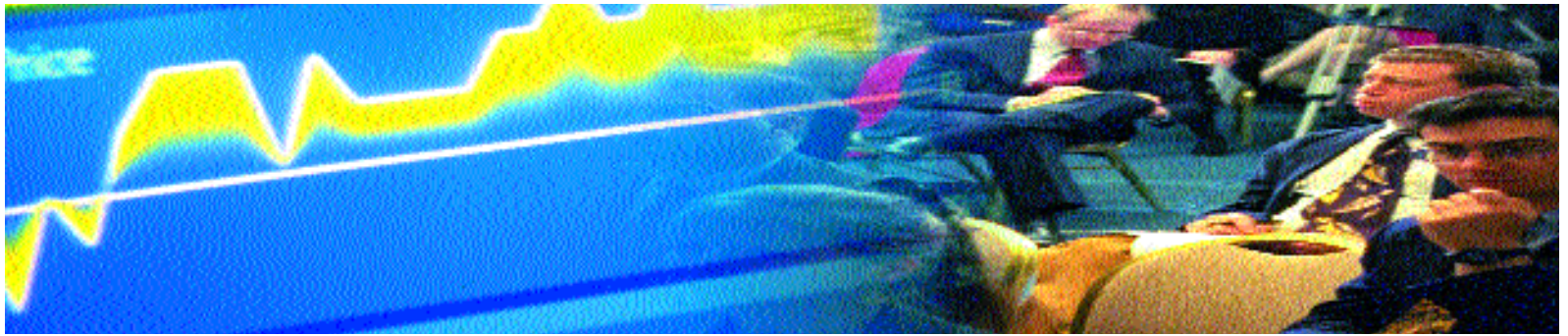
openly compete with one another, on-line, for investor orders. It is a system that works and works well because it is efficient, timely, and competitive—the average Nasdaq company has 10 Market Makers working for it. Also, the combined capital of multiple Market Makers brings tremendous depth and liquidity to the market in a security. The sponsorship that Market Makers provide by linking issuers with investors through their retail distribution networks and research reports helps a security compete with thousands of other financial products for investor interest.

For Microsoft, The Nasdaq Stock Market has proven to be an effective market in which to have our stock trade. Nasdaq has established a reputation for growth around the world and is associated with growth companies, the kind of "company" we like to keep. Since going public on Nasdaq in 1986, our market capitalization has grown to well over \$100 billion.

A product of the Information Age, Nasdaq serves as a model for emerging stock markets around the world that want to fit in with the 21st century. Nasdaq is, in fact, built out of the advanced technology products of many of the companies whose stock is traded on it—companies, I like to think, that are helping to build the future.

Microsoft has traded its common stock on the Nasdaq market ever since our initial public offering as well as our recently issued preferred stock. Speaking from experience, I know Nasdaq has served us well.

**Michael W. Brown**  
*Chief Financial Officer*  
*Microsoft Corporation*



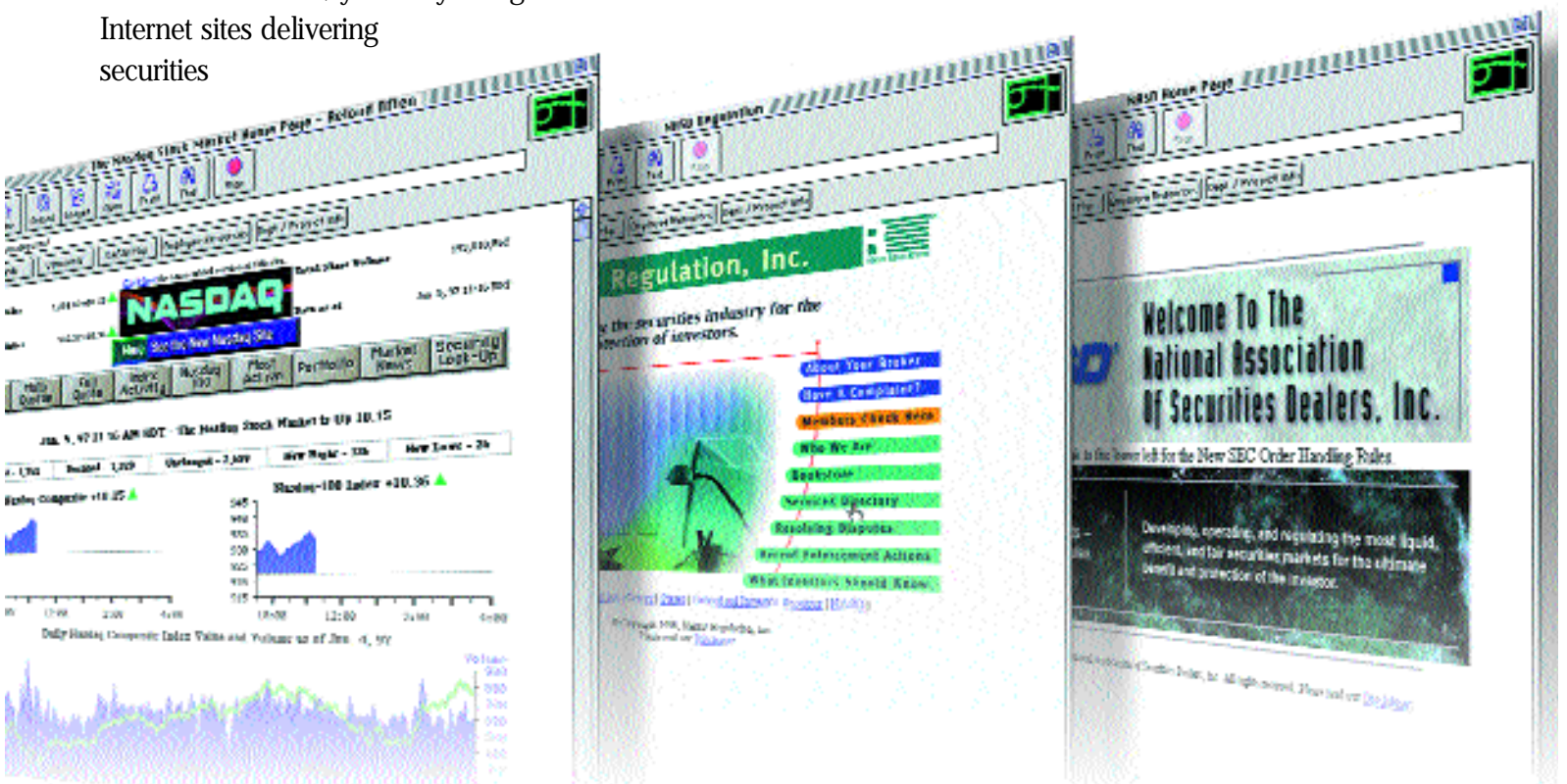
## Using Technology to Inform Investors

Making trading information accessible to all market participants quickly and completely is Nasdaq's core business. Built totally out of telecommunications networks and computers, Nasdaq's Information Age technologies provide the fastest possible transmission of market information. Transaction and volume information is disseminated instantaneously for the entire market.

Recently Nasdaq used advanced technology to increase significantly the level of market information available to the individual investor. Nasdaq applied the most sophisticated Web development techniques and supporting technology to create one of the most extensive, yet easily navigable Internet sites delivering securities

information. Popular since its inception, the Nasdaq World Wide Web site ([www.nasdaq.com](http://www.nasdaq.com)) is currently one of the most active electronic information centers for investors in the world.

Nasdaq launched its Internet site to provide timely, institutional-quality market information to the general public. The site offers stock quotes, index values, and the latest wire service company and business news stories. It also features a free portfolio tracking service to enable investors to construct and follow the performance of a portfolio of Nasdaq, New York Stock Exchange, and American Stock Exchange securities on the Nasdaq Web site.





## Market Integrity

An honest market is important to both investors and companies. To promote market integrity, Nasdaq works closely with its affiliate, NASD Regulation, to maintain effective surveillance and a rigorous examination and enforcement program.

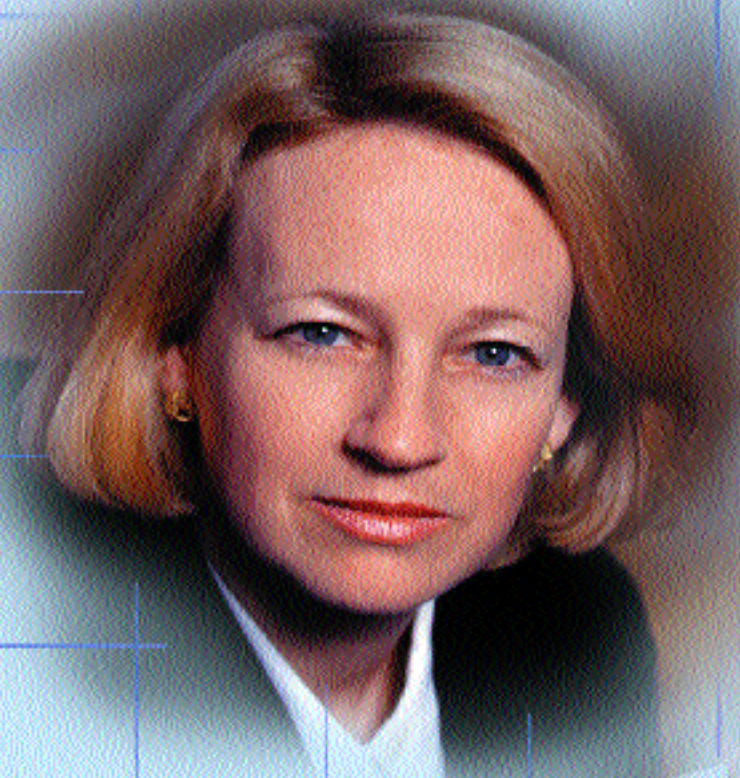
Nasdaq requires its listed companies to meet an increasingly demanding set of initial listing and maintenance standards, including financial criteria pertaining to assets and earnings, trading criteria relating to public float and share price, and corporate governance criteria.

To enhance market integrity, Nasdaq recently boosted the financial and minimum price criteria required for a company to begin or continue trading on its market. Nasdaq also extended its Nasdaq National Market corporate governance requirements to The Nasdaq SmallCap Market<sup>SM</sup> companies.

To strengthen enforcement of companies' compliance with Nasdaq's listing and maintenance standards, Nasdaq recently created a new unit dedicated to examining the accuracy of pertinent information that corporations report.



# Education



Investor  
Protection

F  
A  
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Search: Search

Comments

NASD Regulation

Employer Resources

REGULATING THE SECURITIES INDUSTRY FOR THE BENEFIT AND PROTECTION OF INVESTORS

Technology

SEC | Not a Product | Info Center | 2004

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ENFORCEMENT



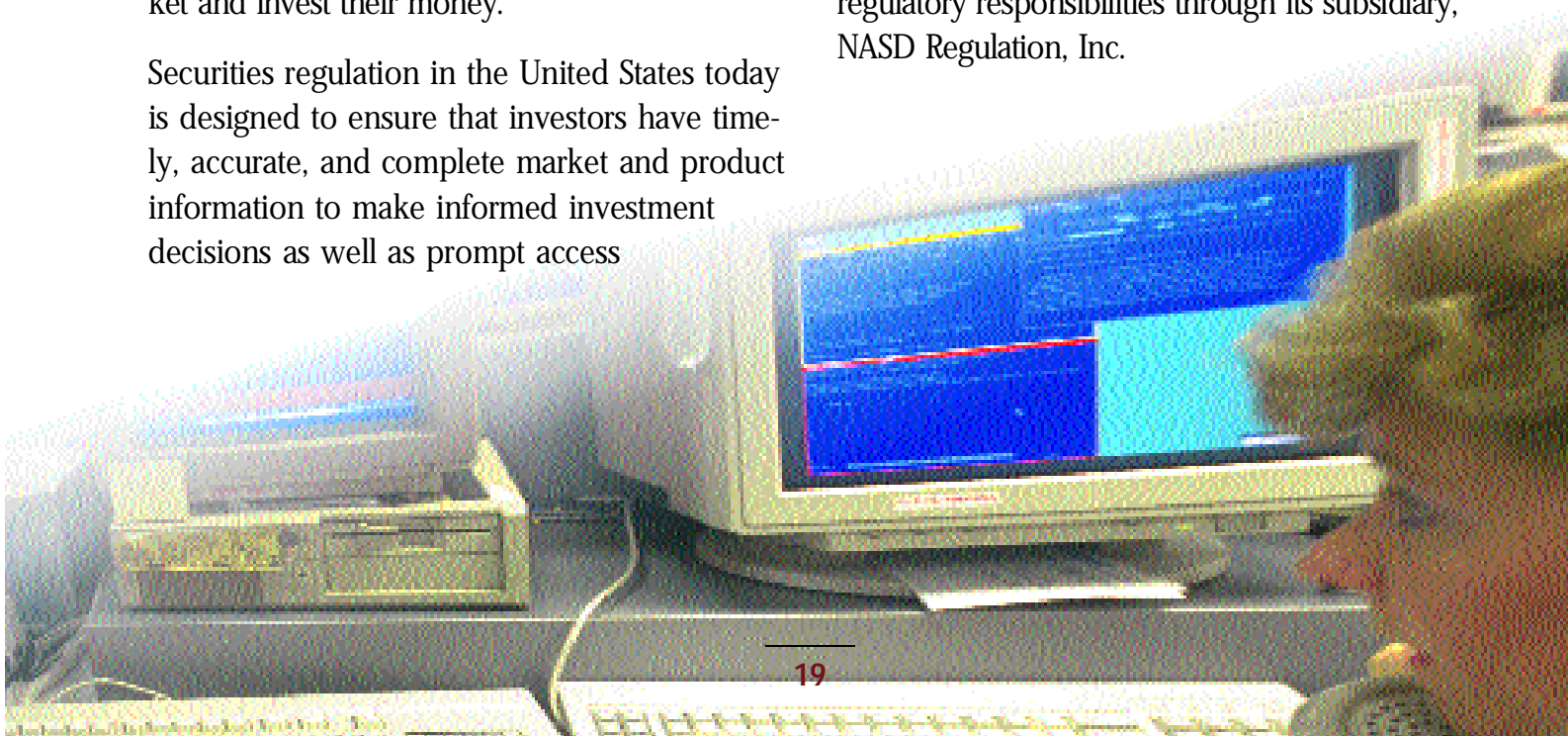
# Fair Markets Through Effective Regulation

## Enhancing Markets Through Regulation

Regulation makes a valuable contribution to the quality of the markets Nasdaq operates and to the securities industry in general by fostering fair and equitable competition for capital for all participants. Regulation facilitates capital formation by giving investors confidence to enter the market and invest their money.

Securities regulation in the United States today is designed to ensure that investors have timely, accurate, and complete market and product information to make informed investment decisions as well as prompt access

to the marketplace for the best execution of their orders. Regulation also protects the interests of investors by monitoring business practices and trading activity for fair dealing and by swiftly detecting and disciplining participants who violate the rules. The NASD carries out these regulatory responsibilities through its subsidiary, NASD Regulation, Inc.





## Setting and Enforcing High Standards

For over 50 years, the NASD has set and enforced high standards of professional conduct in the U.S. securities industry. According to SEC statistics, in each of the past five years, the NASD has brought twice as many disciplinary actions against securities firms and their professionals as all other U.S. self-regulatory organizations combined.

NASD Regulation writes rules to protect the public and obtains broad comment on those rules, from both industry and non-industry. NASD Regulation responds to more than 5,000 customer complaints annually, examines over 3,000 firms, handles more than 5,000 arbitration cases, teaches compliance to the industry, provides continuing education, and administers more than 260,000 qualification examinations.

Due to the scope of the NASD's regulatory responsibilities and the breadth of its membership, the U.S. Congress has repeatedly broadened the NASD's regula-

tory mandate. Over the years, these additional responsibilities have included the regulation of the municipal securities activities of broker/dealers and, more recently, member firms' activities in government securities. As part of a regulatory program for government securities, during the past year the NASD introduced a new qualification examination for the sale of these issues.

NASD Regulation has strengthened its enforcement program as the securities industry has grown. Regulatory personnel increased 9 percent and disciplinary actions brought by NASD Regulation are up 12 percent over last year. Also, NASD Regulation has recently proposed expanding its Public Disclosure Program—which makes available, for investor protection, a wide range of employment, criminal, civil-judgment, disciplinary, and arbitration information on brokers—to include, among other things, pending customer complaints and arbitrations.





## Redefining Self-Regulation

The success of securities regulation in the United States owes much to self-regulatory organizations like the NASD that enable industry professionals to participate in formulating rules of fair business practice and market operation and in promoting compliance with those rules as well as securities laws.

In an industry that innovates quickly, whose products and services can be technically complex, the participation of securities professionals is important. Because of their day-to-day involvement in the securities business, securities practitioners are in a position to provide reliable information and expert insight. From experience, they help identify new products or services requiring special regulation, current business practices calling for revised rules, and what regulatory approaches will be most effective.

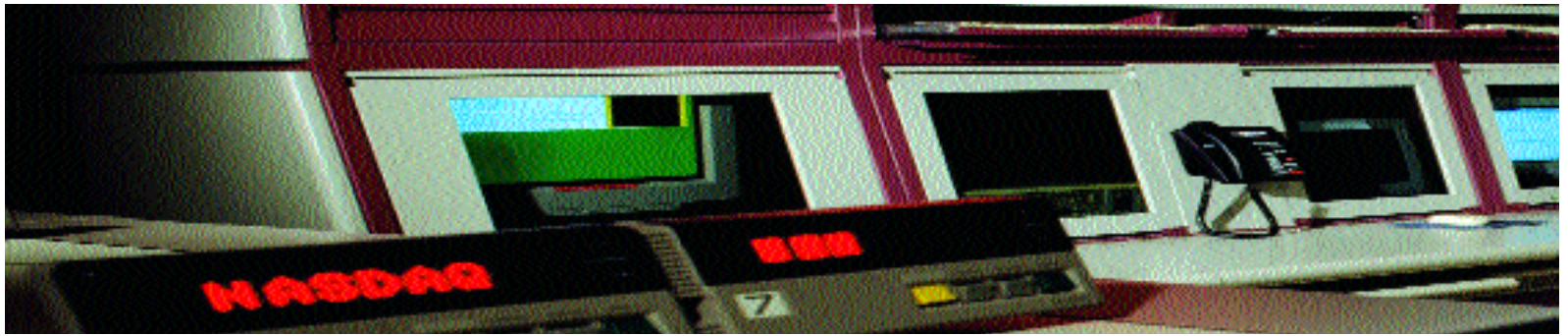
Self-regulation works well because of the ethical commitment and economic interest that industry professionals have in effective regulation and because of effective SEC oversight. Securities professionals want their industry to enjoy a reputation for fair dealing, for its very future depends upon customer satisfaction and repeat business.

To make the regulatory system even more effective in the United States as we approach a new century, the NASD is making a major additional investment in self-regulation. What will not change is the NASD's reliance on the participation

of hundreds of industry volunteers who serve on the boards of the organization and its advisory and disciplinary committees. The industry's own expertise and sense of fairness have contributed enormously in helping create rules that protect investors and in achieving a high level of compliance with those rules.

While industry participation in the process is vital to the success of self-regulation, the NASD has taken steps to balance this industry voice with greater public representation and with other professional expertise. In particular, the NASD Board of Governors is now composed of a majority of non-industry representatives.

The NASD's regulatory subsidiary, NASD Regulation, has also strengthened the role of public participation in the decision-making process by soliciting public comment on significant proposed rules before they are filed with the SEC. In addition, to better balance the enforcement process, professional staff will determine when to institute a disciplinary proceeding. Also, staff members with legal expertise will serve as hearing officers and chair disciplinary panels with two other members from the industry.

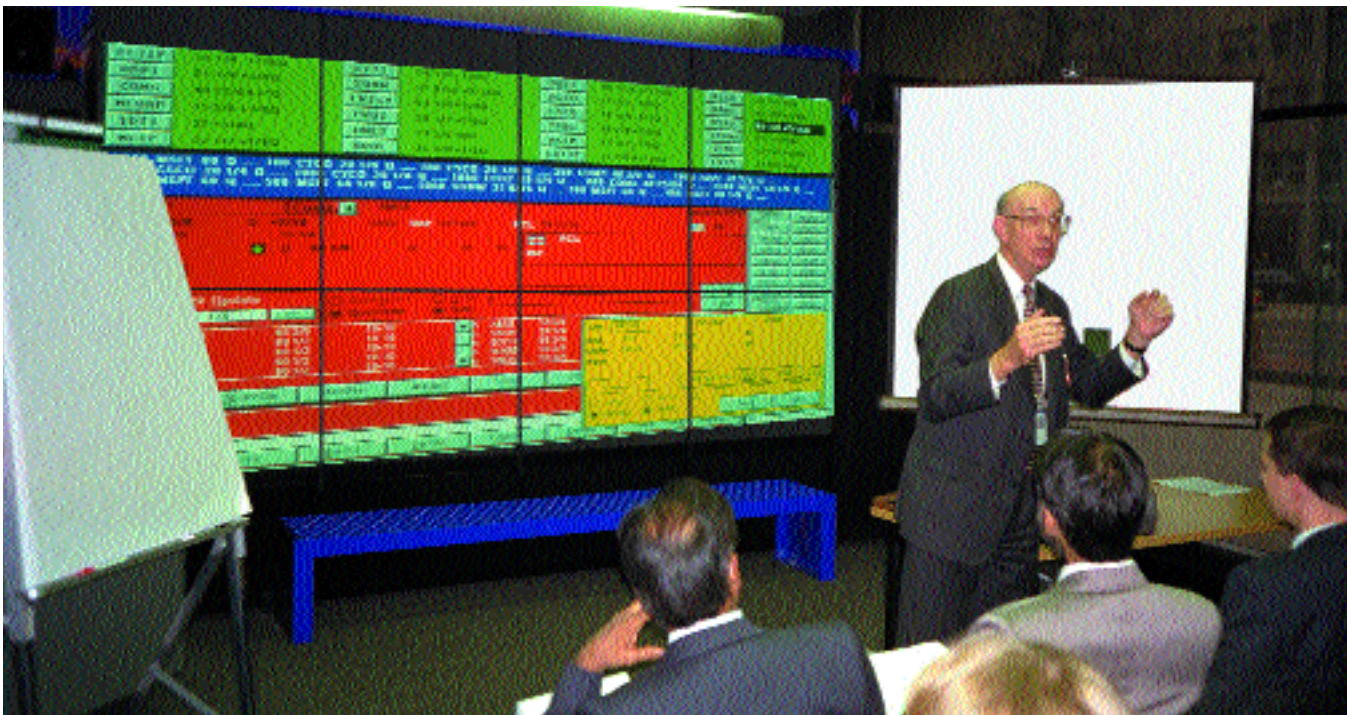


## Reaching Out to Investors

NASD Regulation believes that one of the most effective ways to protect individual investors is to involve them more in the regulatory process and provide them with information essential to making sound decisions about brokers and investment alternatives. To do this, NASD Regulation is continually enhancing its investor outreach program.

The foundation of this program is the NASD Regulation Web site ([www.nasdr.com](http://www.nasdr.com)), providing investors with timely regulatory information, and the on-line ability to request disciplinary histories of brokers, file complaints, and comment on proposed rules.

The NASD Regulation Web site is complemented by the NASD's Individual Investor Services site ([www.investor.nasd.com](http://www.investor.nasd.com)), which offers training on investment basics, guidance on working with a broker, market research, a financial calculator to analyze investment performance, and a calendar of investor events. In addition, the NASD publishes an investor newsletter, makes presentations and provides information at investor forums, and airs public service announcements on investor protection over television and radio in English and Spanish.







## Advantages and Challenges of Technology

The development of technological systems to enhance regulatory capabilities using the latest information technologies will continue to be one of the NASD's top priorities.

For instance, the NASD has under development several systems to detect late-trade reporting, pricing/size conventions, and market participant coordination.

Perhaps the most challenging area for future regulatory surveillance is cyberspace itself. NASD Regulation has begun surveilling the World Wide Web for on-line investment scams and violative conduct by its members and others. In the coming year, NASD Regulation will implement an automated system that will greatly increase the range, speed, and early warning capabilities of our surveillance. The field examination program will also be expanded

to provide greater coverage of members' use of the Internet in their businesses.



Concurrent to this technology initiative, NASD Regulation began an investor education program regarding the use of information obtained from the

Internet for investment purposes. NASD Regulation also clarified for member firms and their brokers the appropriate use of electronic media for communicating with customers.

NASD Regulation will continue to monitor the Internet closely for its use in securities investing and respond promptly with any necessary rules or surveillance systems.

In all its activities, NASD Regulation will fulfill its commitment to investor protection. It will regulate effectively and will be responsive to the needs of investors.



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## NASD Board of Governors

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*Chairman, Chief Executive Officer  
and President*  
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*From Left to Right: R. Brian Williamson; John H. Biggs; E. David Coolidge, III; Frank G. Zarb; Daniel P. Tully; Elaine L. Chao; James Dimon; Donald J. Kirk; Bert C. Roberts, Jr.; Charles B. Johnson. Not present for photo: Nancy Kassebaum Baker.*

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## World Wide Web Internet Sites

[www.nasd.com](http://www.nasd.com)  
[www.nasdaq.com](http://www.nasdaq.com)

[www.nasdr.com](http://www.nasdr.com)  
[www.investor.nasd.com](http://www.investor.nasd.com)

[www.nasdaqnews.com](http://www.nasdaqnews.com)  
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