

should submit only information that you wish to make available publicly. All submissions should refer to the File Number SR–NASD–2006–038 and should be submitted on or before April 25, 2006.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>11</sup>

Nancy M. Morris,  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–53562; File No. SR–NASD–2006–005]

### Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Notice of Filing of Proposed Rule Change To Expand the Scope of NASD Rule 2440 and Interpretive Material 2440 Relating to Fair Prices and Commissions To Apply to All Securities Transactions

March 29, 2006.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b–4 thereunder,<sup>2</sup> notice is hereby given that on January 19, 2006, the National Association of Securities Dealers, Inc. (“NASD”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASD. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

NASD proposes to expand the scope of NASD Rule 2440 (Fair Prices and Commissions) and Interpretive Material (“IM”) 2440 relating to fair prices and commissions to apply to all securities transactions, whether executed over-the-counter (“OTC”) or on an exchange. The text of the proposed rule change is below. Proposed new language is in italics; proposed deletions are in brackets.

#### 2440. Fair Prices and Commissions

In [“over-the-counter”] securities transactions, whether in “listed” or “unlisted” securities, if a member buys for his own account from his customer,

or sells for his own account to his customer, he shall buy or sell at a price which is fair, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense involved, and the fact that he is entitled to a profit; and if he acts as agent for his customer in any such transaction, he shall not charge his customer more than a fair commission or service charge, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense of executing the order and the value of any service he may have rendered by reason of his experience in and knowledge of such security and the market therefor.

#### IM–2440. Mark-Up Policy

The question of fair mark-ups or spreads is one which has been raised from the earliest days of the Association. No definitive answer can be given and no interpretation can be all-inclusive for the obvious reason that what might be considered fair in one transaction could be unfair in another transaction because of different circumstances. In 1943, the Association’s Board adopted what has become known as the “5% Policy” to be applied to transactions executed for customers. It was based upon studies demonstrating that the large majority of customer transactions were effected at a mark-up of 5% or less. The Policy has been reviewed by the Board of Governors on numerous occasions and each time the Board has reaffirmed the philosophy expressed in 1943. Pursuant thereto, and in accordance with Article VII, Section 1(a)(ii) of the By-Laws, the Board has adopted the following interpretation under Rule 2440.

It shall be deemed a violation of Rule 2110 and Rule 2440 for a member to enter into any transaction with a customer in any security at any price not reasonably related to the current market price of the security or to charge a commission which is not reasonable.

(a) through (b) No change.

(c) Transactions to Which the Policy is Applicable.

The policy applies to all securities[ handled in the over-the-counter market], whether oil royalties or any other security, in the following types of transactions:

(1) through (5) No change.

(d) No change.

\* \* \* \* \*

#### II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, NASD included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. NASD has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

##### A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

NASD Rule 2440 generally requires NASD members, in any OTC transaction with or for a customer, to charge only fair commissions or charges, and to buy or sell securities only at fair prices.<sup>3</sup> Specifically, NASD Rule 2440 provides, in part, that a member is required to buy or sell a security at a fair price to customers, “taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense involved, and the fact that he is entitled to a profit \* \* \*” and if the member acts as agent, the member will not “charge his customer more than a fair commission or service charge, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense of executing the order and the value of any service he may have rendered by reason of his experience in and knowledge of such security and the market therefore.” The related Mark-Up Policy, IM–2440, provides additional guidance on mark-ups and fair pricing of securities transactions with customers and states that it is inconsistent with just and equitable principles of trade under NASD Rule 2110 for a member to enter into any transaction with a customer in any security at any price not reasonably related to the current market price of the security or to charge a commission that is not reasonable.

NASD Rule 2440 and IM–2440 apply only to OTC transactions. There is no NASD rule that specifically addresses commissions or mark-ups (and mark-downs) for non-OTC transactions (*i.e.*, exchange transactions). Although the language of NASD Rule 2440 and IM–2440 specifically limits their application

<sup>3</sup> See NASD Rule 2440.

<sup>11</sup> 17 CFR 200.30–3(a)(12).

<sup>15</sup> U.S.C. 78s(b)(1).

<sup>17</sup> 17 CFR 240.19b–4.

to OTC transactions, NASD has taken the position that a broker-dealer charging excessive compensation in a transaction with a customer executed on an exchange violates NASD Rule 2110, which requires that a member must, in the conduct of its business, "observe high standards of commercial honor and just and equitable principles of trade."<sup>4</sup>

To further clarify members' obligations to charge fair commissions and mark-ups (or mark-downs), NASD is proposing to amend NASD Rule 2440 and IM-2440 to apply these provisions expressly to all securities transactions, whether they occur in the OTC market or on an exchange.<sup>5</sup> NASD believes that commission and mark-up (mark-down) requirements should be uniform and not vary based solely on where the transaction occurs. Therefore, a member that charges unfair and excessive commissions or mark-ups (mark-downs) in any customer transaction, whether it is an OTC or exchange transaction, would violate NASD Rule 2440 and IM-2440.<sup>6</sup>

Should the Commission approve the proposed rule change, NASD will implement the proposed rule change upon SEC approval. NASD will announce the approval in a *Notice to Members* to be published no later than 30 days following Commission approval.

## 2. Statutory Basis

NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>7</sup> which requires, among other things, that NASD rules be designed to prevent fraudulent and manipulative acts and practices,

<sup>4</sup> See NASD Rule 2110. See also *Atlanta-One, Inc. v. SEC*, 100 F.3d 105, 107 n.1 (9th Cir. 1996), which states "[a]lthough [Rule 2440 and IM-2440] deals with the appropriate level of compensation in retail transactions in the over-the-counter market, the [rule] provides guidance by analogy as to appropriate commissions for exchange transactions."

<sup>5</sup> Currently, NASD Rule 2440 and IM-2440 do not apply to transactions in municipal securities and exempt securities, and this would not be changed by the proposal. See NASD Rule 0116. See also Sections 3(a)(12) and 3(a)(29) of the Act. It is important to note, however, that Municipal Securities Rulemaking Board ("MSRB") Rule G-30, Prices and Commissions, applies to transactions in municipal securities, and requires a municipal securities dealer engaging in a transaction with a customer, as a principal, to buy or sell securities at an aggregate price that is "fair and reasonable," or, as an agent, to charge a commission or service charge that is not more than a "fair and reasonable amount." See MSRB Rule G-30.

<sup>6</sup> The proposed amendments would expand the scope of NASD Rule 2440 and IM-2440 to include all securities transactions with or for a customer only. The proposal would not alter the fact that NASD Rule 2440 and IM-2440 do not apply to member-to-member transactions.

<sup>7</sup> 15 U.S.C. 78o-3(b)(6).

promote just and equitable principles of trade, and, in general, protect investors and the public interest. NASD believes that the proposed rule change will deter members from charging their customers unfair, unreasonable, or excessive mark-ups or commissions for effecting securities transactions, and will thereby promote investor protection.

### B. Self-Regulatory Organization's Statement on Burden on Competition

NASD does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

### C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments were neither solicited nor received.

## III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which NASD consents, the Commission will:

(A) By order approve such proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

## IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

### Electronic Comments

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-NASD-2006-005 on the subject line.

### Paper Comments

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-NASD-2006-005. This file

number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal office of NASD. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NASD-2006-005 and should be submitted on or before April 25, 2006.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

Nancy M. Morris,  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-53568; File No. SR-NFA-2006-01]

### Self-Regulatory Organization; National Futures Association; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Interpretive Notice to Compliance Rule 2-9

March 29, 2006.

Pursuant to Section 19(b)(7) of the Securities Exchange Act of 1934 ("Exchange Act"),<sup>1</sup> and Rule 19b-7 under the Exchange Act,<sup>2</sup> notice is hereby given that on February 27, 2006, National Futures Association ("NFA") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change described in

<sup>8</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(7).

<sup>2</sup> 17 CFR 240.19b-7.