



March 7, 2006

Ms. Barbara Z. Sweeney
Senior Vice President and Corporate Secretary
National Association of Securities Dealers, Inc.
Office of the Corporate Secretary
1735 K Street, NW
Washington, D.C. 20006-1500

Mr. William Jannace
Director, Rule and Interpretive Standards
New York Stock Exchange, Inc.
14 Wall Street
New York, NY 10005

**Re: NASD Notice to Members 06-06 and SR-NYSE-2006-06 Relating to
Member Firms Gifts and Business Entertainment Practices**

Dear Ms. Sweeney and Mr. Jannace:

The Self-Regulation and Supervisory Practices Committee of the Securities Industry Association (“SIA”)¹ appreciates the opportunity to provide comments in response to the referenced National Association of Securities Dealers, Inc. (the “NASD”) Notice to Members (the “NASD Proposal”) and the New York Stock Exchange, Inc. (the “NYSE”) rule proposal (the “NYSE Proposal”)² relating to member firm gift and business entertainment practices, policies and procedures (collectively, the “Proposals”).

SIA strongly supports the general approach in the Proposals that requires members to adopt firm-appropriate policies and procedures governing business entertainment. In particular,

¹ The Securities Industry Association brings together the shared interests of approximately 600 securities firms to accomplish common goals. SIA’s primary mission is to build and maintain public trust and confidence in the securities markets. SIA members (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs nearly 800,000 individuals, and its personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2004, the industry generated \$236.7 billion in domestic revenue and an estimated \$340 billion in global revenues. (More information about SIA is available at: www.sia.com.)

² On February 15, 2006, the NYSE submitted a rule filing to the U.S. Securities and Exchange Commission proposing new NYSE Rule 350A. Although the NYSE Proposal has not yet been published for comment in the *Federal Register*, we believe it important to comment on both Proposals at this time. See [http://apps.nyse.com/commdata/pub19b4.nsf/docs/38B4BB33F8B53BB185257116007EB409/\\$FILE/NYSE-2006-06.pdf](http://apps.nyse.com/commdata/pub19b4.nsf/docs/38B4BB33F8B53BB185257116007EB409/$FILE/NYSE-2006-06.pdf).

SIA firmly agrees with the Proposals' overarching principles that a member firm should not use entertainment to cause a customer representative to act contrary to the best interests of the customer. We therefore welcome rulemaking that provides guidance as to the types of policies and procedures firms should adopt in order to safeguard against inappropriate business entertainment expenditures. We also appreciate the willingness of NASD and NYSE to provide firms with the ability to customize their policies and procedures to their organizations' business models. As acknowledged in the Proposals, the "appropriateness" of any business entertainment event can only be reviewed and established through consideration of a number of factors -- including geographical region, type of customer, seniority of the persons entertaining and being entertained, size and business of the member firm. In order to establish reasonable levels for appropriate business entertainment, a broker-dealer will need to evaluate its business entertainment practices internally and set standards accordingly. SIA, therefore, commends the Proposals' recognition that the assessment of business entertainment is a very fact and firm-specific endeavor.

SIA offers several comments below aimed at clarifying certain definitional and other interpretive issues, as well as addressing specific implementation aspects of the Proposals, including the recordkeeping, tracking and client notification requirements. We also seek clarification with regard to the relative responsibilities of a member firm and the customer who would be entertained. We welcome the opportunity to speak with the staffs of the NASD and NYSE on these, or any other, issues.

I. Definitions

As a threshold matter, SIA urges the NASD and the NYSE to more fully conform their definitions of "business entertainment" and "customer." It is well established that consistent regulation promotes efficiencies and reduces costs to the ultimate benefit of member firms, regulators, and customers. SIA believes that consistent definitions of these terms -- as well as consistent substantive requirements -- will, among other things, allow dual member firms to more effectively implement clear written policies and procedures and communicate those policies during employee training sessions.

A. Uniform Definition of "Customer" Based on Existing Definitions

SIA respectfully requests that NASD and NYSE draw upon existing definitions and provide a uniform definition of "customer" to be used in connection with business entertainment. Based upon the concepts underlying the Proposals, SIA supports The Bond Market Association's ("TBMA") recommended revision to the definition of "customer" as set forth in TBMA's comment letter, dated March 3, 2006. Accordingly, SIA agrees with TBMA in that the definition should be modified generally as follows:

The term "customer" means an accredited investor (as defined in Rule 501 of the Securities Act of 1933) that is not a natural person that maintains or may prospectively maintain a customer relationship with a member and has a representative act on its behalf in respect of such relationship. The term

“customer relationship” means maintaining a securities account with a member or otherwise being a customer of a member for the purposes of investment banking or other securities-related activities. The term “representative” means persons who are employees, officers, directors, agents or representatives of a customer acting in respect to the customer relationship; *provided, however*, such term shall not include a non-professional fiduciary or agent (e.g., an individual acting as trustee for a family member or on behalf of an investment club).

SIA joins TBMA in its belief that individuals should be excluded from the term “customer” because imposing tracking requirements for individuals would greatly increase members’ recordkeeping burdens, with little associated benefit in terms of monitoring entertainment of customers who have fiduciary duties. In addition, the reduced scope of the term “representative” in the definition above is appropriate when non-professional fiduciaries are acting in their personal capacities. Alternatively, and to the extent the NASD and NYSE maintain distinct definitions, we respectfully request that the Proposals include language to the effect that “Any member in compliance with substantially similar requirements of the NASD/NYSE shall be deemed to be in compliance with the provisions of this Rule.”

B. Definition of “Business Entertainment”

With regard to the definition of business entertainment, and in the interest of regulatory consistency, SIA encourages NASD to incorporate into its definition the NYSE’s concept of “exigent circumstances” to provide for relief in the event that an associated person is unable to accompany a customer to an event as planned.

II. Implementation of Recordkeeping, Tracking and Client Notification Requirements

The Proposals require among other things that members keep “detailed records” of the nature and cost of business entertainment, and make such information available to customers upon request. While accurate and robust tracking systems are an important means of guiding and enforcing appropriate behavior, SIA believes that the proposed requirements governing recordkeeping and delivery of client business entertainment information do not fully consider important business practicalities and key confidentiality concerns. As a result, these requirements could present significant implementation challenges. Indeed, we are concerned that if the data retention and delivery requirements create onerous, overly complex implementation issues that may not have previously existed, these requirements ultimately may distract from the Proposals’ core objectives -- namely, for each firm to develop firm-specific policies and written supervisory procedures governing appropriate business entertainment practices and to conduct meaningful employee training in that regard.

SIA therefore suggests that NASD and NYSE confirm that firms may tailor their recordkeeping, tracking and client notification systems to reflect their business models, existing internal technology and vendor solutions while, at the same time, address potential conflicts of interest. Absent such flexibility, we believe that implementation costs will far exceed any

perceived benefit, will be extremely cumbersome and could take in excess of a year to complete.

A. Recordkeeping and Tracking of Gifts and Business Entertainment Expenses

Currently, most broker-dealers have general policies and procedures relating to business gifts and entertainment, and therefore are well positioned, upon reasonable notice, to update their written procedures to include appropriate, firm-specific entertainment standards across their different business units. Firms generally also have procedures and systems designed to document, review and approve firm-related gift, travel and entertainment expenses. These systems, however, typically do not track these expenses at the level suggested by the Proposals (i.e. by expenditures aggregated across different business lines). Given that many systems relating to travel and entertainment expenses are contingent upon vendor solutions, the ability to revise or consolidate systems in the near term may be limited, at best, in many circumstances.

Allowing firms to enhance and implement systems that reflect business models, as well as existing internal and vendor systems would reduce significantly the lead-time and resources needed to implement the recordkeeping provisions of the Proposals.³ This approach is both practical and consistent with the Proposals' general principles that enable firms to internally assess and establish standards, policies and procedures governing appropriate business entertainment of clients. In that regard, we request that NASD and NYSE also confirm that firms may adopt recordkeeping policies and procedures commensurate with varying levels or categories of entertainment. For example, firms could establish different levels of recordkeeping for corporate-wide events, sponsorships, entertainment events related to training or educational meetings, investment banking transactions, and the like.

B. Providing Business Entertainment Records to Customers

Though seemingly straightforward, the requirement to provide customers with detailed business entertainment information upon request also raises several practical concerns, including the manner, method and frequency by which firms should provide that information to clients. Specifically, because certain business entertainment information could reveal confidential or proprietary data, the customer and member firm may not want that information shared across business levels or business lines. Consider for example, a request for business entertainment information by a client representative that would reveal meetings with senior merger and acquisition bankers, or a meeting in connection with a pending investment banking transaction. In both instances, firms would want to establish internal controls to limit access to such information. A further difficulty relating to the identity of the requestor concerns the

³ This is especially relevant for larger, full-service firms that employ multiple and sometimes discrete client-databases containing different codes or nomenclatures for the same client. Depending on the business unit, particular system or program that captures the information, client codes could vary within the same firm. Firms therefore could face a lengthy and expensive process of converting systems to track consolidated expenditure information based on unique, firm-wide identifiers for customers and customer representatives.

structure of certain institutional customers. For instance, within the context of a large mutual fund complex that uses more than one investment adviser for multiple funds with multiple accounts, it is unclear to whom, and the level of data, a firm should provide business entertainment information.⁴

To enable firms to readily and appropriately comply with Proposals in an efficient, reasonable manner that is designed to protect confidential information, SIA respectfully requests that the NASD and NYSE permit firms to establish their own requirements regarding how, when and to whom the firm will respond to requests for information on behalf of the customer and to establish procedures, as necessary, around such requests.⁵

III. Firm Responsibility and Liability With Regard to Client Conduct

SIA also seeks confirmation regarding the relative responsibilities of the firm and the customer who is being entertained. While it is reasonable that member firms implement policies and procedures to address potential conflicts of interest that may arise in connection with business entertainment, member firms cannot -- nor are they in a position to -- ensure that the customer representative's conduct is consistent with the best interests of, or fulfills the full range of duties owed to, the client.⁶ That responsibility lies solely with the customer. For public policy reasons, and to avoid any suggestion that the business entertainment imposes a supervisory responsibility on the member firm of its customers' conduct, SIA respectfully requests that NASD and NYSE acknowledge these different responsibilities and affirm that broker-dealers would not assume any additional obligations to customers, such as evaluating and/or monitoring the activities of a customer's employees or representatives.

In that regard, we request that NASD reconsider language in its Proposal which would require firms to evaluate whether a business entertainment event would have the "likely effect of causing, [an] employee to act in a manner that is inconsistent with the best interests" of his or her customers. We also urge NASD to narrow and clarify the language of the Proposal so that member firms are prohibited from providing entertainment that *they know, or have reason to believe*, would expose the member, customer, or recipient to civil liability to a governmental

⁴ It is unclear from the current language of Proposals whether a junior employee of a fund would be entitled to business entertainment information relating to employees of the entire fund complex. It is further conceivable that a beneficial owner of an account could claim to be entitled to entertainment data of an investment adviser within the fund family. SIA does not believe that the NASD and NYSE intended such a result.

⁵ For example, the firm's procedure could identify the person to whom the firm will provide information; the contact person within the firm to whom customers should send requests; and time periods for which information is available (e.g. annually, quarterly, etc.). In so doing, firms can better manage information flow in light of confidentiality and information barrier obligations, as well as avoid duplicative requests for business entertainment information by different representatives of the same client.

⁶ The customer's responsibilities to account holders, investors, and shareholders are themselves governed by extensive and longstanding laws and regulations, contractual language, company policies, industry codes of conduct -- all of which play a critical part in the critical decisions of how and with whom business is to be conducted.

authority or agency. The current language of the Proposal potentially could hold a member responsible for compliance with a customer's internal requirements or policies of which it has no knowledge.

IV. Thresholds Requiring Supervisory Approval

SIA supports the Proposals' requirements that firm policies and procedures define the forms of appropriate business entertainment that include, among other things, the establishment of certain "thresholds" requiring advance written approval. SIA encourages the NASD to expand upon the criteria to be used in evaluating the propriety of business entertainment by, for example, including in any final interpretive material the criteria set forth by the NYSE in pages 9-10 of the NYSE Proposal.

SIA also recommends that firms be permitted to utilize qualitative thresholds in combination with quantitative limits in determining whether business entertainment requires certain levels of approvals (i.e. additional levels of escalation based on the nature of the event).⁷ We agree, of course, that such thresholds cannot be so unbounded or vague that no reasonable determination of propriety or compliance with firm policies can be discerned.

In addition, SIA respectfully requests that reasonable, albeit different, thresholds established by the broker-dealer community be respected. As discussed above, standards of appropriateness will be established firm-by-firm according to a variety of factors and any inevitable differences in entertainment policies and thresholds should not be used as the context for mandating uniformity within our industry.

V. NASD Requirement of "Independent" Review of Business Entertainment

SIA seeks clarification with regard to the NASD Proposal's reference to an "independent" reviewer who would, on a periodic basis and when practicable, monitor for compliance with a firm's written policies and procedures relating to business entertainment. Given the widely varied organizational structures and reporting lines that exist within NASD members, SIA respectfully requests confirmation that firms would have sufficient flexibility to designate the individual or groups of individuals responsible for this function. In particular, we seek clarification that it would be appropriate for firms to designate business-line management and/or control personnel (i.e. financial controllers or business unit risk managers) to act as an independent reviewer of business entertainment expenses, subject to appropriate oversight.

VI. Prior NASD Guidance on Gifts and Entertainment

Because the NASD Proposal states that it "would supersede any prior guidance in this area," SIA respectfully requests that NASD confirm that the only guidance that would be

⁷ While the Proposals do not impose hard dollar limits on business entertainment, both would require that the firm's written policies and procedures set forth either specific dollar limits or specified dollar thresholds requiring advance written supervisory approval.

March 7, 2006
Ms. Barbara Sweeney
Mr. William Jannace
Page 7 of 13

superseded is the Letter to Henry H. Hopkins and Sarah McCafferty, T. Rowe Price Investment Services, Inc., from R. Clark Hooper, NASD, dated June 10, 1999. SIA is concerned that the breadth of the supersession language will result in confusion as to which rules, regulations, notices to members, interpretive memoranda, and the like will remain in effect. Moreover, it is unclear from the language of the Proposal whether it would apply only to guidance relating to business entertainment or whether it also would apply to previous guidance relating to business gifts. SIA therefore asks the NASD to confirm that Notice to Members 99-55 (which responds to questions relating to the application of NASD Rules 2820 and 2830 to compensation arrangements in connection with the offer and sale of investment company shares and variable annuities) as well as any other relevant guidance would remain in effect.

VII. Conclusion

SIA supports the Proposals and commends the NASD and NYSE staffs for undertaking to work together to develop consistent regulatory standards for business entertainment practices of member firms. Such regulatory coordination and cooperation produces more effective, resource-efficient regulation that serves the interests of investors, regulators and member firms alike. SIA therefore encourages the NASD and NYSE to adopt uniform business entertainment requirements for member firms by eliminating the inconsistencies in the Proposals. For your convenience, we attach as an appendix a chart that outlines the differences between the NASD and NYSE Proposals.

We thank you for the opportunity to provide comments on these important Proposals. If you have any question, please feel free to contact the undersigned or Amal Aly, SIA Vice President and Associate General Counsel, at (212) 618-0568.

Sincerely,

Christopher Mahon

Jill Ostergaard
*Co-Chairs, SIA Self-Regulation and
Supervisory Practices Committee*

cc: *U.S. Securities and Exchange Commission*
Chairman Christopher Cox
Commissioner Paul S. Atkins
Commissioner Roel C. Campos

March 7, 2006
Ms. Barbara Sweeney
Mr. William Jannace
Page 8 of 13

Commissioner Cynthia A. Glassman
Commissioner Annette L. Nazareth
Robert L.D. Colby, Acting Director, Division of Market Regulation

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APPENDIX

COMPARISON OF NASD PROPOSED IM-3060 AND NYSE PROPOSED RULE 350A
 (Substantive differences are noted in italicized text)

	NASD IM-3060	NYSE Proposed Rule 350A
Definition of "Customer"	A person that maintains, or <i>whose employee receives business entertainment for the purpose of having such person prospectively maintain, an account with a member or is otherwise a customer of the member</i> for the purposes of investment banking or securities business, and has an employee, agent or representative act on behalf of the account in some capacity in respect of such account <i>or customer relationship with the member. The term "employee(s)" means all persons who are employees, officers, directors, agents or representatives of a customer.</i>	Any person <i>or entity</i> that maintains a business relationship with a member organization, via the maintenance of an account or the conduct of investment banking or other securities-related activities, through an employee, agent or other representative (<i>the "customer representative"</i>) acting on their behalf with respect to such <i>business relationship</i> .
Definition of "Business Entertainment"	<i>Providing entertainment to an employee</i> in the form of any social event, hospitality event, charitable event, sporting event, entertainment event, meal, leisure activity or event of like nature or purpose, as well as any transportation and/or lodging accompanying or related to such activity or event, including such business entertainment offered in connection with an educational <i>event</i> or <i>business conference</i> , in which a person associated with a member accompanies <i>and participates with such employee irrespective of whether any business is conducted during, or is considered attendant to, such event.</i>	Any social event, hospitality event, sporting event, entertainment event, meal, leisure activity or event of like nature or purpose, including entertainment offered in connection with a charitable event or educational <i>conference</i> , as well as any associated transportation or lodging provided in connection with such entertainment, in which a person associated with a member organization accompanies a customer representative. <i>If a customer representative is not accompanied by a person associated with a member organization, expenses associated with the entertainment shall be considered a "gift" under Rule 350 unless exigent circumstances make it impracticable for an associated person to attend. All instances where such exigent circumstances are invoked must be clearly and thoroughly documented, and be subject to the prior written approval of a designated supervisory person or, if such prior approval is impractical, to a prompt post-event review to be conducted and documented by such supervisory person.</i>

<p>Definition of "Gift"</p>	<p>Anything of value given to an employee that is not defined as entertainment is a gift under Rule 3060.</p>	<p>Anything of value given to a customer representative that does not meet the definition of "business entertainment" is to be considered a "gift" or a "gratuity" under Rule 350.</p>
<p>Written Policies and Supervisory Procedures Required</p>	<p>Members must have written policies and procedures that:</p> <ol style="list-style-type: none"> (1) <i>Determine and</i> define forms of business entertainment that are appropriate and inappropriate, <i>including</i> the appropriate venues, nature, frequency, <i>types and class of accommodation and transportation in connection with business entertainment</i>, and either the dollar amounts of business entertainment or specified dollar thresholds requiring <i>advance</i> written supervisory approval; (2) Are designed to promote conduct of the member and its associated persons that is consistent with their obligations under <i>Rule 2110</i> and <i>does not undermine the performance of an employee's duty to a customer</i>; (3) <i>Are designed to effectively supervise compliance with a member's written compliance policies and procedures concerning business entertainment</i>; (4) Maintain detailed records of the <i>nature</i> and expense of business entertainment and <i>make such information available upon written request to a customer in respect of its employees</i>; (5) Establish <i>standards to ensure that persons designated to supervise, approve and document business entertainment expenses are sufficiently qualified</i> and that <i>periodic monitoring</i> for compliance with the written policies and procedures is conducted (<i>by an independent review, when practicable</i>); and (6) <i>Require</i> appropriate training and education to all <i>applicable personnel</i>. <p>Members may distinguish, and set specifically tailored standards for, business entertainment <i>in connection with events</i> that are educational, charitable or philanthropic in nature. <i>If such differentiation is made, it must be explicitly addressed in the written policies and procedures</i></p>	<p>Each member organization must have written policies and supervisory procedures reasonably designed to:</p> <ol style="list-style-type: none"> (1) Define forms of business entertainment that are "appropriate" and "inappropriate" <i>using quantitative and/or qualitative</i> venue, nature, and frequency <i>standards</i>. Further, each member organization must establish guidelines relating to business entertainment that either impose <i>specific dollar limits</i>, or that require written supervisory approval <i>by a designated person or persons at certain specified dollar thresholds</i>; (2) <i>Detect and prevent</i> business entertainment that is intended as, or could reasonably be perceived to be <i>intended as, an improper quid pro quo or inducement for obtaining customer business</i>, or that could otherwise give rise to a <i>potential conflict of interest</i>; (3) <i>Record</i> and maintain detailed records of all business entertainment expenses; (4) Provide appropriate education and training to all personnel <i>who supervise, administer, or are subject to the written policies and procedures prescribed by this rule</i>; and (5) <i>Provide for periodic verification and testing, pursuant to Rule 342.23</i>, for compliance with the written policies and procedures <i>to determine if they are practicable and fulfill their purpose</i>. <p><i>Further, the written policies and procedures:</i></p> <ol style="list-style-type: none"> (1) May distinguish, and set specifically tailored standards for, business

	<p><i>with specifically tailored standards. Finally, a member must be able to demonstrate that it trains its associated persons who supervise and are subject to such written business entertainment policies and procedures in all applicable requirements.</i></p>	<p>entertainment <i>deemed to be primarily</i> educational in nature;</p> <p>(2) May distinguish, and set specifically tailored standards for, business entertainment deemed to be <i>closely associated</i> with a charitable event or philanthropic cause.</p>
<p>General Requirements</p>	<p><i>The observance of the "high standards of commercial honor and just and equitable principles of trade" required of a member in the conduct of its business under Rule 2110 includes the obligation of a member not to act in a manner contrary to the best interests of a customer in the conduct of business with or for such customer. Consequently, when a member interacts with an employee of a customer, the member should not do or give anything of value to the employee that is intended or designed to cause, or otherwise would be reasonably judged to have the likely effect of causing, such employee to act in a manner that is inconsistent with the best interests of the customer. Rule 2110 precludes the offering of any thing of value, including but not limited to business entertainment, which comprises conduct, that to any degree, is either illegal under any applicable law or would expose the member, customer or recipient of the member's entertainment to any civil liability to any governmental authority or agency. For example, any business entertainment that violates the Foreign Corrupt Practices Act, or any commercial bribery statutes and laws, or would subject the member or employee (or customer by reason of respondeat superior) to any civil penalties to any governmental authority or agency because of the entertainment, in turn violates Rule 2110 and this interpretation.</i></p>	<p>No member or member organization shall <i>provide</i>, in a "business entertainment" context, anything of value to a <i>customer representative</i> during the course of, or pursuant to the establishment of, a business relationship that is intended or designed to cause, or otherwise would be reasonably judged to have the likely effect of causing, such customer representative to act in a manner inconsistent with the best interests of, <i>or fiduciary responsibility to</i>, the customer.</p>

<p>Notice to Customers</p>	<p>No notice requirement although member firms must maintain policies and procedures that contain detailed records of the nature and expense of the business entertainment and must make such information available upon written request to a customer.</p>	<p><i>Member organizations must give notice (e.g., via the member organization's website, a disclosure document, or other appropriate means) to customers or prospective customers that have a fiduciary duty to public customers or shareholders (e.g., a company registered under the Investment Company Act of 1940, or a person registered under the Investment Advisory Act of 1940) that upon their written request, detailed information will be provided regarding the manner and expense of any business entertainment provided to their employees by any member organization.</i></p>
<p>Acceptable Forms of Business Entertainment</p>	<p><i>A member may determine that certain activities, though legal, are nevertheless inappropriate for business entertainment. Similarly, members may determine that certain modes of private transport, luxurious accommodations, or destinations are not appropriate either as a matter of course or unless certain circumstances are present and senior management has approved the business entertainment.</i></p> <p><i>The Board of Governors believes that the standards of entertainment adopted by members must meet the requirement under Rule 2110 that members and employees adhere to high standards of commercial honor. Consequently, a member would violate this interpretation and the rule, not only if it failed to adopt such procedures, but also if the procedures set standards that are so unbounded or vague that no reasonable determination of propriety can be discerned.</i></p> <p><i>A member's written policies and procedures must also be reasonably designed to achieve compliance with the obligation of the member and its associated persons to act in the best interests of its customer in connection with the conduct of business with or for such customer, including the avoidance of any business entertainment of an employee that is intended or designed to cause, or otherwise would be reasonably judged to have the likely effect of causing, such employee to act in a manner that is inconsistent with the best interests of the customer.</i></p>	<p>Member firms are required to maintain policies and procedures that are reasonably designed to prevent business entertainment that is intended as, or could reasonably be perceived to be intended as an improper <i>quid pro quo</i> or that could otherwise give rise to a conflict of interest.</p>

	<p><i>As an example, members should develop written policies and procedures reasonably designed to preclude providing business entertainment that is so lavish or extensive in nature that an employee would likely feel compelled to place order flow on behalf of the customer without due regard to best execution or other transaction pricing considerations. In sum, the Board of Governors believes that the guiding principle in navigating the concern of placing an employee in conflict with his duty to a customer is that members should compete for business on the basis of providing the best professional services. While it is not inappropriate for business entertainment to foster an environment for the member to promote or educate with respect to such professional services, it is inconsistent with the terms of this interpretation to use business entertainment to provide incentives to employees to conduct customer business with and/or through the member without due consideration as to whether the nature and terms of such professional services meet the objectives and are in the best interests of the account.</i></p>	
<p>Supervision</p>	<p><i>As is the case with every NASD rule, supervision is a critical component of entertainment policies and procedures. Members are free to define the approach and method of their written policies and procedures provided they are reasonably designed to comport with the principles stated in this interpretation. Irrespective of the manner in which the members craft their procedures, it must be clear from the supervisory policies and procedures what factors determine appropriate levels of business entertainment and how those determinations are executed, monitored, and enforced. In addition, such supervisory procedures should provide a method for evidencing both the breadth of supervisory activities as well as the information upon which such supervision is conducted. For example, a member's policies and procedures must evidence the basis upon which a supervisor will determine that business entertainment does not violate a member's standards as to the nature, frequency and dollar amounts of entertainment. Finally, the member must review periodically the policies and procedures it establishes to determine if they are practicable and fulfill their purpose.</i></p>	<p>Member firms are required to provide for periodic verification and testing for compliance with the written policies and procedures to determine if they are practicable and fulfill their purpose.</p>