

# ARM Association of Registration Management

Post Office Box 133, Bowling Green Station, New York, NY 10274

www.armgmt.org

May 25<sup>th</sup>, 2005

Ms. Barbara Z. Sweeney  
Office of Corporate Secretary  
NASD  
1735 K. Street, NW  
Washington, DC 20549-0609

Re: NASD Notice to Members 05-27

Dear Ms. Sweeney:

The Association of Registration Management<sup>1</sup> ("ARM") appreciates the opportunity to comment on a proposed rule announced in NASD Notice to Members ("NTM") 05-27, a rule that is intended to require the review of correspondence and approval thereof by a principal.

ARM is not critical of NASD wanting to impose a qualification standard on those persons who are delegated responsibility to review outgoing correspondence; however, the NTM was not clear as to which "principal" qualification standard would be acceptable for this purpose. In this connection, ARM urges NASD to include, among other principal exams<sup>2</sup>, the *Limited Principal - General Securities Sales Supervisor* exam, Series 9/10, (formerly known as Series 8) as an acceptable qualification for satisfying the registered principal requirement for those associated persons whose supervisory responsibilities are limited to the supervision of sales activity (e.g., branch office managers).

We voice this concern because the proposed rule is raised in the context of NASD Rule 2210 (Communication with the Public). We are mindful that NASD Rule 2210(b)(1) requires that advertisements and sales literature be approved by a registered principal and

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<sup>1</sup> The Association of Registration Management is an industry association founded in 1975 that is comprised of registration managers of broker-dealers who deal with the regulatory community on matters relating to licensing and registration.

<sup>2</sup> NASD Rule 1021(a) states in part..."All persons engaged or to be engaged in the investment banking or securities business of a member who are to function as principals shall be registered as such with NASD in the category of registration appropriate to the function to be performed as specified in Rule 1022"

that NASD does not accept the General Securities Sales Supervisor exam as satisfying the principal qualification standard cited in this rule<sup>3</sup>.

In addition, the NTM does not reference or contemplate any impact on those member organizations that are also members of the New York Stock Exchange (“NYSE” or “Exchange”)—so-called dual member firms. Clearly, there is a distinction between advertisements/sales literature and correspondence—this is supported by current NASD Rule 2211(b)(A)<sup>4</sup> and by a comparable standard imposed by the Exchange that, while differing in certain respects, exclude correspondence from principal review<sup>5</sup>.

The Exchange has always accepted the General Securities Sales Supervisor exam as being among those acceptable qualifications for performing functions such as review and approval of correspondence; it has long been industry practice and is indeed an integral part of the daily functions of branch office management (i.e., sales supervisors qualified Series 9/10) to perform such a function. As a result, if NASD does not accept the Series 9/10 as an acceptable principal exam for the prior review and approval of correspondence, ARM foresees unintended consequences—consequences that will fall primarily on dual member firms.

By way of background, NASD published a NTM in November 1981 that announced the newly-created General Securities Sales Supervisor exam—the Series 8. This exam was developed in large part because individuals at full-service firms who were appointed to the position of branch office manager or to a similar supervisory position had to satisfy multiple principal exam requirements of those self-regulatory organizations (“SROs”) that their employing firm maintained membership with—the exam requirements, for example, of NASD, NYSE, Municipal Securities Rulemaking Board, Chicago Board Options Exchange and American Stock Exchange would all have to be considered and met for an individual at a typical full-service firm. Concerned by the increasing number of exams that one had to qualify in order to supervise sales activity, prominent SROs collectively developed the Series 8 exam. The exam was and is (now as the Series 9/10) a limited principal exam that is accepted by all SROs for those individuals whose supervisory responsibilities are solely limited in scope to the supervision of sales activities (attached is a copy of the aforementioned NASD NTM).

If NASD makes a conscious effort to exclude the General Securities Sales Supervisor exam and seeks to impose passage of the General Securities Principal (Series 24) exam, ARM would voice the sentiment that a requirement that compels the passage of an *additional* principal exam for sales supervisors is duplicative and therefore likely lacks any tangible regulatory benefit. Such a requirement would also fail to take into

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<sup>3</sup> NASD Rule 1022(g): *Limited Principal—General Securities Sales Supervisor*, (2) A person registered in this category solely on the basis of having passed the Qualification Examination for Limited Principal—General Securities Sales Supervisor shall NOT be qualified to: (C) perform for a member any or all of the following activities: (iii) final approval of advertisements as these are defined in Rule 2210.

<sup>4</sup> Correspondence need not be approved by a registered principal prior to use, but is subject to the supervision and review requirements of Rule 3010(d)

<sup>5</sup> Exchange Rule 472(a) states “Each advertisement, market letter, sales literature, or other similar type of communication which is generally distributed or made available by a member or member organization to customers of the public shall be approved in advance by a member, allied member, supervisory analyst or person designated under the provisions of Rule 342(b)(1)”.

consideration the difficulties that would fall upon membership that would result from introducing exam standards that are not universally accepted by all SROs. Further, such a proposal would undo that which was intended with the introduction of the General Securities Sales Supervisor exam—a *single* qualification standard.

This underscores a dilemma: if branch management is compelled to sit for the Series 24 (in addition to the Series 9/10), the net effect would be that the Series 9/10 would become obsolete and no longer be a qualification standard sought by sales supervisors at full-service firms. This is in contravention to the very issue—the mandating of multiple principal exams for sales supervisors—which the introduction of the General Securities Sales Supervisor exam addressed and then corrected. Instead, such supervisors would likely take the individual principal exams (as opposed to the Series 9/10<sup>6</sup> and Series 24).

Equally troubling, if NASD excludes General Securities Sales Supervisors it would have a tremendous effect on existing branch office management of every full-service retail firm throughout the country, as every individual registered as a sales supervisor of a full-service retail firm (every branch office manager, administrative manager, operations manager, control officer and anyone else delegated sales supervisory responsibilities) would then have to take the Series 24 exam. Until such time as the branch management take and pass the Series 24 exam, intermediate principals, those likely outside of the supervisory chain, would then have to be appointed to provide interim coverage. Such measures would adversely affect one's ability to supervise.

ARM further believes if NASD is of the opinion the General Securities Sales Supervisor exam does not adequately cover the subject of supervision of correspondence, we would respectfully suggest the Series 9/10 exam's content be reevaluated in order to determine if questions should be added on this topic. Such an exercise is routinely done: for example, when the General Securities Sales Supervisor exam was introduced, it included option material with respect to puts and calls *only*. It has since been updated to additionally include option material on currencies and interest rates. Alternatively (and/or in addition to modifying this exam), the Industry/Regulatory Council on Continuing Education ("the Council") could incorporate material on supervision of correspondence into the Regulatory Element of the Continuing Education Program ("CEP") for principals (Series 201 sessions). Given that the grandfather provision was recently eliminated, every registered person without exception must, going forward, sit for a Regulatory Element session at prescribed and regular intervals. In addition, the Council could recommend that supervision of correspondence be included in Firm Element continuing education training<sup>7</sup>. After all, this is the main mission of the Council—to recommend areas of training. Recommendations by the Council are taken seriously by the securities industry and are accordingly acted on. ARM hopes that in this last regard NASD will leverage from their mandatory continuing education program requirements. To do otherwise would, in our view, undermine the purpose, value and intent of the CEP.

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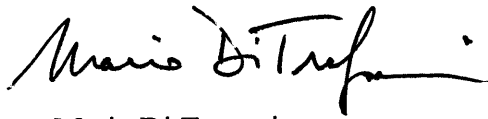
<sup>6</sup> The Series 9/10 must both be successfully completed in order to obtain a sales supervisor approval. If an individual passes one portion, but fails the other the portion of exam successfully completed will become void after 2 years.

<sup>7</sup> Sales Supervisors fall within the definition of covered persons and are subject to the Firm Element of the Continuing Education Program.

Please recognize ARM is not being critical of the qualification process. ARM understands the need for NASD to make ongoing assessments of the qualification standards for the industry and for NASD to continue to explore and develop new exams to ensure that competency standards continue to be met by industry professionals. However, ARM cannot support qualification standards that are duplicative and not universally accepted by the regulatory community. Nor can we support standards that could likely lead to the decentralization of supervisory responsibilities.

ARM thanks NASD for allowing us the opportunity to express our concerns regarding this proposal. It is our hope that the General Securities Sales Supervisor exam (Series 9/10) will continue, as it has since 1981, to be an acceptable principal exam for the sales supervisors, whose functions have long included review and approval of correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Mario Di Trapani". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mario Di Trapani  
President

# **NASD**

**NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.**  
1735 K STREET NORTHWEST • WASHINGTON, D.C. 20006 • (202) 833-7200

November 24, 1981

**TO: All NASD Members and Interested Persons**

**RE: New Registration Category and Examination Requirements for  
General Securities Sales Supervisors**

**ATTENTION: TRAINING DIRECTORS AND REGISTRATION PERSONNEL**

Effective December 1, 1981, the Association will implement a new limited principal registration category and qualification examination (Test Series 8) for General Securities Sales Supervisors in member firms. Included herewith is a new Section 2(f) of Part I of Schedule C of the NASD By-Laws, which establishes this new registration category. Also included are certain amendments to Schedule C and Appendix E of the Rules of Fair Practice, which serve to accommodate this new category in the current framework of the Association's registration requirements.

**Purpose of the New Examination Requirement**

The Limited Principal General Securities Sales Supervisor Qualification Examination (Test Series 8) is being implemented by the Association, in conjunction with the options exchanges, the Municipal Securities Rulemaking Board and the New York Stock Exchange, to be an industry wide standard for sales supervisory personnel in member firms doing a general securities business. The need for this examination became evident following the implementation of a number of new qualification examination requirements by various self-regulatory organizations in recent years. Depending on the applicability of these requirements, new sales supervisory personnel in general securities firms have been required to pass up to four separate tests. These included the following:

- General Securities Principal Examination of the National Association of Securities Dealers (Test Series 24)
- Municipal Securities Principal Examination of the Municipal Securities Rulemaking Board (Test Series 53)
- Branch Office Managers Examination of the New York Stock Exchange (Test Series 12)
- Registered Options Principal Examination of the options exchanges, the NASD and the NYSE (Test Series 4)

The Association's Board of Governors and the governing bodies of the other self-regulatory organizations became concerned about the number of examinations which new sales supervisory personnel were required to pass, as well as with the

coverage in the separate principal examinations of areas of regulation which are not directly relevant to the functions of sales supervisors. Accordingly, the Series 8 examination was developed through the combined efforts of the above mentioned self-regulatory organizations and industry representatives to serve as a uniform examination.

Persons to Whom the Examination is Applicable. Under NASD rules, the General Securities Sales Supervisor Examination is the minimum qualification requirement for persons who are required to register as principals and whose responsibilities are limited to sales supervision in member firms doing a general securities business. It is expected that the majority of candidates taking the Series 8 examination will be new branch office managers in general securities firms. The Series 8 examination is, however, appropriate for other supervisory personnel, such as regional and national sales managers, as long as their supervisory responsibilities do not extend beyond the sales activities of their respective member firms. In order to take the Series 8 examination a candidate must be registered under NASD rules as a General Securities Representative. Persons who pass the Series 8 examination may supervise sales activities in corporate, municipal and options securities, investment company products, variable contracts and direct participation programs.

Persons to Whom the Examination is Not Applicable. Under NASD rules, persons who are required to register as principals and whose supervisory responsibilities extend to certain specified activities will not be properly qualified solely on the basis of passing the General Securities Sales Supervisor Examination. Such activities include the supervision of the origination and structuring of underwritings, the supervision of market making commitments, final approval of advertisements, supervision of the custody of firm or customer funds and/or securities for purposes of SEC Rule 15c3-3 and supervision of overall compliance with financial responsibility rules for broker/dealers. Performance of one or more of these activities by a principal will entail additional qualification requirements pursuant to Part I of Schedule "C".

Relationships to Other Registration Categories. A person registered as a principal solely on the basis of passing the General Securities Sales Supervisor Examination will not be qualified to be registered in any other category of principal registration contained in Part I of Schedule "C". For example, while a person qualified as a General Securities Sales Supervisor may supervise options sales, such person is not qualified to function as a firm's Senior Registered Options Principal or Compliance Registered Options Principal. In addition, a person so qualified may not be included for purposes of the principal numerical requirements of Part I, Section 1(e)(i) of Schedule "C".

Optional Methods of Qualification. The General Securities Sales Supervisor Examination was designed to be a single, uniform qualifying examination for newly appointed sales supervisors in member firms. However, the Series 8 examination does not supplant the other principal examinations of the Association, nor does it preclude alternate methods of qualifying persons to supervise sales activities in member firms. Thus, those persons who have already passed one or more of the separate principal examinations listed above may elect to take the Series 8

examination to complete their qualification requirements for sales supervisory purposes or they may elect to take the other principal examinations. Successful completion of the latter would qualify such persons for sales supervision and for other supervisory responsibilities in their firms. Reference is made to the appropriate sections of Schedule "C" and to the qualification examination rules of the other self-regulatory organizations for specifics on the supervisory responsibilities such persons could assume.

Structure of the Examination

The General Securities Sales Supervisor Examination consists of 200 multiple-choice questions covering the following subject matter areas:

<u>Area Description</u>	<u>Number of Questions</u>	<u>Percent of Test</u>
1.0 Sales Supervision	32	16.0%
2.0 Account Supervision	34	17.0%
3.0 Compliance, Recordkeeping and Financial Responsibility	25	12.5%
4.0 Securities Markets	9	4.5%
5.0 Securities Options	55	27.5%
6.0 Municipal Securities	45	22.5%
Totals	200	100%

The Series 8 examination will be divided into two parts of 100 questions each. Each part will have an allowed testing time of three hours. Part I is divided into two sections: the first section deals solely with options; the second, only with municipal securities. Part II will cover all the remaining material in the examination. A detailed study outline for the Series 8 examination is available from the NASD Treasurer and NASD District Offices at a cost of \$5.00 per outline.

Application Procedure

Application for registration as a General Securities Sales Supervisor should be made using Form U-4 in accordance with standard NASD registration procedures. Question #10 of Form U-4 - Type of Approval Requested - should be answered by entering on the line marked "OTHER": General Securities Sales Supervisor (Series 8).

Test Administration

The Series 8 examination will be administered on the PLATO System at Control Data Learning Centers. Parts I and II may be taken in any order on the same day or on any two days during the 90-day period that a candidate's Series 8 PLATO enrollment is valid. A candidate who wishes to sit for both parts on the same day must schedule a separate appointment for each part. A candidate who wishes to take the two parts on separate days must sit for both parts at the same learning center. In extraordinary circumstances arrangements can be made to take

the parts at different learning centers, but this must first be cleared through the NASD. Grading of the examination will NOT occur until both parts are completed. If a candidate's enrollment period expires before either part is completed, the candidate must initiate anew the usual application procedures, including payment of another testing fee, in order to be reenrolled on PLATO to sit for the Series 8 examination. If a candidate's enrollment period expires after one of the two parts has been completed, the examination will be graded as a failed test and the candidate will be required to reapply for the examination in accordance with standard application procedures.

### Grading Procedure

In order to pass the Series 8 examination, each candidate must satisfy a dual scoring requirement. A minimum score of 70% must be achieved on the 55 options questions AND a minimum score of 70% must be achieved on the remaining 145 questions in the examination. If either or both of these criteria are not met, a candidate will fail the examination. Under this grading scheme, a candidate's overall score will have no bearing on whether the candidate passes the examination.

This procedure is being implemented in response to the SEC staff's insistence that the options portion of the examination be graded separately and to a subsequent determination by the Municipal Securities Rulemaking Board that a separate score be computed for the non-option portion of the examination. As a matter of principle the Association favors a single passing grade computed on the overall score, but is acquiescing in the positions of the SEC staff and the MSRB in order to implement the Series 8 examination in a timely manner. The Association intends to review this dual grading procedure in 1982 and is hopeful that candidate performance statistics on the examination will support a return to a single passing grade computed on the overall score.

### Reexamination Procedure

Candidates who fail both the options questions and the balance of the examination can reapply for the entire Series 8 examination by filing the first page of Form U-4. Question #10 of Form U-4 - Type of Approval Requested - should be answered by entering on the line marked "OTHER": General Securities Sales Supervisor (Series 8).

Candidates who fail one of the two groups of scored questions will fail the examination, but will only be required to retake and pass the failed group in order to qualify. Special reexamination instructions for these situations will be issued at the time the initial written score report is provided to sponsoring firms.

### Testing Fees

The testing fee for the entire Series 8 examination is \$80. This fee applies to initial applications, re-applications occasioned by expired PLATO enrollments and re-examination applications for candidates who have failed both groups of scored questions.



The testing fee for candidates requesting re-examination in one of the two scored groups of questions is \$40. As mentioned above, special re-examination instructions will be provided in these situations at the time the initial written score reports are provided to sponsoring firms.

\* \* \*

Questions regarding this notice should be referred to Frank J. McAuliffe at (202) 833-7394 or David Uthe (202) 833-7273.

Sincerely,



John F. Wall  
Executive Vice President  
Member and Market Services

Text of Rule Changes Establishing the  
General Securities Sales Supervisor  
Limited Principal Registration Category

Schedule C, Part I

New Section 2(a)(v)

(v) A person qualified solely as a General Securities Principal shall not be qualified to be registered as a Limited Principal - General Securities Sales Supervisor unless he is also qualified and registered as such pursuant to the provisions of Part I, Section 2(f)(i) hereof.

\* \* \*

Schedule C, Part I

New Section 2(f)

(f) Limited Principal - General Securities Sales Supervisor

(i) Each person associated with a member who is included in the definition of principal in Part I, Section (1) hereof, may register with the Corporation as a Limited Principal - General Securities Sales Supervisor if:

a. his supervisory responsibilities in the investment banking and securities business are limited to the securities sales activities of a member, including the training of sales and sales supervisory personnel and the maintenance of records of original entry and/or ledger accounts of the member required to be maintained in branch offices by SEC record-keeping rules; and

b. he is registered, pursuant to Part II hereof as a General Securities Representative; and

c. he is qualified to be so registered by passing an appropriate examination.

ii. A person registered in this category solely on the basis of having passed the Qualification Examination for Limited Principal - General Securities Sales Supervisor shall NOT be qualified to:

a. be registered in any other category of principal registration contained in this Schedule "C"; or

b. be included for purposes of the principal numerical requirements of Part I, Section (1)(e)(i) hereof; or

c. perform for a member any or all of the following activities:

1. supervision of the origination and structuring of underwritings

2. supervision of market making commitments

3. final approval of advertisements as these are defined in Article III, Section 35 of the Rules of Fair Practice

4. supervision of the custody of firm or customer funds and/or securities for purposes of SEC Rule 15c3-3

5. supervision of overall compliance with financial responsibility rules for broker/dealers promulgated pursuant to the provisions of the Securities Exchange Act of 1934.

\* \* \*

Appendix E of the  
Rules of Fair Practice  
Amended Section 20(c)  
(New language underlined)

(c) Branch Offices. No branch office of a member shall transact an options business unless the principal supervisor of such branch office accepting options transactions has been qualified as either a Registered Options Principal or a Limited Principal - General Securities Sales Supervisor; provided that this requirement shall not apply to branch offices in which no more than three registered representatives are located, so long as the options activities of such branch offices are appropriately supervised by either a Registered Options Principal or a Limited Principal - General Securities Sales Supervisor.