



2017 FINRA Annual Conference

Washington, DC | May 16 – 18, 2017

Qualification Examination Program Restructure and Regulatory CE Changes **Wednesday, May 17** **11:15 a.m. – 12:15 p.m.**

This session provides guidance on rule filing SR-FINRA-2017-007: Proposed Rule Change to Adopt Consolidated FINRA Registration Rules, Restructure the Representative-Level Qualification Examination Program and Amend the Continuing Education Requirements. Panelists will discuss the consolidated rules, the restructuring of the representative level qualification examination program and change in the CE requirements for permissively registered individuals. Additional changes to the Regulatory Element CE program regarding the consolidation of the S106 and S901 programs into a single representative level program will also be discussed. Panelists offer practical answers to questions about these program changes.

Moderator: John Kalohn
Vice President
FINRA Testing and Continuing Education

Panelists: Joseph McDonald
Senior Director
FINRA Testing and Continuing Education

Roni Meikle
Senior Director
FINRA Continuing Education

Qualification Examination Program Restructure and Regulatory CE Changes Panelist Bios:

Moderator:

John Kalohn is Vice President, FINRA, Registration and Disclosure/Testing and Continuing Education. He leads FINRA's efforts in the development, maintenance and delivery of the securities industry qualification examinations and continuing education programs. He has more than 20 years of experience in educational measurement and assessments, and extensive experience developing, implementing and managing assessment programs for professional licensure and university admissions. Mr. Kalohn's prior experiences include service with one of the nation's largest providers of educational and workplace measurement and research services. He holds a bachelor's degree from State University of New York, a master's degree from Wake Forest University and a doctorate from the University of Wisconsin, Madison.

Panelists:

Joe McDonald is Senior Director in FINRA's Testing and Continuing Education Department, where he manages the FINRA qualification examination and examination waivers programs. Previously, he was a director in FINRA's Market Regulation Department. Mr. McDonald has been with FINRA for 19 years. Before joining FINRA, he worked as counsel in the Office of Compliance and Inspections and the Division of Market Regulation at the Securities and Exchange Commission, and as a clerk for an administrative law judge at the Commodity Futures Trading Commission. Mr. McDonald received a bachelor's degree in psychology from the State University of New York at Stony Brook and a law degree from the American University's Washington College of Law.

Roni Meikle is the Senior Director of Continuing Education, FINRA, RAD, where she manages the development and administration of the Continuing Education Regulatory Element Program and provides tools and guidance for the Firm Element Program. In addition, Ms. Meikle serves as the administrator of the Securities Industry/Regulatory Council on Continuing Education (CE Council) and oversees the operations of the council's website, www.cecouncil.com. She served in similar roles during her tenure with NYSE Regulation before its 2007 consolidation with the NASD. Before managing the Continuing Education Program, Ms. Meikle was the Manager of Broker and Specialist Training at the NYSE where she managed the program to train brokers on the use of handheld technology on the trading floor. She also administered the new orientation program for new NYSE members and oversaw a variety of training activities for trading floor staff. Prior to the NYSE, Ms. Meikle held a variety of management, operations, and training positions with Dow Jones, Computer Applications Learning Center, Amerada Hess Corporation, Merrill Lynch and Mutual Benefit Life Insurance Co. She received a Bachelor's of Science degree in Business from Montclair State University, with a concentration in Systems Management.



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Qualification Examination Program Restructure and Regulatory CE Changes



Panelists

■ Moderator

- **John Kalohn, Vice President, FINRA Testing and Continuing Education**

■ Panelists

- **Joseph McDonald, Senior Director, FINRA Testing and Continuing Education**
- **Roni Meikle, Senior Director, FINRA Continuing Education**

Agenda

■ Continuing Education

- Continuing Education (CE) Online Program Update
- Focus Groups Activities
- CE Modernization

■ Qualification Exam & Registration Rules Update

- Rep-level Qualification Exam Restructuring
- Registration Rule Consolidation

Update on CE Online Program

■ 100% Adoption Rate for CE Online as of July 2016

- **Test centers remain available for Special Accommodations**
 - Two requests for Special Accommodations since CE Online went live
- **See guidelines for assisting Special Accommodations participants at firm**

■ Post CE Session Survey

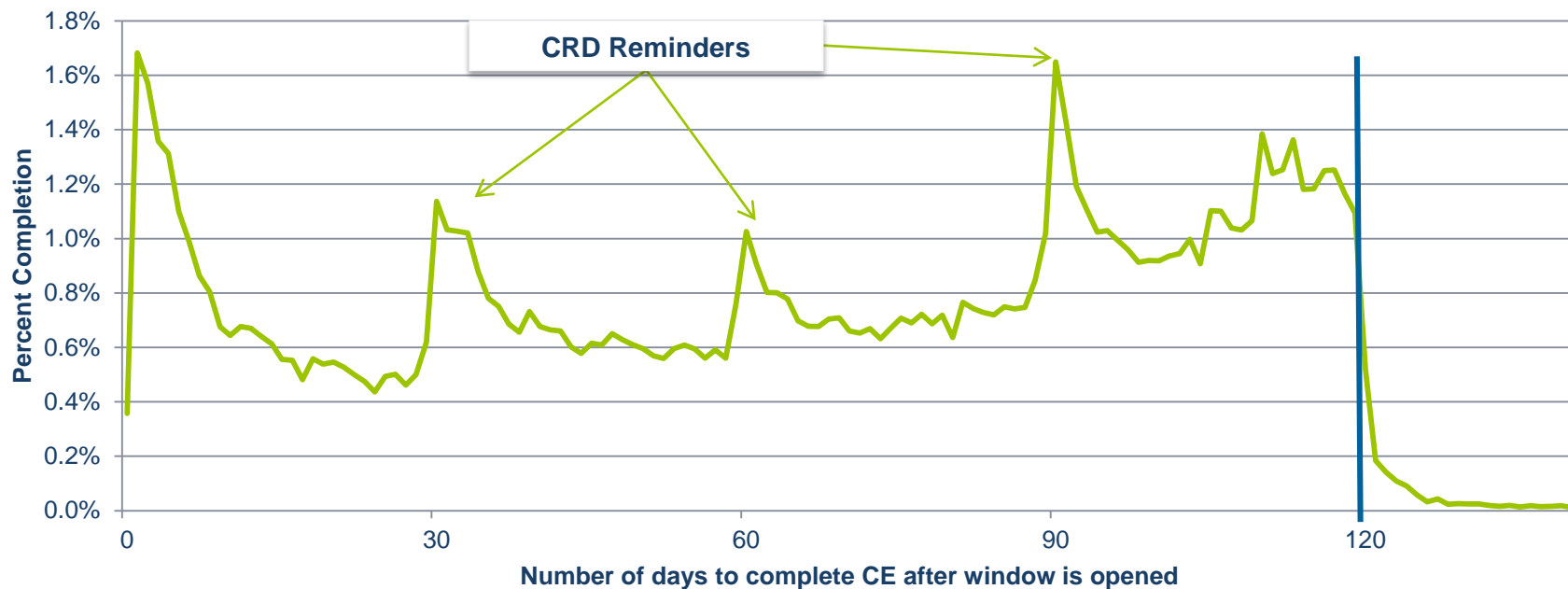
- **Provide valuable feedback and suggesting topics**
- **Focus on the learning objectives and rollovers and resources**

Update on CE Online Program (con't.)

■ Tablets Now Supported

- Puffin Web Browser app allow tablet users to complete CE Online
- Not recommended for phones or other mobile devices at this time

Session Completion Trends



Focus Group Discussions on Merging S106 & S901 into S101

■ Question Posed

- Should we retire the S106 and S901 as standalone programs and integrate content into the Personalized S101 Program?

■ Conducted Focus Groups in 3rd Quarter 2016

- Reviewed CRD for concentrations of Series 6 and Series 99 registrations
 - Varied by size, products and services and business models
- Participation by 91 Member Firms

Focus Group Activities (con't.)

■ Discussion Points in Focus Groups

- With the introduction of the SIE, new Series 6 and Series 99 registrants will be exposed to additional education needed to pass the exam.
- Discussed impact of on existing Series 6/99 registrants
- Compared content in programs
 - S106 and S101
 - S901 and S101

Comparison of Content

■ Results of Comparison of S106 and S101 Content

- Lack of topics about margin in S106
- No focus on product knowledge related to equities, options and fixed income

■ Results of Comparison of S901 and S101 Content

- Lack of topics on suitability and communications
- Minimal focus on product knowledge of equities, options, fixed income, mutual funds and variable annuities

Comparison of Content (con't.)

- **Conducted Online Survey in 1st Quarter 2017**
 - Provided opportunity for input from all member firms
 - Received similar feedback from 159 individuals
- **Focus Groups and Survey Respondents Agreed that Exposing Existing Series 6/99 Registrants to Broader Industry Topics in CE is Valuable and it Makes Sense to Retire Both Programs**

CE Modernization – Phase I



CE Modernization – Phase I

■ Implement Changes to the Regulatory Element Program

- **Retire S106/S901 Programs with next content release**
 - Content will be included in Personalized S101
- **Provide separate personalized modules for Research and Investment Banking**
- **Plan for FSA Continuing Education**
- **Release to occur with implementation of SIE/Top Offs**

CE Modernization – Phase I (con't.)

- **Evaluate Future Structure CE Regulatory Element**
 - Analyze how learners consume education
 - Plan for generational differences/expectations of learners
- **Update Instructional Design and Technology to Support Additional Learning Units**
 - Just-in-time content related to rule changes/industry news
 - Explore use Podcasts, webinars, videotaped presentations, micro-learning
 - Include responsive design to resize for various mobile devices

CE Modernization – Phase II

■ Focused Learning Plans

- Learning units assigned based on registrations held
- Required learning units focused on job function
 - Comprised from a variety of learning unit types

■ Elective Content available to select for educational value

CE Modernization – Phase II (con't.)

- **Content May Be Shared by Several Job Functions Where Synergies Exist (e.g. AML)**
- **Supervisors/Principals Will Be Required to Complete Supervisory Content and Content Related to the Job Function They Supervise**

Qualification Exam and Registration Rules Update



Registration Rule Filing – SR-FINRA-2017-007

- In March 2017, FINRA submitted a filing to the SEC that combined the rep level qualification exam restructuring and the consolidated registration rule changes (RN 09-70) with the SEC .
- SEC published the proposal for comment in Release No 34-80371 in the Federal Register on April 10, 2017.
- The comment period ended May 1, 2017.

Representative Level Qualification Exam Restructuring



Revised Rep-Level Exam Structure



Essentials Exam Eligibility

■ FINRA will introduce two new features for the Essentials Exam:

- A person will not need to be associated with a member firm to take the Essentials Exam.
- A passing score on the Essentials Exam will be valid for 4 years from the date the person passes the exam.

■ Passing the Essentials Exam alone will r person to hold a registered position.



Securities Industry Essentials Exam

■ Exam length: 75 questions

■ Exam time: TBD

■ Content Outline - Four Sections:

- Knowledge of Capital Markets
- Understanding Products and Their Risks
- Understanding Trading, Customer Accounts and Prohibited Activities
- Overview of the Regulatory Framework

Modified Representative Level Qualification Exams

- Series 6 – 50 questions
- Series 7 – 125 questions
- Series 22 – 50 questions
- Series 57 – 50 questions
- Series 79 – 75 questions
- Series 82 – 50 questions
- Series 86/87 – 100/50 questions
- Series 99 – 50 questions

Other Features of the Proposal

- **Series 17/37/38 Exams – FINRA will retire these exams and use the U.K. and Canadian certifications as an exemption for certificate holders from the Essentials Exam.**
- **FINRA will retire the Series 11 (Order Processing Assistant), Series 42 (Options Representative), Series 62 (Corporate Securities Representative) and Series 72 (Government Securities Representative) exams.**
- **Persons holding registrations that are being retired will be able to continue to hold them until they leave industry for more than 2 years.**

Effect on Current Registrants

- **Current registrants will maintain registration(s) without the need for additional testing.**
- **Most current registrants will be considered to have passed the Essentials Exam, and it will be valid for 4 years upon leaving the industry.**
 - **Registrants who return within 2 years will regain registration without needing to take the Essentials or top-off exam.**
 - **Registrants who return between 2 and 4 years later will not need to take the Essentials Exam, only the top-off exam for the registration position.**
 - **Registrants who return more than 4 years later will need to take both the Essentials and the top-off exam.**

Impact on Firms

- **Firms will have choices of how to onboard new reps:**
 - Request applicants to take and pass Essentials Exam prior to making job application
 - Have new hires take Essentials Exam-only initially, and then take top-off qualification exam
 - Have new hires take both Essentials Exam and top-off exam together
- **Through CRD, firms will be able to confirm whether and when an individual passed the Essentials Exam.**

Impact on Firms (con't.)

- **Top-off exams will retain traditional names: i.e., Series 7 exam will remain the Series 7 exam.**
- **Position designations in CRD will remain the same (i.e., GS will remain GS [Series 7]).**
- **Firms will be able to schedule the Essentials Exam for support personnel through CRD.**
- **Principal exams and registrations will not be directly affected.**

Next Steps

- **SIE and top-off exam content outlines will be made available on FINRA website 6-9 months in advance of implementation date (1Q 2018).**
- **FINRA will launch communications plan to educate industry on qualification exam and registration changes.**
- **Exam candidates will continue to schedule exams under current program up until implementation date.**

Principal Level Exam Restructure

- **FINRA is working to extend the approach introduced with rep level exam restructure in which rep level exams build on knowledge tested in SIE.**
- **SIE: Test knowledge of securities industry fundamentals**
- **Rep level exams: Test knowledge of technical or job-specific knowledge**
- **Principal level exams: Test technical supervisory knowledge and application**

Registration Rule Consolidation and Amendments



Registration Rule Changes (aka Regulatory Notice 09-70)

- **The registration rule changes consist of three parts:**
 - Consolidated registration rules
 - Permissive registrations (aka “bench strength”)
 - Financial Services Affiliate waiver

Summary: Registration Rules

- Consolidate NASD and incorporated NYSE registration rules into FINRA registration rules
- Clarifies and streamlines registration rule language and removes outdated material (Japanese Module of Series 7 Exam)
- Enhances the examination requirements for Research Principals
- Requires firms to designate a Chief Financial Officer and a Chief Operations Officer (can be same person at non-clearing firms)

Summary: Registration Rules (con't.)

- **Chief Compliance Officers will have a Series 14 (CO) exam and registration requirement**
 - **Persons with a GS/GP can become a CO without taking the Series 14 exam**
 - **CCOs at firms with limited securities business may be registered with a corresponding principal registration (CCO at an investment company BD can hold the IR/IP (S6 and 26)**

Summary: Permissive Registration

- Allows any associated person to obtain and maintain any registration permitted by the member
- Expands current NASD rule allowing for permissive registration of persons performing certain limited functions (e.g., legal, compliance, internal audit)
- Members' supervisory systems and procedures must be reasonably designed to ensure persons with permissive registrations do not act outside the scope of their assigned functions

Financial Services Affiliate (FSA) Waiver Proposal

- **FSA waiver proposal would allow an individual working for a financial services industry affiliate of a member to receive a waiver of a qualification exam requirement upon returning to the member for up to seven years, providing the firm and the individual satisfy certain criteria**

FSA Waiver Eligibility and Designation

- **Person must have been registered for a total of five years within the most recent 10 year period, with the most recent year of registration must be with the member requesting FSA designation**
- **Firm would notify FINRA of the FSA designation at time person moves to a financial services affiliate and concurrently file a full Form U5 terminating individual's registrations**
- **Individual would be eligible for a waiver for up to seven years from the date of initial designation**

FSA Waiver Eligibility and Designation (con't.)

- **Individual would be subject to the Regulatory Element while working for the financial services affiliate based on same cycle as when registered**
- **Failure to complete CE Regulatory Element results in loss of FSA eligibility**

FSA Waiver Request

- Upon return of individual to firm, firm would file Form U4 and request appropriate registrations and then submit exam waiver request.
- FINRA would make an unconditional grant provided the following conditions are met:
 - Waiver request is made within seven years of initial FSA designation
 - Individual continuously worked for a financial services affiliate
 - Individual complied with CE Regulatory Element requirement
 - Individual does not have any pending or adverse regulatory matters, or terminations



Comments & Questions