Understanding FINRA Qualification Examination Program and Continuing Education Changes

Monday, May 21
3:00 p.m. – 4:00 p.m.

This session provides guidance on the implementation of the new Securities Industry Essentials (SIE) qualification examination and revised representative-level qualification exams. Panelists discuss the aspects of the SIE exam, and how examinees enroll. Additionally, panelists discuss proposed changes, and answer questions around the Securities Industry Continuing Education Program.

Moderator: William Swanstrom
Vice President, Registration and Disclosure Business Services
FINRA Membership Gateway

Panelists: Joseph McDonald
Senior Director
FINRA Testing and Continuing Education

David Scrams
Senior Director, Testing & Measurement
FINRA Continuing Education
Understanding FINRA Qualification Examination Program and Continuing Education Changes

Panelist Bios:

Moderator:

Bill Swanstrom, Vice President, FINRA Registration and Disclosure, leads business development, innovation and strategic initiatives that leverage RAD’s licensing systems and business services as well as overseeing the Gateway Call Center. Mr. Swanstrom’s focus is on outreach and expanding the role and impact that member firms have when it comes to licensing and registration systems and services. The new CRD system and Financial Professional (FinPro) Gateway are opportunities to leverage technology, respond to industry challenges and introduce a more effective licensing platform. These systems will focus on enabling firm compliance, reducing administrative burden, simplifying requirements and improving the overall user experience. Throughout his tenure, Mr. Swanstrom sponsored the development, deployment and operation of the Nationwide Multistate Licensing System on behalf of FINRA for The Conference of State Bank Supervisors (CSBS). In addition, he has led numerous support consolidation initiatives to improve efficiency and expand the customer support model introducing improved access to information and enhanced communication channels for the Gateway Contact Center. The Gateway Contact Center staff includes the front-line responders for member firms, investors, compliance professionals, and the general public regarding compliance and registration questions, navigational support, and investor questions. The systems supported include: Web CRD, IARD, BrokerCheck, Firm Gateway, FinPro, Account Administration, E-Bill, OATS, and eFOCUS among others. He holds a Bachelor’s degree from Towson University in Political Science.

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 20 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.

David Scrams is Senior Director of Continuing Education and Measurement, FINRA, Registration and Disclosure, where he manages the securities industry continuing education program and the FINRA measurement services unit. Mr. Scrams has more than 20 years of experience in psychometrics and standardized testing, including extensive work with IT certification programs; and he is an authority in content development, measurement and testing industry policy. He serves on FINRA’s Diversity Leadership Council and various FINRA initiatives. Mr. Scrams holds a Bachelor of Arts degree in Psychology from California State University at Bakersfield as well as both a Masters of Arts in Social Psychology and a Doctorate in Quantitative Psychology from Johns Hopkins University.
Understanding FINRA Qualification Examination Program and Continuing Education Changes
Agenda

- Qualification Exam & Registration Rules Update
  - Securities Industry Essentials Exam
  - Rep-level Qualification Exam Restructuring
  - Registration Rule Consolidation

- Continuing Education
  - Potential Changes to the Continuing Education Program
Panelists

Moderator

• William Swanstrom, Vice President, Registration & Disclosure Business Services, FINRA Membership Gateway

Panelists

• Joseph McDonald, Senior Director, FINRA Testing and Continuing Education
• David Scrams, Senior Director, Testing and Measurement, FINRA Continuing Education
Mark the Date – October 1, 2018

- SEC approved SR-FINRA-2017-007
  - Consolidated FINRA registration rules
  - Restructure of the Rep-level Qualification Exams
  - Introduces Securities Industry Essentials Exam

- FINRA *Regulatory Notice 17-30* announced the rule changes

- FINRA will implement the new rules and make available the Essentials Exam on October 1, 2018
Qualification Exam Restructuring
Revised Rep-Level Exam Structure

Essentials Exam

Series 6
Series 7
Series 86/87
Series 22
Series 82
Series 52
Series 79
Series 57
Series 99
Series 79
Series 82
Series 22
Series 86/87
Series 99
SIE – Answers to ‘Essential’ Questions

- How many questions? 75
- How long do I have? 105 minutes
- How long is it good for? 4 years
- Can I take it even if I do not work for a firm? Yes
- How much will the SIE cost? $60 (filing pending and SEC approval)
SIE – ‘Essential’ Facts

Content Areas Covered

• Knowledge of Capital Markets
• Understanding Products and Their Risks
• Understanding Trading, Customer Accounts and Prohibited Activities
• Overview of the Regulatory Framework
Top offs – ‘Essential’ Facts

- 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 Restructuring

- On October 1, 2018, FINRA will no longer offer the following exams:
  - Series 11
  - Series 17/37/38
  - Series 42
  - Series 62
  - Series 72

- Persons holding registrations associated with these exams will be able to continue to hold them until they leave the industry for more than 2 years.
Effect on Current Registrants

- Most current registrants will be considered to have passed the Essentials Exam, and it will be valid for 4 years upon leaving the industry. CRD will reflect this.

- 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.
Preparing for October 1

- Individuals who apply for registration on or before September 30 will take their exam under the current program, even if exam appointment date is on or after October 1.

- Individuals who apply for registration on or after October 1 will take the SIE and the revised qualification exam (i.e., SIE + Series 7)

- Individuals who take and fail an exam in September – their next attempt will be the SIE and the revised qualification exam on or after October 1.
Through CRD, there will be two options for a firm to request an enrollment for the Essentials Exam:

- Form U4 – request a representative level registration (e.g., GS – opens SIE and S7 exam enrollments)
- Non-Form U4: Enrollment system
  - Individual – one at a time
  - Group – upload a list of candidates
  - Purchase vouchers – used by candidates to enroll for the SIE
SIE Enrollment & Results – Non Registered Persons

Mockup

Web CRD

<table>
<thead>
<tr>
<th>CRD Main</th>
<th>IARD Main</th>
<th>PFRD Main</th>
<th>Forms</th>
<th>Individual</th>
<th>Organization</th>
<th>E-Bill</th>
<th>Reports</th>
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</thead>
<tbody>
<tr>
<td>Site Map</td>
<td>User Info</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**User Info**
- Blank Forms
- FAQ
- Release Notes
- SRO/Jurisdiction Fee and Setting Schedule
- Recommended Browsers
- Certified EFS Vendors
- Send Comments

**CRD Main**

**Forms**
- Create New U4 Filing
- Initial
- Amendment
- Concurrence
- Page 2 Amendment for Schedule A/B
- Page 2 Initial for Schedule A/B
- Dual
- Relicense All

**View Individual**
- Individual Search
- Disclosure Only Individual Search

**Non-Filing Info**
- NFI Individual Search

**Firm Queues**
- Approaching CE Requirement
- CE 2-Year Terminated

**Non-Filing Info**

**SIE Enrollments/Results**
## Dashboard

Looking for individuals or certain groups? Use the search box below to filter down the number of results.

Search

### Individually Currently Sponsored for SIE

<table>
<thead>
<tr>
<th>First Name</th>
<th>Last Name</th>
<th>Email</th>
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<tr>
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<td>Williams</td>
<td><a href="mailto:Williams.Isabella@firm.com">Williams.Isabella@firm.com</a></td>
<td>Scheduled</td>
<td>01/04/2018</td>
</tr>
<tr>
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<tr>
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<td>01/07/2018</td>
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<tr>
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1 2 3 4 5
Mockup

Securities Industry Essentials Exam (SIE)

The Securities Industry Essentials (SIE or Essentials) Exam, available beginning October 1, 2018, is a new FINRA exam for prospective securities industry professionals. This introductory-level exam assesses a candidate’s knowledge of basic securities industry information including concepts fundamental to working in the industry, such as types of products and their risks; the structure of the securities industry markets, regulatory agencies and their functions; and prohibited practices.

Sponsor Individual(s) for SIE

Select one method below

- **Upload List**
  Using a template provided upload a large number of individuals at once.

- **Manually Add**
  Add individuals one at a time right on the site.

- **Purchase Vouchers**
  Download a set of vouchers which you can give out to individuals or assign at a later time.

[Continue]
Essentials Exam Enrollment for Individuals

- Will access enrollment system from finra.org
- Will need to create an account to enroll and pay
- Direct link to Prometric appointment scheduling
- Candidate will receive score report at test center
- Candidate can also view result in enrollment system
Securities Industry Essentials Exam

Available Beginning October 1, 2018

The Securities Industry Essentials (SIE or Essentials) Exam, available beginning October 1, 2018, is a new FINRA exam for prospective securities industry professionals. This introductory-level exam assesses a candidate’s knowledge of basic securities industry information including concepts fundamental to working in the industry, such as types of products and their risks; the structure of the securities industry markets, regulatory agencies and their functions, and prohibited practices.

Key Features of the Essentials Exam
Change in Display of Exam Results in CRD

Starting on October 1, 2018, CRD will show the following:

- For passing test results – indicates the individual passed the exam
- For failing test results – indicates the individual failed the exam and test score is displayed.
- Once an individual passes the exam, the failing results are no longer displayed. Only the passing result is displayed.
Change in Display of Exam Results in CRD (cont.)

Why is this change being made?

- CRD maintains registration information
- FINRA qualification exams determine whether a person has demonstrated minimum proficiency to act in a registered capacity
- Exam score is not intended to predict with how well a person will perform in a position (i.e., a person who scores 90 will not necessarily perform better than a person with a score of 75)
- Test scores will not be stored in CRD
View SIE Result – Registered Persons
Viewing SIE Results

- Firms that pay the Essentials Exam fee will be able to view the individual’s result.
- If an individual pays the Essentials Exam fee, the firm will ONLY be able to view the result when:
  - Conducting a pre-registration search
  - Filing a Form U4 requesting a registration
Web EFT Firm Impacts

- U4/U5 filing schemas & IIR/Posting report schemas will require several updates. Examples:
  - Exam section will be updated for SIE & revised exams
  - SRO Registrations section will be updated to add new registrations and remove retired registrations
  - Draft schemas available – June 2018
  - Web EFT testing begins – August 2018
When scheduling an appointment, candidate will be presented a biometric consent form.

At testing center check in:
- Fingerprint capture
- Scan of Candidate’s ID

Data will be used to:
- Control candidate’s movement in and out of the secure testing area during exam
- Compare against other fingerprints to detect proxy test takers
FINRA Registration Rule Consolidation
Implementation of registration rule consolidation on October 1, 2018, consists of three parts:

- Consolidated registration rules
- Permissive registration
- Financial services affiliate waiver program
Consolidated Registration Rules

- Consolidates NASD and incorporated NYSE registration rules into FINRA registration rules (FINRA Rule 1200 Series)
- Requires firms to designate a Chief Financial Officer and a Chief Operations Officer (can be same person at non-clearing firms)
Chief Compliance Officer

- Chief Compliance Officers will have a FINRA Compliance Officer registration requirement (Series 14 exam)

- Persons with a GS/GP (S7 and S24) can register as a Compliance Officer without taking the Series 14 exam
New Principal Positions

- Investment Banking Principal – S79 + S24
- Private Securities Offering Principal – S82 + S24
- General Securities Principal (GP) will be limited to S7 + S24
Permissive Registration

- Allows permissive registration of persons engaged in a bona fide business purpose of a member (i.e., an associated person)

- Expands current NASD rule allowing for permissive registration of persons performing certain limited functions (e.g., legal, compliance, internal audit)

- Such persons would be subject to a level of supervision commensurate with their status
Financial Services Affiliate Waiver Program (FSAWP)

FSAWP will allow an individual working for a financial services affiliate of a member to receive a waiver of a qualification exam requirement upon returning to the member for up to seven years, provided the firm and the individual satisfy certain criteria.
Overview of FSAWP Process

- Firm files Form U5 for individual and emails FINRA requesting FSA eligibility (must meet 10/5/1 rule)
- Member email includes email address for individual
- FINRA notifies individual via email his/her FSA eligibility and individual’s responsibilities to maintain eligibility, including CE requirement
- FINRA notifies individual via email of each upcoming CE requirement with a link to enrollment page
Overview of FSAWP Process (cont.)

- When individual returns, firm files Form U4 and an FSAWP exam waiver request
- FINRA processes waiver request within 30 days
- Individual who has successfully maintained eligibility is granted an unconditional exam waiver
Resources

- SR-FINRA-2017-007
- *Regulatory Notice 17-30*
- Essentials web page: finra.org/industry/essentials-exam
- Exam Restructuring web page: finra.org/industry/exam-restructuring
Exploration of Potential Changes to the Securities Industry Continuing Education (CE) Program
Established in 1995 with two components:

**Regulatory Element**
- Intended to provide uniform training on regulatory matters
- Administered via an online platform as of 2015
- Required on second anniversary of first registration and every three years thereafter

**Firm Element**
- Intended to address firm-specific topics
- Annual needs analysis and training plan
- High-level content requirements
- Learning materials developed by firms, FINRA, training providers
Objectives of Program Review

- We are working with other securities regulators and the Securities Industry/Regulatory Council on Continuing Education to identify opportunities to:
  - Increase timeliness of regulatory content;
  - Improve synergy between regulatory and firm-provided content; and
  - Enable previously registered individuals to return to the industry through an alternative demonstration of qualification.
Program Vision

A cohesive CE program and supporting platform that allows securities industry professionals to maintain their knowledge and qualifications throughout their careers
A Cohesive, Credit-Based CE Program

We are considering an annual requirement that harmonizes Regulatory and Firm Element programs.

- Compulsory content will address timely regulatory changes and issues.
- Elective content will address job and product-specific topics.
## CE Content

### Compulsory Content
- Prioritized to keep CE demands reasonable
- May include just-in-time content based on triggering events
- May vary by registration category for some rules and issues

### Elective Content
- Clearer guidance for firm-developed content
- Credit-based requirement to promote increased comparability across firms
- Broader access to offerings from FINRA and other providers
A Supporting Platform

- CE content will be launched from within the Financial Professional Gateway to ensure CE leverages the same platform that individuals will use for other gateway services.

- We will engage firms to identify and implement necessary platform features including tracking, notification and reporting capabilities.

- The platform will support both compulsory content and an elective content catalog.
A Mechanism to Maintain Qualification Status

- We are considering a mechanism by which individuals could maintain their qualification status when no longer associated with a member firm.

- Individuals who complete comparable CE and then re-associate with a member firm would satisfy the qualification requirements to regain their registrations. Requalifying by exam or qualifying for a waiver would not be necessary.

- This would replace the Financial Services Affiliate Waiver Program (FSAWP).
Next Steps

- Further discussions with CE Council
- Further discussions with our peer regulators
- Focus groups with industry representatives
- Concept Release Regulatory Notice