

Proposed Rule Change by National Association of Securities Dealers
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input type="checkbox"/>	Section 19(b)(3)(A) <input checked="" type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action <input type="checkbox"/>		Date Expires <input type="text"/>	<input checked="" type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>
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Description
Provide a brief description of the proposed rule change (limit 250 characters).

Contact Information
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name	<input type="text" value="Afshin"/>	Last Name	<input type="text" value="Atabaki"/>
Title	<input type="text" value="Assistant General Counsel"/>		
E-mail	<input type="text" value="afshin.atabaki@nasd.com"/>		
Telephone	<input type="text" value="(202) 728-8902"/>	Fax	<input type="text" value="(202) 728-8264"/>

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date

By (Name) (Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

Add Remove View

Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

Add Remove View

Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

Add Remove View

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ the National Association of Securities Dealers, Inc. (“NASD”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) revisions to the study outline and selection specifications for the Limited Principal – Introducing Broker-Dealer Financial and Operations (Series 28) examination program.² The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and responsibilities of an introducing broker-dealer financial and operations principal. NASD is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD.

The revised study outline is attached. The Series 28 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to Rule 24b-2 under the Act.³

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

¹ 15 U.S.C. 78s(b)(1).

² NASD also is proposing corresponding revisions to the Series 28 question bank, but based upon instruction from the Commission staff, NASD is submitting SR-NASD-2006-084 for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder, and is not filing the question bank for Commission review. See Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000. The question bank is available for Commission review.

³ 17 CFR 240.24b-2.

At its meeting on January 24, 2001, the Board of Directors of NASD Regulation, Inc. authorized the staff to propose modifications to examination programs, including study outlines, examination specifications, and question banks, and to file the proposed modifications with the Commission, without obtaining further or specific authorization from the Board of Directors of NASD Regulation, Inc. The Board of Governors of NASD had an opportunity to review that action at its meeting on January 25, 2001. Further, counsel for The Nasdaq Stock Market, Inc. and NASD Dispute Resolution, Inc. were provided an opportunity to consult with respect to that action. No other action by NASD is necessary for the filing of the proposed rule change.

As further discussed below, NASD is filing the proposed rule change for immediate effectiveness. NASD proposes to implement the revised Series 28 examination program on August 15, 2006. NASD will announce the proposed rule change and the implementation date in a Notice to Members (“NTM”) to be published on the same date as this filing.

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

(a) Purpose

Section 15A(g)(3) of the Act⁴ requires NASD to prescribe standards of training, experience, and competence for persons associated with NASD members. In accordance with that provision, NASD has developed examinations, and administers examinations developed by other self-regulatory organizations, that are designed to establish that persons associated with NASD members have attained specified levels of competence

⁴ 15 U.S.C. 78o-3(g)(3).

and knowledge. NASD periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

Pursuant to NASD Rule 1022(c), members that are subject to the net capital requirements of SEC Rule 15c3-1,⁵ other than those members that are subject to the net capital requirements of SEC Rules 15c3-1(a)(1)(ii),⁶ (a)(2)(i)⁷ or (a)(8),⁸ are required to designate as a Limited Principal – Introducing Broker-Dealer Financial and Operations those individuals associated with them who are responsible for the members’ financial and operational management, including, but not limited to, final approval and responsibility for the accuracy of financial reports submitted to regulators. In addition, Rule 1022(c) provides that the chief financial officer of such members must be a Limited Principal – Introducing Broker-Dealer Financial and Operations. The Series 28 examination is an NASD examination that qualifies an individual to function as a Limited Principal – Introducing Broker-Dealer Financial and Operations.

A committee of industry representatives, together with NASD staff, recently undertook a review of the Series 28 examination program. As a result of this review, NASD is proposing to make the following revisions to the study outline to reflect changes to the laws, rules and regulations covered by the examination and to better

⁵ 17 CFR 240.15c3-1.

⁶ 17 CFR 240.15c3-1(a)(1)(ii).

⁷ 17 CFR 240.15c3-1(a)(2)(i).

⁸ 17 CFR 240.15c3-1(a)(8).

reflect the duties and responsibilities of an introducing broker-dealer financial and operations principal. NASD is proposing to add a section on Municipal Securities Rulemaking Board Rule G-37 (Political Contributions and Prohibitions on Municipal Securities Business). NASD also is proposing to add a section on SEC Regulation SHO, including Rules 200 (Definition of “Short Sale” and Marking Requirements)⁹ and 203 (Borrowing and Delivery Requirements).¹⁰

NASD is proposing to add sections on NASD Rules 1150 (Executive Representatives), 2350 (Broker-Dealer Conduct on the Premises of Financial Institutions), 2370 (Borrowing from or Lending to Customers), 3012 (Supervisory Control System), 3013 (Annual Certification of Compliance and Supervisory Processes), 3510 (Business Continuity Plan) and 9800 (Temporary Cease and Desist Orders).

In addition, NASD is proposing to revise the study outline to remove the sections on NASD Rules 1100 (Foreign Associates), 1110 (formerly Registration of Government Securities Principals and Representatives) and 2320 (Best Execution and Interpositioning). NASD also is proposing to remove the sections on Form X17F-1A (Report for Missing, Lost, Stolen, or Counterfeit Securities), NASD Certificate of Incorporation and certain articles (Articles VII, XII, XIII and XV) of the NASD By-Laws.

Further, NASD is proposing to add a new section covering certain rules of the NASD Uniform Practice Code (“Uniform Practice Rules”). NASD is proposing to add

⁹ 17 CFR 242.200.

¹⁰ 17 CFR 242.203.

the Uniform Practice Rules under Section 4 and to move the section on Other Relevant Regulations and Interpretations (formerly under Section 4) to Section 5, a new section.

As a result of the revisions discussed above, the number of questions on several sections of the study outline were modified as follows: Keeping and Preservation of Records and Broker-Dealer Financial Reporting Requirements, increased from 15 to 16 questions; Uniform Practice Rules (new section), 5 questions; and Other Relevant Regulations and Interpretations, increased from 24 to 28 questions.

NASD is proposing these changes to the entire content of the Series 28 examination, including the selection specifications and question bank. The number of questions on the Series 28 examination will increase from 85 to 95 questions. Candidates will continue to have 2 hours to complete the exam. Also, each question will continue to count one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

(b) Statutory Basis

NASD believes that the proposed revisions to the Series 28 examination program are consistent with the provisions of Sections 15A(b)(6)¹¹ and 15A(g)(3) of the Act,¹² which authorize NASD to prescribe standards of training, experience, and competence for persons associated with NASD members.

4. Self-Regulatory Organization's Statement on Burden on Competition

NASD does not believe that the proposed rule change will result in any burden on

¹¹ 15 U.S.C. 78o-3(b)(6).

¹² 15 U.S.C. 78o-3(g)(3).

competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

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

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A)(i) of the Act¹³ and Rule 19b-4(f)(1) thereunder,¹⁴ in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of NASD. NASD proposes to implement the revised Series 28 examination program on August 15, 2006. NASD will announce the implementation date in an NTM to be published on the same date as this filing.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Exhibits

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

¹³ 15 U.S.C. 78s(b)(3)(A)(i).

¹⁴ 17 CFR 240.19b-4(f)(1).

Exhibit 3a. Revised Study Outline for the Series 28 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 28 Examination.

NASD has requested confidential treatment for the Series 28 revised selection specifications, and thus the specifications are omitted from this filing. The Series 28 revised selection specifications have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.¹⁵

Exhibit 3c. Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, Inc. from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000.

¹⁵ 17 CFR 240.24b-2.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-2006-084)

Self-Regulatory Organizations: National Association of Securities Dealers, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Revisions to the Series 28 Examination Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on , the National Association of Securities Dealers, Inc. (“NASD”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASD. NASD has designated the proposed rule change as constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the self-regulatory organization pursuant to Section 19(b)(3)(A)(i) of the Act³ and Rule 19b-4(f)(1) thereunder,⁴ which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(i).

⁴ 17 CFR 240.19b-4(f)(1).

NASD is filing revisions to the study outline and selection specifications for the Limited Principal – Introducing Broker-Dealer Financial and Operations (Series 28) examination program.⁵ The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and responsibilities of an introducing broker-dealer financial and operations principal. NASD is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD.

The revised study outline is attached. The Series 28 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to Rule 24b-2 under the Act.⁶

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

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

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

⁵ NASD also is proposing corresponding revisions to the Series 28 question bank, but based upon instruction from the Commission staff, NASD is submitting SR-NASD-2006-084 for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder, and is not filing the question bank for Commission review. See Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000. The question bank is available for Commission review.

⁶ 17 CFR 240.24b-2.

1. Purpose

Section 15A(g)(3) of the Act⁷ requires NASD to prescribe standards of training, experience, and competence for persons associated with NASD members. In accordance with that provision, NASD has developed examinations, and administers examinations developed by other self-regulatory organizations, that are designed to establish that persons associated with NASD members have attained specified levels of competence and knowledge. NASD periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

Pursuant to NASD Rule 1022(c), members that are subject to the net capital requirements of SEC Rule 15c3-1,⁸ other than those members that are subject to the net capital requirements of SEC Rules 15c3-1(a)(1)(ii),⁹ (a)(2)(i)¹⁰ or (a)(8),¹¹ are required to designate as a Limited Principal – Introducing Broker-Dealer Financial and Operations those individuals associated with them who are responsible for the members’ financial and operational management, including, but not limited to, final approval and responsibility for the accuracy of financial reports submitted to regulators. In addition, Rule 1022(c) provides that the chief financial officer of such members must be a Limited Principal – Introducing Broker-Dealer Financial and Operations. The Series 28

⁷ 15 U.S.C. 78o-3(g)(3).

⁸ 17 CFR 240.15c3-1.

⁹ 17 CFR 240.15c3-1(a)(1)(ii).

¹⁰ 17 CFR 240.15c3-1(a)(2)(i).

examination is an NASD examination that qualifies an individual to function as a Limited Principal – Introducing Broker-Dealer Financial and Operations.

A committee of industry representatives, together with NASD staff, recently undertook a review of the Series 28 examination program. As a result of this review, NASD is proposing to make the following revisions to the study outline to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and responsibilities of an introducing broker-dealer financial and operations principal. NASD is proposing to add a section on Municipal Securities Rulemaking Board Rule G-37 (Political Contributions and Prohibitions on Municipal Securities Business). NASD also is proposing to add a section on SEC Regulation SHO, including Rules 200 (Definition of “Short Sale” and Marking Requirements)¹² and 203 (Borrowing and Delivery Requirements).¹³

NASD is proposing to add sections on NASD Rules 1150 (Executive Representatives), 2350 (Broker-Dealer Conduct on the Premises of Financial Institutions), 2370 (Borrowing from or Lending to Customers), 3012 (Supervisory Control System), 3013 (Annual Certification of Compliance and Supervisory Processes), 3510 (Business Continuity Plan) and 9800 (Temporary Cease and Desist Orders).

In addition, NASD is proposing to revise the study outline to remove the sections on NASD Rules 1100 (Foreign Associates), 1110 (formerly Registration of Government Securities Principals and Representatives) and 2320 (Best Execution and

¹¹ 17 CFR 240.15c3-1(a)(8).

¹² 17 CFR 242.200.

¹³ 17 CFR 242.203.

Interpositioning). NASD also is proposing to remove the sections on Form X17F-1A (Report for Missing, Lost, Stolen, or Counterfeit Securities), NASD Certificate of Incorporation and certain articles (Articles VII, XII, XIII and XV) of the NASD By-Laws.

Further, NASD is proposing to add a new section covering certain rules of the NASD Uniform Practice Code (“Uniform Practice Rules”). NASD is proposing to add the Uniform Practice Rules under Section 4 and to move the section on Other Relevant Regulations and Interpretations (formerly under Section 4) to Section 5, a new section.

As a result of the revisions discussed above, the number of questions on several sections of the study outline were modified as follows: Keeping and Preservation of Records and Broker-Dealer Financial Reporting Requirements, increased from 15 to 16 questions; Uniform Practice Rules (new section), 5 questions; and Other Relevant Regulations and Interpretations, increased from 24 to 28 questions.

NASD is proposing these changes to the entire content of the Series 28 examination, including the selection specifications and question bank. The number of questions on the Series 28 examination will increase from 85 to 95 questions. Candidates will continue to have 2 hours to complete the exam. Also, each question will continue to count one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

2. Statutory Basis

NASD believes that the proposed revisions to the Series 28 examination program are consistent with the provisions of Sections 15A(b)(6)¹⁴ and 15A(g)(3) of the Act,¹⁵

¹⁴ 15 U.S.C. 78o-3(b)(6).

which authorize NASD to prescribe standards of training, experience, and competence for persons associated with NASD members.

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

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

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

Written comments were neither solicited nor received.

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

The proposed rule change has become effective pursuant to Section 19(b)(3)(A)(i) of the Act¹⁶ and Rule 19b-4(f)(1) thereunder,¹⁷ in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the self-regulatory organization. NASD proposes to implement the revised Series 28 examination program on August 15, 2006. NASD will announce the implementation date in a Notice to Members to be published on the same date as this filing.

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission

¹⁵ 15 U.S.C. 78o-3(g)(3).

¹⁶ 15 U.S.C. 78s(b)(3)(A)(i).

¹⁷ 17 CFR 240.19b-4(f)(1).

that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASD-2006-084 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-NASD-2006-084. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld

from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal office of NASD.

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to the File Number SR-NASD-2006-084 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁸

Nancy M. Morris

Secretary

¹⁸ 17 CFR 200.30-3(a)(12).



**Introducing Broker-Dealer
Financial And Operations
Principal Qualification Examination
(Test Series 28)**

Study Outline

Study Outline

The NASD Introducing Broker-Dealer Financial and Operations Principal Qualification Examination is designed to test a candidate's knowledge of applicable rules and statutory provisions relating to broker-dealer financial responsibility and recordkeeping and the protection afforded investors under the Securities Investor Protection Act of 1970. The examination and this study outline are divided into five general areas that are listed below with the number of points assigned to each.

Section	Description	Number Of Points
1	Keeping and Preservation of Records and Broker-Dealer Financial Reporting Requirements	16
2	Net Capital Requirements	36
3	Customer Protection	10
4	Uniform Practice Rules	5
5	Other Relevant Regulations and Interpretations	28
Total		95

Structure of the Examination

The examination is comprised of 95 multiple-choice questions covering the material in the following outline. Candidates will be allowed two hours to complete the examination. A candidate must correctly answer 67 questions to receive a passing grade. No credit is given for incorrect answers. At the completion of the test, each candidate will receive an informational breakdown of their performance on each section and their overall score. The examination is a closed-book test and candidates will not be permitted to use any reference material during their testing session. Scratch paper and basic, electronic calculators will be provided by the test center administrator.

Examination questions will be updated regularly to reflect the most current interpretations of the rules and regulations. Questions on new rules will be added to the pool of questions for this examination within a reasonable period of their effective dates. Questions on rescinded rules will be promptly deleted from the pool of questions.

Reference materials that may be used as a source material starting point for course developers in preparing training programs for the Financial and Operations Principal Exam or for candidates as part of a study program are listed below. It is not necessary to obtain each reference listed since the topics covered in one may overlap other references. In addition, there are study courses specifically designed for this exam by non-member commercial training vendors that are often listed in local yellow page directories or advertise in securities industry periodicals.

This study outline is available on the NASD Web Site at www.nasd.com.

Reference Materials

**An Explanation of the Securities
Investor Protection Act of 1970**

SIPC
900 17th Street, N.W., Suite 800
Washington, DC 20006
www.sipc.gov

**Code of Federal Regulations
Title 17 — Commodity and
Securities Exchanges**

Superintendent of Documents
U.S. Government Printing Office
Washington, DC 20402

Federal Securities Law Reporter

Volumes 2 and 3
Commerce Clearing House, Inc.
4025 W. Peterson Avenue
Chicago, IL 60646

**Handbook of Stock Brokerage
Accounting**

Richard Ross
New York Institute of Finance
1330 Avenue of the Americas, 10th Fl
New York, NY 10019

NASD Manual

NASD
9509 Key West Avenue
Rockville, MD 20850
www.nasd.com

New York Stock Exchange, Inc.

Constitution and Rules
11 Wall Street
New York, NY 10005
www.nyse.com

**Regulation of Brokers, Dealers and
Securities Markets**

N. Wolfson, R.M. Phillips and T.A.
Russo
Warren, Gorham & Lamont, Inc.
210 South Street
Boston, MA 02111

Securities Act Handbook

Aspen Publishers
111 Eighth Avenue
New York, NY 10011

*Other publications are available
through NASD MediaSource:*

**Compliance Checklist
NASD Guide to Rule Interpretations
NASD Sanctions Guidelines**

Website for SEC Rules:

<http://www.law.uc.edu/CCL/xyz/sldtoc.html>

1.0
Keeping And Preservation Of Records And
Broker-Dealer Financial Reporting Requirements

- 1.1 SEC Rule 17a-3 — Records to be Made by Brokers and Dealers**
 - 1.1.1 Blotters or other records of original entry containing an itemized daily record of**
 - 1.1.1.1 Purchases and sales of securities**
 - 1.1.1.2 Receipts and deliveries of securities**
 - 1.1.1.3 Receipts and disbursements of cash**
 - 1.1.1.4 Other debits and credits reflecting cash**
 - 1.1.2 Ledgers or other records reflecting all assets and liabilities, income and expense and capital accounts**
 - 1.1.3 Securities record or ledger reflecting separately for each security by account all long and short security positions**
 - 1.1.4 Memorandum of each brokerage order given or received for the purchase or sale of securities**
 - 1.1.5 Memorandum of each purchase and sale for the account of such member, broker or dealer**
 - 1.1.6 Record of all option positions (proprietary account) in which the broker-dealer either has an interest or has granted or guaranteed**
 - 1.1.7 Proof of money balances of all ledger accounts**
 - 1.1.8 Questionnaire or application for employment executed by each “associated person” approved in writing by an authorized representative of the broker-dealer**
 - 1.1.9 Fingerprint records required to be maintained pursuant to SEC Rule 17f-2(d)**
- 1.2 SEC Rule 17a-4 — Records to be Preserved by Brokers and Dealers**
 - 1.2.1 Records to be preserved for not less than six years**
 - 1.2.2 Records to be preserved for not less than three years**
 - 1.2.3 Customer account records for a period of six years after the closing of such account**
 - 1.2.4 Partnership articles or articles of incorporation or charter, minute books and stock certificate books for the life of the enterprise and of any successor enterprise**
 - 1.2.5 Records with respect to associated persons**
 - 1.2.6 Preservation of required records on microfilm or optical storage technology**

- 1.2.7 Applicability of preservation requirements to firms ceasing to transact a securities business**
- 1.2.8 Outside service bureaus**
- 1.3 SEC Rule 17a-5 — Reports to be Made by Brokers and Dealers (FOCUS Reports)**
 - 1.3.1 Filing of monthly and quarterly reports**
 - 1.3.2 Report to be filed upon termination of membership interest in a national securities exchange**
 - 1.3.3 Customer statements**
 - 1.3.3.1 Exemptions
 - 1.3.3.2 Audited statements to be furnished
 - 1.3.3.3 Unaudited statements to be furnished
 - 1.3.3.4 Definition of “customer”
 - 1.3.4 Annual filing of audited financial statements**
 - 1.3.5 Nature and form of reports**
 - 1.3.6 Accountants**
 - 1.3.7 Audit objectives**
 - 1.3.8 Extent and timing of audit procedures**
 - 1.3.9 Accountant’s reports**
 - 1.3.10 Accountant's report on material inadequacies**
 - 1.3.11 Extensions and exemptions**
 - 1.3.12 Notification of change of fiscal year**
 - 1.3.13 Filing requirements**
- 1.4 SEC Rule 17a-8 — Financial Recordkeeping and Reporting of Currency and Foreign Transactions**
- 1.5 SEC Rule 17a-11 — Notification Provisions for Brokers and Dealers**
 - 1.5.1 Requirements for broker-dealers whose net capital is less than the required minimum net capital of Rule 15c3-1**
 - 1.5.2 Requirement to send prompt notice after the occurrence of certain specified events**
 - 1.5.3 Requirement for broker-dealers who fail to make and keep current the books and record specified in Rule 17a-3**

- 1.5.4 Requirement for broker-dealer who discovers or is notified by an accountant, pursuant to Rule 17a-5 that material inadequacies in its accounting system exist**
- 1.5.5 Transmittal of required notices and reports**
- 1.6 SEC Rule 17f-1 — Requirements for Reporting and Inquiry with Respect to Missing, Lost, Counterfeit or Stolen Securities**
- 1.7 NASD —Conduct Rules**
 - 1.7.1 Rule 2270 — Disclosure of financial condition**
 - 1.7.2 Rule 2340 — Customer account statements**
 - 1.7.3 Rule 3110 — Books and records**
 - 1.7.4 Rule 3011 — Anti-Money Laundering Compliance Program**
- 1.8 MSRB Rules**
 - 1.8.1 Rule G-37—Political contributions and prohibitions on municipal securities business**

2.0 Net Capital Requirements

2.1 SEC Rule 15c3-1 — Net Capital Rule

2.1.1 Ratio requirements

2.1.1.1 Aggregate indebtedness standard

2.1.2 Minimum net capital requirements

2.1.2.1 Broker-dealers that carry customer accounts

2.1.2.2 Broker-dealers that carry accounts, receive but do not hold customer funds or securities and operate under paragraph (k)(2)(i) exemption of Rule 15c3-3

2.1.2.3 Introducing broker-dealers

Firms that introduce accounts on a fully disclosed basis to another broker or dealer and do **not** receive funds or securities

Firms that introduce accounts on a fully disclosed basis to another broker or dealer and receive **but do not hold**, customer or other broker-dealer securities and do not receive funds

2.1.2.4 Dealers

2.1.2.5 Mutual fund brokers or dealers transacting a business in redeemable shares of registered investment companies and certain other share accounts

2.1.2.6 Market makers

2.1.2.7 Brokers or dealers transacting a business only in direct participation programs

2.1.2.8 Brokers or dealers engaged exclusively in mergers and acquisitions

2.1.3 Aggregate indebtedness (AI)

2.1.3.1 Definitions

2.1.3.2 Exclusions from AI

2.1.4 Net capital

2.1.4.1 Adjustments to net worth related to unrealized profit or loss and deferred tax provisions

2.1.4.2 Subordinated liabilities

2.1.4.3 Sole proprietors

2.1.4.4 Assets not readily convertible into cash

- 2.1.4.5 Certain unsecured and partly secured receivables
- 2.1.4.6 Securities haircuts
- 2.1.4.7 Undue concentration
- 2.1.4.8 Non-marketable securities
- 2.1.4.9 Open contractual commitments
- 2.1.4.10 Deductions from net worth for indebtedness collateralized by exempted securities
- 2.1.4.11 Certain definitions
- 2.1.5 Debt-Equity requirements**
- 2.1.6 Limitation on withdrawal of equity capital**
- 2.1.7 Appendix A — Options**
- 2.1.8 Appendix D — Satisfactory subordination agreements**
 - 2.1.8.1 Certain definitions
 - 2.1.8.2 Minimum requirements for subordination agreements
 - 2.1.8.3 Miscellaneous provisions
- 2.2 NASD — Conduct Rules**
 - 2.2.1 Rule 3020 — Fidelity bonds**
 - 2.2.2 Rule 3130 — Regulation of activities of members experiencing financial and/or operational difficulty**

3.0 Customer Protection

- 3.1 Securities Exchange Act of 1934 and SEC Rules Thereunder**
 - 3.1.1 Rule 10b-9 — Prohibited representations in connection with certain offerings**
 - 3.1.2 Rule 10b-10 — Confirmation of transactions**
 - 3.1.3 Rule 15c2-4 — Transmission or maintenance of payments received in connection with an underwriting**
 - 3.1.4 Rule 15c3-3 — Customer protection— reserve and custody of securities**
 - 3.1.4.1 Exemptions
 - (k)(1) exempt broker-dealers
 - (k)(2)(i) broker-dealers
 - (k)(2)(ii) broker-dealers clearing all transactions on a fully disclosed basis through another broker-dealer
 - 3.1.5 Regulation SP — Privacy of consumer financial information**
- 3.2 Securities Investor Protection Act and SIPC Rules Thereunder**
 - 3.2.1 SIPC Rules**
- 3.3 NASD — Conduct Rules**
 - 3.3.1 Rule 3140 — Approval of change in exempt status under SEC Rule 15c3-3**

4.0 Uniform Practice Rules

- 4.1 Uniform Practice Code**
- 4.1.1 Rule 11100 — Scope of Uniform Practice Code**
- 4.1.2 Rule 11130 — When, as and if issued/distributed contracts**
- 4.1.3 Rule 11140 — Transactions in securities “ex-dividend,” “ex-rights,” or “ex-warrants”**
- 4.1.4 Rule 11200 — Comparisons or confirmations and “Don’t Know Notices”**
- 4.1.5 Rule 11220 — Description of securities**
- 4.1.6 Rule 11310 — Book entry settlement**
- 4.1.7 Rule 11320 — Dates of Delivery**
- 4.1.8 Rule 11361 — Units of delivery — stocks**
- 4.1.9 Rule 11362 — Units of delivery — bonds**
- 4.1.10 Rule 11363 — Units of delivery —unit investment trust securities**
- 4.1.11 Rule 11364 — Units of delivery —certificates of deposit for bonds**
- 4.1.12 Rule 11574 — Certificate in name of deceased person, trustee, etc.**
- 4.1.13 Rule 11640 — Claims for dividends, rights, interest, etc.**
- 4.1.14 Rule 11740 — Marking to the market**
- 4.1.15 Rule 11810 — “Buying-in”**
- 4.1.16 Rule 11820 — “Selling-out”**
- 4.1.17 Rule 11840 — Rights and warrants**
- 4.1.18 Rule 11850 — Tendering procedures for exercise of options**
- 4.1.19 Rule 11900 — Clearance of corporate debt securities**
- 4.1.20 Rule 11870 — Customer account transfer contracts**
- 4.1.21 Rule 11880 — Settlement of syndicate accounts**
- 4.1.22 Rule 11890 — Clearly erroneous trades — authority to declare transactions void**

5.0 Other Relevant Regulations And Interpretations

5.1 Insider Trading and Securities Fraud Enforcement Act of 1988

5.1.1 Section 3 — Civil penalties of controlling persons for illegal insider trading by controlled persons

- 5.1.1.1 Securities Exchange Act of 1934
 - Section 15(f) — Policies and procedures to be developed by broker-dealers to prevent misuse of material, non-public information
 - Section 21(d) — Injunctions and prosecution of offenses
 - Section 21A — Civil penalties
- 5.1.1.2 Investment Advisers Act of 1940
 - Section 204 — Annual and other reports

5.1.2 Section 4 — Increases in criminal penalties

- 5.1.2.1 Securities Exchange Act of 1934
 - Section 32(a) — Penalties

5.1.3 Section 5 — Liability to contemporaneous traders of insider trading

- 5.1.3.1 Securities Exchange Act of 1934
 - Section 20A — Liability to contemporaneous traders for insider trading

5.2 Securities Exchange Act of 1934 and SEC Rules Thereunder

- #### **5.2.1 Rule 10b-5 — Employment of manipulative and deceptive devices**
- Insider trading
 - Non-public information
 - Insiders and tippees
 - The Chinese Wall doctrine

5.3 Extensions of Credit in the Securities Industry

5.3.1 Regulation T — Credit by Brokers and Dealers

- 5.3.1.1 Authority, purpose and scope
- 5.3.1.2 General provisions
 - Separation of accounts
 - Maintenance of credit
 - Guarantee of accounts
 - Receipt of funds or securities
 - Arranging for loans by others
- 5.3.1.3 Margin Accounts

Liquidation in lieu of deposit
Withdrawals of cash or securities

- 5.3.1.4 Good faith account
Non-purpose credit
- 5.3.1.5 Cash Account
Permissible transactions
Time periods for payment; cancellation or liquidation
90-day freeze
Extension of time periods; transfers
- 5.3.1.6 Borrowing and lending securities
- 5.3.1.7 Supplement: Margin requirements

5.3.2 NASD Rule 2520 — Margin accounts

- 5.3.2.1 General requirements
- 5.3.2.2 Broker-dealer accounts
Joint back office arrangements
- 5.3.2.3 Special initial and maintenance margin requirements
Day trading

5.3.3 Short Sales

- 5.3.3.1 SEC Regulation SHO
Rule 200—Definition of “short sale” and marking requirements
Rule 203—Borrowing and delivery requirements
- 5.3.3.2 SEC Rule 10a-1—Short sales
- 5.3.3.3 NASD Rule 3350—Short sale rule (NYSE Rules 440B and 440C)
IM-3350— Short sale rule interpretation

5.4 NASD — Regulations

5.4.1 By-Laws

- 5.4.1.1 Article I — Definitions
- 5.4.1.2 Article III — Qualifications of members and associated persons
- 5.4.1.2.1 Section 4 — Statutory disqualification
- 5.4.1.3 Article IV — Membership
- 5.4.1.4 Article V — Registered Representatives and Associated Persons
- 5.4.1.5 Article VI — Dues, Assessments and other charges

5.4.2 Rule 1000 — Membership, Registration and Qualification Requirements

- 5.4.2.1 Rule 1010 — Applications for membership
- 5.4.2.2 Rule 1020 — Registration of principals
 - Registration requirements
 - Categories of Principal Re
- 5.4.2.3 Rule 1030 — Registration of representatives
 - Registration requirements
 - Categories of representative registration
- 5.4.2.4 Rule 1040 — Registration of assistant representatives-order processing
- 5.4.2.5 Rule 1060 — Persons exempt from registration
- 5.4.2.6 Rule 1070 — Qualification examinations and waiver of requirements
- 5.4.2.7 Rule 1080 — Confidentiality of examinations
- 5.4.2.8 Rule 1120 — Continuing education requirements
- 5.4.2.9 Rule 1150—Executive representatives

5.4.3 Conduct Rules

- 5.4.3.1 Rule 2120 — Use of fraudulent devices
- 5.4.3.2 Rule 2240 — Disclosure of control
- 5.4.3.3 Rule 2260 — Forwarding of proxy and other materials
- 5.4.3.4 Rule 2330 — Customers' securities or funds
 - Improper use
 - Prohibition against guarantees
 - Sharing in accounts; extent permissible
- 5.4.3.5 Rule 2350—Broker-dealer conduct on the premises of financial institutions
- 5.4.3.6 Rule 2370—Borrowing from or lending to customers
- 5.4.3.7 Rule 2420 — Dealing with non-members
 - Transactions with non-members
 - Transactions with foreign non-members
 - Non-member broker or dealer
 - IM-2420-1 — Transactions between member and non-members
 - Member
 - Expelled dealer
 - Suspended dealer
 - Broker or dealer whose registration is revoked by the SEC

Membership resigned or canceled
Transactions in exempted securities
Transactions on an exchange
OTC transactions in securities other than “exempted securities”

- 5.4.3.8 Rule 2430 — Charges for services performed
- 5.4.3.9 Rule 2440 — Fair prices and commissions
 - IM-2440 — NASD Mark-Up Policy
- 5.4.3.10 Rule 2710 — Corporate financing rule
 - Underwriting compensation and arrangements
- 5.4.3.11 Rule 2750 — Transactions with related persons
- 5.4.3.12 Rule 2790 — Restrictions on purchase and sale of initial equity public offerings
 - General prohibitions
 - Preconditions for sale
 - General exemptions
 - Issuer-directed securities
 - Anti-dilution provisions
 - Stand-by purchasers
 - Undersubscribed offerings
 - Definitions
- 5.4.3.13 Rule 3010 — Supervision
 - Supervisory systems
 - Written procedures
 - Supervisory manual
 - Readily accessible and continuously updated
 - Internal inspections
 - Written approval
 - Correspondence and transactions
 - Qualifications investigated
 - Applicant’s responsibility
 - Definitions
 - Office of supervisory jurisdiction
 - Branch office
- 5.4.3.14 Rule 3012—Supervisory control system
- 5.4.3.15 Rule 3013—Annual certification of compliance and supervisory processes
- 5.4.3.17 Rule 3030 — Outside business activities
- 5.4.3.18 Rule 3040 — Private securities transactions
- 5.4.3.19 Rule 3050 — Transactions for or by associated persons
 - Determine adverse interest
 - Obligations of executing member
 - Obligations of associated persons concerning an account with a member

Obligations of associated persons concerning an account with an investment adviser,
bank, or other financial institution
Exemption for transactions in investment company shares and unit investment trusts

- 5.4.3.20 Rule 3060 — Influencing and rewarding employees of others
- 5.4.3.21 Rule 3070 — Reporting requirements
- 5.4.3.22 Rule 3120 — Use of information obtained in fiduciary capacity
- 5.4.3.23 Rule 3230 — Clearing agreements
- 5.4.3.24 Rule 3510—Business continuity plan

5.4.4 Procedural Rules

- 5.4.4.1 Rule 8000 — Investigations and sanctions
 - 5.4.4.1.1 Rule 8100 — General provisions
 - 5.4.4.1.2 Rule 8200 — Investigations
 - 5.4.4.1.3 Rule 8300 — Sanctions
- 5.4.4.2 Rule 9000 — Code of Procedure
 - 5.4.4.2.1 Rule 9100 — Application and purpose
 - 5.4.4.2.2 Rule 9200 — Disciplinary proceedings
 - 5.4.4.2.3 Rule 9300 — Review of disciplinary proceeding by national adjudicatory council and NASD Board; application for Commission review
 - 5.4.4.2.4 Rule 9500 — Other proceedings
- 5.4.4.3 Rule 9800—Temporary cease and desist orders
 - Rule 9810—Initiation of proceeding
 - Rule 9830—Hearing
 - Rule 9840—Issuance of temporary cease and desist order by hearing panel
 - Rule 9870—Application to Commission for review
- 5.4.4.4 Rule 10000 — Code of Arbitration Procedure
 - 5.4.4.4.1 Rule 10100 — Administrative provisions
 - 5.4.4.4.2 Rule 10200 — Industry and clearing controversies
 - 5.4.4.4.3 Rule 10300 — Uniform Code of Arbitration
 - 5.4.4.4.4 Rule 10400 — Mediation rules

5.5 Proprietary Accounts of Introducing Broker-Dealers (NASD Notices to Members 99-44 and 98/99)

5.5.1 Required computations

- 5.5.1.1 Net capital
- 5.5.1.2 Customer reserve
 - Segregation of introducing broker-dealer accounts
- 5.5.1.3 Frequency of calculations

5.5.2 Required written agreements

Sample Question

The questions that appear below are similar in format and content to questions on the examination. This sample of questions, however, is not intended to exactly parallel either the level of difficulty or the subject coverage of the examination. Their purpose here is to assist candidates and training personnel in preparing for the types of multiple-choice questions that will appear on the examination.

Answers

1. (B)
2. (C)
3. (A)
4. (D)

1. Under SEC Rule 17a-3, blotters or other records of original entry must be prepared no later than the

- (A) trade date
- (B) business day following the trade date
- (C) settlement date
- (D) business day preceding the settlement date

2. 4. Under the SEC Net Capital Rule, what is the haircut for the Firm inventory of 2000 shares of WXYZ at 154?

- (A) \$154,000
- (B) \$ 92,400
- (C) \$ 46,200
- (D) \$ 23,100

5. A bona fide regular customer, upon request, may inspect an NASD member's

- (A) balance sheet
- (B) general ledger
- (C) stock transfer book
- (D) investment account

3. Under NASD rules, which two of the following are TRUE regarding a fully disclosed clearing agreement between two NASD members?

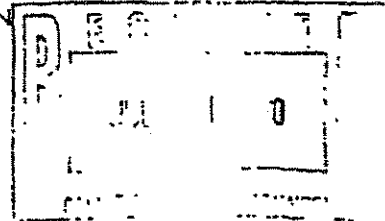
- I. Customers must provide a written acknowledgement of the clearing agreement.
- II. The introducing member is required to submit the agreement to NASD for review.
- III. The agreement must provide for written notification to customers, upon account opening, of the existence of the clearing agreement.
- IV. The clearing member is required to submit the agreement to NASD for review.

- (A) I and III
- (B) I and IV
- (C) II and III
- (D) II and IV



DIVISION OF
MARKET REGULATION

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549



July 24, 2000

Mr. Alden S. Adkins
Senior Vice President & General Counsel
NASD Regulation, Inc.
1735 K Street, N. W.
Washington, D.C. 20006-1500

Re: Procedure for Filings Relating to Qualification Examinations

Dear Mr. ^{Alden} Adkins:

I am writing to inform you of a change in the filing requirements for proposed rule changes involving qualification examinations for associated persons. In the past, the Division required the SROs to file question banks for new examinations for Commission approval pursuant to Section 19(b)(2) of the Exchange Act. The Division also required SROs to file questions being added to the question bank for Commission approval.

The Division has decided that it is no longer necessary for SROs to file new exam question banks for Commission approval under Section 19(b)(2). In the future, any new examinations should be filed as non-controversial rule changes for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange Act and Rule 19b-4(f)(6) thereunder. As you know, Rule 19b-4(f)(6) requires the SRO to give notice to the Commission of its intent to file a proposed rule change five days before doing so. During the five days prior to filing, the Division will determine if the proposed rule change is appropriately filed as non-controversial. To assist us in our analysis, please include a complete description of the examination in your rule filing. For example, the proposed rule change should address who will be required to take the exam, what information the exam will cover, the time allotted for each section, the weight assigned to each topic, the effective date of the exam requirement, and any other information that would be helpful to us in determining whether the proposal should become effective on filing. Also, pursuant to Rule 19b-4(f)(6), the rule change should be designated as effecting a change that does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition and, by its terms, does not become operative for 30 days after the date of the filing.

Alden S. Adkins
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Filings to modify an existing examination should be submitted as "constituting a stated policy, practice, or interpretation with respect to the meaning, administration or enforcement of an existing rule..." pursuant to Section 19(b)(3)(A) of the Exchange Act.

Our goal in changing these procedures is to expedite the effectiveness of proposed rule changes involving examination requirements for persons associated with SRO members. Please contact Kathy England, Assistant Director, at 202-942-0154, or Karl Varner, Special Counsel, at 202-942-7125, if you have any questions.

Sincerely,



Belinda Blaine
Associate Director