

Proposed Rule Change by Financial Industry Regulatory Authority
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@finra.org"/>		
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 officer.

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

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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 Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a 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 Representative – Equity Trader (Series 55) 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 a Limited Representative – Equity Trader. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of FINRA.

The revised study outline is attached. The Series 55 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.

¹ 15 U.S.C. 78s(b)(1).

² FINRA also is proposing corresponding revisions to the Series 55 question bank, but based upon instruction from the Commission staff, FINRA is submitting SR-FINRA-2007-030 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.

2. Procedures of the Self-Regulatory Organization

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 FINRA (then known as NASD) had an opportunity to review that action at its meeting on January 25, 2001. No other action by FINRA is necessary for the filing of the proposed rule change.

As further discussed below, FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the revised Series 55 examination program on February 12, 2008. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice (“Notice”) 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 FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with that provision, FINRA has developed examinations, and administers examinations developed by other self-regulatory organizations, that are designed to establish that persons associated with FINRA members have attained specified levels of competence

⁴ 15 U.S.C. 78o-3(g)(3).

and knowledge. FINRA 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 1032(f), each associated person of a member who is included within the definition of representative in NASD Rule 1031(b) is required to register with FINRA as a Limited Representative – Equity Trader if, with respect to transactions in equity, preferred or convertible debt securities effected otherwise than on a securities exchange, such person is engaged in proprietary trading, the execution of transactions on an agency basis or the direct supervision of such activities. There is an exception from the Limited Representative – Equity Trader requirement for any associated person of a member whose trading activities are conducted principally on behalf of an investment company that is registered with the Commission pursuant to the Investment Company Act of 1940 and that controls, is controlled by, or is under common control with the member. The Series 55 examination is the FINRA examination that qualifies an individual to function as a Limited Representative—Equity Trader. Before registration as a Limited Representative—Equity Trader may become effective, the individual must be registered as either a General Securities Representative (Series 7) or Limited Representative—Corporate Securities (Series 62).

A committee of industry representatives, together with FINRA staff, recently undertook a review of the Series 55 examination program. As a result of this review, FINRA is proposing to make 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 a Limited Representative – Equity Trader.

Among other revisions, FINRA is proposing to revise the references to the FINRA and NASDAQ Stock Market LLC (NASDAQ) rules in the study outline to reflect NASDAQ's separation from FINRA (then known as NASD). FINRA also is proposing to add sections on NASD Rules 2441 (Net Transactions with Customers) and 5110 (Transactions Related to Initial Public Offerings).

FINRA is proposing to change the title of Section 2 of the study outline from “NASDAQ Display, Execution and Trading Systems” to “Display, Execution and Trading Systems.” Further, as a result of the revisions discussed above, the number of questions on each section of the study outline were modified as follows: NASDAQ and Over-The-Counter Markets, increased from 41 to 42 questions; Display, Execution and Trading Systems, decreased from 17 to 12 questions; Trade Reporting Requirements, increased from 19 to 22 questions; and General Industry Standards, increased from 23 to 24 questions.

FINRA is proposing similar changes to the Series 55 selection specifications and question bank. The number of questions on the Series 55 examination will remain at 100, and candidates will continue to have 3 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

FINRA believes that the proposed revisions to the Series 55 examination program are consistent with the provisions of Sections 15A(b)(6)⁵ and 15A(g)(3) of the Act,⁶ which authorize FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members.

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

FINRA 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.

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 Act⁷ and Rule 19b-4(f)(1) thereunder,⁸ 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 FINRA. FINRA proposes to

⁵ 15 U.S.C. 78o-3(b)(6).

⁶ 15 U.S.C. 78o-3(g)(3).

⁷ 15 U.S.C. 78s(b)(3)(A)(i).

⁸ 17 CFR 240.19b-4(f)(1).

implement the revised Series 55 examination program on February 12, 2008. FINRA will announce the implementation date in a Notice 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.

Exhibit 3a. Revised Study Outline for the Series 55 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 55 Examination.

FINRA has requested confidential treatment for the Series 55 revised selection specifications, and thus the specifications are omitted from this filing. The Series 55 revised selection specifications have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.⁹

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.

⁹ 17 CFR 240.24b-2.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-FINRA-2007-030)

Self-Regulatory Organizations: Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Revisions to the Series 55 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 , Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a 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 FINRA. FINRA 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).

FINRA is filing revisions to the study outline and selection specifications for the Limited Representative – Equity Trader (Series 55) 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 a Limited Representative – Equity Trader. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of FINRA.

The revised study outline is attached. The Series 55 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, FINRA 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. FINRA 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

1. Purpose

⁵ FINRA also is proposing corresponding revisions to the Series 55 question bank, but based upon instruction from the Commission staff, FINRA is submitting SR-FINRA-2007-030 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.

Section 15A(g)(3) of the Act⁷ requires FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with that provision, FINRA has developed examinations, and administers examinations developed by other self-regulatory organizations, that are designed to establish that persons associated with FINRA members have attained specified levels of competence and knowledge. FINRA 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 1032(f), each associated person of a member who is included within the definition of representative in NASD Rule 1031(b) is required to register with FINRA as a Limited Representative – Equity Trader if, with respect to transactions in equity, preferred or convertible debt securities effected otherwise than on a securities exchange, such person is engaged in proprietary trading, the execution of transactions on an agency basis or the direct supervision of such activities. There is an exception from the Limited Representative – Equity Trader requirement for any associated person of a member whose trading activities are conducted principally on behalf of an investment company that is registered with the Commission pursuant to the Investment Company Act of 1940 and that controls, is controlled by, or is under common control with the member. The Series 55 examination is the FINRA examination that qualifies an individual to function as a Limited Representative—Equity Trader. Before registration as a Limited Representative—Equity Trader may become effective, the

⁶ 17 CFR 240.24b-2.

⁷ 15 U.S.C. 78o-3(g)(3).

individual must be registered as either a General Securities Representative (Series 7) or Limited Representative—Corporate Securities (Series 62).

A committee of industry representatives, together with FINRA staff, recently undertook a review of the Series 55 examination program. As a result of this review, FINRA is proposing to make 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 a Limited Representative – Equity Trader.

Among other revisions, FINRA is proposing to revise the references to the FINRA and NASDAQ Stock Market LLC (NASDAQ) rules in the study outline to reflect NASDAQ's separation from FINRA (then known as NASD). FINRA also is proposing to add sections on NASD Rules 2441 (Net Transactions with Customers) and 5110 (Transactions Related to Initial Public Offerings).

FINRA is proposing to change the title of Section 2 of the study outline from “NASDAQ Display, Execution and Trading Systems” to “Display, Execution and Trading Systems.” Further, as a result of the revisions discussed above, the number of questions on each section of the study outline were modified as follows: NASDAQ and Over-The-Counter Markets, increased from 41 to 42 questions; Display, Execution and Trading Systems, decreased from 17 to 12 questions; Trade Reporting Requirements, increased from 19 to 22 questions; and General Industry Standards, increased from 23 to 24 questions.

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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

FINRA believes that the proposed revisions to the Series 55 examination program are consistent with the provisions of Sections 15A(b)(6)⁸ and 15A(g)(3) of the Act,⁹ which authorize FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members.

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

FINRA 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.

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 Act¹⁰ and Rule 19b-4(f)(1) thereunder,¹¹ 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.

⁸ 15 U.S.C. 78o-3(b)(6).

⁹ 15 U.S.C. 78o-3(g)(3).

¹⁰ 15 U.S.C. 78s(b)(3)(A)(i).

FINRA proposes to implement the revised Series 55 examination program on February 12, 2008. FINRA will announce the implementation date in a Regulatory Notice 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 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-FINRA-2007-030 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-FINRA-2007-030. This file number should be included on the subject line if e-mail is used. To help the Commission

¹¹ 17 CFR 240.19b-4(f)(1).

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 FINRA.

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 File Number SR-FINRA-2007-030 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.¹²

Nancy M. Morris

Secretary

¹² 17 CFR 200.30-3(a)(12).



**LIMITED REPRESENTATIVE—
EQUITY TRADER EXAMINATION
(TEST SERIES 55)**

STUDY OUTLINE

INTRODUCTION

The Equity Trader Qualification Examination (Series 55) is used to qualify individuals seeking registration pursuant to the FINRA By-Laws Article III, Section 2 and the Membership and Registration Rules. Registered representatives in this category of registration may trade equity and convertible debt securities on a principal or agency basis. In order to be registered in this registration category, candidates must first be qualified as either Limited Representative Corporate Securities (Series 62) or General Securities Representative (Series 7).

This study outline has been prepared to assist FINRA member firms in preparing candidates to sit for the Series 55 Examination. It may be used to structure or prepare training material and develop lecture notes and seminar programs, as well as a training aid for the candidates themselves. This outline and the test are divided into four sections, which are described below along with the number of questions in each section.

SECTION	DESCRIPTION	NUMBER OF QUESTIONS
1	NASDAQ and Over-The-Counter Markets	42
2	Display, Execution and Trading Systems	12
3	Trade Reporting Requirements	22
4	General Industry Standards	24
TOTAL		100

The Series 55 Examination is comprised of 100 questions, and candidates will be allowed 180 minutes to complete the examination. A candidate must correctly answer 70 percent of the questions to receive a passing grade. The test is administered as a closed book exam. Scratch paper and a basic electronic calculator will be provided by the proctor. At the completion of the test, each candidate will receive an informational breakdown of their performance on each section and their overall score.

Examination questions will be updated to reflect the 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. Candidates will only be asked questions pertaining to the rules that are effective at the time the candidate takes the exam.

At the end of this outline is a list of references that may be used as a source material starting point for course developers in preparing training programs. In addition, nonmember commercial training vendors may offer packaged study courses specifically designed for this registration category. These vendors are often listed in local yellow page directories and advertise in securities industry periodicals.

There are also sample Series 55 test questions written in the various formats. They do not mirror the difficulty level of the actual test questions or the subject matter distribution of the test itself. Their use is merely to familiarize the candidate with the styles of multiple-choice questions used in the Series 55 Examination.

Copies of this outline and registration applications may be obtained from the FINRA Web Site at www.finra.org.

1.0 NASDAQ AND OVER-THE-COUNTER MARKETS

1.1 Overview of Markets Regulated by FINRA

1.1.1 NASDAQ Securities

- NASDAQ Tier securities
 - NASDAQ Capital Market securities (SmallCap)
 - NASDAQ Global Market securities
 - NASDAQ Global Market Select securities
- Preferred securities
- Convertible debt
- ADRs and International securities

1.1.2 Over-the-Counter Securities

1.1.2.1 Pink Sheets and other Similar Trading Facilities
www.pinksheets.com

1.1.2.2 Third Market

1.1.2.2.1 Off-exchange trading in exchange-listed securities

1.1.2.2.2 Consolidated tape reporting requirement

1.1.2.3 Bulletin Board

1.1.2.3.1 NASD Rule 6500 — OTC Bulletin Board Service

- Rule 6510—Applicability
- Rule 6520—Operation of the service
- Rule 6530—OTCBB-eligible securities
- Rule 6540—Requirements applicable to market makers
 - Permissible quotation entries (one-sided quotes)
 - Voluntary termination of registration
 - More than one trading location
 - Clearance and settlement

1.2 Quotation and Market Maker Requirements (general knowledge)

1.2.1 Quotation Obligations

1.2.1.1 NASD Rule 6600 - Over-the-Counter Equity Securities

- Rule 6610 - Definitions
- Rule 6630 - Recording of quotation information
- Rule 6640 - Submission of Rule 15c2-11 information on Non-NASDAQ securities
- Rule 6650 - Minimum quotation size requirements for OTC equity securities

- 1.2.1.2 SEC Rule 15c2-11 — Initiation or resumption of quotations without specified information
 - Form 211
 - Piggybacking
 - Due diligence
- 1.2.1.3 NASD and NASDAQ Rules 3310 — Publication of transactions and quotations
 - Marking the close/ Marking the opening
- 1.2.1.4 NASD and NASDAQ Rules 3320 — Offers at stated prices
 - IM-3320 — Firmness of quotations
 - Backing-away
 - Subject (nominal) market
- 1.2.1.5 NASD Rule 4613A (ADF) and NASDAQ Rule 4613 – Character of Quotations
 - Quotation requirements and obligations
 - Two-sided quotations
 - Multiple MPIDs
 - Firm quotations
 - Quotations reasonably related to the market
 - Reasonably competitive quotations
 - Locked and crossed markets
 - NASD IM-4613A-1 - Procedures for allocation of multiple MPIDs
 - NASDAQ IM-4613 - Procedures for allocation of second displayable MPID
- 1.2.1.6 NASD Rule 5140 – Multiple MPIDs for Trade Reporting Facility Participants
 - IM-5140 – Use of multiple MPIDs
- 1.2.2 Requirements for NASDAQ Market Makers and Other Market Center Participants**
- 1.2.2.1 Securities Exchange Act of 1934 and SEC Rules Thereunder
 - Section 3 — Certain definitions under the Act
 - Section 3(a)(38) — Market maker
 - Rule 3b-8 — Qualified block positioner
- 1.2.2.2 NASDAQ Rule 4611—NASDAQ Market Center participant registration
- 1.2.2.3 NASDAQ Rule 4612— Registration as a NASDAQ market maker
- 1.2.2.4 NASDAQ Rule 4628 – Compliance with Rules and Registration

Requirements

- 1.2.2.5 NASDAQ Rule 4617 - Normal business hours
 - Pre-market hours
 - Extended hours
 - Disclosure to customers engaging in Extended Hours Trading (*NASD Notice to Members 00-07*)
- 1.2.2.6 Clearance and settlement
 - NASD and NASDAQ Rules 4618 – Clearance and settlement
 - SEC Rule 15c6-1 – Settlement cycle
- 1.2.2.7 NASDAQ Rule 4619 — Withdrawal of quotations and passive market making
 - 1.2.2.7.1 Excused withdrawal
- 1.2.2.8 NASDAQ Rule 4620 - Voluntary termination of registration
- 1.2.2.9 NASD and NASDAQ Rules 4621 - Suspension and termination of quotations by NASD action

1.3 Trading Activities

1.3.1 Regulation NMS – Regulation of the National Market System

- 1.3.1.1 Rule 600 —NMS security designation and definitions
- 1.3.1.2 Rule 604 – Display of customer limit orders
 - Specialist and OTC market makers
- 1.3.1.3 Rule 605 – Disclosure of order execution information
- 1.3.1.4 Rule 606 – Disclosure of order routing information
- 1.3.1.5 Rule 610 – Access to quotations
- 1.3.1.6 Rule 611 – Order protection rule
- 1.3.1.7 Rule 612 – Minimum price increments

1.3.2 Trading Halts

- 1.3.2.1 NASD Rule 3340 — Prohibition on transactions, Publication of quotations, or publication of interest during trading halts
- 1.3.2.2 NASDAQ Rule 4120 — Trading halts
 - Authority to initiate trading halts
 - Procedure for initiating a trading halt
 - IM-4120-1 — Disclosure of material information
 - Notification of trading halts
 - Trading halt codes
- 1.3.2.3 NASD Rule 4120A – Trading Halts

- 1.3.2.4 NASD Rule 4633 – Trading Halts
- 1.3.2.5 NASD Rule 6545 – Trading and Quotation Halt in OTCBB-Eligible Securities
- 1.3.2.6 NASD Rule 6660 – Trading and Quotation Halt in OTC Equity Securities
 - IM-6660-1 - Factors to be Considered When Initiating a Trading and Quotation Halt

1.3.3 Market Halts

NASDAQ Rule 4121 – Market closings

1.3.4 Pre-Arranged and Third Party Trades

- Painting the tape
- Cross trade
- Third-party trades
 - Step Out
 - WRAP accounts
 - Give-up (clearing)
 - Prime Broker

1.4 Anti-Competitive Trading Practices

1.4.1 NASD and NASDAQ Rules IM-2110-5 –Anti-intimidation/coordination

- Collusion
- Price/size/spread convention
- Intimidation
- Harassment

1.5 Transactions in Accounts

1.5.1 Short Sales

- 1.5.1.1 SEC Regulation SHO
 - Rule 200—Definition of “short sale”
 - Rule 203—Borrowing and delivery requirements
 - Locates and Fails
- 1.5.1.2 SEC Regulation M — Rule 105 — Short sales
- 1.5.1.3 NASDAQ Rule 3350 — Short sale rule
 - IM-3350 – Short sale rule

1.5.2

Limit Orders

1.5.2.1

NASD and NASDAQ Rules IM-2110-2 — Trading ahead of customer limit orders
(NASD Limit order interpretation Manning)

1.5.3

Market Orders

1.5.3.1

NASD and NASDAQ Rules 2110 — Standards of commercial honor and principles of trade
IM-2110-3 — Front running policy
IM-2110-4 — Trading ahead of research reports

1.5.3.2

NASD and NASDAQ Rules 2111—Trading ahead of customer market orders

2.0

Display, Execution and Trading Systems

- 2.1 NASDAQ Rule 4700—NASDAQ Market Center - Execution Services**
- 2.1.1 Rule 4751—Definitions**
- 2.1.2 Rule 4752—Opening process for NASDAQ-listed securities**
 - Opening Cross
 - Limit On Open Order
 - Imbalance
 - Order Imbalance Indicator
 - Market On Open Order
- 2.1.3 Rule 4753 – NASDAQ halt cross**
- 2.1.4 Rule 4754—NASDAQ closing cross**
 - Closing Cross
 - Market On Close
 - Limit On Close
 - Imbalance Only Order
 - Access to displayed quotes and orders
- 2.1.5 Rule 4755—Order entry parameters**
- 2.1.6 Rule 4756—Entry and display of quotes/orders**
 - Entry of quotes and orders
 - Display of quotes and orders
 - Non-displayed orders
 - Reserve size
 - Trading in Actual Shares
 - Round lots
 - Odd lots
 - Mixed lots
- 2.1.7 Rule 4757 – Book Processing**
 - Quote decrementation
 - Order execution algorithm
 - Price/time
- 2.1.8 Rule 4758—Order Routing**
- 2.1.9 Rule 4760—Anonymity**

- 2.1.10 Rule 4761—Adjustment of open quotes and/or orders**
- 2.1.11 Rule 4770 – NASDAQ Crossing Network**
- 2.2 NASD Rule 4000A - Alternative Display Facility**
 - 2.2.1 Rule 4100A – General**
 - Rule 4110A—Use of NASD Alternative Display Facility Data Systems
 - Rule 4130A – Prohibition from locking or crossing quotations in NMS stocks
 - 2.2.2 Rule 4200A – Definitions**
 - 2.2.3 Rule 4300A – Quote and Order Access Requirements**
 - 2.2.4 Rule 4400A – Review of Direct or Indirect Access Complaints**
 - 2.2.5 Rule 4600A – Trading in ADF-Eligible Securities**
- 2.3 Alternative Trading Systems**
 - 2.3.1 SEC Regulation ATS**
 - Electronic Communications Networks (ECNs)

3.0 Trade Reporting Requirements

- 3.1 NASD Rule 4000 – NASD/NASDAQ Trade Reporting Facility**
 - 3.1.1 Function of the Trade Reporting Facility**
 - A vehicle for reporting off-exchange transactions in equity securities
 - 3.1.2 NASD Rule 4100 – General**
 - 3.1.3 NASD Rule 4200 – Definitions**
 - 3.1.4 NASD Rule 4630 – Reporting Transactions in Designated Securities**
 - 3.1.5 NASD Rule 4631 – Definitions**
- 3.2 NASD Rule 6100 – Clearing and Comparison Rules**
 - 3.2.1 NASD Rule 6110 — Definitions**
 - 3.2.2 NASD Rule 6120 — Trade Reporting Participation Requirements**
 - Mandatory Participation for clearing agency members
 - Participant obligations
 - Access
 - System participant obligations
 - Clearing broker obligations
 - 3.2.3 NASD Rule 6140 — Trade Report Processing**
 - Trade by trade match
 - Trade acceptance
 - Aggregate volume match
 - T+N trade processing
- 3.3 NASD Transaction Reporting Rules-4632; IM 4632-1, 6130; 6550; 6620**
 - 3.3.1 Modifiers**
 - 3.3.2 When and How Transactions Are Reported**
 - Hours for trade reporting
 - Capacity
 - 3.3.3 Which Party Reports Transaction**
 - 3.3.4 Information To Be Reported**

- 3.3.5 Procedures for Reporting Price and Volume**
- 3.3.6 Transactions Not Required To Be Reported**
- 3.3.7 Aggregation of Transaction Reports**
- 3.3.8 Reporting Cancelled Trades**
- 3.4 NASD Rule 6100A - TRACS Trade Comparison Service (TRACS)**
- 3.5 NASD and NASDAQ Rules 6950 – Order Audit Trail System (OATS)**
 - Rule 6951 — Definitions
 - Rule 6952 — Applicability
 - Rule 6953 — Synchronization of member’s business clocks
 - Rule 6954 — Recording of order information
 - Rule 6955 — Order data transmission requirements

4.0 General Industry Standards

4.1 Insider Trading Regulations

4.1.1 Insider Trading and Securities Fraud Enforcement Act of 1988

Civil and criminal penalties of controlling persons for illegal insider trading by controlled persons

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

4.1.2 SEC Rule 10b-5 — Employment of manipulative and deceptive devices (by individuals)

Insider Trading

Material information

Insiders and non-public information

Insiders and tippees

Information barriers

4.2 General industry requirements

4.2.1 Securities Exchange Act of 1934 and SEC Rules Thereunder

4.2.1.1 Rule 10b-18 — Purchases of certain equity securities by the issuer and others

Definitions

Limitations

Restrictions

4.2.1.2 Penny stock rules

4.2.1.2.1 Section 3(a)(51) — Definition of Penny stock

Rule 3a51-1 — Penny stock

4.2.1.2.2 Rule 15g-1 — Exemptions for certain transactions

Confirmations and other disclosures

4.2.1.2.3 Rule 15g-3 — Broker or dealer disclosure of quotations and other information relating to the penny stock market

4.2.1.2.4 Rule 15g-4 — Disclosure of compensation to brokers or dealers

4.2.1.2.5 Rule 15g-5 — Disclosure of compensation to associated persons in connection with penny stock transactions

4.2.1.2.6 Rule 15g-6 — Account statements for penny stock customers

4.2.1.2.7 Rule 15g-8 — Sales of escrowed securities of blank check companies

4.2.1.2.8 Rule 15g-9 — Sales practice requirements for certain low-priced securities

4.2.2 Investment Advisers Act of 1940

4.2.2.1 Section 206 — Prohibited transactions by investment advisers
General understanding of obligations of market makers not to trade as principal with managed accounts

4.2.3 NASD and NASDAQ Rules

4.2.3.1 NASD and NASDAQ Rules 2120 — Use of manipulative, deceptive or other fraudulent devices

4.2.3.2 NASD and NASDAQ Rules 2310 — Recommendations to customers (suitability)
IM-2310-2 — Fair dealing with customers
IM-2310-3 — Suitability obligations to institutional customers

4.2.3.3 NASD and NASDAQ Rules 2320 — Best execution and interpositioning
NASD IM-2320 – Interpretive guidance with respect to Best Execution requirements

4.2.3.4 NASD and NASDAQ Rules 2460 — Payments for market making

4.2.3.5 NASD and NASDAQ Rules 3380 - Order Entry and Execution Practices

4.2.3.6 Mark-ups/Mark-downs and commissions
NASD Rule 2440 — Fair prices and commissions
NASD IM-2440—NASD 5% Mark-up Policy
Regulatory concerns
General mark-up/ mark-down considerations
Relevant factors
Type of security involved
Availability of security in the market
Price of security
Amount of money involved in a transaction
Disclosure
Pattern of mark-ups
Nature of member's business
Transactions to which the policy is/is not applicable
NASD IM 2110-2—Disclosure of mark-ups/sales concessions

4.2.3.7 NASD Rule 2441 – Net Transactions with Customers

4.3 General Standards for Syndicate Activities

- 4.3.1 Initial Public Offerings (IPOs)**
 - NASDAQ Initial Public Offering (IPO) process
(*Head Trader Alert 2005-096*)
 - Obligation of lead underwriter to notify NASDAQ IPO has been released by SEC
 - Opening price of IPOs
 - NASD Rule 5110 – Transactions related to initial public offerings

- 4.3.2 Stabilization**
 - Maintained by managing underwriter in aftermarket at or below public offering price
 - Syndicate penalty bid
 - Purpose
 - Stabilizing bids
 - Pre-effective bids
 - Syndicate covering transactions
 - NASDAQ Rule 4624 – Penalty Bids and Syndicate Covering Transactions
 - NASD and NASDAQ Rule 4614 — Stabilizing bids
 - SEC Regulation M – Rule 104 – Stabilizing transactions

- 4.3.3 Securities Act of 1933 and SEC Rules Thereunder**
 - 4.3.3.1 Rule 144 — Persons deemed not to be engaged in a distribution and therefore not underwriters
 - Holding period (applies to restricted securities only)
 - Quantity limitations
 - Manner of sale
 - Solicitation of an order
 - Registration as a market maker in anticipation of a transaction

 - 4.3.3.2 Rule 145 — Reclassification of securities, mergers, consolidations and acquisitions of assets

- 4.3.4 Securities Exchange Act of 1934 and SEC Rules Thereunder**
 - 4.3.4.1 Regulation M
 - Rule 101 — Distribution participant restrictions
 - Rule 103 — Passive market making in NASDAQ Stocks
 - Limitations
 - Requirements

- 4.4 Books and Records**
 - 4.4.1 **SEC Rule 17a-3 — Records to be Made by Certain Exchange Members, Brokers and Dealers**
 - Time stamps

Change of time stamps

- 4.4.2 NASD and NASDAQ Rule 3110 — Books and Records**
- 4.5 NASD and NASDAQ Uniform Practice Codes**
 - 4.5.1 Rule 11130 — When, as and if Issued/Distributed Contracts**
 - 4.5.2 Rule 11140 — Transactions in Securities “ex-dividend,” “ex-rights” or “ex-warrants”**
 - 4.5.3 Rule 11320 — Dates of Delivery**
 - For cash
 - Regular way
 - 4.5.4 Rule 11890 — Clearly Erroneous Trades**

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Aspen Publishers
111 Eighth Avenue
New York, NY 10011

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Title 17 — Commodity and
Securities Exchanges
U.S. Government Printing Office.
Washington, DC 20402

Dictionary of Finance and Investment Terms

Barron's Financial Guides, -ed.
Barron's Educational Series, Inc.
250 Wireless Boulevard
Hauppauge, NY 11788

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NASDAQ Manual
Head Trader Alerts
NASDAQ Order Entry Reference Guide
NASDAQ Single Book Trading Card

SAMPLE QUESTIONS

The questions that follow are similar in format and content to questions on the actual examination. They are not intended, however, to parallel either the level of difficulty or the subject matter distribution of the test itself. The purpose here is to assist candidates and training personnel in preparing for the types of multiple-choice questions that will appear in the examination.

ANSWERS

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

1. When must round lot trades in NASDAQ Global Market securities be reported?

- (A) Within 30 seconds of execution.
- (B) Within 90 seconds of execution.
- (C) Within 5 minutes of execution.
- (D) Within 20 minutes of execution.

2. Each of the following orders are required to comply with the NASD Limit Order Interpretation EXCEPT:

- (A) 100 shares of a NMS stock entered at 12:23 pm (ET) for a retail customer.
- (B) 500 shares of a NASDAQ Capital Market (SmallCap) stock entered at 10:06 am (ET) for a retail customer.
- (C) 1000 shares of a NMS stock entered at 12:23 pm (ET) for a retail customer.
- (D) 99 shares of an OTCBB stock entered at 6:55 am (ET) for an institutional customer.

3. Which two of the following securities are eligible for trading in the NASDAQ Market Center Execution Services?

- I. NASDAQ Global Market securities
- II. OTC Bulletin Board securities
- III. NASDAQ Capital Market securities
- IV. Pink Sheets

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

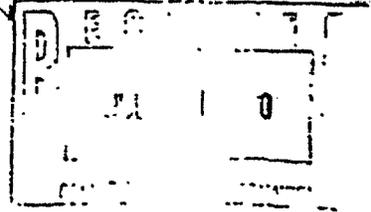
4. In the absence of other bona fide evidence of the market price of a security, which of the following is the best indicator of the prevailing market price?

- (A) The last trade
- (B) The contemporaneous cost
- (C) The length of time the security has been in inventory
- (D) The price of similar issues



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. Adkins: *Alden*

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.

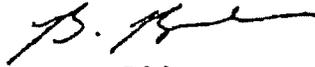
The Division has decided that it is no longer necessary for SROs to file new exam question banks for Commission approval under Section 19(b)(2). In the future, any new examinations should be filed as non-controversial rule changes for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange 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
Page 2

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