OMB APPROVAL	
OMB Number:	3235-0045
Expires:	June 30, 2010
Estimated average burden hours per response...........38	

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No. SR - 2007 - 031
Amendment No.

Proposed Rule Change by Financial Industry Regulatory Authority

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial	Amendment	Withdrawal	Section 19(b)(2)	Section 19(b)(3)(A)	Section 19(b)(3)(B)
☑	☐	☐	☐	☑	☐

Rule

- ☑ 19b-4(f)(1)
- ☐ 19b-4(f)(2)
- ☐ 19b-4(f)(3)
- ☐ 19b-4(f)(4)
- ☐ 19b-4(f)(5)
- ☐ 19b-4(f)(6)

Pilot ☐

Extension of Time Period for Commission Action ☐

Date Expires

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☑

Description

Provide a brief description of the proposed rule change (limit 250 characters).

Revisions to the Series 62 examination program.

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: Afshin
Last Name: Atabaki
Title: Assistant General Counsel
E-mail: afshin.atabaki@finra.org
Telephone: (202) 728-8902
Fax: (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: 12/12/2007

By: Patrice Gliniecki
(Name)

Senior Vice President and Deputy General Counsel
(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.

Patrice Gliniecki,

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. <u>Text of Proposed Rule Change</u>

(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—Corporate Securities (Series 62) 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—Corporate Securities. 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 62 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 62 question bank, but based upon instruction from the Commission staff, FINRA is submitting SR-FINRA-2007-031 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. <u>See</u> 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 62 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 Act[4] 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(e), each associated person of a member who is included within the definition of representative in NASD Rule 1031(b) may register with FINRA as a Limited Representative—Corporate Securities if: (1) the individual's activities in the investment banking and securities business of the member are limited solely to the solicitation, purchase and sale of a "security," as that term is defined in Section 3(a)(10) of the Act; (2) the individual does not engage in any activities relating to the following securities: municipal securities as defined in Section 3(a)(29) of the Act; option securities as defined in NASD Rule 2860; redeemable securities of companies registered pursuant to the Investment Company Act of 1940 (except for money market funds); variable contracts of insurance companies registered pursuant to the Securities Act of 1933; and direct participation program securities as defined in NASD Rule 1022(e); and (3) the individual passes the Series 62 qualification examination.

A committee of industry representatives, together with FINRA staff, recently undertook a review of the Series 62 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—Corporate Securities.

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). In addition, FINRA is proposing to add sections on exchange-traded funds, hedge funds, unit investment trusts, SEC Regulation M-A (Mergers and Acquisitions), SEC Regulation S-K, SEC Regulation S-X, SEC Regulation NMS, SEC Regulation SHO and SEC Rule 405 (Definitions of Terms). FINRA also is proposing to add sections on NASD IM-2110-7 (Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes), IM-2440-2 (Additional Mark-Up Policy For Transactions in Debt Securities, Except Municipal Securities) and IM-2210-6 (Requirements for the Use of Investment Analysis Tools), as well as on NASD Rules 2111 (Trading Ahead of Customer Market Orders), 2370 (Borrowing From or Lending to Customers) and 2441 (Net Transactions with Customers).

FINRA is proposing to change the title of Section 1 of the study outline from "Characteristics of Corporate Securities" to "Types and Characteristics of Securities and Investments," the title of Section 3 from "Valuing Corporate Securities" to "Evaluation of Securities and Investments," and the title of Section 4 from "Handling Customer Accounts" to "Handling Customer Accounts and Securities Industry Regulations." Further, as a result of the revisions discussed above, the number of questions on each section of the study outline were modified as follows: Types and Characteristics of Securities and Investments, decreased from 28 to 25 questions; The Market for Corporate Securities, increased from 31 to 40 questions; Evaluation of Securities and Investments, no changes to the number of questions (remains at 14 questions); and Handling Customer Accounts and Securities Industry Regulations, decreased from 42 to 36 questions.

FINRA is proposing similar changes to the Series 62 selection specifications and question bank. The number of questions on the Series 62 examination will remain at 115, and candidates will continue to have 2½ 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 62 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. <u>Self-Regulatory Organization's Statement on Burden on Competition</u>

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

Written comments were neither solicited nor received.

6. <u>Extension of Time Period for Commission Action</u>

Not applicable.

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

---

[5] 15 U.S.C. 78o-3(b)(6).

[6] 15 U.S.C. 78o-3(g)(3).

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A)(i) of the Act[7] 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 implement the revised Series 62 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 62 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 62 Examination. FINRA has requested confidential treatment for the Series 62 revised selection specifications, and thus the specifications are omitted from this filing. The Series 62 revised selection specifications have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.[9]

---

7 15 U.S.C. 78s(b)(3)(A)(i).

8 17 CFR 240.19b-4(f)(1).

9 17 CFR 240.24b-2.

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.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-FINRA-2007-031)

Self-Regulatory Organizations: Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Revisions to the Series 62 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 Act[3] 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. <u>Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change</u>

---

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—Corporate Securities (Series 62) 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—Corporate Securities. 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 62 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

---

5 FINRA also is proposing corresponding revisions to the Series 62 question bank, but based upon instruction from the Commission staff, FINRA is submitting SR-FINRA-2007-031 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 Act[7] 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(e), each associated person of a member who is included within the definition of representative in NASD Rule 1031(b) may register with FINRA as a Limited Representative—Corporate Securities if: (1) the individual's activities in the investment banking and securities business of the member are limited solely to the solicitation, purchase and sale of a "security," as that term is defined in Section 3(a)(10) of the Act; (2) the individual does not engage in any activities relating to the following securities: municipal securities as defined in Section 3(a)(29) of the Act; option securities as defined in NASD Rule 2860; redeemable securities of companies registered pursuant to the Investment Company Act of 1940 (except for money market funds); variable contracts of insurance companies registered pursuant to the Securities Act of 1933; and direct participation program securities as defined in NASD Rule 1022(e); and (3) the individual passes the Series 62 qualification examination.

---

[7] 15 U.S.C. 78o-3(g)(3).

A committee of industry representatives, together with FINRA staff, recently undertook a review of the Series 62 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—Corporate Securities.

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). In addition, FINRA is proposing to add sections on exchange-traded funds, hedge funds, unit investment trusts, SEC Regulation M-A (Mergers and Acquisitions), SEC Regulation S-K, SEC Regulation S-X, SEC Regulation NMS, SEC Regulation SHO and SEC Rule 405 (Definitions of Terms). FINRA also is proposing to add sections on NASD IM-2110-7 (Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes), IM-2440-2 (Additional Mark-Up Policy For Transactions in Debt Securities, Except Municipal Securities) and IM-2210-6 (Requirements for the Use of Investment Analysis Tools), as well as on NASD Rules 2111 (Trading Ahead of Customer Market Orders), 2370 (Borrowing From or Lending to Customers) and 2441 (Net Transactions with Customers).

FINRA is proposing to change the title of Section 1 of the study outline from "Characteristics of Corporate Securities" to "Types and Characteristics of Securities and Investments," the title of Section 3 from "Valuing Corporate Securities" to "Evaluation of Securities and Investments," and the title of Section 4 from "Handling Customer Accounts" to "Handling Customer Accounts and Securities Industry Regulations."

Further, as a result of the revisions discussed above, the number of questions on each section of the study outline were modified as follows: Types and Characteristics of Securities and Investments, decreased from 28 to 25 questions; The Market for Corporate Securities, increased from 31 to 40 questions; Evaluation of Securities and Investments, no changes to the number of questions (remains at 14 questions); and Handling Customer Accounts and Securities Industry Regulations, decreased from 42 to 36 questions.

FINRA is proposing similar changes to the Series 62 selection specifications and question bank. The number of questions on the Series 62 examination will remain at 115, and candidates will continue to have 2½ 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

FINRA believes that the proposed revisions to the Series 62 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. <u>Self-Regulatory Organization's Statement on Burden on Competition</u>

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. <u>Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or</u>

---

8 15 U.S.C. 78o-3(b)(6).

9 15 U.S.C. 78o-3(g)(3).

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 Act[10] 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. FINRA proposes to implement the revised Series 62 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

---

10 15 U.S.C. 78s(b)(3)(A)(i).

11 17 CFR 240.19b-4(f)(1).

(http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2007-031 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-2007-031. 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 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-2007-031 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).

Exhibit 3a
SR-FINRA-2007-031

Financial Industry Regulatory Authority

CORPORATE SECURITIES LIMITED REPRESENTATIVE QUALIFICATION EXAMINATION (TEST SERIES 62)

STUDY OUTLINE

Introduction

The Corporate Securities Limited Representative Qualification Examination (Series 62) is used to qualify individuals seeking registration with FINRA under By-Laws Article III, Section 2, and the Membership and Registration Rules. Registered representatives in this category of registration may trade common and preferred stocks, corporate bonds, rights, warrants, closed-end investment companies, money-market funds, privately issued mortgage-backed securities, other asset-backed securities, and REITS. This category, by itself, does not allow a registered representative to trade municipal securities, direct participation programs, other securities registered under the Investment Company Act of 1940, variable contracts, nor options. Candidates seeking to trade these latter products must also register in one or more of FINRA's other limited representative categories, or as General Securities Registered Representatives.

This study outline can assist FINRA member firms in preparing candidates to sit for the Series 62 Examination. Members may use it to structure or prepare training material and to develop lecture notes and seminar programs. This outline can also be used by the individual candidate as a training aid. The outline and the test are divided into the four sections listed below along with the number of questions in each section.

Section	Description	Number of Questions
1	Types and Characteristics of Securities and Investments	25
2	The Market for Corporate Securities	40
3	Evaluation of Securities and Investments	14
4	Handling Customer Accounts and Securities Industry Regulations	36
Total		**115**

The Series 62 Examination is composed of 115 questions and candidates will be allowed 150 minutes to complete the examination. Each multiple-choice question is worth one point. The passing grade is equal to 70% of the total number of questions on the examination. A candidate must, therefore, correctly answer 81 of the 115 questions on the Corporate Securities Limited Representative Qualification Examination in order to receive a passing grade.

The test is administered as a closed-book exam and candidates will not be permitted to use any reference materials during their testing session. Severe penalties are imposed on candidates who cheat on FINRA-administered examinations. Scratch paper and basic electronic calculators will be provided by the proctor. At the completion of the test, candidates will receive an informational breakdown of their performance in each section, and their overall score.

Examination questions will be updated 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 time period after their effective dates. Questions on rescinded rules will be promptly deleted from the pool of questions.

The next page includes a list of reference materials that may be used as a source material starting point for course developers in preparing training programs. Much of the reference material overlaps topics covered in other references, so it is not necessary to obtain each reference listed. In addition, nonmember commercial training vendors 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.

This outline is available on the FINRA Web Site at *www.finra.org*.

Throughout the outline, the phrases “general purpose” and “general awareness” appear, especially in connection with rule references. Some of these rules are quite long and very technical, and where this phrase is found, candidates will only be expected to know the broad purpose the rule addresses and generally, how the rule applies to registered representative activity. The modifying phrase “definitional knowledge” should be similarly treated.

At the end of this outline there are four sample Series 62 Examination questions written in the various formats. They do not mirror the difficulty level of 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 62 Examination.

References

Securities Act Handbook
Aspen Publishers
111 Eighth Avenue
New York, NY 10011

Dictionary of Finance and Investment Terms
John Downes and Jordan E. Goodman
Barron's Educational Series, Inc.
250 Wireless Boulevard
Hauppauge, NY 11788

Economics
Paul A. Samuelson
McGraw-Hill Book Company
1121 Sixth Avenue, #383
New York, NY 10020

Financial Analyst Handbook, Vol. I
Summer N. Levine, Ed.
Dow Jones-Irwin
1824 Ridge Road
Homewood, IL 60430

The Handbook of Fixed Income Securities
F.J. Fabozzi and I.M. Pollacks, Eds.
Dow Jones-Irwin
1824 Ridge Road
Homewood, IL 60430

The Interpretation of Financial Statements
B. Graham and C. McGolrich
Harper & Row Publishers, Inc.
10 East 53rd Street
New York, NY 10022

Introduction to Brokerage Operations Department Procedures
New York Institute of Finance
Two Broadway
New York, NY 10004

Modern Securities Transfers
Egon Guttman
Warren, Gorham & Lamont
31 St. James Avenue
Boston, MA 02116

NASD Manual
FINRA
Media Source
(240) 386-4200

The NYIF Vest-Pocket Guide to Stock Brokerage Math
William A. Rini
New York Institute of Finance
Two Broadway, 5th Floor
New York, NY 10004

Resales of Restricted Securities
J. William Hicks
Clark Boardman Callahan
375 Hudson Street
New York, NY 10014

Securities Credit Transactions Regulations X, T and U
Board of Governors of the Federal Reserve System
Constitution Avenue at 20th Street, NW
Washington, DC 20002

Securities Law Handbook
Harold S. Bloomenthal
Clark Boardman Callahan
375 Hudson Street
New York, NY 10014

Securities Regulation
Warren, Gorham & Lamont
31 St. James Avenue
Boston, MA 02116

Securities Transfer Principles and Procedures
Martin Torosian
New York Institute of Finance
Two Broadway
New York, NY 10004

The Stock Market, 7th Edition
Richard J. Teweles and Edward S. Bradley
John Wiley & Sons, Inc.
605 Third Avenue
New York, NY 10158

Publications Available through
www.finra.org

NASD Manual

NASD Guide to Rule Interpretations

NASD Notices to Members

NASD Sanctions Guidelines

Smart Bond Learning Center

1.0
Types and Characteristics of Securities and Investments

1.1 Equity Securities

1.1.1 Common Stock

1.1.1.1 Ownership in a corporation

1.1.1.2 Rights of stockholders
- Limited liability
- Proportionate ownership
- Transfer rights
- Receive dividends, when declared by board of directors
  - Record date
  - Payable date
- Inspect corporate books
- Subscribe proportionately to any new issue of stock
- Vote at stockholders' meetings
- Protect the corporation against wrongful acts of management
- Restrain radical acts of the corporation
- Residual claims to assets at dissolution
- Statutory voting rights
- Cumulative voting rights
- Contingent voting rights of preferred stockholders
- Proxies
- Voting trusts
- Trustee
- Voting trust certificates
- Beneficial interests
- Non-voting common stock

1.1.1.3 Stock certificate
- Negotiability
- Endorsements and assignments
- Transfer procedures
- Transfer agent
- Registrar
- Fractional shares

1.1.1.4 Value at issuance
- Par value
  - Normally an arbitrary amount
  - Full-paid and non-assessable
  - Low par value
  - Excess recorded as paid-in surplus
- No-par value
- Stock with stated value
  - Capital or paid-in surplus

1.1.1.5 Stock terms and definitions
- Authorized stock
  - Reasons for authorizing more stock than that issued
- Issued stock
- Outstanding stock
- Treasury stock
- Reasons for reacquiring issued stock

1.1.2 Preferred Stock

1.1.2.1 Dividend preference over common
- Dividend stated as percentage of par
- Dividend stated in dollars per share
- Adjustable/variable rates of return
- Right to dividend only if declared by board
- Auction rate

1.1.2.2 Asset preference of preferred over common

1.1.2.3 Classes of preferred and degree of preference

1.1.2.4 Types of preferred stock
- Cumulative preferred
- Participating preferred
- Convertible preferred
  - Perpetual
  - Limited
  - Delayed
- Callable preferred
  - Sinking fund provisions

1.1.2.5 Protective provisions regarding preferred stock

1.1.3 Rights and Warrants

1.1.3.1 Subscription rights
- Issued in conjunction with additional stock offerings
- Stock appreciation rights (SAR)
- Employee stock options
- Terms of offering
- Value of subscription rights
- Disposition of rights

1.1.3.2 Warrants
- Origination of warrants
- Warrant exercise terms
- Valuation of warrants
- Warrant leverage

1.1.4 American Depositary Receipts/American Depositary Shares Global Depositary Receipts/Global Depositary Shares

1.1.4.1 Origin and nature of ADRs/ADSs and GDRs and GDSs
Sponsored vs. non-sponsored

1.1.4.2 Duties of the issuing/depository bank
Converts and distributes cash dividend in U.S. currency
Converts and distributes rights offerings
Distributes information on non-U.S. corporate developments

1.1.4.3 Shareholders' rights to demand delivery of the underlying shares

1.1.4.4 Relationship to ordinary shares

1.1.5 International Securities

1.1.5.1 Securities denominated in foreign currency versus those denominated in U.S. dollars

1.1.5.2 Relationship to ADRs/ADSs and GDRs and GDSs

1.1.5.3 Eurobonds

1.1.6 Other Investment Vehicles

1.1.6.1 Exchange Traded Funds (ETFs)
Characteristics
Suitability

1.1.6.2 Real estate investment trusts (REITS)
Real Estate Investment Trust Act
Organizational requirements
Asset composition
Sources of income
Interest on obligations secured by real property
Capital structure
Tax requirements of the REIT

1.1.6.3 Hedge funds
Characteristics
Suitability

1.2 Corporate Debt Securities

1.2.1 Features of Bonds

1.2.1.1 General characteristics
Promise to pay
Maturity of bonds and notes
Denominations
Registered as to both principal and interest
Book-entry-only bonds
Call features

1.2.1.2 Terms of payment
- Payable in legal tender at par
- Payable in one or more foreign currencies if issued abroad
- Interest payment periods

1.2.1.3 Trust indenture or deed of trust
- Trustee
- Protective covenants
- Remedies of bondholders
- Acceleration of maturity in cases of default
- Releases of mortgaged property
- Protection for bondholders in consolidations and mergers
- Changes in trust indenture
  - Voting provisions of indenture

1.2.1.4 Types of covenants
- Bond
  - Indenture
  - Financial
  - Default
    - Impact of default covenant
- Covenant analysis

1.2.2 Types of Bonds

1.2.2.1 Mortgage bonds
- Debt obligation secured by property pledge
  - Priority of claim

1.2.2.2 Debenture bonds
- General credit obligations
- Importance of protective covenants
- Subordinated debentures
  - Unsecured junior claim
  - Subordinated to other debt issue(s)
  - Maturity
  - Higher yields
  - Conversion features

1.2.2.3 Convertible bonds

1.2.2.3.1 Convertible into either preferred or common, or units of both

1.2.2.3.2 Advantages/disadvantages to investor of convertible bonds
- Coupon rate offers a “floor” return, but slightly lower than non-convertible bonds
- Allows holder to participate in major upswings in the price of the common stock by converting the bonds or selling them outright
- Holders have prior claims to assets over shareholders in the event of corporate liquidation, but junior claims to mortgage bondholders

1.2.2.3.3 Advantage/disadvantages to issuer of convertible bonds
- Issued at lower rate of interest than non-convertible bonds
- Interest expense reduced upon conversion, but taxable income increased
- Upon conversion, higher price usually obtained for issued stock
- Reduced depressant effect on price of common at issuance
- Upon conversion, shifts in "ownership" can occur

1.2.2.3.4 Conversion ratio or price
- Factors affecting initial conversion rate or price
  - Price of stock at time of issuance
  - Earnings prospect
  - Market condition
  - Length of conversion period

1.2.2.3.5 Time of conversion
- At issuance
- Delayed conversion
- Expiration at maturity
- Expiration prior to maturity

1.2.2.3.6 Protective features relative to:
- Stock splits
- Change in class of conversion securities
- Stock dividends
- Issuance of new shares of conversion stock
- Merger, consolidation, dissolution

1.2.2.3.7 Factors influencing conversion
- Computation of parity relationship
- Arbitrages
- Forced conversion by issuer
  - Increased dividend on stock
  - Call on bonds when market value of stock is higher than redemption price
  - Granting of substantial subscription rights to stockholders

1.2.2.4 Other types of bonds

1.2.2.4.1 Equipment trust obligations
- Protective covenants

1.2.2.4.2 Income bonds
- Interest paid only if earned
  - Use during reorganizations
  - Long maturities at issuance

1.2.2.4.3 Zero coupon bonds
- Issued at steep discount from par
- Reinvestment risk to investor eliminated
- Interest rate risk magnified due to no coupon payments
- Credit risk magnified due to no coupon payments

Accreted discount taxable annually, creating a negative cash flow (phantom income) unless bonds are enveloped in a tax-deferred investment vehicle
Yields-to-maturity often slightly higher than comparable coupon bearing bonds

1.2.3 Debt Retirement

1.2.3.1 Call feature
Optional vs. mandatory calls
Advantage to issuer
Eliminate issues with unfavorable indenture provisions
Change terms of debt
Reduce debt
Refund high coupon bonds with low coupon bonds
Call protection for investors
Expiration of minimum time period before call can be invoked
Call premiums

1.2.3.2 Put feature
Conventional bonds which allow the holder to redeem the bonds prior to maturity
Allows investors to reinvest principal at higher coupon rates as the opportunity arises
Put bonds carry slightly lower coupon rates than bonds without this feature and thereby save the issuer interest expense, but require the issuer to maintain funds available for early redemption

1.2.3.3 Redemption of bonds
Prior notice required
Partial calls
Bonds to be redeemed drawn by lot by trustee
Amortization through a sinking fund

1.2.3.4 Refunding of bonds
Direct exchange vs. sale of new issue
Refunding prior to maturity
Extension of maturity

1.3 Asset-Backed Securities

1.3.1 Mortgage-Backed Securities

1.3.1.1 Securitization of mortgages
Provide capital for the mortgage industry and liquidity to the housing market
Facilitate issuance of mortgages
Meet legislative intent to provide housing

1.3.1.2 Agency issued mortgaged-backed securities
Federal National Mortgage Association obligations — (Fannie Mae)
Federal Home Loan Mortgage Corporation obligations — (Freddie Mac)

Government National Mortgage Association obligations — (Ginnie Mae)

1.3.1.3 Corporate-issued mortgage-backed securities
Private label

1.3.1.4 Structured mortgage products—Collateralized Mortgage Obligations (CMOs) — usually composed of private mortgages not qualified under VA or FHA Real Estate Mortgage Investment Conduits (REMICs)
"Multiple class" with fast/slow pay segments/tranches
Payments may be allocated disproportionately among segments/tranches
Segments/tranches may take the legal form of debt or shares of beneficial interest
REMICs offer certain tax and accounting benefits to issuers

1.3.1.5 General characteristics of mortgage backed securities
Represent undivided interest in a pool of debt obligations or equities
Underlying asset documents held by a custodian or trustee
Interest and dividend collection serviced by the custodian or trustee
Repayment of interest and principal monthly
Backed by real property
Credit ratings
Current face/amortized value
Fixed or floating rate securities
Maturity profile
Average life
Stated or final maturity
Original face value
Payment delay and payment date
Pool or series number
Prepayment of principal
Trade in the over-the-counter market (OTC)

1.3.1.6 Mechanics of pricing
Bids vs. offers
Components of dollar price
Credit rating
Determination of yield
Expression of dollar price /yield
Identification of pool number
Knowledge of issue size
Prepayment speed assumption
Quotations vs. firm market
Round lot/odd lot
Spread relationships

1.3.2 Other Asset-Backed Securities
Auto loan backed obligations
Credit card debt backed securities
Home equity loan backed securities
Collateralized debt obligations (CDOs)

1.4 Investment Companies

1.4.1 Closed-End Investment Companies

Registered under the Investment Company Act of 1940
Each fund share represents a piece of a securities investment portfolio
Maximum number of fund shares basically fixed at issuance
Fund shares are often exchange listed and trade like equities

1.4.2 Open-End Investment Companies (Mutual Funds)

Registered under the Investment Company Act of 1940
General characteristics
Determining the net asset value (NAV)
Reduced sales charges/quantity discounts
- Breakpoint sales

Redemption of mutual fund shares

1.4.3 Money Market Funds

Sold by prospectus
Mutual funds which only invest in very short-term debt securities and money market instruments
Structured such that one share usually equals $1 NAV
Used often by broker/dealer firms to “sweep” customer credit balances into an “interest bearing” account automatically
Registered under the Investment Company Act of 1940 and subject to the advertising and sales literature restrictions therein
Some funds offer “check” writing features for fund redemption payments to be made to third parties
Funds usually provide periodic statements to account holders independent of the brokers required statements
Fund shares not held by the broker/dealer not covered by SIPC and not insured by FDIC

1.4.4 Unit Investment Trusts (UIT)

Fixed portfolio
Redeemability

1.5 U.S. Government and Agency Securities

1.5.1 U.S. Treasury Securities

Bills
Notes
Bonds
STRIPs
Non-marketable Treasury instruments
- U.S. Savings Bonds
- State and local government series (SLGS)

1.5.2 U.S. Agency Securities

Agency securities having explicit backing (full faith and credit) of the U.S. Government
- Government National Mortgage Association (GNMA or Ginnie Mae)

Tennessee Valley Authority (TVA)
Small Business Administration (SBA)
Private Export Funding Corporation (PEFCO)
Agency securities that **do not** have an explicit backing of the U.S. Government
Federal Agricultural Mortgage Corporation (FAMC or Farmer Mac)
Federal Home Loan Banks (FHLB)
Federal Home Loan Mortgage Association (FNMA or Fannie Mae)
Federal Farm Credit Bank (FFCB)

1.5.3 Characteristics of Government Securities

1.5.3.1 Fundamental characteristics
- Treasury securities
  - Benchmark that is the source of credit, marketability and liquidity for other financial markets
  - Full faith and credit of the United States
- Agency securities
  - Usually offer slightly higher yield than U.S. Treasury issues with similar terms and generally considered to carry the "moral obligation" of the U.S. Government

1.5.3.2 Methods of settlement and delivery
- Settlement
  - Regular
  - Cash
  - When issued
  - Delayed
- Accrued interest
- Forms of delivery
  - Book entry only
  - Fully registered

1.5.3.3 Methods of quotations
- Current yield
- Day count method
- Discount basis/Bond equivalent yield
- Dollar price
- Money market equivalent yield
- Value of a basis point (.0001 or .01%)
- Yield to call
- Yield to maturity
- Yield/spread relationship
- Quotations vs. firm market

1.5.3.4 Principal and interest

1.5.3.5 Maturity and denominations of various Government securities

1.5.3.6 Stripped securities
- Definition
- Mechanics of creating and trading

Types
Treasury STRIPS (Separate Trading of Registered Interest and Principal of Securities)
Proprietary instruments (*e.g.*, CATS, TIGRS)
Agency stripped securities (*e.g.*, Refcorp)

1.5.4 The Market for Government Securities

1.5.4.1 Participants in the market
Federal Reserve
Fiscal agents
Primary dealers
Government securities dealers
Government securities brokers and inter-dealer brokers
Investors, retail and institutional

1.5.4.2 Primary market
1.5.4.2.1 U.S. Treasury auction process
Treasury announcement
Types and mechanics of bids
Competitive
Non-competitive
Treasury Direct
Basis of awards/prorating of awards
Limitations on auction awards
Types of auctions
Standard
Dutch

1.5.4.2.2 Primary market for Agency securities
Selling group
Discount note program
Debenture program
Negotiated
Competitive bidding

1.5.4.3 Secondary market
1.5.4.3.1 Types of transactions
Principal
Agent
1.5.4.3.2 When-issued trading
1.5.4.3.3 Methods of comparing bond prices
Bids vs. offers
Expression of dollar price/yield

1.6 Derivatives/Structured Products (General understanding)
Options
SWAPs
Futures

2.0
The Market for Corporate Securities

2.1 Issuing Corporate Securities

2.1.1 Types of issuer

2.1.1.1 SEC Rule 405—Definitions of terms
- Ineligible issuer
- Unseasoned reporting issuer (not primary S-3 eligible)
- Seasoned issuer (primary S-3 eligible)
- Well-known seasoned issuer ("WKSI")

2.1.1.2 Issuer organizations
- C Corporations
- S Corporations
- Limited Liability Companies
- Limited Partnerships
- Trusts
- Master Limited Partnerships
- REITs

2.1.1.3 Issuer-related liabilities
- SEC Rule 175 – Liability for certain statements by issuers
- SEC Rule 3b-6 – Liability for certain statements by issuers

2.1.1.4 Disclosure of control relationships

2.1.1.4.1 Securities Exchange Act of 1934
- Rule 15c1-5 — Disclosure of control
- Rule 15c1-6 — Disclosure of interest in distributions
- Regulation FD — Fair Disclosure
  - Requirement that when an issuer discloses material nonpublic information to certain persons (such as, securities market professionals and holders of the issuer's securities who may well trade on the basis of the information), it must make public disclosure of that information
  - Enhancement of existing prohibitions against insider trading

2.1.1.4.2 NASD Rules
- Rule 2240 — Disclosure of control relationship with issuer
- Rule 2250 — Disclosure of participation or interest in primary or secondary distribution

2.1.2 Types of Offerings

2.1.2.1 Public offerings
- New issues and over allotment (Greenshoe)
  - Limitations on overselling
- Primary

Secondary

2.1.2.2 Private placements

Private investments in public equities (PIPEs)
Primary
Secondary
Regulation D — Limited offer and sale of securities without SEC registration under the Securities Act of 1933
Accredited investor
Calculation of numbers of purchasers
Purchaser representative
General conditions to be met
Limitation on manner of offering
Limitations on resale
Required documentation and determinations
Documents necessary for electronic private placement offerings
Documentation of customer authorization
Limitation of access
Determination of QIB or accredited investor status
Private placement memorandum

2.1.2.3 Rule 144A — Private resales of securities to institutions

2.1.2.4 Regulation S — Offers and sales made outside the United States without registration under the Securities Act of 1933

2.1.3 Exempted Securities and Exempted Transactions

2.1.3.1 Rule 147 — “Part of an issue”, “person resident” and “doing business within” for purposes of Section 3(a)(11)

Transactions covered
Part of an issue
Nature of the issuer
Offerees and purchasers, person resident
Limitation on resales
Precautions against interstate offers and sales

2.1.3.2 Regulation A offerings

Purpose
Limitation on size of offering
Limitation on time period
Filed at regional SEC office
Preliminary offering circular
Offering circular
Delivery requirements
Prior to or concurrent with a written offer to sell
No later than 48 hours prior to mailing sales confirmation
Currency of offering circular
Tombstone advertisements

2.1.3.3 Rule 144 — Persons deemed not to be engaged in a distribution and therefore not underwriters

- Transactions covered
  - Sales of control securities
  - Sales of restricted securities
- Availability of financial information
- Holding period (applies to restricted securities only)
- Quantity limitations
- Manner of sale
- Form 144 filing requirements

2.1.3.4 Section 4(1) Transactions by any person other than an issuer, underwriter or dealer

2.1.3.5 Section 4(3) Transactions by a dealer

2.1.3.6 Section 4(4) Broker's transactions

2.1.4 Shelf Distributions

2.1.4.1 Rule 415—Delayed or continuous offering and sale of securities (shelf distribution)

- Form S-1 filing requirements
- Issuers may register to sell limited amounts of securities on a delayed basis for up to two years

2.1.4.2 Rule 405—Definition of terms

- Automatic shelf registration statement

2.1.5 Mergers and Acquisitions

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

- Transactions within the rule
- Communications not deemed a "prospectus" or "offer to sell"
- Persons and parties deemed to be underwriters
- Resale provisions for persons and parties deemed to be underwriters
- Definition of "person"

2.1.5.2 Form S-4 requirement

2.1.5.3 Regulation M-A—Mergers and acquisitions

2.1.6 Securities Distribution

2.1.6.1 Types of underwriting commitments

2.1.6.1.1 Firm commitment

- Competitive bid or negotiated

2.1.6.1.2 Standby commitment

- All or none
- Best efforts

Mini-max
Market-out clauses

2.1.6.1.3 Securities Exchange Act of 1934 and SEC Rules Thereunder
Rule 10b-9 — Prohibited representations in connection with certain offerings
Rule 15c2-4 — Transmission or maintenance of payments received in connection with underwritings

2.1.6.2 Due diligence — process to evaluate financing proposal
Letter of intent
Financial data
Industry data
Operational data of issuer
Management and employee relations
Research, product development, and expansion

2.1.6.3 Commitment committee

2.1.6.4 Underwriting syndicate
Role of the syndicate manager
Liability of syndicate members
Duration of the syndicate
Agreement among underwriters
Authorization of manager to execute final underwriting contract
Negotiated during waiting period prior to effectiveness of registration statement
Formation of underwriting group
Blue Sky provisions

2.1.6.5 Underwriters' compensation
Establishing underwriters' retention
Components of underwriters' spread
Management fee
Underwriter's fee

2.1.6.6 Mechanics of distributions

2.1.6.6.1 Formation of the selling group
Handled by managing underwriter
Type of selling group
Selling group agreement
Retention
Designations
Liabilities of selling group members vs. underwriters' liabilities
Selling group concession or reallowance
Compensation in the form of warrants of stock
Allocation of new issues
Issuer directed shares
Payment and delivery instructions
Prohibitions against trading in the underwritten security during period of distribution
Underwriting agreement

2.1.6.6.2 Role of the placement agent
- Role of the placement agent
- Contractual obligation to issuer
- Identification of potential investors
- Liabilities of the placement agent
- Distribution of proceeds

2.1.6.6.3 Finders
2.1.6.6.4 SEC Rule 3a4-1—Associated persons of an issuer deemed not to be brokers

2.1.6.7 Pricing of the issue
- Determined just prior to effective date of registration
- Indications of interest
- Priced according to prevailing:
  - Market conditions
  - Industry conditions
  - Issuer needs

2.1.6.8 Syndicate Settlement
- Pro-rata distribution of managing underwriter's short position losses among syndicate members
- Closing of books
- NASD Rule 11880 — Settlement of syndicate accounts
  - Definitions
  - Final settlement
  - Settlement of underwritten public offerings

2.1.6.9 Securities distribution rules

2.1.6.9.1 Stabilization
- SEC Regulation M — Anti-manipulation rules concerning securities offerings
  - Rule 100—Definitions of "stabilization" and "stabilizing
  - Rule 104 — Stabilizing and other activities in connection with an offering
- NASDAQ Rules
  - Rule 4200(b)(36) — Stabilizing bid
  - Rule 4614 — Stabilizing bids
  - Rule 4624 — Penalty bids and syndicate covering transactions

2.1.6.9.2 Tender offers
- SEC Rule 13e-4 — Tender offers by issuers
  - Schedule 13E-4 Filing requirement
- SEC Rule 14e-1 — Unlawful tender offer practices
- SEC Rule 14e-3 — Transactions in securities on the basis of material, non-public information in the context of tender offers
- SEC Rule 14e-4 — Prohibited transactions in connection with partial tender offers
- SEC Rule 14e-5—Prohibiting purchases outside of a tender offer

2.1.6.9.3 NASD rules
- Rule 2710 — Corporate financing rule

Rule 2720 — Distribution of securities of members and affiliates — conflicts of interest
Rule 2730 — Securities taken in trade
Definitions
IM-2730 — Safe harbor and presumption of compliance
Rule 2740 — Selling concessions, discounts, and other allowances
IM-2740 — Services in distribution
Rule 2750 — Transactions with related persons
Rule 2760 — Offerings "at the market"
Rule 2770 — Disclosure of price in selling agreements
Rule 2780 — Solicitation of purchases on an exchange to facilitate a distribution of securities
Rule 2790 — Restrictions on purchase and sale of initial equity public offerings

2.1.7 Issue/Deal-Related Communications (Distribution of information during an underwriting)

2.1.7.1 Prospectus requirements

Rule 134 — Communications not deemed a prospectus
Rule 135 — Notice of certain proposed offerings
Rule 135A — Generic advertising
Rule 137 — Definition of "offers", "participates", or "participation" in Section 2(11) in relation to certain publications by persons independent of participants in a distribution
Rule 138 — Definition of "offer for sale" and "offer to sell" in Sections 2(10) and 5(c) in relation to certain publications
Rule 139 — Definition of "offer for sale" and "offer to sell" in Sections 2(10) and 5(c) in relation to certain publications
Rule 153A — Definition of "preceded by a prospectus" as used in Section 5(b)(2) of the Act, in relation to certain transactions requiring approval of security holders
Rule 163—Exemption from Section 5(c) of the Act for certain communications by or on behalf of well-known seasoned issuers
Rule 163A—Exemption from Section 5(c) of the Act for certain communications made by or on behalf of issuers more than 30 days before a registration statement is filed
Rule 164—Post-filing free writing prospectuses in connection with certain registered offerings
Rule 168—Exemptions from Sections 2(a)(10) and 5(c) of the Act for certain communications of regularly released factual business information and forward-looking information
Rule 169—Exemptions from Sections 2(a)(10) and 5(c) of the Act for certain communications of regularly released factual business information
Rule 172—Delivery of prospectus
Rule 174 — Delivery of prospectus by dealers; exemptions under Section 4(3) of the Act
Rule 427 — Contents of prospectuses used after nine months
Rule 430 — Prospectus for use prior to effective date
Rule 430A-- Rule 430—Prospectus for use prior to effective date

Rule 430B – Prospectus in a registration statement at the time of effectiveness
Rule 433 – Conditions to permissible post-filing free writing prospectuses
Well-known seasoned issuers
Non-reporting and unseasoned issuers
Rule 460 — Distribution of preliminary prospectus
Section 10 — Information Required in Prospectus
Prospectus used more than nine months
Summary prospectus
Purpose of the prospectus
Relation to registration statement
Timeliness of information
Permits investor to make an informed decision
Rule 15c2-8 — Delivery of prospectus
Preliminary prospectus
Final prospectus
Delivery to associated persons
Delivery to other broker/dealers by managing underwriter

2.1.7.2 Registration statements
Section 7 — Information required in registration statement
Section 8 — Taking effect of registration statements
Amendments to registration statements prior to and after effective date
Stop orders
Form SB-1/SB-2 filing requirement
Regulation S-K—Content of non-financial statements portions of registration statements under the Securities Act of 1933 and other documents required under the Securities Exchange Act of 1934
Regulation S-X—Financial statements required to be filed as part of registration under Sections 12, 13 and 14 of the Securities Act of 1933

2.1.7.3 Special issues dealing with electronic offerings
SEC Release 34-42728—Use of electronic media

2.1.8 Research Analysts and Research Reports

2.1.8.1 Securities Exchange Act of 1934 and SEC Rules Thereunder
SEC Regulation AC—Analyst certification

2.1.8.2 NASD Rule 2711 — Research analysts and research reports
Restrictions on relationship with research department
Restrictions on communications with the subject company
Prohibition on participation in road shows
Restrictions on research analyst compensation
Prohibition of promise of favorable research
Restrictions on publishing research reports and public appearances; termination of coverage
Restrictions on personal trading by research analysts
Quiet periods relating to public offerings
Disclosure requirements
Annual attestation of research supervisory procedures

Prohibition of retaliation against research analysts

2.1.9 Liabilities Resulting from Offering Communications

2.1.9.1 Section 11 — Civil liabilities on account of false registration statement
Civil liabilities of issuers and underwriters relative to accuracy and completeness of information contained in registration statement
Non-approval by an absence of any guarantees on the part of the SEC relative to accuracy and completeness of registration statement

2.1.9.2 Section 12 — Civil liabilities arising in connection with prospectuses and communications
Rule 159—Information available to purchaser at time of contract of sale
Rule 412—Modified or superseded documents

2.1.9.3 Section 15 — Liability of controlling persons

2.1.9.4 Section 17 — Fraudulent interstate transactions

2.1.9.5 Section 23 — Unlawful representations

2.2 Trading Corporate Securities

2.2.1 Overview of Markets Regulated by NASD

2.2.1.1 NASDAQ securities

2.2.1.1.1 NASDAQ Tier securities
NASDAQ Capital markets securities (SmallCap)
NASDAQ Global market securities (NNM)
NASDAQ Global Select market securities
2.2.1.1.2 Preferred securities
2.2.1.1.3 Convertible debt
2.2.1.1.4 ADRs and International securities

2.2.1.2 Over-the-counter securities
Pink Sheets and other similar trading facilities (www.pinksheets.com)
Third market
Trading in exchange listed securities in OTC market
Consolidated tape reporting requirement
Fourth market
Private transactions between institutional investors without the use of a broker/dealer

2.2.1.3 OTC Bulletin Board
Allows participants to enter, update, retrieve quotation information on non-NASDAQ OTC stocks on real-time basis
Displays firm quotations
Displays unpriced indications of interest
Rule 6500 — OTC Bulletin Board Service
Rule 6510 — Applicability

Rule 6520 — Operation of service
Rule 6530 — OTCBB-eligible securities

2.2.1.4 NASDAQ Market Center Requirements

2.2.1.4.2 Execution services
Rule 4751—Definitions
Rule 4755—Order entry parameters
Rule 4756—Entry and display of quotes and orders
Rule 4757—Book processing
Rule 4758—Order routing
Rule 4761—Adjustment of open quotes and/or orders

2.2.1.4.3 Alternative trading systems
SEC Regulation ATS
Electronic Communications Networks (ECNs)

2.2.1.5 NASD marketplace rules regarding display, transaction reporting and order tracking obligations

2.2.1.5.1 NASD alternative display facility
Rule 4110A—Use of NASD alternative display facility data systems
Rule 4130A—Prohibition from locking or crossing quotations in NMS stocks
Rule 4200A—Definitions

2.2.1.5.2 Trade Reporting Facility (TRF)
Function of the Trade Reporting Facility
A vehicle for reporting off-exchange transactions in equity securities

2.2.1.5.3 Other NASD transaction reporting obligations rules
Rule 6550—Transaction reporting in OTC Bulletin Board Service
Rule 6620—Transaction reporting in over-the-counter equity securities
Rule 6920—Transaction reporting in direct participation programs

2.2.1.5.4 Trade reporting and compliance engine rules (TRACE Rules)
Rule 6210 — Definitions
Rule 6230 — Transaction reporting

2.2.1.5.5 Trade comparison aervice (TRACS)
Rule 6110A—Definitions
Rule 6130A—Trade report input

2.2.1.5.6 NASD order audit trail systems
Rule 6951—Definitions
Rule 6952—Applicability
Rule 6953—Synchronization of member business clocks
Rule 6954—Recording of order information
Rule 6955—Order data transmission requirements

2.2.1.5.7 NASD Clearing and comparison rules
- Rule 6110 — Definitions
- Rule 6120 — Trade reporting participation requirements
  - Mandatory participation for clearing agency members
  - Participant obligations
    - Access
    - System participant obligations
    - Clearing broker obligations
- Rule 6130 — Trade report input
- Rule 6140 — Trade report processing

2.2.1.6 Requirements for NASDAQ market makers and other market center participants

2.2.1.6.1 NASD Rules
- Rule 2460 — Payments for market making
- Rule 4300A—Quote and order access requirements
- Rule 4611A—Registration as an ADF market maker or an ADF ECN
- Rule 4618A—Clearance and settlement
- Rule 4619A—Withdrawal of quotations
- Rule 6540 — Requirements applicable to market makers
  - Permissible quotation entries (one-sided quotes)
  - Impermissible quotation entries
  - Voluntary termination of registration
  - More than one trading location
  - Clearance and settlement

2.2.1.6.2 NASDAQ Rules
- Rule 4611—NASDAQ Market Center participant registration
- Rule 4612 — Registration as a NASDAQ market maker
  - NASD member
  - Minimum net capital requirements
- Rule 4619—Withdrawal of quotations and passive market making

2.2.1.6.3 NASD/NASDAQ Rules
- Rules 4617A/4617 — Normal business hours
  - Extended hours trading (including pre-market hours)

2.2.1.6.4 SEC Regulation M — Anti-manipulation Rules Concerning Securities Offerings
- Rule 103 — Passive market making in NASDAQ stocks

2.2.1.6.5 Determination of spread
- Financial condition of issuer
- Size of issue
- Activity in issue
- Market conditions

2.2.1.6.6 Types of customer business
- Retail
- Institutional

2.2.1.7 Quotation requirements (general knowledge)
NASD Rule 3310 — Publication of transactions and quotations
IM-3310 — Manipulative and deceptive quotations
Marking the close/Marking the opening
NASD Rule 3320 — Offers at stated prices
IM-3320 — Firmness of quotations
Backing-away
NASD Rule 6630—Recording of quotation information
NASD Rule 6640—Submission of Rule 15c2-11 information on non-exchange-listed securities
NASD Rule 6650—Minimum quotation size requirements for OTC equity securities
NASD Rule 4613A/NASDAQ Rule 4613—Character of quotations
Quotation requirements and obligations
SEC Rule 15c2-7 — Identification of quotations
SEC Rule 15c2-11 — Initiation or resumption of quotations with specified information

2.2.1.8 Trading and market halts

2.2.1.8.1 Trading halts
NASD Rule 3340 — Prohibitions on transactions during trading halts
NASD Rule 4120A/NASDAQ Rule 4120 — Trading halts
Authority to initiate trading halts
Procedure for initiating a trading halt
NASDAQ IM-4120-1—Disclosure of material information
NASD Rule 4633—Trading halts
NASD Rule 6545—Trading and quotation halt in OTCBB-eligible securities
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

2.2.1.8.2 Market halts
Agreement between NASDAQ and NYSE (circuit breakers)
NASDAQ Rule 4121 — Market closing

2.2.1.9 Anti-competitive trading practices (21a Report)
Collusion
Price/size/spread convention
Intimidation
Harassment
NASD Rule 2110 — Standards of commercial honor and principles of trade
IM-2110-5 — Anti-intimidation/coordination

2.2.2 Exchange Markets

2.2.2.1 Listing criteria (general understanding)

2.2.2.2 The auction market
Trading post

Floor broker (member)
Role of the specialist
Maintains the limit order book
"Stops" stock
Agent vs. principal functions of specialist
Maintains an orderly market
Automated trading systems (DOT, PACE, AUTO, AMOS, SCOREX)
Types of orders
Block trading

2.2.2.3 Consolidated Tape Network
Reports all executions of exchange-listed securities, regardless of where the transactions occurred
Use of the tape for price information
Reports of third market activity

2.3 Securities Exchange Act of 1934 (Secondary-Market)

2.3.1 Regulation M — Anti-manipulation Rules Concerning Securities Offerings
Rule 101—Activities by distribution participants
Rule 102—Activities by issuers and selling security holders during a distribution

2.3.2 Section 3 — Certain Definitions Under the Act
Section 3(a)(38) — Market maker
Section 3(a)(39) — Statutory disqualification

2.3.3 Regulation NMS — Regulation of the National Market System

2.3.3.1 Rule 600 — NMS security designation and definitions
Block size
Electronic communications network
Exchange market maker
Exchange-traded security
NMS security/stock
OTC market maker
Quotation size

2.3.3.2 Rule 604 — Display customer limit orders
Specialists and OTC market makers

2.3.3.3 Rule 605 — Disclosure of order execution information

2.3.3.4 Rule 606 — Disclosure of order routing information

2.3.3.5 Rule 607 — Customer account statements

2.3.3.6 Rule 612 — Minimum pricing increments

2.3.4 Section 12 — Registration Requirements for Securities
Registration requirements for securities trading in the secondary market

2.3.5 Section 13 — Periodical and Other Reports

Disclosure of beneficial ownership of 5% or more in equity security registered with the SEC

2.3.6 Penny Stock Rules

Rule 3a51-1 — Penny stock
Rule 15g-1 — Exemptions for certain transactions
Rule 15g-2 — Risk disclosure document relating to the penny stock market
Rule 15g-3 — Broker or dealer disclosure of quotations and other information relating to the penny stock market
Rule 15g-4 — Disclosure of compensation to brokers or dealers
Rule 15g-5 — Disclosure of compensation to associated persons in connection with penny stock transactions
Rule 15g-6 — Account statements for penny stock customers
Rule 15g-9 — Sales practice requirements for certain low-priced securities

2.4 NASD —Conduct Rules

2.4.1 Rule 2110 — Standards of Commercial Honor and Principles of Trade

IM-2110-2 — Trading ahead of customer limit order
IM-2110-3 — Frontrunning policy
IM-2110-4 — Trading ahead of research reports

2.4.2 Rule 2111 — Trading Ahead of Customer Market Orders

2.4.3 Rule 2320 — Best Execution and Interpositioning

2.4.4 Rule 3380—Order Entry and Execution Requirements

2.4.5 Day Trading Accounts

Rule 2360 — Approval procedures for day-trading accounts
Rule 2361 — Day-trading risk disclosure statement
Rule 2520(f)(8)(B) — Day trading
- Definition of pattern day trader
- Definition of day trading buying power
- Special requirements for pattern day traders

3.0
Evaluation of Securities and Investments

3.1 Securities Analysis

3.1.1 Fundamental Analysis

3.1.1.1 Reading financial statements
3.1.1.1.1 The balance sheet
- Assets
  - Current assets
  - Fixed assets
  - Intangible assets
- Liabilities
  - Current liabilities
  - Long-term debt
- Stockholders equity (net worth)

3.1.1.1.2 The income statement
- Net sales
- Operating expenses
- Selling and administrative expenses
- Depreciation
- Operating income
- Internal rate of return (IRR)
- Non-operating income
- Earnings before interest and taxes (EBIT)
- Interest on debt
- (Pre-tax) income (EBT)
- Earnings before interest, taxes, depreciation, and amortization (EBITDA)
- Taxes
- Net income (EAT)

3.1.1.1.3 Importance of footnoted items
- Extraordinary items
- Non-recurring items
- Fully diluted earnings

3.1.1.1.4 Corporate changes affecting financial statements
- New issue of securities
- Exercise of rights or warrants
- Conversion of convertible securities
- Stock dividends and splits
- Cash dividends

3.1.1.1.5 Sources and uses of funds statement

3.1.1.2 Analyzing financial statement

3.1.1.2.1 Working capital
- Cash flow from depreciation or deferred taxes
- Current ratio
- Net current assets
- Retained earnings

3.1.1.2.2 Profitability ratios
- Discounted cash flow analysis
- Dividend payout ratio
- Earnings per share/Cash flow per share
- Inventory valuation (FIFO, LIFO)
- Margin of profit
- Price earnings ratio (P/E)
- Return on equity (ROE)
- Return on investment (ROI)
- Weighted average cost of capital (WACC)

3.1.1.2.3 Short-term liquidity measures
- Acid test ratio
- Quick ratio

3.1.1.2.4 Long-term solvency measures
- Times interest earned ratio
- Preferred dividend coverage
- Leverage ratios
  - Stockholder’s equity to total capital
  - Total debt to total capital
  - Net debt to EBITDA

3.1.1.3 Analyzing corporate debt
- Bond ratings
  - Standard and Poor’s
  - Corporation
  - Moody’s Investors Service
- Protective provisions of the issue
- Call provisions
- Debt to equity ratio
- Interest coverage ratio
- Interest rate risk/yield curve
- Times interest earned ratio
- Net tangible assets per bond
- Yields
  - Coupon rate (nominal yield)
  - Current yield
  - Yield to maturity
  - Yield to call
  - Basis points
- Special considerations for very low-grade (“junk”) bonds
  - Usually rated lower than BB
  - Possess very high speculative elements as to the repayment of principal and interest

Often trade more like equities than higher-grade bonds
Credit risk

3.1.1.4 Analyzing equity corporate securities
Book value
Price to book value ratio
Stated
Tangible
Goodwill
Market value
Stock volatility—beta

3.1.2 Technical Analysis

3.1.2.1 Used in timing of transactions

3.1.2.2 Basic chart patterns and terms
Trading channels
Uptrend
Downtrend
Support levels
Resistance levels
Gaps
Accumulation/distribution
Consolidation
Overbought
Oversold
Advanced-decline lines
Short interest ratio
Odd lot index
Moving averages

3.1.2.3 Market indices
Broad-based
Narrow-based

3.1.3 Special Situations
Tender offers
Riskless arbitrage
Risk arbitrage

3.2 Economics

3.2.1 Business Cycles

3.2.1.1 Phases
Expansion
Peak
Recession
Trough
Depression

Inflation/deflation

3.2.1.2 Business cycle indicators
Leading economic indicators
Coincident economic indicators
Lagging economic indicators

3.2.1.3 Definition and Impact of Economic Indicators
Business inventories
Consumer confidence
Consumer credit
Consumer Price Index (CPI)
Gross Domestic Product (GDP)
Components of GDP
Employment Cost Index (ECI)
Employment data
Existing home sales
Housing starts and permits
Industrial production
Merchandise trade balance
National Income (NI)
Components of NI
New home sales
Producer Price Index (PPI)
Retail sales
Weekly jobless claims

3.2.2 Monetary Policies of the Federal Reserve (Central Banks)

3.2.2.1 Objectives of Federal Reserve Monetary Policy
Price stability
Long-term economic growth in an environment of low inflation (*i.e.*, an inflation rate such that economic plans are not impacted by inflationary expectations)
Low unemployment rate
Steady non-inflationary growth

3.2.2.2 Major factors influencing Federal Reserve Monetary Policy
Economic indices
Inflation signals and pressures
Rate of capital formation and investment
Foreign exchange considerations

3.2.2.3 Supply of money and interest rates
Relation to level of economic activity
Relation to prices of and return on securities investments
M1, M2, M3

3.2.2.4 Tools of the Federal Reserve Board
Open-market operations
Repurchases and reverse repurchases

Purchases and sales of Treasury securities
Changes in the discount rate
Changes in bank reserve requirements
Federal funds
Margin requirements (Regs T and U)
Moral suasion

3.2.2.5 Sequence effects generated by a Fed policy designed to contract (expand) the money supply

3.2.3 Fiscal Policies of the Federal Government

Effects of use of congressional or executive authority to raise/lower federal taxes and/or spending
Effects of budget deficits/surpluses on the economy as a result of changes in fiscal policy
Effects of automatic stabilizers in cushioning economic swings (e.g., changes in private savings rates, welfare transfer payments, unemployment compensation, foreign exchange activity, etc.)

3.2.4 International Economic Factors

3.2.4.1 Currency valuation
Fluctuation
Exchange rate of U.S. dollar vs. other currencies

3.2.4.2 Balance of payments
Current account surpluses/deficits
Impact of foreign monetary and fiscal policy on U.S. rates
Trade surpluses/deficits

3.3 Investment Planning and Investor Suitability

3.3.1 Investment Objectives

3.3.1.1 Principal accumulation

3.3.1.2 Income

3.3.1.3 Preservation of capital

3.3.1.4 Growth/Aggressive growth/ Speculation

3.3.1.5 Tax advantage

3.3.2 Investment Considerations

Ability to risk loss of principal
Ability to risk loss of investment income
Ability to assume purchasing power risk with regard to principal and income
Ability or willingness to hold investments over relatively long periods/time horizon
Requirements for marketability of securities held

Tax considerations
Investment temperament and investment experience

3.3.3 Financial Status

Balance sheet
Income and expenses
Participation in benefit plans
Expected changes in financial status

3.3.4 Investment Strategies

Dollar cost averaging
Hedged/unhedged positions
Laddering of the portfolio
Market timing
Leveraging
  Purchasing on margin
  Selling short

3.3.5 Regulatory Requirements

3.3.5.1 NASD Rule 2310 — Recommendations to customers (suitability)
  IM-2310-2 — Fair dealing with customers
    Recommending speculative low-priced securities
    Excessive trading activity
    Fraudulent activity
    Recommending purchases beyond customer capability
  Fair dealing with customers with regard to derivative products or new financial products
  IM2310-3—Suitability obligations to institutional customers

3.3.5.2 NASD Rule 2315—Recommendations to customers in OTC equity securities

3.3.5.3 NASD Rule 3120 — Use of Information obtained in fiduciary capacity

3.3.6 Risk and the Construction of Investment Portfolios

3.3.6.1 Credit risk and portfolio policies
3.3.6.1.1 Definition of credit risk and its effect on future values of income and principal in different types of investments
3.3.6.1.2 Appropriate mix of conservative and speculative securities in a portfolio derived from customer's ability to risk loss of principal and income
3.3.6.1.3 Concentration of investment in a small number of issues vs. diversification
3.3.6.1.4 Concentrated portfolios or portfolios heavily invested in speculative securities require an ability to hold securities during market fluctuations and also require significant investment management talents

3.3.6. 2 Interest rate risk and portfolio policies
3.3.6.2.1 Definition of interest rate risk and its effect on future values of income and principal in different types of investments
3.3.6.2.2 Appropriate mix of maturity schedules on debt obligations derived from customer's ability to risk loss of principal and income

Effect of long maturities
Effect of short maturities
Averaging effect on yields of various maturity spacing strategies

3.3.6.3 Purchasing power risk and portfolio policies
3.3.6.3.1 Definition of purchasing power risk and its effect on the constant dollar value of income and principal in different types of investments
3.3.6.3.2 Need to reconcile investment policies with regard to financial risk with policies designed to minimize loss of purchasing power
3.3.6.3.3 Balanced portfolio of bonds, preferred, common, and convertible issues provides downside protection and potential inflation hedge

3.3.6.4 Other risk factors and portfolio policies
3.3.6.4.1 Marketability of securities in the portfolio and customer liquidity needs
3.3.6.4.2 Taxability of securities in the portfolio and customer tax bracket
3.3.6.4.3 Callability of securities in the portfolio and the importance of call protection given customer investment objectives
3.3.6.4.4 Convertibility of securities in the portfolio, the value of the conversion feature and the effect of potential forced conversions on customer objectives
3.3.6.4.5 Economic, social and political risks and their potential effects on customer investments
3.3.6.4.6 Currency rate risk

3.3.7 Policies with Respect to Buying and Selling Securities

3.3.7.1 Active policies
Attempt to time transactions to coincide with expected major market movements
Attempt to reconfigure portfolio structure to coincide with market preferences
Purchase securities on margin
Unhedged option, financial futures, and short selling strategies
Risk arbitrage techniques

3.3.7.2 Passive policies
Pursue investment strategy without close regard to market price swings
Time diversification techniques (i.e., dollar cost averaging, constant ratio plans, etc.)
Spacing of bond maturities and recycling funds from matured issues in line with original maturity schedule
Transactions designed to take advantage of yield differentials in the market
Hedged option, financial futures, and short selling strategies

3.3.8 Retirement and Tax Advantaged Plans

3.3.8.1 Individual retirement plans
Individual Retirement Accounts (IRAs)
Traditional IRAs
Roth IRAs

3.3.8.2 Employer-sponsored retirement plans

HR10 plans (formerly KEOGH plans)
Simplified employee pension plans (SEP)
401(k) plans
403(b) plans
Defined benefit plans
Defined contribution plans
Profit sharing
Payroll deduction plans

3.3.8.3 Retirement plan terms
ERISA
Vesting
Non-discrimination tests
Fiduciary
Custodian
Sponsor
Roll-over
Qualified

3.3.8.4 Deferred compensation plans

3.3.8.5 Tax Advantaged Plans
Section 529 College Savings Plans

3.4 Tax Consequences of Securities Transactions

3.4.1 Identification of Securities

3.4.1.1 Relationship between accurate identification of securities and determination of cost basis

3.4.1.2 FIFO — required method of securities identification when investors cannot identify transacted shares

3.4.1.3 "Identified shares" method

3.4.1.4 Importance of retaining trade confirmations and/or other written notices in order to establish identification

3.4.2 Holding Periods of Securities

3.4.2.1 Trade date determines date of acquisition

3.4.2.2 Trade date of securities sold determines end of holding period and must be used by investor to establish year in which gain or loss is claimed

3.4.3 Tax Basis of Securities

3.4.3.1 Purchases

3.4.3.2 Exchange of securities

3.4.3.3 Stock dividends

3.4.3.4 Stock rights

3.4.3.5 Gifts of securities

3.4.3.6 Inheritance of securities

3.4.3.7 Need to refer to published capital changes for exact identification of tax basis of particular securities affected by various distributions

3.4.4 Tax Treatment of Securities Transactions

3.4.4.1 Definition of a capital gain (loss)

3.4.4.2 Computation of net capital gains (losses)

3.4.4.3 Ordinary income tax treatment of realized net capital gains

3.4.4.4 Deduction of net capital losses from ordinary income

3.4.4.5 Limitation on net capital loss deductions

3.4.4.6 Loss carryover provisions

3.4.5 Tax Treatment of Interest Income on Debt Obligations

3.4.5.1 Corporate obligations — ordinary income taxable at federal, state and local levels

3.4.5.2 U.S. Government and Agency obligations
- Federal taxation
- Exemption from taxation at state level for direct government obligations and certain agency securities
- Other agency securities taxable at state level

3.4.5.3 State and municipal obligations
- Ordinary exempt from Federal taxation
- Federal taxation of “private activity bonds”
- Possible exemption from taxation in issuer state
- Possible taxation in investor’s state of domicile

3.4.6 Tax Treatment of Dividend Income From Corporate Stock

3.4.6.1 Cash dividends

3.4.6.2 Stock dividends (ordinary) and effect on cost basis

3.4.6.3 Stock rights-receipt ordinarily not a taxable event

3.4.6.4 Deductibility of a specified percentage of dividend income received by a corporation from stock holdings in other domestic and certain foreign corporations

3.4.7 Tax Treatment of Unearned Income of Minor Children

"Net unearned income" taxed at highest parental rate

3.4.8 Wash Sale Rules

3.4.8.1 Definition of a wash sale

Applicable time period of 30 days prior to and after a sale

3.4.8.2 Definition of "substantially identical" property including derivative securities

Case-by-case determination by IRS

General guidelines

3.4.8.3 Basis of substantially identical securities increased by amount of disallowed loss

3.4.9 Special Tax Features of Bonds

3.4.9.1 Amortization of bond premiums (taxable bonds)

Election by investor

Amortized premium equals purchase cost minus value at maturity divided by number of years to maturity (or call)

Subtract amortized premium from each year's taxable income

Basis reduced by amount of amortized premium

Adjustment for bond premiums due to conversion privilege

3.4.9.2 Amortization of bond discounts (taxable bonds)

3.4.9.2.1 Discounted money market obligations

Interest income recognized at redemption or when sold

3.4.9.3 Effect of accrued interest on bond income and cost basis at purchase and sale

3.4.9.4 Accretion of discounts

3.4.10 Tax Deductions Available to Investors for Fees, Services, and Other Expenses Related to Investments

3.4.10.1 Deductible against ordinary income to the extent such expenses exceed 2% of "adjusted gross income"

3.4.10.2 Deductibility of interest on margin accounts

Necessity to make credits to the account sufficient to absorb interest charges for the taxable year

Interest attributable to carrying tax exempt securities or for personal use not deductible

Investment interest limitations

4.0
Handling Customer Accounts and Securities Industry Regulations

---

4.1 Client Accounts

4.1.1 Types of Accounts

4.1.1.1 Cash

4.1.1.2 Margin (general account)

4.2 Account Documentation

4.2.1 Customer Information

4.2.1.1 Identification data
- Full name
- Address and telephone number(s)
- Social Security or tax identification number
- Citizenship
- Whether of legal age
- Net worth
- Income
- Power of attorney
- Occupation, employer, type of business
- Whether associated with NASD firm
- Signature of registered representative introducing the account RR and acceptance of account by principal of firm
- Signature of principal/supervisor who accepts the account

4.2.1.2 NASD Rule 3110 — Books and records
- Rule 3110(b) — Marking of customer order tickets
- Rule 3110(c) — Customer account information
- Rule 3110(j) — Changes in account name or designation
- IM3110 — Customer account information

4.2.2 Supplementary Documentation

- Name and signature of person(s) with authority to create activity in account
  - Limited authorization
  - Full authorization
- Discretionary accounts — required documentation and approval
  - SEC Rule 15c1-7—Discretionary accounts
  - NASD Rule 2510—Discretionary accounts
- Joint account agreement form
  - Tenants in common
  - Joint tenants with rights of survivorship
- Custodial accounts under the Uniform Gifts/Transfers to Minor Act
  - Irrevocability of gift
  - Custodian

Appointed by donor
Successor custodians
Legal ownership vested in minor
Securities registered to beneficiary upon attaining majority
Must be cash account — no margin
Securities in account cannot be pledged
Reinvestment of cash proceeds, dividends and interest within reasonable period
Use of custodial property for support of minor
Determination of QIB or accredited investor status
QIB certification letter
Representation letter regarding purchaser eligibility standards (representations and warranties letter)
Subscription agreement
Investor questionnaire
Customer identification program (CIP) documentation
Evidence of authority for:
Corporate accounts
Partnership agreement
Trust agreement/summary of trustee power
Guardianship account
W-9 backup withholding form

4.2.3 Special Requirements for Accounts of Deceased Persons

4.2.3.1 Uniform Transfer-on-Death Security Registration Act

4.2.3.2 Outstanding orders
Cancellation
Freeze on assets in account until necessary documents are obtained from administrator or executor of estate

4.2.3.3 Death of a joint tenant
Presentation of death certificate and inheritance tax waiver before assets in account are released

4.2.3.4 Death of tenant-in-common
Freeze on assets and acceptance of orders until instructions are received from survivor(s) and executor or administrator of decedent's estate together with necessary inheritance tax waivers

4.2.3.5 Death of a partner
Required authority from surviving partners before executing any further orders

4.2.3.6 Death of principal on power of attorney
Termination of the power

4.3 Transactions in Accounts

4.3.1 Entering an Order

- Designation of account (customer or firm)
- RR identifier
- Originating office identifier (if applicable)
- Security description (symbol)
- Number of shares or bonds
- Where traded (NYSE, AMEX, NASDAQ, etc.)
- Time of execution
- Buy
- Sell
  - Long
  - Short
- Lender's privileges
  - Return of securities
  - Marking to the market
  - Interest on bonds loaned
  - Cash dividends
  - Stock dividends
  - Subscription rights
- Closing the contract (receipt and delivery of securities)
  - Deliver out securities to lender
  - Purchase securities in market and deliver to lender
    - Profit or loss on transaction

4.3.2 Types of Transactions

- Principal
- Agency
- Riskless principal
- Cross
- Dual agency
- Bought through or sold through another broker

4.3.3 Types of Orders

- Market orders
- Limit orders—protection and display
- Stop orders
- At-the-opening
- Stipulations
  - Day
  - Good-till-canceled (open)
  - Market not held

4.3.4 Settlement Instructions If Not Established When Account Was Opened

- Regular way
- Cash
- Next day delivery
- With prospectus
- Seller 30, 60, 90 days
- Delayed delivery (unspecified)
- COD (Delivery versus Payment)
- SEC Rule 15c6-1—Settlement cycle

4.3.5 Records of Customer Transactions (Confirmations)

SEC Rule 10b-10 — Confirmation of transactions
- When sent to customers

NASD IM2110-6—Confirmation of callable common stock

NASD Rule 2230 — Confirmations
- IM-2230-1 "Third market" confirmations

Confirmations and statements sent to third parties

4.3.6 Short Sales

4.3.6.1 Special considerations for short sale transactions
- Execution of short sales
  - Margin accounts only
- Borrowing securities for short sales
  - Securities held by executing broker/dealer for margin accounts of customers
- Borrowing from other broker/dealers or institutional investors
- List of available securities must be less than 24 hours old

4.3.6.2 Securities Exchange Act of 1934 and SEC Rules Thereunder
- Regulation M
  - Rule 105 — Short selling in connection with a public offering
- Regulations SHO
  - Rule 200—Definition of "short sale"
  - Rule 203—Borrowing and delivery requirements

4.3.6.3 NASD Rule 3210 — Short sale delivery requirements

4.4 Customer Delivery/Payment

4.4.1 Securities Must be Delivered With Proper:

Endorsements
Assignments
Stock powers
Coupons attached (if applicable)

4.4.2 Payments by Check

Checks should normally be made payable to the broker/dealer or clearing broker
Checks paid to customers will be payable to the broker/dealer or clearing broker
Checks paid to customers will be payable to the registration on the securities certificate, or in the case of bearer securities, to the name of the customer's account as it is carried in the records of the broker/dealer

4.4.3 Special Considerations With Respect to Foreign Securities

4.5 Extensions of Credit in the Securities Industry

4.5.1 Regulatory Requirements under Regulation T of the Federal Reserve Board; NASD Rule 2520

Definition of margin securities
Initial margin

Cash deposit
Loan value of margin securities
Short sales
Cash deposit
Loan value of securities deposited in lieu of cash
Mixed margin account
Adjusted debit (credit) balance
Equity
Special memorandum account
Excess equity
Buying power
Margin deficiency
Adjusted debit balance
$1,000 Rule
Prohibition against liquidations in lieu of deposits
Frozen accounts
NASD and Exchange initial equity requirements
Transactions greater than $2000
Transactions less than $2000
Maintenance margin requirements
Long
Short

4.6 General Regulation of Brokers and Dealers

4.6.1 Regulatory Purposes and Roles of:
Securities and Exchange Commission
Federal Reserve Board
Self-Regulatory Organizations (NASD, exchanges, MSRB)

4.6.2 Investment Advisors Act of 1940
Section 206 — Prohibited transactions by investment advisors

4.6.3 Investment Company Act of 1940
Rule 17a-6 — Exemption of transactions with certain affiliated persons
Rule 17a-7 — Exemption of certain purchase or sale transactions between an investment company and certain affiliated persons thereof

4.6.4 Compliance and Ethics

4.6.4.1 Insider Trading and Securities Fraud Enforcement Act of 1988

4.6.4.1.1 Section 3 — Civil 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
Section 21(d) — Injunctions and prosecution of offenses
Section 21A — Civil penalties
Investment Advisers Act of 1940
Section 204 — Annual and other reports

Section 204A — Prevention of misuse of non-public information

4.6.4.1.2 Section 4 — Increases in criminal penalties
Securities Exchange Act of 1934
Section 32(a) — Penalties

4.6.4.1.3 Section 5 — Liability to contemporaneous traders for insider trading
Securities Exchange Act of 1934
Section 20A — Liability to contemporaneous traders for insider trading

4.6.4.2 Sarbanes-Oxley Act (General Understanding)

4.6.4.3 Securities Exchange Act of 1934 and SEC Rules Thereunder

4.6.4.3.1 Section 9(a)(1) – (a)(6)—Prohibition against manipulation of security prices

4.6.4.3.2 Section 10 — Regulation of the use of manipulative and deceptive devices
Rule 10b-1—Prohibition of use of manipulative or deceptive devices or contrivances with respect to certain securities exempted from registration
Rule 10b-3 — Employment of manipulative and deceptive devices by brokers or dealers
Rule 10b-5 — Employment of manipulative and deceptive devices (by individuals)
Insider trading
Material information
Insiders and non-public information
Insiders and tippees
The Chinese Wall Doctrine
Rule 10b5-1 — Trading "on the basis of" material nonpublic information in insider trading
Rule 10b5-2 — Duties of trust or confidence in misappropriation insider trading cases
Rule 10b-18 — Purchases of certain equity securities by the issuer and others

4.6.4.3.3 Section 15 — Registration and regulation of brokers and dealers
Rule 15c1-1 — Definitions
Rule 15c1-2 — Fraud and misrepresentation
Rule 15c1-3—Misrepresentation by brokers, dealers and municipal securities dealers as to registration
Rule 15c1-8 — Sales at the market
Rule 15c1-9 — Use of pro forma balance sheets
Rule 15c2-1 — Hypothecation of customers' securities
Rule 15c3-2 — Customers' free credit balances

4.6.4.3.4 Section 17 — Accounts and records, reports, examinations of exchanges, members, and others
Rule 17a-8 — Recordkeeping and reporting of currency and foreign transactions

Rule 17f-1 — Missing, lost, counterfeit, or stolen securities reporting
Rule 17f-2 — Fingerprinting of securities industry personnel

4.6.4.3.5 Regulation S-P — Privacy of consumer financial information
Treatment of nonpublic personal information about consumers by financial institutions

4.6.5 NASD — Regulations

4.6.5.1 By-Laws
Article I – Definition of "associated person of a member"
Article III – Qualifications of members and associated persons
Section 1 — Persons eligible to become members and associated persons of members
Section 4 — Definition of disqualification (statutory disqualification)
Article V — Registered representatives and associated persons

4.6.5.2 Membership and Registration Rules
Rule 1000 — Membership, registration and qualifications requirements
IM-1001-1 — Filing of misleading information as to membership or registration
Rule 1030 — Registration of representatives
Rule 1080 — Confidentiality of examinations
Rule 1120 — Continuing education requirements

4.6.5.3 Conduct Rules
4.6.5.3.1 Rule 2120—Use of manipulative, deceptive or other fraudulent devices

4.6.5.3.2 Rule 2210 — Communications with the public
Definitions
Advertisement
Sales literature
Public appearance
Independently prepared reprint
Approval and recordkeeping
Filing requirements and review procedures
Content standards
Standards applicable to all communications with the public
Standards applicable to advertisements and sales literature
IM-2210-1 — Guidelines to ensure that communications with the public are not misleading
IM-2210-4 — Limitations on use of NASD's name
IM-2210-6 — Requirements for the use of investment analysis tools
IM-2210-8 — Communications with the public about collateralized mortgage obligations (CMOs)

4.6.5.3.3 Rule 2211 — Institutional sales material and correspondence
Definitions
Correspondence
Institutional sales material
Institutional investor

Existing retail customer
Approval and recordkeeping
Spot-check procedures
Content standards applicable to institutional sales material and correspondence

4.6.5.3.4 Rule 2212 — Telemarketing

4.6.5.3.5 Rule 2330 — Customers' securities or funds
Improper use
General provisions
Authorization to lend
Segregation and identification of securities
Prohibition against guarantees
Sharing in accounts; extent permissible
IM-2330 — Segregation of customers' securities

4.6.5.3.6 Rule 2370—Borrowing from or lending to customers

4.6.5.3.7 Rule 2410 — Net prices to persons not in investment banking or securities business

4.6.5.3.8 Rule 2440 — Fair prices and commissions
IM-2440-1 — Mark-up policy
IM-2440-2—Additional mark-up policy for transactions in debt securities, except municipal securities

4.6.5.3.9 Rule 2441-- Net transactions with customers

4.6.5.3.10 Rule 3010 — Supervision
Supervisory system
Written procedures
Taping rule
Internal inspections
Review of transactions and correspondence
Qualifications investigated
Applicant's responsibility
Definitions
Office of supervisory jurisdiction
Branch office

4.6.5.3.11 Rule 3011 — Anti-money laundering compliance program

4.6.5.3.12 Rule 3030 — Outside business activities of an associated person

4.6.5.3.13 Rule 3040 — Private securities transactions of an associated person
Applicability
Written notice
Transactions for compensation
Transactions not for compensation
Definitions

Private securities transaction
Selling compensation

4.6.5.3.14 Rule 3050 — Transactions for or by associated persons

4.6.5.3.15 Rule 3060 — Influencing or rewarding employees of others

4.6.5.3.16 Disclosure requirements
- Rule 2270 — Disclosure of financial condition to customers
  - Requirement to furnish most recent report of the firm's financial condition
- Rule 2280 — Investor education and protection
- Rule 2341—Margin Disclosure Statement
- Rule 2910 — Disclosure of financial condition to other members
- Rule 3080 — Disclosure to associated persons when signing Form U4

4.6.5.3.17 Rule 2340 — Customer account statements
  - Requirement to send customers monthly and/or quarterly statements on account activity
  - Delivery Versus Payment/Receive Versus Payment (DVP/RVP) Accounts
- Rule 3070 — Reporting requirements
- Rule 3110 — Books and records
  - Requirements
  - Record of written complaints
  - "Complaint" defined
  - Requirements when using predispute arbitration agreements with customers
  - Negotiable instruments drawn from a customer's account
  - Holding of customer mail

4.6.5.4 Procedural Rules

4.6.5.4.1 Investigations and Sanctions

4.6.5.4.1.1 Rule 8100 — General provisions
  - Rule 8110 — Availability of Manual to customers
  - Rule 8120 — Definitions

4.6.5.4.1.2 Rule 8200 — Investigations
  - Rule 8210 — Provision of information and testimony and inspection and copying of books

4.6.5.4.1.3 Rule 8300 — Sanctions
  - Rule 8310 — Sanctions for violation of the rules
    - IM-8310-1 — Effect of a suspension, revocation, cancellation or bar
    - IM-8310-2 — Release of disciplinary and other information through the public disclosure program
  - Rule 8320 — Payment of fines, other monetary sanctions, or costs; summary action for failure to pay
  - Rule 8330 — Costs of proceedings

4.6.5.4.2 Code of Procedure

Rule 9100 — Application and purpose
Rule 9200 — Disciplinary proceedings
Rule 9300 — Review of disciplinary proceeding by National Adjudicatory Council and NASD Board; application for Commission review
Rule 9500 — Other proceedings
Rule 9800 — Temporary cease and desist orders

4.6.5.4.3 Arbitration and Mediation Rules
4.6.5.4.3.1 Code of Arbitration Procedure
Part I —Interpretive Material, Definitions, Organization and Authority
IM-12000 and IM-13000— Failure to act under provisions of code of arbitration procedure for customer/industry disputes
Rules 12105 and 13105—Agreement of the parties
Part II —General Arbitration Rules
Rule 12200—Arbitration under an arbitration agreement or the rules of NASD
Rule 12201—Elective arbitration
Rule 12202—Claims against inactive members
Rules 12204 and 13204—.Class action claims
Rule 12205—Shareholder derivative actions
Rule 13200—Required arbitration
Rule 13201—Statutory employment discrimination claims
Rule 13202—Claims involving registered clearing agencies
Part VIII —Simplified Arbitration and Default Proceedings
Rules 12800 and 13800— Simplified arbitration
Rules 12801 and 13801—Default proceedings

4.6.5.4.3.2 Rule 10400 — Mediation rules

4.6.5.4.4 Uniform Practice Code
Rule 11100 — Scope of Uniform Practice Code
Rule 11130 — When, as and if issued/distributed contracts
Rule 11140 — Transactions in securities “ex-dividend,” “ex-rights” or “ex-warrants”
Rule 11320 — Dates of delivery
Rule 11550 — Assignments and powers of substitution; delivery of registered securities
Rule 11574 — Certificate in name of deceased person, trustee, etc.
Rule 11620 — Computation of interest
Rule 11810 – “Buying-in”
Rule 11820 – “Selling-out”
Rule 11890 — Clearly erroneous transactions
Procedures for declaring a transaction void
Rule 11900 — Clearance of corporate debt securities

4.6.5.5 NASD customer account transfer rules
IM 2110-7 — Interfering with the transfer of customer accounts in the context of employment disputes
Rule 11870 — Customer account transfer contracts

4.7 Securities Investor Protection Act and SIPC Rules Thereunder

4.7.1 Customer Claims

Definition of “separate customer”
Maximum limit on claims for cash and securities
Valuation of claims
Submission of claims to trustee
Eligible and ineligible customers
Customers of other firms with open transactions with a firm in SIPC liquidation
Responsibility of SIPC appointed trustees

SAMPLE QUESTION FORMATS

The questions and answers that follow are similar in format and content to those found on the actual examination. They are not intended, however, to 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. (B)
4. (C)

1. Which of the following best defines the "book value" of a common stock?

   (A) The price at which the shares were originally issued
   (B) The theoretical value per share the stock would have upon corporate liquidation
   (C) The ratio of price to earnings for stocks
   (D) An accounting figure used in determining dividend distributions

2. When an underwriter agrees to act on a "firm commitment" basis, which two of the following are TRUE? The underwriting firm

   I. acts as a dealer
   II. acts as a broker
   III. agrees to buy only those securities it can sell
   IV. agrees to buy the entire issue

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

3. On a corporate balance sheet, all of the following would be listed under "current assets" EXCEPT

   (A) inventory
   (B) cash
   (C) equipment
   (D) accounts receivable

4. When a stock is held by a broker for a customer in "street name," it means that the stock is

   (A) registered in the name of the customer
   (B) in bearer form
   (C) registered in the name of the broker or its depository
   (D) accompanied by stock powers

Exhibit 3c
SR-FINRA-2007-031

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

DIVISION OF
MARKET REGULATION

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, prectice, 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,

B. B

Belinda Blaine
Associate Director