

Proposed Rule Change by Financial Industry Regulatory Authority  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input type="checkbox"/>	Section 19(b)(3)(A) <input checked="" type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
			Rule		
			<input checked="" type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

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

Revisions to the Series 82 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  Last Name   
 Title   
 E-mail   
 Telephone  Fax

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

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

Date   
 By  Senior Vice President and Deputy General Counsel  
 (Name) (Title)

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

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information**

Add Remove View

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

**Exhibit 1 - Notice of Proposed Rule Change**

Add Remove View

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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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**

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

**1. Text of Proposed Rule Change**

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> 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—Private Securities Offerings (Series 82) examination program.<sup>2</sup> 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—Private Securities Offerings. 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 82 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.<sup>3</sup>

(b) Not applicable.

(c) Not applicable.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> FINRA also is proposing corresponding revisions to the Series 82 question bank, but based upon instruction from the Commission staff, FINRA is submitting SR-FINRA-2007-033 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.

<sup>3</sup> 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 82 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<sup>4</sup> 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

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<sup>4</sup> 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(h), 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—Private Securities Offerings if: (1) the individual's activities in the investment banking and securities business of the member are limited solely to effecting sales as part of a primary offering of securities not involving a public offering, pursuant to Sections 3(b), 4(2) or 4(6) of the Securities Act of 1933 and the rules and regulations thereunder; (2) the individual does not effect sales of municipal or government securities, or equity interests in or the debt of direct participation program securities as defined in NASD Rule 1022(e); and (3) the individual passes the Series 82 qualification examination.

A committee of industry representatives, together with FINRA staff, recently undertook a review of the Series 82 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—Private Securities Offerings.

Among other revisions, FINRA is proposing to add sections on exchange-traded funds, Private Investment in Public Equity (PIPE) offerings, NASD IM-2110-7 (Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes) and NASD Rule 2370 (Borrowing From or Lending to Customers).

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FINRA is proposing to change the title of Section 3 of the study outline from “Analyzing Corporate Securities” to “Analyzing Corporate Securities and Investment Planning.” Further, as a result of the revisions discussed above, the number of questions on each section of the study outline were modified as follows: Characteristics of Corporate Securities, no changes to the number of questions (remains at 13 questions); Regulation of The Market for Registered and Unregistered Securities, no changes to the number of questions (remains at 45 questions); Analyzing Corporate Securities and Investment Planning, increased from 15 to 16 questions; and Handling Customer Accounts and Industry Regulations, decreased from 27 to 26 questions.

FINRA is proposing similar changes to the Series 82 selection specifications and question bank. The number of questions on the Series 82 examination will remain at 100, 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 82 examination program are consistent with the provisions of Sections 15A(b)(6)<sup>5</sup> and 15A(g)(3) of the Act,<sup>6</sup> which authorize FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members.

**4. Self-Regulatory Organization’s Statement on Burden on Competition**

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

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<sup>5</sup> 15 U.S.C. 78o-3(b)(6).

on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

Written comments were neither solicited nor received.

6. **Extension of Time Period for Commission Action**

Not applicable.

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

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A)(i) of the Act<sup>7</sup> and Rule 19b-4(f)(1) thereunder,<sup>8</sup> 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 82 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

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<sup>6</sup> 15 U.S.C. 78o-3(g)(3).

<sup>7</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>8</sup> 17 CFR 240.19b-4(f)(1).

Federal Register.

Exhibit 3a. Revised Study Outline for the Series 82 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 82 Examination.

FINRA has requested confidential treatment for the Series 82 revised selection specifications, and thus the specifications are omitted from this filing. The Series 82 revised selection specifications have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.<sup>9</sup>

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.

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<sup>9</sup> 17 CFR 240.24b-2.

**EXHIBIT 1**

**SECURITIES AND EXCHANGE COMMISSION**

(Release No. 34- ; File No. SR-FINRA-2007-033)

Self-Regulatory Organizations: Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Revisions to the Series 82 Examination Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> 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<sup>3</sup> and Rule 19b-4(f)(1) thereunder,<sup>4</sup> which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>4</sup> 17 CFR 240.19b-4(f)(1).

FINRA is filing revisions to the study outline and selection specifications for the Limited Representative—Private Securities Offerings (Series 82) examination program.<sup>5</sup> 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—Private Securities Offerings. 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 82 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.<sup>6</sup>

**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**

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<sup>5</sup> FINRA also is proposing corresponding revisions to the Series 82 question bank, but based upon instruction from the Commission staff, FINRA is submitting SR-FINRA-2007-033 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.

<sup>6</sup> 17 CFR 240.24b-2.

1. Purpose

Section 15A(g)(3) of the Act<sup>7</sup> 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(h), 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—Private Securities Offerings if: (1) the individual's activities in the investment banking and securities business of the member are limited solely to effecting sales as part of a primary offering of securities not involving a public offering, pursuant to Sections 3(b), 4(2) or 4(6) of the Securities Act of 1933 and the rules and regulations thereunder; (2) the individual does not effect sales of municipal or government securities, or equity interests in or the debt of direct participation program securities as defined in NASD Rule 1022(e); and (3) the individual passes the Series 82 qualification examination.

A committee of industry representatives, together with FINRA staff, recently undertook a review of the Series 82 examination program. As a result of this review,

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<sup>7</sup> 15 U.S.C. 78o-3(g)(3).

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—Private Securities Offerings.

Among other revisions, FINRA is proposing to add sections on exchange-traded funds, Private Investment in Public Equity (PIPE) offerings, NASD IM-2110-7 (Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes) and NASD Rule 2370 (Borrowing From or Lending to Customers).

FINRA is proposing to change the title of Section 3 of the study outline from “Analyzing Corporate Securities” to “Analyzing Corporate Securities and Investment Planning.” Further, as a result of the revisions discussed above, the number of questions on each section of the study outline were modified as follows: Characteristics of Corporate Securities, no changes to the number of questions (remains at 13 questions); Regulation of The Market for Registered and Unregistered Securities, no changes to the number of questions (remains at 45 questions); Analyzing Corporate Securities and Investment Planning, increased from 15 to 16 questions; and Handling Customer Accounts and Industry Regulations, decreased from 27 to 26 questions.

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## 2. Statutory Basis

FINRA believes that the proposed revisions to the Series 82 examination program

are consistent with the provisions of Sections 15A(b)(6)<sup>8</sup> and 15A(g)(3) of the Act,<sup>9</sup> which authorize FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members.

**B. Self-Regulatory Organization’s Statement on Burden on Competition**

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

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

Written comments were neither solicited nor received.

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

The proposed rule change has become effective pursuant to Section 19(b)(3)(A)(i) of the Act<sup>10</sup> and Rule 19b-4(f)(1) thereunder,<sup>11</sup> 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 82 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.

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<sup>8</sup> 15 U.S.C. 78o-3(b)(6).

<sup>9</sup> 15 U.S.C. 78o-3(g)(3).

<sup>10</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>11</sup> 17 CFR 240.19b-4(f)(1).

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### **IV. Solicitation of Comments**

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

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2007-033 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-2007-033. 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-2007-033 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.<sup>12</sup>

Nancy M. Morris

Secretary

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<sup>12</sup> 17 CFR 200.30-3(a)(12).

Exhibit 3a  
SR-FINRA-2007-033



**LIMITED REPRESENTATIVE-  
PRIVATE SECURITIES OFFERINGS  
QUALIFICATION EXAMINATION  
(TEST SERIES 82)**

**STUDY OUTLINE**

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FINRA

## INTRODUCTION

The Gramm-Leach-Bliley Act of 1999 (GLBA) mandates that the FINRA, as a registered securities association, create a limited registration category for associated persons of a member whose investment banking and securities business is limited solely to effecting sales of private securities offerings.

The Limited Representative-Private Securities Offerings Qualification Examination (Series 82) is used to qualify individuals seeking registration with FINRA under By-Laws Article III, Section 2, and the Membership and Registration Rules. A registered representative in this category may effect sales of private securities offerings only. The Series 82 Examination does not qualify a registered representative in this category to effect sales of municipal or government securities, or equity interests in or the debt of direct participation programs (DPP securities). Moreover, the Series 82 Examination permits a registered representative in this category only to effect sales of private placement securities as part of a primary offering. As such, representatives in this category will not be permitted to effect resales or engage in secondary market trading of private placement securities.

Candidates seeking to effect sales of municipal or government securities, or DPP securities, or effect resales or engage in secondary market trading of private placement securities must register in one or more of the other FINRA limited representative categories, or as General Securities Registered Representatives and pass the appropriate qualification examination(s).

This study outline has been prepared to assist FINRA member firms in preparing candidates to sit for the Series 82 Examination. It may be used to structure or prepare training material, develop lecture notes and seminar programs, and as a training aid for the candidates themselves. The outline and the test are divided into the four topical sections, which are listed below along with the number of questions designated to each section.

SECTION	DESCRIPTION	NUMBER OF QUESTIONS
<b>1</b>	<b>Characteristics of Corporate Securities</b>	<b>13</b>
<b>2</b>	<b>Regulation of The Market for Registered and Unregistered Securities</b>	<b>45</b>
<b>3</b>	<b>Analyzing Corporate Securities and Investment Planning</b>	<b>16</b>
<b>4</b>	<b>Handling Customer Accounts and Industry Regulations</b>	<b>26</b>
	<b>TOTAL</b>	<b>100</b>

The Series 82 Examination is comprised of 100 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 70 of the 100 questions on the Limited Representative- Private Securities Offerings 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 on which the exam is based. 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.

Below is 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, non-member 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 study outline is available on the FINRA Web Site at [www.finra.org](http://www.finra.org).

At the end of this outline there are five sample questions written in the various formats used in the Series 82 Examination. The samples 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 82 Examination.

## REFERENCES

### **Appeal Securities Act Handbook**

Bowne & Co., Inc.  
111 Eighth Avenue  
New York, NY 10011

### **Code of Federal Regulations Title 17 – Commodity and Securities Exchanges**

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

### **Dictionary of Finance and Investment Terms**

John Downes and Jordan E. Goodman  
Barron's Financial Guides  
250 Wireless Boulevard  
Hauppauge, NY 11788

### **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

### **The Stock Market, 7th Edition**

Richard J. Teweles and Edward S. Bradley  
John Wiley & Sons, Inc.  
605 Third Avenue  
New York, NY 10158

### **NASD Manual**

FINRA Media Source  
(240) 386-4200

### **Publications Available through**

[www.finra.org](http://www.finra.org)

### **NASD Manual**

### **NASD Guide to Rule Interpretations**

### **NASD Sanctions Guidelines**

### **Notices**

### **Securities Regulations in the United States**

### **Compliance Checklist**

**1.0**  
**CHARACTERISTICS OF CORPORATE SECURITIES**

**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

    Preemptive 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 nonassessable

        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

- Rights (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 (subscription warrants)
  - Origination of warrants
  - Warrant exercise terms

## **1.1.4**

### **American Depository Receipts/American Depository Shares; Global Depository Receipts/Global Depository Shares**

- Origin and nature of ADR's/ADS's and GDS's/GDR's
  - Sponsored vs. non-sponsored
- 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

Shareholders' rights to demand delivery of the underlying shares  
Relationship to ordinary shares

**1.1.5 International Securities**

Securities denominated in foreign currency versus those denominated in U.S. dollars  
Relationship to ADR's/ADS's and GDS's/GDR's

Eurobonds

**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  
Funded debt

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 Debt Retirement

1.2.1.4.1 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

1.2.1.4.2 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

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

- 1.2.1.4.4 Refunding of bonds
  - Direct exchange vs. sale of new issue
  - Refunding prior to maturity
  - Extensions of maturity

## **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
  - Holder's have prior claims to assets over shareholders in the event of corporate liquidation, but junior claims to mortgage bond holders

- 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 conditions
  - 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 Collateral trust bonds
- Secured by pledge of securities as collateral with a trustee
- 1.2.2.4.2 Equipment trust obligations
- Protective covenants
- 1.2.2.4.3 Guaranteed bonds
- Purpose
  - Forms of guarantee
    - Interest only
    - Both principal and interest
- 1.2.2.4.4 Variable rate (income) bonds
- Interest paid only if earned
  - Use during reorganizations
  - Long maturities at issuance
- 1.2.2.4.5 Zero Coupon Bonds
- Issued at steep discount from par
  - Reinvestment risk
  - 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

### **1.3 Asset-Backed Securities**

#### **1.3.1 Mortgage-Backed Securities**

1.3.1.1 Securitization of mortgages

1.3.1.2 Agency-issued mortgage-backed securities

Federal National Mortgage Association obligations – (FNMA or Fannie Mae)

Federal Home Loan Mortgage Corporation obligations –(FHLMC or Freddie Mac)

Government National Mortgage Association obligations -- (GNMA or Ginnie Mae)

Repayment of interest and principal monthly

1.3.1.3 Corporate-issued mortgage-backed securities

Private label

1.3.1.4 Structured mortgage products

Collateralized Mortgage Obligations -- usually composed of private mortgages not qualified under VA or FHA

Interest only and principal only

Real Estate Mortgage Investment Conduits (REMICs)

May be "multiple class" with fast/slow pay segments

Payments may be allocated disproportionately among -tranches

REMICs offer certain tax and accounting benefits to issuers

#### **1.3.2 Real Estate Investment Trusts (REITS)**

Real Estate Investment Trust Act

Organizational requirements

Asset composition

Sources of income

Rents from real property

Interest on obligations secured by real property

Gains from sale of real property, including mortgages on real property

Distribution from, and gains on the sale of securities, including other REITS

Limitations on amount of income from various sources

Capital structure

Equity

Debt

Tax requirements of the REIT

Minimum requirement for distribution of income

Distribution of capital gains

Taxability of undistributed income and gains

#### **1.3.3 Other Asset-Backed securities**

Auto loan backed obligations

Credit card debt backed securities

Home equity loan backed securities

Collateralized debt obligations (CDOs)

- 1.3.4 General Features**
  - Represent undivided interest in a pool of debt obligations or equities
  - Underlying asset documents held by a custodian
  - Interest and dividend collection serviced by the custodian
  
- 1.4 Investment Companies**
  - General characteristics
    - Registered under the Investment Company Act of 1940
  
- 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
    - Sold by prospectus
    - Determining the net asset value (NAV)
    - Redemption of mutual fund shares
  
- 1.4.3 Exchange traded funds (ETFs)**
  - Registered under the Investment Company Act of 1940
  
- 1.4.4 Unit Investment Trusts (UIT)**
  - Registered under the Investment Company Act of 1940
  - Fixed portfolio
  - Redeemability
  
- 1.4.5 Money Market Fund**
  - Registered under the Investment Company Act of 1940
  - Mutual funds which only invest in very short-term debt securities and money market instruments
  - Structured such that one share usually equals \$1 NAV
  - Fund shares not held by the broker/dealer not covered by SIPC and not insured by FDIC
  
- 1.4.6 Securities (funds) Exempt from the Investment Company Act of 1940**
  - Unregistered
    - Section 3c-7 – Exemption
      - Hedge funds
        - Characteristics
        - Suitability
        - Due diligence
      - Private equity funds
        - Qualified purchasers
  
- 1.5 Securities Exchange Act of 1934 (Issuer registration and reporting requirements)**
  - 1.5.1 Section 12 -- Registration requirements for securities**

Registration and periodic reporting requirements for securities of issuers engaged in interstate commerce and exchange listed securities

**1.5.2**

**Section 13 -- Periodical and other Reports**

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

**1.6**

**Trust Indenture Act of 1939 -- General Purposes**

Necessity of trustee to safeguard the rights of investors in registered debt obligations

Identification of rights and powers of trustee

Full disclosure of information in bond indentures

Participation of trustees in the preparation of indentures

**2.0**

**REGULATION OF THE MARKET FOR REGISTERED AND UNREGISTERED SECURITIES**

**2.1 Issuing Corporate Securities**

**2.1.1 Types of Offerings**

- Primary
- Secondary
- Private placement
- Private Investment in Public Equity Securities (PIPES)
- Rule 144A -- Private resales of securities to institutions
  - Definition of qualified institutional buyer (QIB)
- Regulation S -- Offers and sales made outside the United States without registration under the Securities Act of 1933

**2.1.2 Underwriting Commitments**

**2.1.2.1 Types of commitments**

- Firm commitment
- Stand-by commitment
- All or none
- Best efforts
- Mini-Max

**2.1.2.2 Securities Exchange Act of 1934 and SEC Rules Thereunder**

- Section 10 -- Regulation of the use of manipulative and deceptive devices
  - Rule 10b-9 -- Prohibited representations in connection with certain offerings
- Section 15 -- Registration and regulation of brokers and dealers
  - Rule 15c2-4 -- Transmission or maintenance of payments received in connection with underwritings

**2.1.3 Investigation of Financing Proposals**

**2.1.3.1 Feasibility study**

**2.1.3.2 Letter of intent**

**2.1.3.3 Due diligence - process to evaluate**

- Financial data
- Industry data
- Operational data of issuer
- Management and employee relations
- Research, product development and expansion

**2.1.4 Mechanics of Distributions**

**2.1.4.1 Role of dealer manager**

- Appointment of selling group
  - Handled by dealer manager
  - Selling group agreement
  - Liabilities of selling group members
- Components of spread
  - Dealer manager fee
  - Selling group commission

Compensation in the form of warrants of stock

- 2.1.4.2            Role of the placement agent
  - Contractual obligation to issuer
    - Principal
    - Agency
    - Positioning private placement offering
    - Compensation
  - Offering period limitation
  - Identification of potential investors
    - Confidentiality agreement
    - Indication of interest
    - Distribution of private placement memorandum
  - Liabilities of placement agent
    - Regulatory and legal
  - Distribution of proceeds
- 2.1.4.3            Non-NASD member participation – Conduct Rule 2420
  - Need for issuer to contract separately with non-members
  - Prohibition on sharing fees under NASD Rule IM-2420(d)
- 2.1.4.4            Finders
  - Defined as an un-registered introducer
  - Prohibited practices
    - Sales compensation to non-members of a national securities exchange or association registered with the Securities and Exchange Commission
    - Referrals by non-members of individual clients to broker/dealers in exchange for compensation from broker/dealer
- 2.1.4.5            SEC Rule 3a4-1 – Associated persons of an issuer deemed not to be brokers
- 2.1.4.6            NASD Rule 1060(b) – Persons exempt from registration—foreign finders
- 2.1.5            Pricing of the Issue**
  - Priced according to prevailing:
    - Market conditions
    - Industry conditions
    - Customer demand
    - Issuer needs
- 2.1.6            Limitations on Marketing and Advertising for Private vs. Public Offerings**
  - 2.1.6.1            Section 2 - Definitions under the Act
    - 2.1.6.1.1            Distribution of information during a publicly-registered underwriting
      - Rule 134 -- Communications not deemed a prospectus
      - 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

- 2.1.6.2 Section 5 -- Prohibitions Relating to Interstate Commerce and the Mails
  - Rule 135 -- Notice of certain proposed offerings
  - Rule 135A -- Generic advertising
  - 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
- 2.1.6.3 Section 12 – Civil Liabilities Arising in Connection with Prospectuses and Communications
- 2.1.6.4 Special issues dealing with electronic offerings
  - SEC Release 34-42728—Use of Electronic Media

## **2.2 Trading Corporate Securities**

### **2.2.1 Overview of Securities Markets (publicly traded securities)**

- 2.2.1.1 Dealer Market
  - NASDAQ tier securities
- 2.2.1.2 Auction markets
  - Exchange markets
- 2.2.1.3 Non-exchange securities in
  - Non-Nasdaq OTC
  - Bulletin Board and Pink sheets
- 2.2.1.4 Third market
  - Trading in exchange listed securities in OTC market
- 2.2.1.5 Fourth market
  - Private transactions between institutional investors without the use of a broker/dealer

## **2.3 Securities Act of 1933 and SEC Rules Thereunder**

### **2.3.1 Section 3 -- Exempted securities (exempt by class or transaction)**

- 2.3.1.1 Classes of securities
  - Section 3(a)(3) – Note, draft, banker's acceptance, commercial paper
  - Section 3(a)(5) - Bank securities, savings and loan securities
  - Rule 147 - "Part of an issue", "person resident" and "doing business within" for purposes of Section 3(a)(11)
    - Transactions covered
    - Limitation on resales
    - Precautions against interstate offers and sales
- 2.3.1.2 Types of transactions
  - Section 3(b) -- \$5,000,000 in any 12 month period by SEC Rule
  - Regulation A offerings
    - Purpose
    - Limitation on size of offering
    - Limitation on time period

**2.3.2 Section 4 -- Exempted transactions**

- 2.3.2.1 Statutory exemptions
  - Section 4(2) -- Transactions by an issuer not involving any public offering
  - Section 4(6) -- Transactions involving offers or sales by an issuer solely to one or more accredited investors up to the Section 3(b) maximum
- 2.3.2.2 Regulation D -- Limited offer and sale of securities without SEC registration under the Securities Act of 1933 (Private offerings exemptions from registration)
- 2.3.2.2.1 Rule 501 -- Definitions and terms used in Regulation D
  - Accredited investor
  - Affiliate
  - Aggregate offering price
  - Number of purchasers
  - Executive officer
  - Issuer
  - Purchaser representative
- 2.3.2.2.2 Rule 502 -- General conditions to be met
  - Integration--6 month safe harbor rule
  - Information requirements
    - When information must be furnished
    - Type of information to be furnished
  - Limitation on manner of offering
  - Limitations on resale
- 2.3.2.2.3 Rule 503 -- Filing of notice of sale
  - Filing Form D
- 2.3.2.2.4 Rule 504 -- Exemption for limited offers and sales of securities not exceeding \$1,000,000
  - Exemption
  - Conditions to be met
  - Limitation on aggregate offering price
- 2.3.2.2.5 Rule 505 -- Exemption for limited offers and sales of securities not exceeding \$5,000,000
  - Exemption
  - Conditions to be met
  - Limitation on aggregate offering price
  - Limitation on number of purchasers
  - Disqualification
- 2.3.2.2.6 Rule 506 -- Exemption for limited offers and sales without regard to dollar amount of offering
  - Exemption
  - Conditions to be met
  - Limitation of number of purchasers
  - Nature of purchasers

2.3.2.2.7 Rule 507 -- Disqualifying provision relating to exemptions under Rules 504, 505 and 506

2.3.2.2.8 Rule 508 -- Insignificant deviations from a term, condition or requirement of Regulation D

## **2.4 Securities Exchange Act of 1934 and SEC Rules Thereunder**

### **2.4.1 Section 3 -- Certain definitions under the Act**

Section 3(a)(4) – Broker

Section 3(a)(5) – Dealer

Section 3(a)(10) – Security

Section 3(a)(11) – Equity security

Section 3(a)(12) – Exempted security

Section 3(a)(18) – Person associated with a broker or dealer

Section 3(a)(35) – Investment discretion

Section 3(a)(39) -- Statutory disqualification

Section 3(a)(46) – Financial institution

### **2.4.2 Regulation FD – Disclosure (Issuer obligations)**

2.4.2.1 Rule 100 – General rule regarding selective disclosure

2.4.2.2 Rule 101 – Definitions

## **2.5 Insider Trading Regulations**

### **2.5.1 Insider Trading and Securities Fraud Enforcement Act of 1988**

2.5.1.1 Section 3 - Civil penalties of controlling persons for illegal insider trading by controlled persons

2.5.1.1.1 Securities Exchange Act of 1934  
Section 15(f) - Policies and procedures to be developed by broker/dealers to prevent misuse of material, non-public information  
Section 21(d) - Injunctions and prosecution of offenses  
Section 21A - Civil penalties

2.5.1.1.2 Investment Advisers Act of 1940  
Section 204 - Annual and other reports  
Section 204A - Prevention of misuse of non-public information

2.5.1.2 Section 4 - Increases in criminal penalties

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

2.5.1.3 Section 5 - Liability to contemporaneous traders for insider trading

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

### **2.5.2 Securities Exchange Act of 1934 and SEC Rules Thereunder**

2.5.2.1 Section 10 - Regulation of the use of manipulative and deceptive devices

- 2.5.2.1.1 Rule 10b-3 -- Employment of Manipulative and Deceptive Devices (by brokers or dealers)
- 2.5.2.1.2 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
- 2.5.2.1.3 Rule 10b5-1 – Trading “on the basis of” material nonpublic information in insider trading
- 2.5.2.1.4 Rule 10b5-2 – Duties of trust or confidence in misappropriation insider trading cases

**2.5.3 Sarbanes-Oxley Act (general understanding)**

**2.6 NASD - Regulations**

**2.6.1 Conduct Rules**

- 2.6.1.1 Rule 2790 – Restrictions on purchase and sale of initial equity public offerings
  - General prohibitions
  - Preconditions for sale
  - General exemptions
  - Issuer-directed securities
  - Anti-dilution provisions
  - Stand-by-purchasers
  - Undersubscribed offerings
  - Definitions
- 2.6.1.2 Rule 2110 – Standards of commercial honor and principles of trade
  - IM-2110-2 – Trading ahead of customer limit order
  - IM-2110-3 – Front running policy
  - IM-2110-4 – Trading ahead of research reports
  - IM-2110-5 – Anti-intimidation/coordination
  - IM-2110-7 – Interfering with the transfer of customer accounts in the context of employment disputes
- 2.6.1.3 Rule 2711 – Research Analyst and Research Reports

**3.0**  
**ANALYZING CORPORATE SECURITIES AND INVESTMENT PLANNING**

**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

Non-operating income

Total income (EBIT)

Interest on debt

(Pre-tax) income (EBT)

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
  - 3.1.1.2.2 Profitability ratios
    - Margin of profit
    - Earnings per share/Cash flow per share
    - Price earnings ratio
    - Dividend payout ratio
  - 3.1.1.2.3 Short-term liquidity measures
    - Current ratio
    - Acid test 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
- 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
  - 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
    - Stated
    - Tangible
    - Goodwill
  - Market value

- 3.1.1.5 Analyzing U.S. government securities
  - 3.1.1.5.1 U.S. Treasury Securities
    - Bills
    - Notes
    - Bonds
    - Strips
    - Secondary Market Quotations
    - Non-marketable Treasury instruments
      - U.S. Savings Bonds
      - State and local government series (SLGS)
  - 3.1.1.5.2 Characteristics of Government Securities
    - 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

## **3.2 Economics**

### **3.2.1 Business Cycles**

- 3.2.1.1 Phases
  - Expansion
  - Peak
  - Recession
  - Trough
  - Depression
  - Inflation/deflation
- 3.2.1.2 Economic indicators
  - Gross national product (GNP)
  - National income
  - Components of GNP and NI and their relationship to each other
  - Gross domestic product (GDP)
  - Producer price index
  - Consumer price index
- 3.2.1.3 Market indices
  - Equity securities
    - Dow Jones Industrial Average
    - Standard and Poor's 500 Composite Index
    - New York Stock Exchange Common Stock Index
    - Nasdaq Composite Index
  - Debt securities
    - LIBOR
    - Treasury market
    - Cost of funds
    - Fed funds

- 3.2.2 Monetary Policies of the Federal Reserve**
- 3.2.2.1 Supply of money and interest rates
  - Relation to level of economic activity
  - Relation to prices of and return on securities investments
  - M1, M2, M3
- 3.2.2.2 Tools of the Federal Reserve Board
  - Open-market operations
  - Changes in the discount rate
  - Changes in bank reserve requirements
  - Margin requirements (Regulations T and U)
  - Moral suasion
- 3.2.2.3 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
- 3.2.4.2 Balance of payments
  - Relation between domestic inflation (deflation) and balance of payment deficits (surpluses)
- 3.3 Investor Suitability**
- 3.3.1 Investment Objectives**
- 3.3.1.1 Principal accumulation
  - Amount
  - Accumulation period
- 3.3.1.2 Income
  - Current needs
  - Amount needed in future
  - Accumulation period
  - Payout period
- 3.3.2 Financial Status**
  - Balance sheet
  - Income and expenses
  - Participation in benefit plans
  - Expected changes in financial status

- 3.3.3 Investment Constraints**
  - 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
  - Requirements for marketability of securities held
  - Tax considerations
  - Investment temperament and investment experience
  
- 3.3.4 Legal/regulatory requirements**
  - 3.3.4.1 Fiduciary responsibilities
    - Uniform trust code
    - ERISA requirements
  
  - 3.3.4.2 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
  
  - 3.3.4.3 Investment Advisors Act of 1940
    - Section 206 – Prohibited transactions by investment advisors
  
  - 3.3.4.4 Rule 2310 – Recommendations to customers (suitability)
    - IM-2310-2 – Fair dealing with customers
      - Fraudulent activity
      - Recommending purchases beyond customer capability
    - IM-2310-3 – Suitability obligations to institutional customers
  
- 3.3.5 Risk and the Construction of Investment Portfolios**
  - 3.3.5.1 Credit risk and portfolio policies
    - 3.3.5.1.1 Definition of credit risk and its effect on future values of income and principal in different types of investments
    - 3.3.5.1.2 Appropriate mix of conservative and speculative securities in a portfolio derived from customer's ability to risk loss of principal and income
    - 3.3.5.1.3 Concentration of investment in a small number of issues vs. diversification
    - 3.3.5.1.4 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
  
  - 3.3.5.2 Interest rate risk and portfolio policies
    - 3.3.5.2.1 Definition of interest rate risk and its effect on future values of income and principal in different types of investments
    - 3.3.5.2.2 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

- 3.3.5.3 Purchasing power risk and portfolio policies
  - 3.3.5.3.1 Definition of purchasing power risk and its effect on the constant dollar value of income and principal in different types of investments
  - 3.3.5.3.2 Need to reconcile investment policies with regard to financial risk with policies designed to minimize loss of purchasing power
  - 3.3.5.3.3 Balanced portfolio of bonds, preferred, common and convertible issues provides downside protection and potential inflation hedge
- 3.3.5.4 Other risk factors and portfolio policies
  - 3.3.5.4.1 Marketability of securities in the portfolio and customer liquidity needs
  - 3.3.5.4.2 Taxability of securities in the portfolio and customer tax bracket
  - 3.3.5.4.3 Callability of securities in the portfolio and the importance of call protection given customer investment objectives
  - 3.3.5.4.4 Convertibility of securities in the portfolio, the value of the conversion feature and the effect of potential forced conversions on customer objectives
  - 3.3.5.4.5 Economic, social and political risks and their potential effects on customer investments
  - 3.3.5.4.6 Currency rate risk

### **3.4 Tax Consequences of Securities Transactions**

#### **3.4.1 Holding Periods of Securities**

- 3.4.1.1 Closing date determines date of acquisition
- 3.4.1.2 Closing 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

#### **3.4.2 Tax Basis of Securities**

- 3.4.2.1 Purchases
- 3.4.2.2 Exchange of securities
- 3.4.2.3 Stock rights
- 3.4.2.4 Gifts of securities
- 3.4.2.5 Inheritance of securities

#### **3.4.3 Tax Treatment of Securities Transactions**

- 3.4.3.1 Definition of a capital gain (loss)

- 3.4.3.2 Computation of net capital gains (losses)
- 3.4.3.3 Ordinary income tax treatment of realized net capital gains (fully effective 1/1/88)
- 3.4.3.4 Deduction of net capital losses from ordinary income
- 3.4.3.5 Limitation on net capital loss deductions
- 3.4.3.6 Loss carryover provisions
- 3.4.4 Tax Treatment of Dividend Income From Corporate Stock**
- 3.4.4.1 Cash dividends
- 3.4.4.2 Stock dividends (ordinary) and effect on cost basis
- 3.4.4.3 Stock rights-receipt ordinarily not a taxable event
- 3.4.4.4 Deductibility of a specified percentage of dividend income received by a corporation from stock holdings in other domestic and certain foreign corporations
- 3.4.5 Tax Treatment of Interest Income on Debt Obligations**
- 3.4.5.1 Corporate obligations -- ordinary income taxable at federal, state and local levels
- 3.4.6 Special Tax Features of Bonds**
- 3.4.6.1 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
- 3.4.6.2 Amortization of bond discounts (taxable bonds)
- 3.4.6.2.1 Discounted money market obligations
  - Interest income recognized at redemption or when sold
- 3.4.6.3 Effect of accrued interest on bond income and cost basis at purchase and sale
- 3.4.6.4 Accretion of discounts

**4.0**

**HANDLING CUSTOMER ACCOUNTS AND INDUSTRY REGULATIONS**

**4.1 Account Documentation**

**4.1.1 New Account Form Information**

- Identification data
  - Full name
  - Address
  - Social security or tax identification number
  - Citizenship
  - Whether of legal age
  - Net worth
  - Income
  - Power of Attorney
  - Occupation, name and address of employer
  - Signature of representative introducing the account
  - Signature of supervisor who accepts the account
  - Whether associated with NASD firm

**4.1.2 Supplementary Documentation**

- Name and signature of person(s) with authority to create activity in account
  - Limited authorization
  - Full authorization
- Joint account agreement form
- Uniform Gifts/Transfers to Minors Act
- Uniform Transfer on Death Securities Registration Act
- Documentation necessary for electronic private placement offerings
  - Documentation of customer authorization
  - Limitation of access
- QIB certification letter
- Determination of QIB or accredited investor status
- Representation letter regarding purchaser eligibility standards (representations and warranties letter)
- Subscription agreement
- Investor questionnaire
- Private placement memorandum
- Articles of Incorporation
- Corporate Resolutions
- Customer Identification Program (CIP) documentation

**4.2 Transactions in Accounts**

**4.2.1 Types of Transactions**

- Principal
- Agency
- Riskless principal

**4.2.2 Private placement documentation**

- Marking of subscription agreements/internal documents
- Retention of subscription agreement
- Payment

Contractual settlement for private placement securities

**4.3 General Regulation of Brokers and Dealers**

**4.3.1 Regulatory Purposes and Roles of:**

Securities Exchange Commission  
Self-Regulatory Organizations (NASD, Exchanges, MSRB)  
State securities agencies

**4.3.2 NASD - Regulations**

4.3.2.1 By-Laws

Article I – Definitions

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 3 -- Ineligibility of certain persons for membership or association

Section 4 -- Definition of disqualification (statutory disqualification)

Article IV - Membership

Article V - Registered representatives and associated persons

4.3.2.2 General Provisions

0115 - Applicability

4.3.2.3 Membership and Registration Rules

Rules 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

4.3.2.4 Conduct Rules

4.3.2.4.1 Rule 2120 -- Use of manipulative, deceptive or other fraudulent devices

4.3.2.4.2 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

4.3.2.4.3 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
- 4.3.2.4.4 Rule 2212 – Telemarketing
- 4.3.2.4.5 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
- 4.3.2.4.6 Rule 2370 – Borrowing from and lending to customers
- 4.3.2.4.7 Rule 2430 – Charges for services performed
- 4.3.2.4.8 Rule 2750 - Transactions with related persons
- 4.3.2.4.9 Rule 3010 -- Supervision
- Supervisory system
  - Written procedures
  - Internal inspections
  - Written approval
  - Qualifications investigated
  - Applicant's responsibility
  - Definitions
    - Office of supervisory jurisdiction
    - Branch office
- 4.3.2.4.10 Rule 3011 – Anti-money laundering compliance program
- 4.3.2.4.11 Rule 3030 -- Outside business activities of an associated person
- 4.3.2.4.12 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
- 4.3.2.4.13 Rule 3050 -- Transactions for or by associated persons

- 4.3.2.4.14 Rule 3060 -- Influencing or rewarding employees of others
  
- 4.3.2.4.15 Rule 3120 -- Use of Information obtained in fiduciary capacity
  
- 4.3.2.5 Procedural Rules
  - 4.3.2.5.1 Rule 8000 -- Investigations and Sanctions
    - 4.3.2.5.1.1 Rule 8100 -- General provisions
      - Rule 8110 -- Availability of Manual to customers
      - Rule 8120 -- Definitions
  
    - 4.3.2.5.1.2 Rule 8200 -- Investigations
      - Rule 8210 -- Provision of information and testimony and inspection and copying of books
      - Rule 8220 -- Suspension of members for failure to provide requested information
  
    - 4.3.2.5.1.3 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 information
      - Rule 8320 -- Payment of fines, other monetary sanctions, or costs; summary action for failure to pay
      - Rule 8330 -- Costs of proceedings
  
    - 4.3.2.5.2 Rule 9000 -- 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 9600 -- Procedures for exemptions
  
    - 4.3.2.5.3 Code of Arbitration Procedure
      - Part I Interpretive Material, Definitions, Organization and Authority
        - IM12000 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

4.3.2.5.4 Rule 10400 — Mediation rules

**4.3.3 General Administrative Requirements for Broker/Dealers**

4.3.3.1 Disclosure requirements

4.3.3.1.1 SEC Rules

Rule 10b-10 -- Confirmation of transactions

Rule 15c1-2 -- Fraud and misrepresentation

Rule 15c1-3 -- Misrepresentation by brokers and dealers as to registration

Rule 15c1-5 -- Disclosure of control

Rule 15c1-6 -- Disclosure of interest in distributions

Regulation S-P – Privacy of consumer financial information

4.3.3.1.2 NASD Rules

Rule 2230 -- Confirmations

IM-2230-1 "Third market" confirmations

Rule 2240 -- Disclosure of control relationship with issuer

Rule 2250 -- Disclosure of participation or interest in primary or secondary distribution

Rule 2270 -- Disclosure of financial condition to customers

Requirement to furnish most recent report of the firm's financial condition

4.3.3.2 Recordkeeping and reporting requirements

4.3.3.2.1 SEC Rules

Rule 17a-3 – Records to be made by certain exchange members, brokers and dealers

Rule 17a-4 – Records to be preserved by certain exchange members, brokers and dealers

Rule 17a-8 --Recordkeeping and reporting of currency and foreign transactions

Rule 17f-2 -- Fingerprinting of securities industry personnel

4.3.3.2.2 NASD Rules

Rule 3070 -- Reporting requirements

Rule 3110 -- Books and records

Requirements

Customer account information

Requirements when using predispute arbitration agreements with customers

Record of written complaints

"Complaint" defined

Negotiable instruments drawn from a customer's account

**4.4 Securities Investor Protection Act and SIPC Rules Thereunder**

**4.4.1 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

### SAMPLE QUESTION FORMATS

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

#### ANSWERS

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

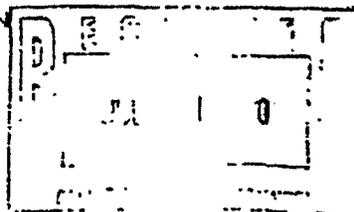
1. Which of the following best defines the "book value" of a common stock?
  - (A) The price at which the shares were originally issued
  - (B) The theoretical value per share the stock would have upon corporate liquidation
  - (C) The ratio of price to earnings for stocks
  - (D) An accounting figure 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
  
5. Which of the following securities represents an ownership interest in a public corporation?
  - (A) Common stock
  - (B) Common stock warrants
  - (C) Corporate bonds
  - (D) Debentures

Exhibit 3c  
SR-FINRA-2007-033



DIVISION OF  
MARKET REGULATION

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



July 24, 2000

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

Re: Procedure for Filings Relating to Qualification Examinations

Dear Mr. <sup>Alden</sup>Adkins:

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

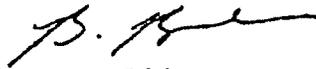
The Division has decided that it is no longer necessary for SROs to file new exam question banks for Commission approval under Section 19(b)(2). In the future, any new examinations should be filed as non-controversial rule changes for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange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

Alden S. Adkins  
Page 2

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

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

Sincerely,



Belinda Blaine  
Associate Director