

# **Content Outline for the S101 Regulatory Element Program**

## **Introduction**

The content for the S101 is organized into four modules. The content of each of these modules is listed following this overview. Unless otherwise specified, topics are covered at basic levels of knowledge and understanding.

The Securities Industry Continuing Education Program (CE Program), which is required by the rules of several self-regulatory organizations (SROs), is a two-part program composed of a Regulatory Element and a Firm Element. The Regulatory Element is developed by industry committees representing a diverse range of broker-dealers (BDs), in conjunction with the Securities Industry/Regulatory Council on Continuing Education, industry regulatory agencies and SROs. The Firm Element must be developed and delivered by each firm on an annual basis. The CE Program is intended to keep registered securities industry personnel current regarding rules and other issues important to performing their jobs appropriately.

## **The Regulatory Element**

The Regulatory Element requires all registered persons to participate in a prescribed computer-based training session within 120 calendar days of their second registration anniversary date and every three years thereafter. Failure to complete the Regulatory Element within 120 days of the prescribed anniversary date will result in a person's registration becoming inactive. The Regulatory Element is designed to cover significant subject matter that is broadly applicable to all registered persons.

The Regulatory Element focuses on compliance, regulatory, ethical and sales-practice standards. Its content is derived from rules and regulations, as well as standards and practices widely accepted within the industry. Although the specific requirements of certain rules may differ slightly among the various SROs, the program is based on standards and principles applicable to all. In certain instances, particular SRO requirements may be more restrictive than those represented in the Regulatory Element. Additionally, BDs may have policies and procedures that are more restrictive than industry regulations regarding the types of activities in which their registered employees may engage, the investment products they may represent, and/or specific approvals required for certain functions. Registered persons and their supervisors are responsible for ensuring that their activities are within the scope permitted by their employing BDs and conducted in accordance with the rule requirements of all of the SROs and jurisdictions regulating them.

Please note that a sample case and an orientation are provided as resources for those who would like to familiarize themselves with the Regulatory Element program format and features. Those required to take the Regulatory Element are encouraged to review these resources prior to taking their session.

Candidates currently eligible to take the program can do so online at [FINRA.org](http://FINRA.org).

## ***Presentation of the Training***

In each module, participants are led through a case that provides a story depicting situations that may be faced by registered persons in the course of their business. Each case contains significant educational content, including optional Resources and Glossary Rollovers. Participants must review the story content of each case but may choose whether to utilize the optional materials. Participants are encouraged to utilize all of the educational content provided in the S101 as it is designed to aid understanding and enhance the educational experience for the participant.

The format of the cases in the S101 program is text-based with some media treatments that provide important information, context and education related to the story.

The S101 is divided into four modules:

Module A: Responsibilities to Customers

Module B: Operational Responsibilities

Module C: Regulatory Responsibilities

Module D: Personalized Cases – In Module D, participants select from among seven categories to focus their session on the one function that is most relevant to their daily work.

- D.1 Series 6 Retail Sales
- D.2 Series 7 Retail Sales
- D.3 Institutional Sales
- D.4 Trading
- D.5 Operations
- D.6 Investment Banking
- D.7 Research

## ***Assessment, Proficiency and Timing***

As part of each case, participants are asked a series of questions. These questions are designed to assess the participants' understanding of the materials presented.

Participants must demonstrate their understanding of the subject matter by choosing the most appropriate response(s) to questions. Participants must demonstrate proficiency in each of the four modules of the S101. Participants that do not demonstrate proficiency with the subject matter will cycle through cases within the same module until proficiency is achieved. Failure to complete the Regulatory Element within 120 days of the prescribed anniversary date will result in a person's registration becoming inactive.

## **S101 Content Outline**

### **Module A: Responsibilities to Customers: Communications with the Public, Suitability, and Basic Product Knowledge**

This module focuses on four major areas with respect to responsibilities to customers.

#### **A.1 Types of Communications**

This section includes definitions, permitted uses, restrictions, approval, and retention requirements for written, electronic and oral communications.

Examples: email, instant messaging, social media, telemarketing, advertising and seminars

#### **A.2 Content Standards, Review and Approval Requirements**

This section focuses on industry requirements designed to ensure that all communications are fair and balanced and do not contain misleading, exaggerated or unwarranted statements or omit material facts.

Examples: professional designations, internal-use-only documents, research, copyrighted materials, testimonials, retail versus institutional communications, predictions, projections, performance guarantees, blanket recommendations, and prohibitions and restrictions related to distribution

#### **A.3 Suitability**

This section addresses suitability requirements including obtaining, monitoring and periodically re-confirming client information in order to determine the suitability of investments prior to making any recommendations.

Examples: Client profile information, including age, income, net worth, investment objectives, experience, risk tolerance, tax status, time horizon, liquidity needs and other securities holdings

#### **A.4 Product Knowledge/Investment Vehicles and Implications Related to Risk**

This section focuses on characteristics, risks and disclosure requirements of products/investment vehicles and strategies.

Examples of Products: equities, fixed-income securities, packaged products and alternative investments

Examples of Risk: market, interest rate, credit, sector, etc.

Examples of Investment Vehicles and Strategies: retirement plans, asset allocation, rebalancing and dollar-cost averaging

### **Module B: Operational Responsibilities: Customer Accounts, Trade and Settlement**

This module focuses on the following six substantive areas with respect to operational responsibilities.

## **B.1 Account Opening and Maintenance**

This section includes procedures and information required for opening and maintaining client accounts, including approvals, recordkeeping and delivery of account documentation.

Examples: customer identification program (CIP), ACATs transfers, safeguarding of client information (Regulation S-P), delivery of disclosures and required account documentation (margin, options, prospectus, privacy policy, SIPC/FDIC disclosures)

## **B.2 Client Account Registrations**

This section focuses on the different characteristics of client accounts.

Examples: individual, joint, estate, custodial, trust, retirement, education funding and corporate accounts

## **B.3 Trade Authorization and Approval**

This section identifies requirements for order entry, confirmation, trading authorization, errors and erroneous reports.

Examples: discretionary trading authority; time and price discretion; types of powers of attorney (POA); obligations and limits of fiduciaries; trading disclosure (penny stocks); types of orders; cancels and rebills; short and long positions; Rule 144/restricted securities; and new and secondary offerings

## **B.4 Account Activity**

This section focuses on responsibilities related to securities/fund transfers, trading activity, and external and internal distributions.

Examples: third-party checks; wire transfers; payments and trade settlement; and the consequences of non-payment/non-delivery

## **B.5 Anti-Money Laundering (AML)**

This section focuses on recognizing the stages of money laundering; red flags and other suspicious activities; implementing due diligence procedures; understanding reporting requirements; and the roles of regulatory partners.

Examples: customer identification program (CIP), USA PATRIOT Act, Bank Secrecy Act (BSA), Currency Transaction Reports (CTRs), internal reporting obligations, Suspicious Activity Reports (SARs), Office of Foreign Assets Control (OFAC), Specially Designated Nationals (SDN) List, Financial Crimes Enforcement Network (FinCEN)

## **B.6 Margin and Margin-Related Issues**

This section addresses the appropriate use of and requirements, associated risks and disclosure documentation for margin.

Examples: associated risks (e.g., margin calls, loss of voting power, potential liquidation of securities); initial, maintenance and house margin requirements; Regulation T requirements; and pattern day-trading requirements

## **Module C: Regulatory Responsibilities: Ethics and Business Conduct; Complaints and Inquiries; Prohibited and Fraudulent Behavior; Registration and Licensing Requirements**

This module focuses on the following five substantive areas with respect to regulatory responsibilities.

### **C.1 Ethics and Business Conduct**

This section addresses the importance of high standards of commercial honor, conducting activities in accordance with good business practices, and honoring just and equitable principles of trade.

Examples: conflicts of interest, gifts and gratuities, noncash compensation, private securities transactions, outside business activities and accounts, loans to or from clients, sharing commissions, referral fees, compensating unregistered persons and political contributions

### **C.2 Client Complaints, Arbitrations/Mediations and Regulatory Inquiries**

This section focuses on how to identify, report, investigate, document and respond to client complaints.

Examples: documentation and reporting of written or oral complaints; Forms U4/U5 updates; arbitration, mediation, negotiated settlements and cooperation in response to firm and/or regulatory inquiries

### **C.3 Prohibited/Fraudulent Practices**

This section focuses on understanding and identifying prohibited and improper activities.

Examples: churning; forgery and maintenance of document integrity; insider trading; market manipulation; selling away; commingling of funds; circulation of rumors; unauthorized trading; selling to breakpoints; performance guarantees; and improper sharing in profits and losses with customers

### **C.4 Registration and Licensing Requirements**

This section focuses on registration, licensing and continuing education requirements, as well as limitations for registered persons, broker-dealers and securities.

Examples: state licensing and self-regulatory organizations (SROs) registration requirements, Forms U4/U5 reporting requirements, insurance licensing and appointments, investment advisers, and state registration of securities (Blue Sky)

### **C.5 Regulatory Authority**

This section provides insight into the regulatory structure of the securities industry.

Examples: jurisdiction of the SEC, SROs, state regulators and other government entities; definition and consequences of statutory disqualification; and regulatory sanctions

## **Module D: Personalized Module**

Module D deals with topics relevant to seven job functions:

### **D.1 Series 6 Retail Sales**

This module contains activities that relate to the sale of investment company and variable contracts products. Topics to be addressed include investment company products and daily activities registered representatives (RRs) may encounter in their practice.

#### **D.1.1 Investment Companies**

This section is intended to help participants identify and understand the characteristics of investment companies and determine suitability.

Examples: unit investment trusts (UITs), closed-end investment companies, exchange-traded funds (ETFs), real estate investment trusts (REITs) and open-end investment companies

#### **D.1.2 Mutual Funds**

This section focuses on the characteristics of mutual funds, including types, structures and related concepts.

Examples: net asset value (NAV), share classes, sales charges, 12b-1 fees, dollar-cost averaging, mutual fund exchanges, letters of intent (LOI), rights of accumulation (ROA), inappropriate sales activities (e.g., late trading, market timing, selling to breakpoints), prospectuses and delivery requirements

#### **D.1.3 Municipal Fund Securities**

This section focuses on the characteristics of municipal fund securities and related tax issues.

Examples: 529 savings plans; gift tax exclusion amounts; rollovers; contribution limits; advertising requirements; disclosure requirements (e.g., information on a confirmation, time-of-sale disclosures); and qualification, registration and supervision of individuals selling municipal fund securities

#### **D.1.4 Qualified Retirement Plans**

This section is intended to help participants understand the characteristics of qualified retirement plans and related tax issues.

#### **D.1.5 Variable Annuities and Variable Life**

This section focuses on the characteristics of variable annuities, variable life insurance policies and related tax issues.

Examples: sales charges; surrender charges; fees and expenses (e.g., mortality and expense charges, administrative fees and underlying fund expense charges); valuation of a variable annuity contract; sub-accounts/separate accounts; tax treatment of tax-deferred variable annuities; optional enhanced death benefit and living benefit riders; 1035 exchanges; prospectus delivery requirements; disclosures; and costs and features of bonus annuities

## **D.2 Series 7 Retail Sales**

This module contains activities that relate to those in a traditional sales role. Topics to be addressed include products, accounts and daily activities registered representatives may encounter in their practice.

### **D.2.1 Investment Products**

This section helps participants identify and understand the characteristics, types and risks of investment products.

Examples: alternative investments, American Depository Receipts (ADRs), derivatives, exchange-traded funds (ETFs), fixed income securities, hedge funds, limited partnerships, low-priced securities, investment companies, unit investment trusts (UIT), preferred/convertible securities, private placements, real estate investment trusts (REITs), structured products, variable contracts, and listed and OTC options

### **D.2.2 Retirement Plans**

This section helps participants understand the characteristics of retirement plans, including types of plans and contributions; maximum contribution limits; taxation of investments and distributions; distribution options and allowable exceptions; minimum distribution requirements; and penalties for premature distributions, rollovers, and excess contributions.

Examples: individual retirement accounts (IRAs) such as traditional, rollover, Roth, spousal, inherited/beneficiary, and employer-sponsored plans such as defined contribution and defined benefit plans; profit sharing and money purchase plans; Simplified Employee Pension (SEP) plans; 401(k) plans; 403(b) plans; and Savings Incentive Match Plan for Employees (SIMPLE) IRAs

### **D.2.3 Other Retail Sales Issues**

This section helps participants by identifying additional activities and issues related to retail sales.

Examples: managed accounts; selling agreements; investment adviser activities by registered representatives; cost basis information; reorganization events (e.g., mergers and acquisitions, odd-lot tender, stock splits, etc.); requirements for disclosing pricing and/or fees relating to commissions, markups and markdowns; account service fees; and order ticket requirements

## **D.3 Institutional Sales**

This module is appropriate for those who cover institutional accounts. Subjects include clients' accounts, communication standards and regulatory requirements.

### **D.3.1 Communications and Product Knowledge**

This section focuses on definitions, permitted uses and restrictions, approval, and retention requirements for written, electronic and oral communications. In addition, it discusses characteristics and risks related to the various products and strategies.

Examples: communication content standards; equity, debt and packaged products; credit and equity derivatives; structured products; and products sold under agreements and/or contracts

### **D.3.2 Account Opening and Suitability**

This section includes procedures and information required for opening institutional accounts including approvals, recordkeeping, and suitability requirements.

Examples: customer identification program (CIP), ACATS transfers, anti-money laundering (AML), Rule 144A transactions, qualified institutional buyers (QIBs), qualified purchasers, accredited investors, and suitability acknowledgement

### **D.3.3 Trade and Settlement Issues**

This section focuses on institutional trade and settlement issues.

Examples: prohibited activities related to trading, including front running, market manipulation and excessive markups. In addition, issues relating to best execution, direct market access, new offering allocations, order ticket requirements, portfolio margin, trade corrections, error accounts and soft dollar arrangements

### **D.3.4 Investment Banking and Research**

This section focuses on the issues related to investment banking and research.

Examples: information barriers between investment banking and the sales, trading and research areas of a broker-dealer; information barrier crossing; public offerings; and private placement offerings

## **D.4 Trading**

This module focuses on the specific activities of a trader. The participant will explore trading and settlement issues and prohibited activities.

### **D.4.1 Prohibited Activities Related to Trading**

This section identifies and discusses prohibited trading activities.

Examples: front running, market manipulation (pump and dump, painting the tape), excessive markups and marking the close



## **D.4.2 Trade and Settlement Issues**

This section focuses on various issues regarding trading and settlement issues.

Examples: regulatory trade reporting systems, Market Access Rule, requirements to buy-in or closeout a fail, syndicate transactions, trader corrections, error accounts, trading along, block order handling, large trader ID, algorithm trading/high-frequency trading, limit up-limit down, delivery versus payment (DVP)/receive versus payment (RVP), prime broker, market-making activities, trade breaks, negotiated settlement, prearranged trades, stock lending, short sale requirements and day trading

## **D.5 Operations**

This module focuses on operational issues such as account opening; trade and settlement; and treasury.

### **D.5.1 Account Opening**

This section focuses on procedures and information required for opening and maintaining client accounts, including approvals, recordkeeping, and delivery of account documentation.

Examples: customer identification program (CIP), anti-money laundering (AML), ACATS transfers, safeguarding client information (Regulation S-P), delivery of disclosures and required account documentation (margin, options, prospectus, privacy policy, SIPC/FDIC disclosures), and types of powers of attorney (POA)

### **D.5.2 Trade and Settlement**

This section identifies requirements for confirmation, trading authorization, errors and trade reporting.

Examples: use of discretionary trading authority; time and price discretion; trading disclosure (penny stocks); types of orders; cancels and rebills; short and long positions; Rule 144/restricted securities; new and secondary offerings; trade reporting and trade corrections; corporate actions; margin and stock loan/securities lending; books and records; account statements and confirmations; selling agreements; proxy voting; and physical certificates

### **D.5.3 Treasury**

This section focuses on issues related to custody and control, as well as regulatory reporting requirements.

Examples: FOCUS reports, short interest reporting, segregation of client assets, and margin balance reporting

## **D.6 Investment Banking**

This module focuses on investment banking activities and related responsibilities.

### **D.6.1 Information Barriers**

This section discusses the requirements regarding the separation between investment banking, sales, trading and research.

Examples: restricted and watch lists, research reports, disclosures and disclaimers, review and approvals, material nonpublic information and conflicts of interest

### **D.6.2 Public Offerings**

This section focuses on the activities, participants and processes related to public offerings.

Examples: functions of the syndicate/underwriting group, registration requirements, allocation processes, post-effective issues such as lock-up period, flipping, penalty bids, stabilizing transactions, secondary offering, follow-on, shelf offering, and Regulation M

### **D.6.3 Private Offerings**

This section focuses on the activities, participants and processes related to unregistered offerings.

Examples: FINRA Rule 5123, Regulation A, Regulation S, Regulation D, resale restrictions, due diligence, client qualifications, suitability and the Jumpstart Our Business Startups (JOBS) Act

## **D.7 Research**

This module focuses on activities relating to the knowledge needed to perform the functions of a research analyst.

### **D.7.1 Information Barriers**

This section discusses the requirements regarding the separation between investment banking, sales, trading and research.

Examples: material nonpublic information and trading ahead of research reports

## **D.7.2 Research Analysts and Research Reports**

This section discusses the requirements of FINRA Rule 2241 (Research Analysts and Research Reports).

Examples: conflicts of interest, content of research reports, required disclosures, prepublication reviews, retaliation, promises of favorable research, and compensation of research analysts

## **References**

The following information is provided to candidates for reference when preparing for the S101 Regulatory Element Continuing Education Program. The list of resources is not comprehensive but is a sample of the many resources available. Many of the websites noted below include references to rules, regulations and notices, as well as to investor and registered person education.

Candidates are responsible for preparing for their Regulatory Element Continuing Education session. The Content Outline is maintained by FINRA through coordinated efforts with several SROs and the [Securities Industry/Regulatory Council on Continuing Education](#).

### **Chicago Board Options Exchange**

[www.cboe.com](http://www.cboe.com)

### **Financial Industry Regulatory Authority**

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

### **Municipal Securities Rulemaking Board**

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

### **New York Stock Exchange**

[www.nyse.com](http://www.nyse.com)

### **North American Securities Administrators Association**

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

### **Securities and Exchange Commission**

[www.sec.gov](http://www.sec.gov)