

# Information Notice

## FINRA Survey to Create the Securities Trader Qualification Examination

### Executive Summary

FINRA intends to file with the SEC a proposed rule change to replace the Equity Trader registration category and qualification examination (Series 55) with a Securities Trader registration category and qualification examination (Series 57). FINRA intends to file the proposed rule change in conjunction with the national securities exchanges filing proposed rule changes to replace the Proprietary Trader qualification examination (Series 56) with the Securities Trader qualification examination (Series 57) in their respective registration rules relating to securities trading activities. Starting in April 2015, in anticipation of the proposed rule change, FINRA will conduct a job analysis survey to inform the development of the Series 57 qualification examination. Through this survey, FINRA intends to gather information from currently registered individuals regarding their roles, responsibilities and job functions, and to use the information to develop the Series 57 qualification examination. FINRA encourages survey recipients to participate to help ensure that qualification examination content accurately measures competence in a particular area.

Questions about this *Notice* should be directed to:

- ▶ Lex Toton, Manager, Testing and Continuing Education, at (240) 386-4677; or
- ▶ Deborah Kase, Senior Continuing Education Analyst, Testing and Continuing Education, at (212) 858-4069.

March 31, 2015

### Suggested Routing

- ▶ Compliance
- ▶ Registered Representatives
- ▶ Registration
- ▶ Senior Management

### Key Topics

- ▶ Series 55
- ▶ Series 56
- ▶ Series 57
- ▶ Equity Trader
- ▶ Proprietary Trader
- ▶ Qualification Examinations
- ▶ Registration Categories

### Referenced Rules and Notices

- ▶ CBOE Rule 3.6A
- ▶ NASD Rule 1031
- ▶ NASD Rule 1032(f)
- ▶ NASDAQ Rule 1031(f)
- ▶ SEA Section 15A(g)(3)



Financial Industry Regulatory Authority

## Background & Discussion

Section 15A(g)(3) of the Securities Exchange Act of 1934 (SEA) authorizes FINRA to prescribe standards of training, experience and competence for persons associated with FINRA-regulated firms. In accordance with that provision, FINRA has developed qualification examinations that are designed to establish that persons associated with FINRA-regulated firms have attained specified levels of competence and knowledge. Given this purpose, FINRA's qualification examinations seek to measure accurately and reliably the degree to which each candidate possesses the knowledge, skills and abilities needed to perform the critical functions related to a particular registration.

Each qualification examination is developed from a content outline that describes the critical functions qualified individuals perform, lists topics covered on the qualification examination and identifies the relative emphasis of the topic areas. Among other things, FINRA develops new content outlines reflecting qualified individuals' roles, responsibilities and job functions, and periodically reviews and, if necessary, updates existing content outlines to ensure they accurately reflect such roles, responsibilities and job functions.

## Securities Trader Qualification Examination

Pursuant to NASD Rule 1032(f) (Limited Representative—Equity Trader), each associated person of a member firm who is included within the definition of “representative” in NASD Rule 1031 (Registration Requirements) is required to register with FINRA as an Equity Trader if, with respect to transactions in equity (including equity options), preferred or convertible debt securities effected otherwise than on a securities exchange, such person is engaged in proprietary trading, the execution of transactions on an agency basis or the direct supervision of such activities. There is an exception from the Equity Trader requirement for any associated person of a member firm whose trading activities are conducted principally on behalf of an investment company that is registered with the SEC pursuant to the Investment Company Act of 1940 and that controls, is controlled by, or is under common control with the member firm. The Series 55 examination currently qualifies an associated person to function as an Equity Trader. Before registration as an Equity Trader may become effective, the associated person must be registered as either a General Securities Representative (Series 7) or Corporate Securities Representative (Series 62). FINRA does not recognize the Series 56 examination as an acceptable qualification standard for associated persons engaged in securities trading.

In contrast, the exchanges currently use the Series 56 examination as a qualification standard for several registration categories relating to securities trading, including the Proprietary Trader registration category,<sup>1</sup> and most do not recognize the Series 55 examination as an acceptable qualification standard under their respective registration rules.<sup>2</sup> Unlike the Series 55 examination, there is no prerequisite registration requirement for individuals taking the Series 56 examination. The Series 56 examination is administered

by FINRA, but, as noted above, it is not recognized by FINRA as an acceptable qualification examination for associated persons engaged in securities trading. Associated persons of FINRA members are required to pass the Series 55 examination to engage in over-the-counter securities trading. Consequently, individuals engaged in trading activities at broker-dealers are subject to varying qualification requirements depending on whether their activities take place on a securities exchange or over-the-counter. Yet there is significant overlap in the content of the Series 55 and 56 examinations because the examinations test the core knowledge required of individuals engaged in trading activities as well as the self-regulatory organization (SRO) rules, including trading rules, that are common across SROs.

To eliminate duplication and a fragmented qualification standard for individuals engaged in trading activities, FINRA, in consultation with the national securities exchanges, intends to propose amendments to NASD Rule 1032(f) to replace the Equity Trader registration category and qualification examination with a Securities Trader registration category and qualification examination. FINRA also intends to develop the Securities Trader qualification examination (Series 57), which will be based on the current job functions of securities traders, including elements of the Series 55 and 56 examination programs,<sup>3</sup> and require associated persons to pass the Series 57 examination to register as Securities Traders. FINRA understands that the exchanges also intend to propose replacing the Series 56 examination with the Series 57 examination for those registration categories, such as the Proprietary Trader registration category, where the Series 56 is currently an acceptable qualification standard. To provide consistency with the rules of the national securities exchanges and to develop a more tailored examination, FINRA intends to propose eliminating the current prerequisite registration requirement in NASD Rule 1032(f) (General Securities Representative or Corporate Securities Representative prerequisite registration) and, instead, to include in the Series 57 examination the core knowledge portion of the General Securities Representative examination (Series 7).

## Survey Request

As part of this effort, FINRA is conducting a job analysis for the Securities Trader qualification examination and is sending surveys to individuals who currently hold Series 55 and 56 registrations. Therefore, if you maintain any of these registrations, you may receive a request to participate in a job analysis survey related to your registration. If so, FINRA encourages you to participate to help ensure that qualification examination content accurately reflects your current roles, responsibilities and job functions.

## Endnotes

1. For instance, under the rules of the Chicago Board Options Exchange (CBOE), an individual trading permit holder or individual associated person who is engaged in proprietary trading, market-making or effecting transactions on behalf of a broker-dealer is required to register and qualify as a Proprietary Trader. *See* Interpretation and Policy .08(a)(1) to CBOE Rule 3.6A (Qualification and Registration of Trading Permit Holders and Associated Persons). To qualify as a Proprietary Trader under the CBOE rules, an individual must pass the Series 56 examination or be registered as a General Securities Representative. *See* Interpretation and Policy .08(b) to CBOE Rule 3.6A.
2. NASDAQ recognizes the Series 55 examination. Specifically, NASDAQ members that are FINRA members are also subject to the Equity Trader registration requirement with respect to transactions on NASDAQ, and thus must pass the Series 55 qualification examination to engage in such activities. *See* NASDAQ Rule 1031(f) (Limited Representative – Equity Trader).
3. The Series 55 examination consists of 100 scored multiple-choice questions and the testing time is 3 hours. The Series 56 examination consists of 100 scored multiple-choice questions and the testing time is 2 hours and 30 minutes.