

## Qualification Examinations Restructuring

### FINRA Requests Comment on a Concept Proposal to Restructure the Representative-Level Qualification Examination Program

Comment Period Expires: July 27, 2015

#### Executive Summary

FINRA is requesting comment on a concept proposal to restructure the current representative-level qualification examination program into a format whereby all potential representative-level registrants would take a general knowledge examination and an appropriate specialized knowledge examination to reflect their particular registered role. For purposes of this proposal, the general knowledge examination will be called the Securities Industry Essentials Examination (SIE). SIE content would include knowledge fundamental to working in the securities industry, such as basic product knowledge; structure and functioning of the securities industry markets, regulatory agencies and their functions; and regulated and prohibited practices. Individuals taking the SIE would not need to be associated with a FINRA member firm and a passing result on the SIE would be valid for four years. Each specialized knowledge examination would correlate to a current representative examination and registration position (*e.g.*, Series 7 and General Securities Representative) and would test content specific to that registration category or job function. In addition, several of the current registration categories would be retired. This *Notice* seeks comment on the proposal from the industry and other interested persons.

The draft SIE Content Outline is attached as Appendix A.

Questions concerning this *Notice* should be directed to:

- ▶ Afshin Atabaki, Associate General Counsel, Office of General Counsel, at (202) 728-8902;
- ▶ Joe McDonald, Senior Director, Testing and Continuing Education Department, at (240) 386-5065; or
- ▶ Alexandra Toton, Qualifications Manager, Testing and Continuing Education Department, at (240) 386-4677.

May 2015

#### Notice Type

- ▶ Request for Comment

#### Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Registration
- ▶ Senior Management
- ▶ Training

#### Key Topics

- ▶ Central Registration Depository (CRD®)
- ▶ Content Outline
- ▶ Examination Restructuring
- ▶ General Knowledge Examination
- ▶ Qualification Examinations
- ▶ Registered Representatives
- ▶ Registration Rules
- ▶ Securities Industry Essentials Examination™ (SIE™)
- ▶ Series 6, 7, 11, 17, 22, 37, 38, 42, 55, 62, 72, 79, 82, 86, 87 and 99
- ▶ Specialized Knowledge Examinations

#### Referenced Rules & Notices

- ▶ FINRA Rule 8310
- ▶ NASD Rule 1031
- ▶ NASD Rule 1032
- ▶ NASD Rule 1070

### Action Requested

FINRA encourages all interested parties to comment on the proposal. Comments must be received by July 27, 2015.

Comments must be submitted through one of the following methods:

- ▶ Emailing comments to [pubcom@finra.org](mailto:pubcom@finra.org); or
- ▶ Mailing comments in hard copy to:  
Marcia E. Asquith  
Office of the Corporate Secretary  
FINRA  
1735 K Street, NW  
Washington, DC 20006-1506

To help FINRA process comments more efficiently, persons should use only one method to comment on the proposal.

**Important Notes:** All comments received in response to this *Notice* will be made available to the public on the FINRA website. In general, FINRA will post comments as they are received.<sup>1</sup>

Before becoming effective, a proposed rule change must be authorized for filing with the Securities and Exchange Commission (SEC) by the FINRA Board of Governors, and then must be filed with the SEC pursuant to Section 19(b) of the Securities Exchange Act of 1934 (SEA or Exchange Act).<sup>2</sup>

### Background and Discussion

FINRA administers qualification examinations that are designed to establish that persons associated with FINRA-regulated firms have attained specified levels of competence and knowledge pertinent to their function.

The first of these examinations was the NASD Registered Representative Examination (Series 1) established in 1956.<sup>3</sup> Over time, the examination program has increased in complexity to address the introduction of new products and functions, and related regulatory concerns and requirements.

As a result, today, there are a large number of examinations, considerable content overlap across the representative-level examinations and requirements for individuals in various segments of the industry to pass multiple examinations.

To address these issues, FINRA is seeking comment on a concept proposal to restructure the current representative-level qualification examination program into a more efficient format whereby all potential representative-level registrants would take a general knowledge examination and a tailored, specialized knowledge examination for their particular registered role. The proposed format would eliminate duplicative testing of general securities knowledge on examinations. As discussed below, FINRA is also evaluating the structure of the principal-level examinations and may propose to streamline this examination structure at a later time.

### A. Current Structure

The current FINRA representative-level examination program consists of 16 examinations, including 10 that have been introduced during the past 20 years. There are 11 FINRA representative-level examinations that qualify individuals to engage in sales activities with investors. These are the:

- ▶ Investment Company and Variable Contracts Products Representative Examination (Series 6);
- ▶ General Securities Representative Examination (Series 7);
- ▶ Order Processing Assistant Representative Examination (Series 11);
- ▶ United Kingdom (U.K.) Securities Representative Examination (Series 17);
- ▶ Direct Participation Programs Representative Examination (Series 22);
- ▶ Canadian Securities Representative Examinations (Series 37 and Series 38);
- ▶ Options Representative Examination (Series 42);
- ▶ Corporate Securities Representative Examination (Series 62);
- ▶ Government Securities Representative Examination (Series 72); and
- ▶ Private Securities Offerings Representative Examination (Series 82).

Each of these examinations focuses on testing a different set of products and was created in response to a federal law requirement, an identified regulatory need or an industry request.

Six of these examinations—the Series 6, Series 22, Series 42, Series 62, Series 72 and Series 82—are associated with limited representative registrations. The Series 17, Series 37 and Series 38 are limited versions of the Series 7 for individuals who are in good standing as a representative of either the Financial Conduct Authority in the U.K., or with a Canadian stock exchange or securities regulator. Passing these examinations satisfies the examination requirements to obtain the U.K. Securities Representative or Canadian Securities Representative registration. If a representative does not engage in municipal securities activities, registration and qualification as a U.K. Securities Representative or Canadian Securities Representative is equivalent to registration and qualification as a General Securities Representative.

The Order Processing Assistant Representative registration and associated Series 11 examination were created in 1990 for individuals whose sole function is to accept unsolicited orders (other than orders for municipal securities and direct participation programs) from existing customers. These individuals are not permitted to engage in any other activities requiring registration or to receive commissions. In addition, this is a stand-alone registration category in that an individual registered as an Order Processing Assistant Representative cannot be registered in any other registration category. Therefore, if an individual who is registered as an Order Processing Assistant Representative wants to move into another registered category, he or she must terminate his or her Order Processing Assistant Representative registration to obtain that new registration.

The remaining five representative-level examinations are not related to sales activities. These are the:

- ▶ Equity Trader Examination (Series 55);
- ▶ Investment Banking Representative Examination (Series 79);
- ▶ Research Analyst Examinations (Series 86 and Series 87); and
- ▶ Operations Professional Examination (Series 99).

## **B. Proposed Examination Structure**

Over the past year, FINRA conducted a review of the representative-level qualification examination program to identify alternative approaches to assessing the knowledge and competence of applicants for the various registration positions. In conducting the review, FINRA considered the following objectives:

- ▶ Reducing redundancy of subject matter content across examinations
- ▶ Identifying opportunities to simplify the qualification examination requirements
- ▶ Limiting the impact of any alternative structure on the registration rules
- ▶ Identifying and eliminating outdated registrations or registrations that now have limited utility and the qualifying examinations associated with these registrations

In addition, the staff consulted with a number of outside groups, FINRA advisory committees and other self-regulatory organizations (SROs) to gather feedback on an alternative examination structure that would achieve the objectives noted above.

As a result of this review and consultation process, FINRA is proposing to change its representative-level qualification examination program by creating a new structure consisting of a general knowledge examination called the Securities Industry Essentials Examination, or SIE, and a set of specialized knowledge examinations. Under this new structure, all individuals interested in pursuing employment as representative-level registrants would take the SIE. Individuals would not have to be associated with a FINRA

member firm to be eligible to take the SIE. However, passing the SIE alone would not qualify an individual for registration with FINRA. An individual who has passed the SIE would also need to pass the appropriate specialized knowledge examination associated with the registration category pertaining to his or her job function to be eligible for registration with FINRA. If following an individual's registration with a firm, the job functions for which the individual is registered change at that firm and he or she needs to become registered in an additional or alternative representative-level position, he or she would not need to pass the SIE again. Rather, the registered individual would need to pass only the appropriate specialized knowledge examination for the additional or alternative representative-level position.

### **Securities Industry Essentials Examination (SIE)**

The securities industry has become increasingly complex and sophisticated over the past 30 years. It is increasingly important for industry professionals to have a broad knowledge of the fundamental concepts and rules of the securities industry. The proposed SIE would bring together this subject matter into a single examination.

The SIE would assess basic product knowledge; the structure and function of the securities industry markets, regulatory agencies and their functions; and regulated and prohibited practices. FINRA has prepared a draft SIE content outline for the purpose of gathering comment. The draft outline contains four proposed major topic areas. The first, "Knowledge of Capital Markets," focuses on topics such as types of markets and offerings, broker-dealers and depositories, and economic cycles. The second, "Understanding Products and Their Risks," covers securities products at a high level as well as associated investment risks. The third, "Understanding Trading, Customer Accounts and Prohibited Activities," focuses on accounts, orders, settlement and prohibited activities. The final section, "Overview of the Regulatory Framework," encompasses topics such as SROs, registration requirements and specified conduct rules. The draft SIE Content Outline is attached as Appendix A.

FINRA anticipates that the SIE would include between 75 and 100 questions. FINRA intends for the questions to cover a broad range of industry content areas reflecting the diversity of regulatory agencies, securities products and regulated practices. The SIE content, examination length and passing score would be determined through the use of testing industry standards used to develop examinations and would include advice from a committee of individuals active in the securities industry.

#### *Eligibility to Take the SIE*

FINRA is proposing to permit individuals who are not associated with firms, including members of the general public, to take the SIE. Currently, only individuals associated with FINRA member firms are eligible to take FINRA qualification examinations. FINRA has received feedback that employment with a member firm would be more accessible if individuals were able to pass an introductory knowledge examination prior to becoming an

associated person. FINRA believes that expanding who is eligible to take an examination will enable prospective securities industry professionals to demonstrate to prospective employers a basic level of knowledge prior to a job application. In addition, FINRA believes this approach would allow for more flexibility and career mobility within the securities industry.

As is the case today, associated persons taking the SIE and any specialized knowledge examination would be subject to the Rules of Conduct<sup>4</sup> and the current waiting periods for retaking a failed exam.<sup>5</sup> Further, individuals taking the SIE who are not associated persons would have to agree to be subject to the same Rules of Conduct and waiting periods for retaking a failed exam.

#### *Expiration of SIE Results*

FINRA believes the knowledge covered by the SIE would be less likely to change than the content covered by the specialized knowledge examinations. For example, the definition of a stock or the purpose of an SRO is content that is not likely to change in the short term. Consequently, FINRA is proposing that a passing result on the SIE would be valid for four years.

The following examples illustrate the application of the four-year period to different individuals:

- ▶ An individual who passes the SIE and is not associated with a FINRA member firm at the time would have up to four years to become associated with a member firm and pass a specialized knowledge examination to register with FINRA without having to retake the SIE.
- ▶ An individual who passes the SIE and is associated with a FINRA member firm at the time would have up to four years to pass a specialized knowledge examination to register with FINRA without having to retake the SIE.
- ▶ An individual holding a representative-level registration who leaves the industry would have up to four years to re-associate with a member firm without having to retake the SIE. However, if more than two years passes between the date an individual was last registered with FINRA as a representative and the date he or she reregisters as a representative, the individual would be required to take and pass an appropriate specialized knowledge examination to reregister with FINRA.

The following examples further illustrate the interplay between the SIE and the specialized knowledge examinations with respect to a registered representative who leaves the securities industry:

- ▶ If a registered individual leaves the securities industry and then returns three years later, he or she would not have to retake the SIE, but he or she would need to pass an appropriate specialized knowledge examination to regain registration.
- ▶ If a registered individual leaves the securities industry and then returns five years later, he or she would have to pass the SIE and an appropriate specialized knowledge examination to regain registration.

### Specialized Knowledge Examinations

To register as a new representative with FINRA, an associated person of a member firm would need to take and pass the SIE and a specialized knowledge examination appropriate to the desired registration. As noted above, an individual does not have to be associated with a member firm to take the SIE, but the individual must have passed the SIE within four years prior to passing the specialized knowledge examination. Individuals must be associated with a member firm to be eligible to take a specialized knowledge examination. Subject to the exceptions described below, each specialized knowledge examination would correspond to an existing representative-level examination, such as the current Series 7 examination, and would test knowledge of concepts and rules specific to the associated registration category. FINRA would consult with committees of subject matter experts from the industry to update the content outlines and develop specialized knowledge examinations excluding the content covered on the SIE.

FINRA is proposing to develop specialized knowledge examinations for the following representative categories:

- ▶ Investment Company and Variable Contracts Products Representative
- ▶ General Securities Representative
- ▶ Direct Participation Programs Representative
- ▶ Equity Trader
- ▶ Investment Banking Representative
- ▶ Private Securities Offerings Representative
- ▶ Research Analyst
- ▶ Operations Professional

FINRA anticipates that each specialized knowledge examination would be shorter than the current qualification examination that it would replace. For example, the specialized Series 7 examination for General Securities Representatives would likely include 100 to 150 questions instead of the 250 questions on the current Series 7 examination and the specialized Series 6 examination for Investment Company and Variable Contracts Products Representatives would likely include 50-75 questions instead of the 100 questions on the current Series 6 examination.<sup>6</sup> However, the total number of questions on the SIE plus the applicable specialized knowledge examination could be greater than the current examinations.

In addition, under the new structure, individuals seeking registration as an Equity Trader or Research Analyst would no longer be required to first register and qualify as a General Securities Representative or Corporate Securities Representative as currently applicable. Instead, such individuals would need to pass the SIE and corresponding specialized knowledge examination for Equity Trader or Research Analyst. Also, individuals seeking registration in two or more representative-level registrations would experience a net decrease in the total number of questions because the SIE content would be tested only once. For example, an individual who seeks registration as a General Securities Representative and an Investment Banking Representative today would take two examinations, the Series 7 and Series 79, totaling 425 questions. Under the proposed structure, an individual who seeks registration in the same categories would take the SIE, the specialized Series 7 examination and the specialized Series 79 examination, totaling between 300 – 350 questions.

#### **Examination Retirement**

As part of the restructuring, FINRA is proposing to retire the current registration categories of Options Representative, Corporate Securities Representative and Government Securities Representative as well as the associated examinations, the Series 42, Series 62 and Series 72, respectively. Each of these registrations currently allow an individual to sell a subset of the products (*e.g.*, options, common stocks and corporate bonds, government securities) permitted to be sold by a General Securities Representative. In recent years, however, the utility of these registrations has diminished as a result of technological, regulatory and business practice changes. This is evidenced by the low annual volume for each of these examinations and the relatively low number of individuals who currently hold these registrations. Under the proposal, an individual who wants to engage in activities represented by these registration categories would register as a General Securities Representative.

However, an individual registered in any of these categories at the time of the effective date of the proposal would be able to maintain his or her registration, provided that if the individual then terminates that registration and the registration remains terminated for more than two years, he or she would not be able to reregister in that category.

### **Foreign Examinations**

FINRA is considering retiring the U.K. Securities Representative registration and associated Series 17 examination and the Canadian Securities Representative registrations and associated Series 37 and Series 38 examinations. However, FINRA is conducting an analysis of the relevant U.K. and Canadian registration and qualification requirements to determine whether there is sufficient overlap between the SIE and these registration and qualification requirements, so as to permit them to act as exemptions to the SIE. If FINRA determines that such exemptions are appropriate based on its review, individuals with the applicable U.K. or Canadian registrations and qualifications would need to pass only an appropriate specialized knowledge examination to register with FINRA for the function in which they intend to engage. FINRA believes that this approach would provide individuals who are associated with member firms and hold foreign registrations with more flexibility to obtain any FINRA representative-level registration.

If FINRA were to adopt this approach, an individual registered as a U.K. Securities Representative or Canadian Securities Representative at the time of the effective date of the proposal would be able to maintain his or her registration. However, if the individual then terminates that registration for more than two years, he or she would not be able to reregister in that category. If such individual wishes to reregister with FINRA, the individual would be required to register as a General Securities Representative and pass the SIE and the specialized Series 7 examination. As described above, FINRA may determine that an individual's U.K. or Canadian registrations and qualifications qualify as an alternative to the SIE, in which case the individual in the example above would only have to pass the specialized Series 7 examination.

### **Order Processing Assistant Representative Examination**

The Series 11 examination qualifies an individual to function as an Order Processing Assistant Representative. In recent years, the utility of this registration category has diminished as technological advances and changes in industry practice have reduced the need for Order Processing Assistant Representatives. As a result, the volume of candidates taking the Series 11 has diminished and today less than 200 member firms employ one or more Order Processing Assistant Representatives. Therefore, FINRA is proposing to retire the Order Processing Assistant Representative registration category and associated Series 11 examination.

If FINRA were to retire the Order Processing Assistant Representative registration category and Series 11 examination, an individual registered in this category at the time of the effective date of the proposal would be able to maintain his or her registration. However, if the individual then terminates that registration and the registration remains terminated for more than two years, the individual would not be able to reregister in that category.

### Proposed Examination Structure at a Glance

The following table illustrates the proposed changes to the representative-level examinations for those representative categories that FINRA is proposing to retain.

Current Registration Category (and CRD Designation)	Scope of Activities	Current Examination(s)	Proposed Examination(s)
Investment Company and Variable Contracts Products Representative (IR)	No change	Series 6	SIE + Specialized Series 6
General Securities Representative (GS)	No change	Series 7	SIE + Specialized Series 7
Direct Participation Programs Representative (DR)	No change	Series 22	SIE + Specialized Series 22
Equity Trader (ET)	No change	Series 7 or Series 62 + Series 55	SIE + Specialized Series 55
Investment Banking Representative (IB)	No change	Series 79	SIE + Specialized Series 79
Private Securities Offerings Representative (PR)	No change	Series 82	SIE + Specialized Series 82
Research Analyst (RS)	No change	Series 7 + Series 86 (Part I: Analysis) + Series 87 (Part II: Regulatory Administration and Best Practices)	SIE + Specialized Series 86 (Part I: Analysis) + Specialized Series 87 (Part II: Regulatory Administration and Best Practices)
Operations Professional (OS)	No change	Series 99	SIE + Specialized Series 99

The chart above does not include those registration categories that FINRA is considering retiring.

### **Current Representative Registrants**

Under the proposal, representative-level registrants who are registered, or had been registered within the past two years, prior to the effective date of the proposal would be eligible to maintain those registrations without being subject to any additional requirements.<sup>7</sup> Further, such individuals, with the exception of an Order Processing Assistant Representative, would be considered to have passed the SIE in the CRD system, and thus if they wish to register in any additional representative category after the effective date of the proposal, they could do so by taking only the appropriate specialized knowledge examination.<sup>8</sup> However, with respect to an individual who is not registered on the effective date of the proposal but was registered within the past two years prior to the effective date of the proposal, FINRA will administratively terminate the individual's SIE status in the CRD system if such individual does not register with FINRA within four years from the date of the individual's last registration.

In addition, an individual who had been registered as a representative within the past four years prior to the effective date of the proposal but whose registration lapsed for more than two years,<sup>9</sup> with the exception of an Order Processing Assistant Representative, would also be considered to have passed the SIE and designated as such in the CRD system. Therefore, if such individual reregisters with a firm after the effective date of the proposal and within four years of having been previously registered, the individual would only need to pass the specialized knowledge examination associated with that registration position. Similarly, if such individual does not register with FINRA within four years from the date of the individual's last registration, FINRA will administratively terminate the individual's SIE status in the CRD system.

Individuals currently registered as principals would not be impacted by this proposal and would have no additional requirements to maintain their principal registrations.

The table below provides examples for the individuals described above who are registered as representatives at the time of the effective date of the proposal or who were previously registered as representatives prior to the effective date of the proposal.

Examples	Required Examination(s)	Conditions
An individual who is registered as an Investment Company and Variable Contracts Products Representative at the time the proposal becomes effective and who wishes to maintain that registration.	None	None
An individual who is registered as an Investment Company and Variable Contracts Products Representative at the time the proposal becomes effective subsequently terminates that registration and one year after that termination date reregisters with another member firm in that same registration category.	None	The individual must reregister with a member firm <i>within</i> two years of his or her last registration to avoid having to take any examinations.
An individual who is registered as an Investment Company and Variable Contracts Products Representative at the time the proposal becomes effective subsequently terminates that registration and three years after that termination date reregisters with another member firm in that same registration category.	Specialized Series 6	The individual must reregister with a member firm <i>within</i> four years of his or her last registration to avoid having to take the SIE.
An individual who is registered as an Investment Company and Variable Contracts Products Representative at the time the proposal becomes effective subsequently terminates that registration and three years after that termination date reregisters with another member firm as a Direct Participation Programs Representative.	Specialized Series 22	The individual must reregister with a member firm <i>within</i> four years of his or her last registration to avoid having to take the SIE.
An individual who is registered as an Investment Company and Variable Contracts Products Representative at the time the proposal becomes effective subsequently terminates that registration and five years after that termination date reregisters with another member firm in that same registration category.	SIE and Specialized Series 6	None

Examples	Required Examination(s)	Conditions
An individual who is registered as an Investment Company and Variable Contracts Products Representative at the time the proposal becomes effective remains registered in that category, but also wishes to register as a General Securities Representative.	Specialized Series 7	None
An individual who was last registered as an Investment Company and Variable Contracts Products Representative a year prior to the effective date of the proposal wishes to register in that same category after the effective date of the proposal.	None	The individual must reregister with a member firm <i>within</i> one year of the effective date of the proposal to avoid having to take any examinations.
An individual who was last registered as an Investment Company and Variable Contracts Products Representative three years prior to the effective date of the proposal wishes to register in that same category after the effective date of the proposal.	Specialized Series 6	The individual must reregister with a member firm <i>within</i> one year of the effective date of the proposal to avoid having to take the SIE.
An individual who was last registered as an Investment Company and Variable Contracts Products Representative three years prior to the effective date of the proposal wishes to register as a General Securities Representative after the effective date of the proposal.	Specialized Series 7	The individual must reregister with a member firm <i>within</i> one year of the effective date of the proposal to avoid having to take the SIE.
An individual who was last registered as an Investment Company and Variable Contracts Products Representative five years prior to the effective date of the proposal wishes to register in that same registration category after the effective date of the proposal.	SIE and Specialized Series 6	None

### **Examination Enrollment and Administration**

Under the proposal, member firms would continue to use the CRD system to request registrations for associated persons. Individuals would be able to schedule both the SIE and specialized knowledge examinations for the same day, provided the individual is able to reserve space at one of FINRA's designated testing centers.

To enable individuals who are not associated with a member firm to take the SIE, FINRA is proposing to create an enrollment system that would allow such individuals to enroll and pay the SIE examination fee. This system would also be available to associated persons of member firms who are not required to be registered as representatives, but are asked by their firms to take the SIE.

The enrollment system would provide individuals who are not associated persons with documentation (either in paper or electronic format) of a passing or failing result. In addition, firms would be able to view in the CRD system the passing status of individuals prior to their hiring an individual using the pre-registration functionality in the CRD system. Further, the CRD system would automatically obtain an individual's SIE passing result once a firm submits a Form U4 (Uniform Application for Securities Industry Registration or Transfer) and requests a registration for that individual.

### **Examination Fees**

FINRA will conduct a pricing analysis to determine a fair and reasonable cost for the SIE. Examination fees for the specialized knowledge examinations would be based on a number of factors, including the length of each specialized knowledge examination. FINRA believes that the fee for the specialized knowledge examinations will be lower than that of their current corresponding examinations because the specialized knowledge examinations will be shorter in length. For example, FINRA anticipates that the fee for the specialized Series 7 examination will be less than the fee for the current Series 7 examination.

### **C. Phased Implementation Approach**

FINRA is proposing to roll out the revised structure in two phases. The first phase would include the SIE and the specialized knowledge examinations for the Investment Company and Variable Contracts Products Representative, the General Securities Representative and the Investment Banking Representative registration categories, which represent the highest volume representative-level examinations. Assuming all necessary approvals, FINRA would like to roll out the first phase in the fourth quarter of 2016. FINRA would then roll out the second phase, which would include the remaining specialized knowledge examinations, during the first half of 2017.

#### **D. Principal-Level Registration Structure**

FINRA is currently evaluating the structure of the principal-level examinations and may propose to streamline this examination structure at a later time. The current proposal would not impact the principal-level registration categories. However, if the proposal is approved and once implemented, an unregistered individual who intends to register as a principal in a registration category that has a prerequisite representative-level examination requirement would have to take and pass the SIE, the appropriate specialized knowledge examination and the appropriate principal examination.

#### **E. Continuing Education**

The proposed examination structure does not affect the current continuing education requirements. Individuals who have passed the SIE but not a specialized knowledge examination and do not hold a registered position would not be subject to the continuing education requirements.

#### **F. Qualification Examination Waivers**

NASD Rule 1070 permits FINRA, in exceptional cases and where good cause is shown, to waive the applicable qualification examination and accept other standards as evidence of an applicant's qualifications for registration. Under the proposed examination structure, FINRA would consider examination waivers by a member firm for individuals associated with the firm who are seeking registration in a representative-level registration category. In this regard, FINRA would consider waivers of the SIE or both the SIE and specialized knowledge examination(s) for these individuals.

#### **G. Economic Impact Assessment**

As discussed above, the current qualification examination program structure has become overly complex, and the industry has raised concerns over what it sees as a proliferation of qualification examination requirements. FINRA believes that it has an opportunity to introduce some efficiency to the program. The proposal aims to reduce redundancy of subject matter content across examinations, simplify the qualification examination requirements, limit the impact of the alternative structure on the registration rules, and eliminate outdated registrations or registrations that now have limited utility and the qualifying examinations associated with these registrations. The proposal is also likely to expand the pool of potential employee candidates for FINRA member firms. Currently, only individuals associated with member firms are eligible to take FINRA qualification examinations. The new examination structure would permit the general public to take the SIE, enabling prospective securities industry professionals to demonstrate to prospective employers a basic level of knowledge prior to a job application.

FINRA understands that the costs associated with this proposal would primarily fall upon FINRA itself to develop and implement the new examination structure. Further, FINRA has historically sought to establish its examination fees at a level that aligns with FINRA's financial objectives. Should FINRA adopt the examination structure proposed here, FINRA will conduct a pricing analysis to determine the examination fees for the SIE and specialized knowledge examinations and assess the potential impacts on member firms and individuals. The pricing analysis would be included in a rule filing with the SEC to set the examination fees for the SIE and the specialized knowledge examinations.

### Request for Comments

FINRA seeks comments on the concept proposal. In addition to generally requesting comments, FINRA specifically requests comments on the questions below. FINRA requests data and quantified comments where possible.

1. FINRA is proposing to move to a general knowledge examination and specialized knowledge examinations for the representative-level qualification examinations. Does moving to this type of structure make sense? Would it help member firms better manage and develop individuals?
2. FINRA is proposing to create the SIE covering fundamental securities industry knowledge. Do you consider the content listed in the sample content outline to be common knowledge? Is there other knowledge not listed that you believe should be included on the SIE? What is an appropriate level of depth?
3. FINRA is proposing to allow any individual, including an individual who is not associated with a member firm, to take the SIE. Further, a passing result on the SIE would be valid for four years. Does this approach make sense? Is four years a reasonable length of time for a passing result on the SIE examination to be valid?
4. FINRA is proposing retiring the Options Representative, the Corporate Securities Representative and the Government Securities Representative registration categories and the associated Series 42, Series 62 and Series 72 examinations. Do you believe that FINRA should retain any of these examinations? If so, why? Should FINRA consider retiring any other representative-level registration categories that it is considering retaining under the proposal?

5. FINRA is considering retiring the U.K. Securities Representative and the Canadian Securities Representative registration categories and the associated Series 17, Series 37 and Series 38 examinations and instead determine foreign qualifications that would exempt an individual from taking the SIE. Do you believe that this approach makes sense or should FINRA create specialized knowledge examinations for the Series 17, Series 37 and Series 38 similar to the other specialized knowledge examinations described in the proposal?
6. FINRA is considering retiring the Order Processing Assistant Representative registration category and the associated Series 11 examination. Do you believe that there is utility in continuing to maintain this registration category and examination?
7. Are there any other potential economic impacts of the proposal that need to be identified?
8. Are there more effective ways to achieve the proposal's goals?
9. How much of the fees for representative-level examinations are currently paid by member firms versus individuals? Would the proposal change the payment responsibilities? If so, how?

## Endnotes

1. FINRA will not edit personal identifying information, such as names or email addresses, from submissions. Persons should submit only information that they wish to make publicly available. *See Notice to Members 03-73* (November 2003) (Online Availability of Comments) for more information.
2. *See* SEA Section 19 and rules thereunder. After a proposed rule change is filed with the SEC, the proposed rule change generally is published for public comment in the Federal Register. Certain limited types of proposed rule changes, however, take effect upon filing with the SEC. *See* SEA Section 19(b)(3) and SEA Rule 19b-4.
3. The Series 1 examination is now the General Securities Representative Examination (Series 7).
4. Before taking an examination, FINRA requires each candidate to agree to the Rules of Conduct for taking a qualification examination. Among other things, the Rules of Conduct require each candidate to attest that he or she is in fact the person who is taking the examination. The Rules of Conduct also requires that each candidate agree that the examination content is the intellectual property of FINRA and that the content cannot be copied or redistributed by any means. If FINRA discovers that a candidate has violated the Rules of Conduct, the candidate will forfeit the results of the examination and may be subject to disciplinary action by FINRA.
5. Pursuant to NASD Rule 1070 (Qualification Examinations and Waiver of Requirements), an individual who fails to pass an examination must wait 30 calendar days before retesting. Further, a 180-day waiting period is triggered upon three successive examination failures within a two-year period.
6. The length of each specialized knowledge examination would be determined through the use of testing industry standards used to develop examinations and, in part, by the length of the SIE.
7. Pursuant to NASD Rule 1031(c) (Requirement for Examination on Lapse of Registration), any person whose registration has been revoked pursuant to FINRA Rule 8310 (Sanctions for Violation of the Rules) or whose most recent registration as a representative or principal has been terminated for a period of two or more years immediately preceding the date of receipt by FINRA of a new application is required to pass a qualification examination for representatives appropriate to the category of registration as specified in NASD Rule 1032 (Categories of Representative Registration).
8. Because the principal-level registration structure is still being reviewed, only individuals who have passed an appropriate representative-level examination would be considered to have passed the SIE. Registered principals who do not hold an appropriate representative-level registration would not be considered to have passed the SIE. For example, an individual who is registered solely as a FINOP (Series 27) today would have to take the Series 7 to become registered as a General Securities Representative. Under this proposal, in the future this individual would have to pass the SIE and the specialized General Securities Representative examination to obtain registration as a General Securities Representative.
9. *See supra* note 7.

## Appendix A

### Draft Securities Industry Essentials Examination (SIE) Content Outline

#### Section 1: Knowledge of Capital Markets

##### Market Structure

- ▶ Types of markets (*e.g.*, securities, currency, electronic, secondary)
- ▶ Offerings:
  - ▶ Public securities offering
  - ▶ Private securities offering
  - ▶ Initial public offering
  - ▶ Secondary offering
  - ▶ Types of tombstones
  - ▶ Shelf registration
  - ▶ Prospectus delivery requirements
- ▶ Types of broker-dealers
- ▶ Depositories and clearing facilities

##### Factors That Affect the Securities Market

- ▶ Business and economic cycles (*e.g.*, depression, recession, inflation)
- ▶ Bankruptcy
- ▶ The Federal Reserve Board's impact on business activity and market stability
  - ▶ Monetary vs. fiscal policy
  - ▶ Open market activities and impact on economy
  - ▶ Different rates: interest rate, discount rate, federal funds rate
- ▶ International and economic factors

##### Associated Rules

- ▶ FINRA Rule 4311—Carrying Agreements
- ▶ Securities Exchange Act of 1934 (SEA) Rule 15c3-1—Net Capital Requirements for Brokers or Dealers
- ▶ Securities Act of 1933, Section 7—Information Required in a Registration Statement

- ▶ Securities Act of 1933, Section 8—Taking Effect of Registration Statements and Amendments Thereto
- ▶ Securities Act of 1933, Section 10—Information Required in Prospectus
- ▶ Securities Act of 1933, Schedule A—Schedule of Information Required in Registration Statement
- ▶ Securities Act of 1933, Schedule B—Schedule of Information Required in Registration Statement
- ▶ Securities Act of 1933, Regulation D—Rules Governing the Limited Offer and Sale of Securities Without Registration Under the Securities Act of 1933
- ▶ Securities Act of 1933, Rule 144—Persons Deemed Not to Be Engaged in a Distribution and Therefore Not Underwriters
- ▶ Securities Act of 1933, Rule 144A—Private Resales of Securities to Institutions
- ▶ Securities Act of 1933, Rule 145—Reclassification of Securities, Mergers, Consolidations and Acquisitions of Assets
- ▶ Securities Act of 1933, Rule 147—“Part of an Issue,” “Person Resident,” and “Doing Business Within” for Purposes of Section 3(a)(11)
- ▶ Securities Act of 1933, Rule 164—Post-Filing Free Writing Prospectuses in Connection with Certain Registered Offerings

## Section 2: Understanding Products and Their Risks

### Products

- ▶ Equities
  - ▶ Common stock
  - ▶ Preferred stock
  - ▶ Control and restricted securities (SEC Rule 144)
  - ▶ IPOs
  - ▶ Penny Stocks
- ▶ Debt Securities
  - ▶ Corporate bonds
  - ▶ Treasuries
  - ▶ Municipal bonds
  - ▶ Characteristics (*e.g.*, maturities, coupons, yields, callable features)

- ▶ Options
  - ▶ Basic strategies (*e.g.*, calls, puts)
  - ▶ In-the-money, out-of-the-money
  - ▶ Characteristics (*e.g.*, expiration date, strike price, premium)
  - ▶ Basic calculations (*e.g.*, premiums, breakeven)
  - ▶ Risks, approvals and disclosures
- ▶ Money Market Instruments
  - ▶ Characteristics (*e.g.*, maturity, net asset value (NAV), liquidity)
- ▶ Hedge Funds
  - ▶ Basic structure and characteristics
- ▶ Direct Participation Programs (DPPs)
- ▶ Limited Partnerships
- ▶ Real Estate Investment Trusts (REITs)
- ▶ Exchange Traded Funds (ETFs)
- ▶ Investment Companies
  - ▶ Types (*e.g.*, closed-end, mutual funds, unit investment trusts (UITs), variable annuities)
  - ▶ Characteristics (no load)
  - ▶ Share classes
  - ▶ Market timing
  - ▶ Net asset value (NAV)
  - ▶ Disclosures
  - ▶ Costs and fees
  - ▶ Non-U.S. Market Securities
  - ▶ 529 College Savings Plans

### Investment Risks

- ▶ Definition and identification of risk types (*e.g.*, call, capital, currency, inflation, liquidity, political, reinvestment)

### Associated Rules

- ▶ FINRA Rule 2213—Requirements for the Use of Bond Mutual Fund Volatility Ratings
- ▶ FINRA Rule 2260—Disclosures
- ▶ FINRA Rule 2330—Members’ Responsibilities Regarding Deferred Variable Annuities
- ▶ FINRA Rule 2342—“Breakpoint” Sales
- ▶ FINRA Rule 2360—Options
- ▶ MSRB Constitution and Rules, Rules G-1 through G-41 and Rules D-8 through D-12
- ▶ Investment Company Act of 1940 Rule 12b-1—Distribution of Shares by Registered Open-End Management Investment Company
- ▶ Investment Company Act of 1940, Section 3(a)—Definitions: “Investment Company”
- ▶ Investment Company Act of 1940, Section 4—Classification of Investment Companies
- ▶ Investment Company Act of 1940, Section 5—Subclassification of Management Companies
- ▶ SEA Rule 3a11-1—Definition of the Term “Equity Security”
- ▶ SEA Rule 10b-18—Purchases of Certain Equity Securities by the Issuer and Others
- ▶ SEC, Regulation M
- ▶ SEC, Regulation NMS

## Section 3: Understanding Trading, Customer Accounts and Prohibited Activities

### Trading, Settlement and Corporate Actions

- ▶ Trading orders and strategies: bid-ask, long and short, buy and sell, naked and covered, bearish and bullish
- ▶ Investment returns (*e.g.*, dividends, interest, ordinary income, return of capital)
- ▶ Same day versus regular way settlement
- ▶ Standard settlement time frames for various products
- ▶ Dividends
- ▶ Stock splits and reverse stock splits
- ▶ Making adjustments for securities subject to corporate actions
- ▶ Processing customer instructions and special situations related to corporate actions
- ▶ Delivery of notices
- ▶ Corporate action deadlines
- ▶ Proxies and proxy voting

### Customer Accounts and Compliance Considerations

- ▶ Account Types (e.g., cash, margin)
  - ▶ Margin:
    - Margin, hypothecation and re-hypothecation
    - Types of accounts that are permitted to trade on margin
    - Account approvals
    - Eligible/ineligible securities
    - Required disclosures
    - Federal and FINRA margin requirements, margin calls
- ▶ Types of customer account registrations
  - ▶ Individual
  - ▶ Joint
  - ▶ Corporate
  - ▶ Trust
  - ▶ Custodial
  - ▶ Individual retirement accounts (IRAs), 403b and other qualified plans
- ▶ “Know Your Customer” (KYC)
- ▶ Customer Identification Program (CIP) requirements
- ▶ Securities Investor Protection Corporation (SIPC)
- ▶ Federal Deposit Insurance Corporation (FDIC)
- ▶ Anti-Money Laundering (AML) compliance
- ▶ Structuring, layering and other money laundering activities
  - ▶ Office of Foreign Asset Control (OFAC) and the Specially Designated Nationals and Blocked Persons (SDNs) list
  - ▶ Financial Crimes Enforcement Network (FinCEN)
  - ▶ Suspicious activity reports (SARs)

### Account Statements, Confirmations and Settlement

- ▶ Types of information that appear on an account statement
- ▶ Updating customer account records
- ▶ Time frame for providing statements
- ▶ Types of information that appear on a confirmation
- ▶ Confirmation delivery requirements, including electronic confirmations
- ▶ Non-trade confirmations/third party activity notices

### Prohibited Activities

- ▶ Market manipulation (e.g., marking the close, wash sales, matched orders)
- ▶ Insider trading
- ▶ Prohibited breakpoint sales
- ▶ Restrictions for associated persons purchasing IPOs
- ▶ Use of manipulative, deceptive or other fraudulent devices
- ▶ Improper use of customers' securities or funds and prohibitions against guarantees and sharing in customer accounts
- ▶ Prohibition against paying commissions to unregistered persons
- ▶ Falsifying or withholding documents
- ▶ Prohibited activities related to maintenance of books and records (e.g., falsifying records and improper maintenance/retention of records)

### Associated Rules

- ▶ FINRA Rule 2010—Standards of Commercial Honor and Principles of Trade
- ▶ FINRA Rule 2020—Use of Manipulative, Deceptive or Other Fraudulent Devices
- ▶ FINRA Rule 2040—Payments to Unregistered Persons
- ▶ FINRA Rule 2090—Know Your Customer
- ▶ FINRA Rule 2150—Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts
- ▶ FINRA Rule 2210—Communications with the Public
- ▶ FINRA Rule 3220—Influencing or Rewarding the Employees of Others
- ▶ FINRA Rule 3240—Borrowing From or Lending To Customers
- ▶ FINRA Rule 3310—Anti-Money Laundering Compliance Program
- ▶ FINRA Rule 4200 Series—Margin
- ▶ FINRA Rule 4512—Customer Account Information
- ▶ FINRA Rule 5130—Restrictions on the Purchase and Sale of Initial Equity Public Offerings
- ▶ FINRA Rule 5210—Publication of Transactions and Quotations
- ▶ FINRA Rule 5220—Offers at Stated Prices
- ▶ FINRA Rule 5230—Payments Involving Publications that Influence the Market Price of a Security
- ▶ FINRA Rule 5250—Payments for Market Making

- ▶ FINRA Rule 5270—Front Running of Block Transactions
- ▶ FINRA Rule 5280—Trading Ahead of Research Reports
- ▶ FINRA Rule 5290—Order Entry and Execution Practices
- ▶ FINRA Rule 5310—Best Execution and Interpositioning
- ▶ FINRA Rule 5320—Prohibition Against Trading Ahead of Customer Orders
- ▶ FINRA Rule 6438—Displaying Priced Quotations in Multiple Quotation Mediums
- ▶ NASD Rule 2510—Discretionary Accounts
- ▶ NASD Rule 3040—Private Securities Transactions of an Associated Person
- ▶ NASD Rule 3050—Transactions for or by Associated Persons
- ▶ NYSE Rule 407—Transactions: Employees of Members, Member Organizations and the Exchange
- ▶ USA PATRIOT Act, Section 326—Verification of Identification
- ▶ Federal Reserve Board Regulation T
- ▶ SEA Rule 8c-1—Hypothecation of Customers’ Securities
- ▶ SEA Section 11(d)—Trading by Exchange Members, Brokers and Dealers: “Prohibition on Extension of Credit by Broker-Dealer”
- ▶ SEA Rule 10b-5—Employment of Manipulative and Deceptive Devices
- ▶ SEA Rule 10b5-1—Trading on Material Nonpublic Information in Insider Trading Cases

## Section 4: Overview of the Regulatory Framework

### Regulatory Entities

- ▶ The Securities and Exchange Commission (SEC)
- ▶ Self-Regulatory Organizations (SROs)

### SRO Regulatory Requirements for Associated Persons

- ▶ Registration and Continuing Education
  - ▶ SRO and state registration requirements (*e.g.*, Blue Sky)
  - ▶ FINRA registration requirements
  - ▶ Failing to register an associated person
  - ▶ Continuing education requirement (*e.g.*, firm element, regulatory element)

- ▶ Employee Conduct and Reportable Events
  - ▶ Reporting of certain events on the Form U4 and Form U5
  - ▶ Outside business activities
  - ▶ Private securities transactions
  - ▶ Reporting of political contributions and consequences for exceeding dollar contribution thresholds
  - ▶ Dollar/value limits for gifts and gratuities and noncash compensation
  - ▶ Business entertainment in relation to other FINRA members firms
  - ▶ Consequences of filing misleading information or omitting information
    - Customer complaints
    - Potential red flag

#### **Associated Rules**

- ▶ FINRA By-Laws Article IV Section 6—Retention of Jurisdiction
- ▶ FINRA Rule 1000 Series—Member Application and Associated Person Registration
- ▶ FINRA Rule 1122—Filing of Misleading Information as to Membership or Registration
- ▶ FINRA Rule 2060—Use of Information Obtained in Fiduciary Capacity
- ▶ FINRA 2150—Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts
- ▶ FINRA 2266—SIPC Information
- ▶ FINRA Rule 3270—Outside Business Activities of Registered Persons
- ▶ FINRA Rule 4513—Written Customer Complaints
- ▶ FINRA Rule 4330—Customer Protection: Permissible Use of Customers' Securities
- ▶ FINRA Rule 4530—Reporting Requirements
- ▶ FINRA Rule 5240—Anti-Intimidation/Coordination
- ▶ NASD Rule 1000 Series—Membership, Registration and Qualification Requirements
- ▶ NYSE Rule 401A—Customer Complaints
- ▶ MSRB Rule G-37—Political Contributions and Prohibitions on Municipal Securities

#### **Business**

- ▶ SEC Regulation S-P—Privacy of Consumer Financial Information and Safeguarding Personal Information
- ▶ Securities Investor Protection Act of 1970