

S901 Content Outline for the Regulatory Element

Introduction

The Securities Industry Continuing Education Program (CE Program), which is required by the rules of several self-regulatory organizations (SRO), is a two-part program composed of a Firm Element and a Regulatory Element. The Firm Element is developed and must be delivered by each firm on an annual basis. The Regulatory Element is developed by industry committees representing a diverse range of broker-dealers, in conjunction with the Securities Industry/Regulatory Council on Continuing Education, industry regulatory agencies and SROs. 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. 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 and ethical 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, many broker-dealers may have policies and procedures that are more restrictive than industry regulations regarding the types of activities in which their registered employees may engage, 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 broker-dealers and conducted in accordance with the rule requirements of all of the SROs and jurisdictions regulating them.

The S901 Regulatory Element Program is required for Series 99 registered persons who hold no other FINRA registrations. The content for the S901 is organized into four topical modules, and may contain common topics such as ethics, good business practice, and registration considerations. Topics identified in this outline are covered thoroughly in the modules, and some may appear in more than one module. The content of each of these modules and the common topics are listed following this overview. Unless otherwise specified, the topics are covered at basic levels of knowledge and understanding.

Please note that individuals may see a sample case and the orientation for the Regulatory Element by visiting www.cecouncil.com/regulatory_element. The sample case and orientation are provided as resources to those who would like to familiarize themselves with the program format and features. Those required to sit for the Regulatory Element are encouraged to review the sample case and orientation prior to sitting for their session.

Presentation of the Training

Participants in the S901 are able to choose the order in which to complete the four required modules. In addition, participants are given a choice in Module D to select one function from among four categories to focus their session on that function that is most relevant to their daily work. These modules will be described in more detail in the Content Outline.

In each module of the S901, 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 educational content, including optional material called 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 S901, including the optional material, as it is designed to aid understanding and enhance the educational experience for the participant.

The format of the cases in the S901 Program is text-based with some media treatments that provide important information, context and education related to the story.

Assessment, Proficiency and Timing

As part of each case, participants are presented a series of questions. These questions, which relate to the story and facts presented in the case, are designed to assess the participants' understanding of the materials presented. The participant must demonstrate his or her 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 S901. Participants will be provided a maximum of two cases in each module to demonstrate proficiency. Additional content may be provided if the participant does not demonstrate proficiency with the subject matter.

Participants who do not demonstrate proficiency in any one module will not be able to complete the Regulatory Element requirement within that session. If proficiency was not demonstrated in a module, participants may terminate the incomplete session or may continue to review the remaining material for the added educational benefit, but it will not impact the session results. In either event, participants will not be able to complete the Regulatory Element requirement in that session and must schedule another session in order to satisfy the requirement.

The S901 program is designed to provide ample time to complete the required materials within the allotted 3½ hour timeframe. Failure to complete the Regulatory Element within 120 days of the prescribed anniversary date will result in a person's registration becoming inactive, which means that the individual may not engage in, or be compensated for, activities requiring a securities registration until the requirement is satisfied.

Content Structure

The content of the S901 is divided into 4 modules:

Module A: Client Confidentiality and Responsibilities of Registered Persons

Module B: Operations Workflow

Module C: Product and Market Knowledge

Module D: Personalized Cases - Module D is further subdivided into four functional areas:

- D.1 New Accounts
- D.2 Trading and Settlement
- D.3 Operations Generalist
- D.4 Treasury, Custody and Control

All participants will be presented with Cases from Modules A, B and C regardless of their function.

For Module D, participants will select which of the four functional categories best describe the majority of their routine work. Upon selection of a functional category, a case will be randomly selected from one of the four sub-modules. The cases in these sub-modules will focus on issues related to each specific function. The following describes typical job functions that are related to each category.

D1 - New Accounts

- Client on-boarding (customer account data and document maintenance).

D2 - Trading and Settlement

- Receipt and delivery of securities and funds, account transfers
- Settlement, fail control, buy ins, segregation, possession and control
- Trade confirmation and account statements
- Margin
- Stock loan/securities lending
- Collection, maintenance, re-investment (*i.e.*, sweeps) and disbursement of funds
- Defining and approving business requirements for sales and trading systems and any other systems related to the covered functions, and validation that these systems meet such business requirements

D3 - Operations Generalist

- Individuals who work primarily in Introducing Brokers, small firms and/or branch offices where a general knowledge of most or all functions is required

D4 - Treasury Custody and Control -

- Bank, custody, depository and firm account management and reconciliation
- Financial control, including general ledger and treasury
- Contributing to the process of preparing and filing financial regulatory reports
- Approval of pricing models used for valuations

In addition, the following covered functions may span a variety of the function categories. Individuals who supervise or approve these functions should chose a category based on a majority of their routine work

- Prime brokerage (services to other broker-dealers and financial institutions).
- Defining and approving business security requirements and policies for information technology, including, but not limited to, systems and data, in connection with the covered functions.
- Defining and approving information entitlement policies in connection with the covered functions.
- Posting entries to a member's books and records in connection with the covered functions to ensure integrity and compliance with the federal securities laws and regulations and FINRA rules.

Content Outline

Module A: Client Confidentiality and Responsibilities of Registered Persons

A.1 Registration, continuing education and termination of associated persons

- ❖ FINRA, SRO and state registration requirements
- ❖ Reporting of certain events on the Form U4 and Form U5
- ❖ Consequences of filing misleading information or omitting information
- ❖ Failing to register an associated person

A.2 Code of Conduct

- ❖ Outside business activities and outside securities accounts
- ❖ Prohibition against insider trading
- ❖ Selling away
- ❖ 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

A.3 Relationships and Dealings with Customers, Vendors and Associated Persons of the Firm

- ❖ Non-public personal information (NPI)
- ❖ Dollar/value limits for gifts and gratuities and reporting requirements
- ❖ Business entertainment in relation to other FINRA member firms
- ❖ Reporting of political contributions and consequences for exceeding dollar contribution thresholds

A.4 Customer Privacy

- ❖ Confidentiality of customer information
- ❖ Exchange and control of information between departments and outside the firm
- ❖ Disclosures to customers
- ❖ Privacy rules

A.5 Importance of Escalating Complaints and/or Potential Red Flags

Module B: Operations Workflow

Basic Knowledge of

- ❖ Account Opening and Maintenance
- ❖ Movement of funds and securities
- ❖ Custody and Control of Securities
- ❖ Trade Reporting and Trade Corrections
- ❖ Corporate Actions
- ❖ Margin and Stock Loan/Securities Lending
- ❖ Settlement
- ❖ Books and Records
- ❖ Account Statements and Confirmations

Module C: Product and Market Knowledge

C.1 Characteristics of the following products:

- ❖ Equities
- ❖ Derivatives
- ❖ Debt/fixed income
- ❖ Packaged securities/alternative investments

C.2 Types of Corporate Actions

- ❖ Making adjustments for securities subject to corporate actions
- ❖ Processing customer instructions and special situations related to corporate actions
- ❖ Delivery of notices
- ❖ Corporate action deadlines

C.3 Types of Broker-Dealer Businesses

- ❖ Executing broker-dealer versus clearing prime broker
- ❖ Introducing broker-dealer versus clearing broker-dealer

- ❖ Clearing broker-dealer versus clearing facility
- ❖ Institutional clearing and settlement arrangements

C.4 Trading Orders and Strategies

- ❖ Long and short
- ❖ Buy and sell
- ❖ Naked and covered
- ❖ Bearish and bullish

Module D: Personalized Cases

D.1 New Accounts

- ❖ Types of retail, institutional and prime brokerage customer accounts
- ❖ Types of customer account registrations (e.g., individual, corporate) Accounts for associated persons of member firms
- ❖ Types of individual and employer-sponsored retirement accounts
 - Contribution limits and required minimum distributions (RMD)
 - Transfer versus rollover

- ❖ Account opening
 - Entities authorized to open and transact business in the account
 - New account paperwork and appropriate approvals
 - Standing settlement instructions (SSIs)

- ❖ Transfers or partial transfers of accounts between broker-dealers
 - Methods of fund transfer Automated Customer Account Transfer Service (ACATS) versus non-ACATS transfers
 - Methods of giving instructions (e.g., letter of authorization)
 - Transfer processes for various account types

- ❖ Anti-money laundering (AML) reviews
 - AML compliance program
 - Required customer information and documentation
 - Customer Identification Program (CIP) requirements
 - Know Your Customer” (KYC)

- 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)
 - Currency Transaction Reports (CTRs)
- ❖ Maintenance of accounts
 - Escheatment process
 - Updating customer account records
 - Restricting account activity or freezing accounts
 - Medallion signature guarantee program
 - ❖ Customer account statements
 - Types of information that appear on an account statement
 - Time frame for providing statements
 - ❖ Tax reporting
 - Cost basis
 - Types of optional and required tax withholding

D.2 Trading and Settlement

- ❖ Trade reporting systems
- ❖ Best execution, trading capacity and quotation
- ❖ Regular market hours versus extended hours
- ❖ Trader corrections “as/of” and past settlement date
- ❖ Error accounts
- ❖ Knowledge of prohibited activities related to trading, including front-running, churning or excessive trading, market manipulation, excessive mark-ups, prohibited breakpoint sales, and improper sharing in profits and losses with customers
- ❖ Margin, hypothecation and re-hypothecation
- ❖ Marginable versus non-marginable securities
- ❖ Different margin requirements for different securities
- ❖ Types of accounts that are permitted to trade on margin
- ❖ Documentation and disclosure requirements
- ❖ Federal and FINRA margin requirements, margin calls
- ❖ Stock lending

- ❖ Short sale requirements, including locating and borrowing securities
- ❖ Day trading and buying power
- ❖ Comparison of trades
- ❖ Same day versus regular way settlement
- ❖ Standard settlement time frames for various products
- ❖ Settlement service providers and methods of settlement
- ❖ Repo/resale trades and settlements
- ❖ Continuous Net Settlement (CNS)
- ❖ Don't Know (DK) trade
- ❖ Requirements to buy-in or closeout a fail
- ❖ Confirmation of aged securities fails
- ❖ Reinvestments and sweeps
- ❖ Types of information that appear on a confirmation
- ❖ Confirmation delivery requirements, including electronic confirmations
- ❖ Non-trade confirmations/third party activity notices

D.3 Operations Generalist

- ❖ Topics covered in Modules D1 and D2 from the perspective of a small firm, introducing broker and/or branch office, In addition to physical certificates and Business Continuity Plans

D.4 Treasury, Custody and Control

- ❖ Regulatory requirements of broker-dealers
 - Financial and Operations Principal (FINOP)
 - Financial and Operational Combined Uniform Single (FOCUS) report
 - General ledger
 - Net capital and the reserve formula calculation
- ❖ Safekeeping versus segregation
 - Custody and control
 - Street name
 - Directly held mutual fund shares
 - Securing customer assets
 - Periodic physical count of securities (“box count”)
 - Maintenance of a stock record and verifying securities

- ❖ Securities transfers
 - Registered versus bearer certificates
 - Good delivery, transfer agent and stock/bond power
 - Validation of a certificate
 - Maintenance of a securities blotter
 - Handling lost certificates
 - Direct Registration System (DRS) and Deposit/Withdrawal at Custodian (DWAC)
 - Types of securities that are depository eligible
- ❖ Stock legends
 - Impact of a legend on the negotiability of a certificate
 - Control and restricted securities
 - Holding periods for the removal of legends
 - Commission management/soft dollars
- ❖ Prohibited activities related to cashiering and account transfers
 - Structuring, layering and other money laundering activities
 - Check kiting or altering checks
 - Holding checks for extended periods
 - Not processing (or holding) account transfers for an extended period
- ❖ Handling checks
 - Characteristics of negotiable checks
 - Check issuance
 - Maintenance of a check blotter
- ❖ Proxies and proxy voting
 - Delivery of annual and interim issuer reports
- ❖ Business Continuity Plan (BCP)
 - Disclosure to customers
- ❖ Prohibited activities related to pricing securities on account statements and confirmations
 - Falsifying or withholding documents
 - Holding mail beyond the permissible time frames
 - Reconciliations
 - Timeline of posting entries
 - Retention requirements for firm documents, including requirements for electronic storage
 - Prohibited activities related to maintenance of books and records (e.g., falsifying records and improper maintenance/retention of records)

Topics Which May Be Applicable to All Modules

- ❖ Key controls and the separation/segregation of duties
 - Segregation of functions and supervision among departments of the broker-dealer
 - Information barriers
 - Controlling access to buildings, office spaces, files and systems
 - Entitlement policies
 - Restrictions on access to information
- ❖ Written Supervisory Procedures (WSPs)
 - Compliance with WSPs
 - Updating
 - Annual Certification of Compliance and Supervisory Processes

References

The following information is provided to candidates for reference when preparing for the S901 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 investor and RR 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

Financial Industry Regulatory Authority

www.finra.org

Municipal Securities Rulemaking Board Rule Book

www.msrb.org

North American Securities Administrators Association

www.nasaa.org

NYSE Alternext

www.amex.com

Securities and Exchange Commission

www.sec.gov