Financial Industry Regulatory Authority

Assistant Representative–Order Processing Qualification Examination (Test Series 11)

Study Outline

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Introduction

The "Assistant Representative-Order Processing" category of registration applies to persons associated with a FINRA member firm who accept telephone or other communications from the public for the purposes of **providing current securities quotations and accepting unsolicited customer orders** for submission to the normal order execution operations of the member. Persons performing either of the above tasks for a member and not already registered as a Representative or Principal must register with FINRA through their member firm.

An Assistant Representative-Order Processing registrant may conduct the above-mentioned tasks only on the premises of the member, must be under the direct supervision of an appropriately registered principal, and may not receive extra direct or indirect compensation for the number or size of transactions effected. In addition, an Assistant Representative-Order Processing registrant is prohibited from:

- rendering investment advice or opinion;
- making recommendations;
- effecting transactions in securities markets on behalf of the member firm;
- accepting or opening new accounts;
- pre-qualifying potential customers;
- effecting transactions in municipal securities;
- effecting transactions in direct participation programs; and
- *dually* registering as a Representative or Principal.

This study outline lists the topics tested on the Assistant Representative - Order Processing Qualification Examination (Series 11). The outline and the examination cover the four main areas of subject matter listed below, along with the weighing of those subjects in terms of the number of questions per test:

Section and Title	Number of Questions
1.0 Types of Securities	**10**
2.0 Customer Accounts and Orders	**24**
3.0 Securities Markets	**5**
4.0 Securities Industry Regulations	**11**
Total	**50**

Structure of the Examination

The examination is composed of 50 multiple-choice questions covering all of the materials in the following outline in accordance with the subject-matter distribution shown above. Candidates will be allowed 1 hours to complete the examination. A candidate must correctly answer 70 percent of the questions to receive a passing grade. At the completion of the examination, each candidate will receive an informational breakdown of their performance on each section and their overall score. The examination is a closed-book test and candidates will not be permitted to use any reference material

during their testing session. Scratch paper and a basic electronic calculator will be provided by the test center administrator. Severe penalties are imposed on candidates who cheat on securities industry qualification examinations. Examination questions are updated regularly to reflect the most current interpretations of the rules and regulations. Questions on new rules will be added to the pool of questions for this examination within a reasonable period of their effective dates.

Information about qualifications exams may be found at http://www.finra.org/Industry/Compliance/Registration/QualificationsExams/RegisteredReps/Qualifications/index.htm

There are also sample Series 11 test questions written in the various formats. They do not mirror the difficulty level of the actual test questions or the subject matter distribution of the test itself. Their use is merely to familiarize the candidate with the styles of multiple-choice questions used in the Series 11 Examination.

The following reference materials may be used in preparing for the examination.

Please Note: Candidates are responsible for keeping abreast of changes made to the applicable rules and regulations, as the examination is updated when new rules are introduced and/or amended.

Reference Materials

Securities Act Handbook
Aspen Publishers
7201 McKinney Circle
Frederick, MD 21704

Code of Federal Regulations
Title 17 – Commodity and Securities Exchanges
Superintendent of Documents
U.S. Government Printing Office
Mail Stop SSOP
Washington, DC 20402

Dictionary of Finance and Investment Terms
John Downes and Jordan E. Goodman
Barron's Financial Guides
250 Wireless Boulevard
Hauppauge, NY 11788

Options as a Strategic Investment
Lawrence G. McMillan
New York Institute of Finance
2 Broadway
New York, NY 10004

The Basics of Stocks, Bonds and Options
William A. Rini
New York Institute of Finance
1330 Avenue of the Americas
New York, NY 10019

The Nasdaq Handbook
Probus Publishing Company
Chicago, IL 60614

The Stock Market, 7th ed.
R.J. Teweles and E.S. Bradley
John Wiley & Sons, Inc.
605 Third Avenue
New York, NY 10158

Words of Wall Street
A.H. Pessin and J.A. Ross
Dow Jones-Irwin
Homewood, IL 60430

Publications available from www.finra.org:

FINRA Rules
NASD Rules
FINRA Notices
FINRA Sanctions Guidelines

1.0
Types of Securities
Basic Definitions

- **Understand classes of common stock; market value/current price; fractional shares**
- **Understand the types of preferred stock and associated concepts—cumulative, convertible, callable; adjustable/variable rate**
- **Understand the distinction between common and preferred stocks; and debt securities**
- **Basic understanding of the types of options and basic terminology**
- **General understanding of American depositary receipts/shares (ADRs and ADSs); real estate investment trusts (REITs); differences in the types of investment company products and exchange traded funds (ETFs)**

1.1 Equity Securities

1.1.1 Common stock

Classes of common stock
Market value (current price)
Fractional shares
Rights of common stockholders

1.1.2 Preferred stock

Cumulative
Convertible
Callable
Adjustable/variable rate
Protective provisions regarding preferred stock

1.1.3 Listed (standardized) options

Call
Put
Strike price/Exercise price
Expiration date
Exercise
Premium (price)
Contract size
In and out of the money
Covered vs. uncovered
Opening/closing transactions
Long/short
Account approval

1.1.4 American depositary receipts/American depositary shares (ordinary shares; sponsored and unsponsored) [Global depositary receipts/ Global depositary shares]

1.1.5 Real estate investment trusts (REITs)

1.1.6 Exchange traded funds (ETFs)

1.2 Investment Companies

1.2.1 Closed-end funds

1.2.2 Open-end funds (mutual funds)

1.2.3 Money market funds

1.2.4 Unit investment trusts

1.3 Fixed Income Securities

1.3.1 Corporate debt

1.3.2 Asset backed securities

1.3.3 U.S. Government securities

1.3.4 U.S. agency securities

2.0
Customer Accounts and Orders
General Understanding

- **Understand the types of accounts and the transactions that may be effected in each**

2.1 Account Type

2.1.1 **Cash**

2.1.2 **Margin**

2.2 Order Processing

- **Understand procedures for accepting customer orders and requirements for transmitting the order for execution**
- **General understanding of the types of transactions and types of orders and the situations in which they are used**
- **Knowledge of information to be recorded on the customer order ticket**
- **Determine the customer's ability to deliver the securities to be sold (affirmative determination)**
- **General understanding of settlement requirements**

2.2.1 Entering an order

- Client identifier
- Registered Representative identifier
- Assistant Representative identifier
- Originating office identifier (if applicable)
- Time
  - Entry
  - Receipt
  - Execution
- Location of securities
- Security description (symbol)
- Number of shares, bonds, or options
- Where trading (NYSE, NASDAQ, etc.)
- Buy
- Sell
  - Long
  - Short
  - When issued
- Special considerations for short sale
  - Definition of "short sale" (ability to borrow securities)
  - Short-against-the-box
  - Execution of short sales
    - Margin accounts only
  - SEC Regulation SHO—Short sales

FINRA Rule 3250 — Designation of Accounts
FINRA Rule 11860 – COD Orders

2.2.2 Types of orders

- Market
- Limit
- Stop
- Stop limit
- At-the-opening
- Stipulations
  - Day
  - Good-till-cancelled (open)
  - Immediate or cancel
  - Market not held
  - All-or-none (AON)
  - Fill-or-kill (FOK)
  - Market-on-the-close

2.2.3 Settlement instructions if not established when account was opened

- Regular way
- Cash

2.2.4 Review report of execution against order ticket

- Report execution to customer
- Report errors immediately through appropriate firm channels
- Partial execution

2.2.5 Customer delivery/payment

- Checks should normally be made payable to the broker/dealer or clearing broker
- Checks paid to customers will be payable to the registration on the securities certificate or the name on the account, or in the case of bearer securities, to the name of the customer's account as it is carried in the records of the broker/dealer
- Stock powers

3.0
Securities Markets
General Definitions

- **General understanding of the markets and the differences and similarities between the listed (auction) and dealer markets**
- **Understand the terminology associated with transactions effected on each market**
- **General understanding of the requirements in effect during trading halts**

3.1 Auction Market (NYSE)

3.1.1 Auction market vs. dealer markets

Principal
Agency
Designated Market Maker (DMM) **[**Specialist]

3.2 Dealer Markets (NASDAQ, OTC, OTC Bulletin Board)

3.2.1 Market maker

3.3 Terminology

Bid
Ask
Offer
Last sale
Quote
Size
Spread

3.4 Trading Halts

FINRA Rule 6120 — Trading halts

4.0
Securities Industry Regulations
(General Understanding)

4.1 Regulatory Purposes and Roles of

4.1.1 **The Securities and Exchange Commission (SEC)**

4.1.2 **The Federal Reserve Board (FRB)**

4.1.3 **Self-regulatory organizations**
- FINRA
- Exchanges

4.2 Securities Exchange Act of 1934 (*general awareness of the rules*)

4.2.1 **Section 15–Registration and regulation of brokers and dealers**
- Section 15(c)(1)–Manipulative, deceptive or fraudulent devices or contrivances
  - Rule 15c1-2–Fraud and misrepresentation

4.3 Insider Trading

- **Understand the concept of material, non-public information**

4.3.1 **Insider Trading and Securities Fraud Enforcement Act of 1988**
- Section 3–Civil penalties of controlling persons for illegal insider trading by controlled persons
- Section 4–Increases in criminal penalties
- Securities Exchange Act of 1934
  - Section 32(a)–Penalties
  - Section 5–Liability to contemporaneous traders for insider trading

4.3.2 **Securities Exchange Act of 1934 and SEC Rules Thereunder**
- Section 10(b)–Use or employment of manipulative and deceptive devices
  - Rule 10b-5–Employment of manipulative and deceptive devices
    - Insider trading
    - Material information
    - Non-public information
    - Insiders and tippees
    - The Chinese Wall doctrine

4.4 FINRA/NASD Rules

- **Understand the registration, qualification and continuing education requirements**
- **Understand responsibility to maintain current registration information**
- **Understand and adhere to the firm's supervisory and compliance procedures**

4.4.1 **Membership and Registration Rules**

4.4.1.1 NASD Rule 1040–Registration of Assistant Representatives and Proctors
Limitations
4.4.1.2 NASD Rule 1080–Confidentiality of Examinations
4.4.1.3 FINRA Rule 1250 — Continuing Education Requirements

4.4.2 Conduct Rules

4.4.2.1 FINRA Rule 2010 –Standards of Commercial Honor and Principles of Trade

4.4.2.2 FINRA Rule 2020–Use of Manipulative, Deceptive or Other Fraudulent Devices
Pre-arranged trades

4.4.2.3 FINRA Rule 2150—Improper Use of Customers' Securities or Funds;
Prohibition Against Guarantees and Sharing in Accounts
Improper Use
Prohibition against guarantees
Sharing in accounts; Extent permissible
NASD Rule 2330 — Customers' securities or funds

4.4.2.4 FINRA Rule 3240—Borrowing From or Lending To Customers

4.4.2.5 FINRA Rule 5130—Restrictions on the Purchase and Sale of Initial Equity Public Offerings

4.4.2.6 NASD Rule 3010–Supervision

4.4.2.7 FINRA Rule 3310 — Anti-Money Laundering Compliance Program

4.4.2.8 FINRA Rule 3270–Outside Business Activities of Registered Persons

4.4.2.9 NASD Rule 3040–Private securities transactions of an associated person
Definitions
Private securities transaction
Selling compensation

4.4.2.10 NASD Rule 3050–Transactions for or by associated persons

Sample Questions

The questions that follow are similar in format and content to questions on the examination. These sample questions, however, are not intended to exactly parallel either the level of difficulty or the subject coverage of the actual examination. Their purpose is to acquaint candidates and training personnel with the types of multiple-choice questions that will appear on the examination.

Answers to Sample Questions

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

1. For a short put position to be a covered put in a margin account, the writer is required to have which of the following additional positions?

(A) Long position in the underlying stock
(B) Short call position
(C) Long put of the same class with equal or greater exercise price
(D) Long put of the same class with equal or lower exercise price

2. Securities gifted under the Uniform Gifts (Transfer) to Minors Act must be registered in the name of the

(A) donor for the benefit of the minor
(B) custodian only
(C) minor only
(D) custodian for the benefit of the minor

3. Which of the following should an investor contact to dispose of shares of a closed-end investment company?

(A) The fund custodian
(B) A broker/dealer
(C) The investment company itself
(D) The fund's transfer agent

4. Which of the following is TRUE regarding a call feature on a bond or preferred stock?

(A) It is beneficial to the purchaser.
(B) It is beneficial to the issuer.
(C) It is required by law.
(D) It is not a significant feature.

5. Each of the following is a characteristic of a common stock EXCEPT:

(A) joint and several liability.
(B) ready transferability of shares.
(C) residual claim on assets.
(D) dividends when declared by directors.