Introducing Broker-Dealer Financial and Operations Principal Qualification Examination (Test Series 28)

Study Outline

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Study Outline

The FINRA Introducing Broker-Dealer Financial and Operations Principal Qualification Examination (Series 28) is designed to test a candidate's knowledge of applicable rules and statutory provisions relating to broker/dealer financial responsibility and recordkeeping and the protection afforded investors under the Securities Investor Protection Act of 1970. The examination and this study outline are divided into five general areas that are listed below with the number of points assigned to each.

Section	Description	Number Of Points
1	Keeping and Preservation of Records and Broker-Dealer Financial Reporting Requirements	16
2	Net Capital Requirements	36
3	Customer Protection	10
4	Uniform Practice Rules	5
5	Other Relevant Regulations and Interpretations	28
Total		**95**

Structure of the Examination

The examination is composed of 95 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 2 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 www.finra.org/Industry/Compliance/Registration/QualificationsExams/RegisteredReps/Qualifications/index.htm
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There are also sample Series 28 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 28 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.

This study outline is available on the FINRA Web Site at *www.finra.org*.

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

Reference Materials

An Explanation of the Securities Investor Protection Act of 1970
SIPC
900 17th Street, N.W., Suite 800
Washington, DC 20006

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

Federal Securities Law Reporter
Volumes 2 and 3
Commerce Clearing House, Inc.
4025 W. Peterson Avenue
Chicago, IL 60646

Handbook of Stock Brokerage Accounting
Richard Ross
New York Institute of Finance
1330 Avenue of the Americas, 10th Fl
New York, NY 10019

Regulation of Brokers, Dealers and Securities Markets
N. Wolfson, R.M. Phillips and T.A. Russo
Warren, Gorham & Lamont, Inc.
210 South Street
Boston, MA 02111

Securities Act Handbook
Aspen Publishers
111 Eighth Avenue
New York, NY 10011

Other publications are available through www.finra.org
FINRA/NASD Rules
FINRA Notices
NASD Guide to Rule Interpretations

Website for SEC Rules:

http://www.law.uc.edu/CCL/xyz/sldtoc.html

1.0
Keeping And Preservation Of Records And Broker-Dealer Financial Reporting Requirements

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1.1 SEC Rule 17a-3 — Records to be made by brokers and dealers

1.1.1 Blotters or other records of original entry containing an itemized daily record of

1.1.1.1 Purchases and sales of securities
1.1.1.2 Receipts and deliveries of securities
1.1.1.3 Receipts and disbursements of cash
1.1.1.4 Other debits and credits reflecting cash

1.1.2 Ledgers or other records reflecting all assets and liabilities, income and expense and capital accounts

1.1.3 Securities record or ledger reflecting separately for each security by account all long and short security positions

1.1.4 Memorandum of each brokerage order given or received for the purchase or sale of securities

1.1.5 Memorandum of each purchase and sale for the account of such member, broker or dealer

1.1.6 Record of all option positions (proprietary account) in which the broker/dealer either has an interest or has granted or guaranteed

1.1.7 Proof of money balances of all ledger accounts

1.1.8 Questionnaire or application for employment executed by each "associated person" approved in writing by an authorized representative of the broker/dealer

1.1.9 Fingerprint records required to be maintained pursuant to SEC Rule 17f-2(d)

1.2 SEC Rule 17a-4 — Records to be preserved by brokers and dealers

1.2.1 Records to be preserved for not less than six years

1.2.2 Records to be preserved for not less than three years

1.2.3 Customer account records for a period of six years after the closing of such account

1.2.4 Partnership articles or articles of incorporation or charter, minute books and stock certificate books for the life of the enterprise and of any successor enterprise

1.2.5 Records with respect to associated persons

1.2.6 Preservation of required records on microfilm or optical storage technology

1.2.7 Applicability of preservation requirements to firms ceasing to transact a securities business

1.2.8 Outside service bureaus

1.3 SEC Rule 17a-5 — Reports to be made by brokers and dealers (FOCUS Reports)

1.3.1 Filing of monthly and quarterly reports

1.3.2 Report to be filed upon termination of membership interest in a national securities exchange

1.3.3 Customer statements

1.3.3.1 Exemptions
1.3.3.2 Audited statements to be furnished
1.3.3.3 Unaudited statements to be furnished
1.3.3.4 Definition of “customer”

1.3.4 Annual filing of audited financial statements

1.3.5 Nature and form of reports

1.3.6 Accountants

1.3.7 Audit objectives

1.3.8 Extent and timing of audit procedures

1.3.9 Accountant’s reports

1.3.10 Accountant's report on material inadequacies

1.3.11 Extensions and exemptions

1.3.12 Notification of change of fiscal year

1.3.13 Filing requirements

1.4 SEC Rule 17a-8 — Financial Recordkeeping and reporting of currency and foreign transactions

1.5 SEC Rule 17a-11 — Notification Provisions for Brokers and Dealers

1.5.1 Requirements for broker/dealers whose net capital is less than the required minimum net capital of Rule 15c3-1

1.5.2 Requirement to send prompt notice after the occurrence of certain specified events

1.5.3 Requirement for broker/dealers who fail to make and keep current the books and record specified in Rule 17a-3

1.5.4 Requirement for broker/dealer who discovers or is notified by an accountant, pursuant to Rule 17a-5 that material inadequacies in its accounting system exist

1.5.5 Transmittal of required notices and reports

1.6 SEC Rule 17f-1 — Requirements for Reporting and Inquiry with Respect to Missing, Lost, Counterfeit or Stolen Securities

1.7 Conduct Rules

1.7.1 FINRA Rule 2261 — Disclosure of financial condition

1.7.2 NASD Rule 2340 — Customer account statements

1.7.3 FINRA Rule 4512 — Customer Account Information

1.7.4 FINRA Rule 4513 — Records of Written Customer Complaints

1.7.5 FINRA Rule 3310 — Anti-Money laundering compliance program

1.8 MSRB Rules

1.8.1 Rule G-37—Political contributions and prohibitions on municipal securities business

2.0
Net Capital Requirements

2.1 SEC Rule 15c3-1 — Net Capital Requirements for Broker Dealers

2.1.1 Ratio requirements

2.1.1.1 Aggregate indebtedness standard

2.1.2 Minimum net capital requirements

2.1.2.1 Broker/dealers that carry customer accounts

2.1.2.2 Broker/dealers that carry accounts, receive but do not hold customer funds or securities and operate under paragraph (k)(2)(i) exemption of Rule 15c3-3

2.1.2.3 Introducing broker/dealers

Firms that introduce accounts on a fully disclosed basis to another broker or dealer and do **not** receive funds or securities

Firms that introduce accounts on a fully disclosed basis to another broker or dealer and receive **but do not hold**, customer or other broker/dealer securities and do not receive funds

2.1.2.4 Dealers

2.1.2.5 Mutual fund brokers or dealers transacting a business in redeemable shares of registered investment companies and certain other share accounts

2.1.2.6 Market makers

2.1.2.7 Brokers or dealers transacting a business only in direct participation programs

2.1.2.8 Brokers or dealers engaged exclusively in mergers and acquisitions

2.1.3 Aggregate indebtedness (AI)

2.1.3.1 Definitions

2.1.3.2 Exclusions from AI

2.1.4 Net capital

2.1.4.1 Adjustments to net worth related to unrealized profit or loss and deferred tax provisions

2.1.4.2 Subordinated liabilities

2.1.4.3 Sole proprietors

2.1.4.4 Assets not readily convertible into cash

2.1.4.5 Certain unsecured and partly secured receivables

2.1.4.6 Securities haircuts

2.1.4.7 Undue concentration

2.1.4.8 Non-marketable securities

2.1.4.9 Open contractual commitments

2.1.4.10 Deductions from net worth for indebtedness collateralized by exempted securities

2.1.4.11 Certain definitions

2.1.5 Debt-Equity requirements

2.1.6 Limitation on withdrawal of equity capital

2.1.7 Appendix A — Options

2.1.8 Appendix D — Satisfactory subordination agreements

2.1.8.1 Certain definitions

2.1.8.2 Minimum requirements for subordination agreements

2.1.8.3 Miscellaneous provisions

2.2 Financial Responsibility Rules

2.2.1 FINRA Rule 4360 — Fidelity bonds

2.2.2 FINRA Rule 4110 – Capital compliance

2.2.3 FINRA Rule 4120 – Regulatory notification and business curtailment

2.2.4 FINRA Rule 4130 – Regulation of activities of section 15C Members experiencing financial and/or operational difficulties

2.2.5 FINRA Rule 4140- Audit

2.2.6 FINRA Rule 4521- Notifications, Questionnaires and Reports

2.2.7 FINRA Rule 4523- Assignment of Responsibilities for General Ledger Accounts and Identification of Suspense Accounts

3.0
Customer Protection

3.1 Securities Exchange Act of 1934 and SEC Rules Thereunder

3.1.1 Rule 10b-9 — Prohibited representations in connection with certain offerings

3.1.2 Rule 10b-10 — Confirmation of transactions

3.1.3 Rule 15c2-4 — Transmission or maintenance of payments received in connection with an underwriting

3.1.4 Rule 15c3-3 — Customer protection— reserve and custody of securities

3.1.4.1 Exemptions

(k)(1) exempt broker/dealers
(k)(2)(i) broker/dealers
(k)(2)(ii) broker/dealers clearing all transactions on a fully disclosed basis through another broker/dealer

3.1.5 Regulation SP — Privacy of consumer financial information

3.2 Securities Investor Protection Act and SIPC Rules Thereunder

3.2.1 SIPC Rules

3.3 NASD — Conduct Rules

3.3.1 Rule 3140 — Approval of change in exempt status under SEC Rule 15c3-3

4.0
Uniform Practice Rules

4.1 Uniform Practice Code

4.1.1 Rule 11100 — Scope of uniform practice code

4.1.2 Rule 11130 — When, as and if issued/distributed contracts

4.1.3 Rule 11140 — Transactions in securities "ex-dividend," "ex-rights," or "ex-warrants"

4.1.4 Rule 11200 — Comparisons or confirmations and "Don't Know Notices"

4.1.5 Rule 11220 — Description of securities

4.1.6 Rule 11310 — Book entry settlement

4.1.7 Rule 11320 — Dates of Delivery

4.1.8 Rule 11361 — Units of delivery — stocks

4.1.9 Rule 11362 — Units of delivery — bonds

4.1.10 Rule 11363 — Units of delivery —unit investment trust securities

4.1.11 Rule 11364 — Units of delivery —certificates of deposit for bonds

4.1.12 Rule 11574 — Certificate in name of deceased person, trustee, etc.

4.1.13 Rule 11640 — Claims for dividends, rights, interest, etc.

4.1.14 Rule 11740 — Marking to the market

4.1.15 Rule 11810 — "Buying-in"

4.1.16 Rule 11820 — "Selling-out"

4.1.17 Rule 11840 — Rights and warrants

4.1.18 Rule 11850 — Tendering procedures for exercise of options

4.1.19 Rule 11900 — Clearance of corporate debt securities

4.1.20 Rule 11870 — Customer account transfer contracts

4.1.21 Rule 11880 — Settlement of syndicate accounts

4.1.22 Rule 11890 — Clearly erroneous trades — authority to declare transactions void

5.0
Other Relevant Regulations And Interpretations

5.1 Insider Trading and Securities Fraud Enforcement Act of 1988

5.1.1 Section 3 — Civil penalties of controlling persons for illegal insider trading by controlled persons

5.1.1.1 Securities Exchange Act of 1934
- Section 15(f) — Policies and procedures to be developed by broker/dealers to prevent misuse of material, non-public information
- Section 21(d) — Injunctions and prosecution of offenses
- Section 21A — Civil penalties

5.1.1.2 Investment Advisers Act of 1940
- Section 204 — Annual and other reports

5.1.2 Section 4 — Increases in criminal penalties

5.1.2.1 Securities Exchange Act of 1934
- Section 32(a) — Penalties

5.1.3 Section 5 — Liability to contemporaneous traders of insider trading

5.1.3.1 Securities Exchange Act of 1934
- Section 20A — Liability to contemporaneous traders for insider trading

5.2 Securities Exchange Act of 1934 and SEC Rules Thereunder

5.2.1 Rule 10b-5 — Employment of manipulative and deceptive devices

- Insider trading
- Non-public information
- Insiders and tippees
- The Chinese Wall doctrine

5.3 Extensions of Credit in the Securities Industry

5.3.1 Regulation T — Credit by Brokers and Dealers

5.3.1.1 Authority, purpose and scope

5.3.1.2 General provisions
- Separation of accounts
- Maintenance of credit
- Guarantee of accounts

Receipt of funds or securities
Arranging for loans by others

5.3.1.3 Margin Accounts
Liquidation in lieu of deposit
Withdrawals of cash or securities

5.3.1.4 Good faith account
Non-purpose credit

5.3.1.5 Cash Account
Permissible transactions
Time periods for payment; cancellation or liquidation
90-day freeze
Extension of time periods; transfers

5.3.1.6 Borrowing and lending securities

5.3.1.7 Supplement: Margin requirements

5.3.2 FINRA Rule 4210 — Margin requirements

5.3.2.1 General requirements

5.3.2.2 Broker/dealer accounts
Joint back office arrangements

5.3.2.3 Special initial and maintenance margin requirements
Day trading

5.3.3 Short Sales

5.3.3.1 SEC Regulations SHO
Rule 200—Definition of "short sale"
Rule 201—Price test and marking requirements
Rule 203—Borrowing and delivery requirements

5.3.3.2 SEC Rule 10a-1—Short sales

5.3.4 FINRA Rule 4220 – Daily Record of Required Margin

5.3.5 FINRA Rule 4230 – Required Submissions of Requests for Extensions of Time

5.4 FINRA/NASD — Regulations

5.4.1 FINRA By-Laws

5.4.1.1 Article I — Definitions

5.4.1.2 Article III — Qualifications of members and associated persons
5.4.1.2.1 Section 4 — Statutory disqualification

5.4.1.3 Article IV — Membership

5.4.1.4 Article V — Registered representatives and associated persons

5.4.1.5 Article VI — Dues, assessments and other charges

5.4.2 NASD/FINRA Rules — Membership, Registration and Qualification Requirements

5.4.2.1 Rule 1010 — Applications for membership

5.4.2.2 Rule 1020 — Registration of principals
Registration requirements
Categories of principal registration

5.4.2.3 Rule 1030 — Registration of representatives
Registration requirements
Categories of representative registration

5.4.2.4 Rule 1040 — Registration of assistant representatives-order processing

5.4.2.5 Rule 1060 — Persons exempt from registration

5.4.2.6 Rule 1070 — Qualification examinations and waiver of requirements

5.4.2.7 Rule 1080 — Confidentiality of examinations

5.4.2.8 FINRA Rule 1250 — Continuing education requirements

5.4.2.9 Rule 1150—Executive representatives

5.4.3 Conduct Rules

5.4.3.1 FINRA Rule 2020 — Use of fraudulent devices

5.4.3.2 FINRA Rule 2262 — Disclosure of control relationship with issuer

5.4.3.3 FINRA Rule 2251 — Forwarding of proxy and other materials

5.4.3.4 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

5.4.3.5 FINRA Rule 3160—Networking arrangements between members and financial institutions

5.4.3.6 FINRA Rule 3240—Borrowing from or lending to customers

5.4.3.7 NASD Rule 2420 — Dealing with non-members
Transactions with non-members
Transactions with foreign non-members
Non-member broker or dealer
IM-2420-1 — Transactions between member and non-members
Member Expelled
dealer Suspended
dealer
Broker or dealer whose registration is revoked by the SEC
Membership resigned or canceled
Transactions in exempted securities
Transactions on an exchange
OTC transactions in securities other than "exempted securities"

5.4.3.8 NASD Rule 2430 — Charges for services performed

5.4.3.9 NASD Rule 2440 — Fair prices and commissions
IM-2440 — NASD mark-up policy

5.4.3.10 FINRA Rule 5110 — Corporate financing rule
Underwriting compensation and arrangements

5.4.3.11 FINRA Rule 5122 — Private placements of securities issued by a member firm or a control entity

5.4.3.12 FINRA Rule 5141 — Sale of securities in a fixed price offering

5.4.3.13 FINRA Rule 5130 — Restrictions on purchase and sale of initial equity public offerings

- General prohibitions
- Preconditions for sale
- General exemptions
- Issuer-directed securities
- Anti-dilution provisions
- Stand-by purchasers
- Undersubscribed offerings
- Definitions

5.4.3.14 NASD Rule 3010 — Supervision

- Supervisory systems
- Written procedures
  - Supervisory manual
  - Readily accessible and continuously updated
- Internal inspections
- Written approval
- Correspondence and transactions
- Qualifications investigated
- Applicant's responsibility
- Definitions
  - Office of supervisory jurisdiction
  - Branch office

5.4.3.15 NASD Rule 3012—Supervisory control system

5.4.3.16 FINRA Rule 3130—Annual certification of compliance and supervisory processes

5.4.3.17 FINRA Rule 3270 — Outside business activities of registered persons

5.4.3.18 NASD Rule 3040 — Private securities transactions

5.4.3.19 NASD Rule 3050 — Transactions for or by associated persons

- Determine adverse interest
- Obligations of executing member
- Obligations of associated persons concerning an account with a member
- Obligations of associated persons concerning an account with an investment adviser, bank, or other financial institution
- Exemption for transactions in investment company shares and unit investment trusts

5.4.3.20 FINRA Rule 3220 — Influencing and rewarding employees of others

5.4.3.21 FINRA Rule 4530 — Reporting requirements

5.4.3.22 FINRA Rule 2060 — Use of information obtained in fiduciary capacity

5.4.3.23 FINRA Rule 4311 — Carrying agreements

5.4.3.24 FINRA Rule 4370—Business continuity plans and emergency contact Information

5.4.4 FINRA Procedural Rules

5.4.4.1 Rule 8000 — Investigations and sanctions
5.4.4.1.1 Rule 8100 — General provisions
5.4.4.1.2 Rule 8200 — Investigations
5.4.4.1.3 Rule 8300 — Sanctions

5.4.4.2 Rule 9000 — Code of Procedure
5.4.4.2.1 Rule 9100 — Application and purpose
5.4.4.2.2 Rule 9200 — Disciplinary proceedings
5.4.4.2.3 Rule 9300 — Review of disciplinary proceeding by national adjudicatory council and NASD Board; application for commission review
5.4.4.2.4 Rule 9500 — Other proceedings
5.4.4.2.5 Rule 9800—Temporary cease and desist orders
Rule 9810—Initiation of proceeding
Rule 9830—Hearing
Rule 9840—Issuance of temporary cease and desist order by hearing panel
Rule 9870—Application to commission for review

5.4.4.3 FINRA Rule 10000 — Code of arbitration procedure
5.4.4.3.1 Rule 10100 — Administrative provisions
5.4.4.3.2 Rule 10200 — Industry and clearing controversies
5.4.4.3.3 Rule 10300 — Uniform code of arbitration
5.4.4.3.4 Rule 14000 — Code of mediation procedures

5.5 Proprietary Accounts of Introducing Broker/Dealers (NASD *Notices to Members* 99-44 and 98/99)

5.5.1 Required computations

5.5.1.1 Net capital

5.5.1.2 Customer reserve
Segregation of introducing broker/dealer accounts

5.5.1.3 Frequency of calculations

5.5.2 Required written agreements

Sample Questions

The questions that appear below are similar in format and content to questions on the examination. This sample of questions, however, is not intended to exactly parallel either the level of difficulty or the subject coverage of the examination. Their purpose here is to assist candidates and training personnel in preparing for the types of multiple-choice questions that will appear on the examination.

Answers

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

1. Under SEC Rule 17a-3, blotters or other records of original entry must be prepared no later than the

(A) trade date
(B) business day following the trade date
(C) settlement date
(D) business day preceding the settlement date

2. Under the SEC Net Capital Rule, a broker/dealer registered for more than 12 months and computing net capital by the standard method must not allow its ratio of aggregate indebtedness to net capital to exceed

(A) 8:1
(B) 10:1
(C) 12:1
(D) 15:1

5. A bona fide regular customer, upon request, may inspect an NASD member's

(A) balance sheet
(B) general ledger
(C) stock transfer book
(D) investment account