



# **Financial and Operations Principal Qualification Examination (Test Series 27)**

## **Study Outline**

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## Study Outline

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The FINRA Financial and Operations principal Qualification Examination (Series 27) 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 seven general areas, which 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	15
2	Net Capital Requirements	44
3	Customer Protection	36
4	Municipal Securities Rulemaking Board Regulations	9
5	Federal Reserve Board Regulations	8
6	Uniform Practice Rules	12
7	Other Relevant Regulations and Interpretations	21
<b>Total</b>		<b>145</b>

### Structure of the Examination

The examination is composed of 145 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 3 1/2 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.

To ensure that new questions meet acceptable testing standards prior to use, each examination includes 5 additional, unidentified "pre-test" questions that do not contribute towards the candidate's score. The 5 questions are randomly distributed throughout the examination. Therefore, each candidate takes a total of 150 questions, of which 145 questions are scored.

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

There are also sample Series 27 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 27 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](http://www.finra.org)

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

## Reference Materials

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### **An Explanation of the Securities Investor Protection Act of 1970**

SIPC

900 17th Street, N.W., Suite 800

Washington, DC 20006

[www.sipc.org](http://www.sipc.org)

### **Securities Act Handbook**

Aspen Publishers

111 Eighth Avenue

New York, NY 10011

### **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

### **Glossary of Municipal Securities Terms**

[www.msrb.org/msrb1/glossary](http://www.msrb.org/msrb1/glossary)

### **Handbook of Stock Brokerage**

#### **Accounting**

Richard Ross

New York Institute of Finance

2 Broadway

New York, NY 10004

### **Municipal Securities Rulemaking**

#### **Board — Rulebook**

MSRB

1900 Duke Street, Suite 600

Alexandria, VA 22314

[www.MSRB.org](http://www.MSRB.org)

### **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

### *Other Publications Available through*

[www.finra.org](http://www.finra.org):

#### **FINRA/NASD Rules**

#### **FINRA Notices**

#### **Compliance Checklist**

#### **NASD Guide to Rule Interpretations**

#### **NASD Sanctions Guidelines**

### *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 (MSRB Rule G-8)**
- 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
- 1.1.2 Ledgers or other records reflecting all assets and liabilities, income and expense and capital accounts**
- 1.1.3 Ledger accounts or other records itemizing separately as to each cash and margin account**
- 1.1.4 Ledgers or other records reflecting the following:**
  - 1.1.4.1 Securities in transfer
  - 1.1.4.2 Dividends and interest received
  - 1.1.4.3 Securities borrowed and securities loaned
  - 1.1.4.4 Monies borrowed and monies loaned
  - 1.1.4.5 Securities failed to receive and failed to deliver
  - 1.1.4.6 All long and all short security differences
  - 1.1.4.7 Repurchase and reverse repurchase agreements
- 1.1.5 Securities record or ledger reflecting separately for each security by account all long and short security positions**
- 1.1.6 Memorandum of each brokerage order given or received for the purchase or sale of securities**
- 1.1.7 Memorandum of each purchase and sale for the account of such member, broker or dealer**

- 1.1.8**            **Copies of customer confirmations and copies of notices of all other debits and credits for accounts of customers**
- 1.1.9**            **Identification data on beneficial owners of all cash and margin accounts maintained by the broker/dealer**
- 1.1.10**          **Record of all option positions (proprietary account) in which the broker/dealer either has an interest or has granted or guaranteed**
- 1.1.11**          **Proof of money balances of all ledger accounts**
- 1.1.12**          **Questionnaire or application for employment executed by each “associated person” approved in writing by an authorized representative of the broker/dealer**
- 1.1.13**          **Fingerprint records required to be maintained pursuant to SEC Rule 17f-2(d)**
- 1.1.14**          **Exemptions from Rule 17a-3**
  - 1.1.14.1            Introducing broker/dealers
  - 1.1.14.2            Broker/dealers clearing through banks
- 1.2**    **SEC Rule 17a-4 — Records to be Preserved by Brokers and Dealers (MSRB Rule G-9)**
  - 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 (NASD Notice to Members 87-51; Federal Register, Volume 52, Number 67)**
- 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 under Rule 15c3-1**
  - 1.5.2 Requirement for broker/dealers 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 records specified in Rule 17a-3**
  - 1.5.4 Requirement for broker/dealers who discovers or is notified by an accountant, pursuant to Rule 17a-5, that material inadequacies exist in its accounting system**

- 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**
  - 1.6.1 Definitions**
  - 1.6.2 Reporting requirements**
- 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 3250 — Designation of Accounts**
  - 1.7.4 FINRA Rule 4512 — Customer Account Information**
  - 1.7.5 FINRA Rule 4513 — Records of Written Customer Complaints**
  - 1.7.6 FINRA Rule 3310— Anti-money Laundering Compliance Program**

## 2.0 Net Capital Requirements

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### 2.1 SEC Rule 15c3-1 — Net Capital Requirements for Brokers or Dealers

#### 2.1.1 Ratio requirements

2.1.1.1 Aggregate indebtedness standard

2.1.1.2 Alternative standard

#### 2.1.2 Minimum requirements

2.1.2.1 Broker/dealers that carry customer accounts

2.1.2.2 Prime brokers

2.1.2.3 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

2.1.2.4 Introducing broker/dealers

Firms that introduce accounts on a fully disclosed basis to another broker/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**

2.1.2.5 Dealers

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

Wire order basis

Subscription basis (**and do not otherwise receive or hold funds or securities**)

2.1.2.7 Market makers

2.1.2.8 Brokers or dealers transacting a business only in direct participation program securities

2.1.2.9 Brokers or dealers engaged exclusively in mergers and acquisitions

#### 2.1.3 Aggregate Indebtedness (AI)

2.1.3.1 Definition

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
  - Fixed assets and prepaid items
  - Certain unsecured or partly secured receivables
  - Certain receivables
  - Insurance claims
  - Other deductions
  - Reverse repurchase agreements
  - Securities borrowed
- 2.1.4.5 Securities differences
- 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
  - Aged fails to deliver
- 2.1.4.10 Brokers or dealers carrying accounts of options specialists
- 2.1.4.11 Brokers or dealers carrying specialist or market makers accounts
- 2.1.4.12 Deduction from net worth for certain under margined accounts
- 2.1.4.13 Deduction from net worth for indebtedness collateralized by exempted securities
- 2.1.4.14 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 4110 – Capital Compliance**
- 2.2.3            FINRA 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 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**

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- 3.1 Securities Exchange Act of 1934 and SEC Rules Thereunder**
- 3.1.1 Rules 8c-1 and 15c2-1 —Hypothecation of customer’s securities**
  - 3.1.1.1 Prohibitions
  - 3.1.1.2 Definitions
  - 3.1.1.3 Exemption for cash accounts
  - 3.1.1.4 Exemption for clearing house liens
  - 3.1.1.5 Exemption for certain liens on securities of non-customers
  - 3.1.1.6 Notice and certification requirements
- 3.1.2 Rule 10b-9 — Prohibited representations in connection with certain offerings**
- 3.1.3 Rule 10b-10 — Confirmation of transactions**
- 3.1.4 Rule 15c2-4 — Transmission or maintenance of payments received in connection with an underwriting**
- 3.1.5 Rule 15c3-2 — Use of customer free credit balances (NYSE Rule 409)**
  - 3.1.5.1 Notification to customers
  - 3.1.5.2 Exemptions
- 3.1.6 Rule 15c3-3 — Customer Protection — Reserve and Custody of Securities (NYSE Rule 402)**
  - 3.1.6.1 Definitions under Rule 15c3-3
  - 3.1.6.2 Physical possession or control of securities
  - 3.1.6.3 Control of securities — locations
    - Clearing firm or custodian bank
    - Approved foreign depositories
    - Other SEC approved locations
  - 3.1.6.4 Requirement to reduce securities to possession or control
  - 3.1.6.5 Special reserve bank account for the exclusive benefit of customers

- 3.1.6.6 Notification of banks
- 3.1.6.7 Withdrawals from the reserve bank account
- 3.1.6.8 Buy-in of short security differences
- 3.1.6.9 Notification in the event of failure to make a required deposit
- 3.1.6.10 Exemptions
  - (k)(1) Exempt broker/dealers
  - (k)(2) 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
- 3.1.6.11 Delivery of securities — customers’ right to receive
- 3.1.6.12 Completion of sell orders on behalf of customers
- 3.1.6.13 Extensions of time — to be granted for prescribed time periods of the Rule by appropriate SRO
- 3.1.6.14 Formula for determination of reserve requirement
  - Total credits
  - Less total debits
  - Excess of total credits over total debits
- 3.1.7 Regulation S-P — Privacy of consumer financial information**
- 3.1.8 Rule 17a-13 — Quarterly security counts to be made by brokers and dealers**
  - 3.1.8.1 Exemption for broker/dealers whose securities business is limited to transactions in open-end investment company shares and variable contracts
  - 3.1.8.2 Requirements for each calendar quarter year
  - 3.1.8.3 Date certain or cyclical counts
  - 3.1.8.4 Persons to perform or supervise required securities counts
- 3.1.9 FINRA 4522 – Periodic Security Counts, Verifications and Comparisons**
- 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 Municipal Securities Rulemaking Board — Regulations**

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- 4.1 Rule G-8—Books and Records to be Made by Municipal Securities Brokers and Municipal Securities Dealers**
  - 4.1.1 Transactions in municipal fund securities (G-8(e))**
- 4.2 Rule G-12—Uniform Practice**
  - 4.2.1 Scope and notice**
  - 4.2.2 Settlement dates**
  - 4.2.3 Dealer confirmations**
  - 4.2.4 Comparison and verification of confirmations; unrecognized transactions**
  - 4.2.5 Delivery of securities**
  - 4.2.6 Use of automated comparison, clearance and settlement systems**
  - 4.2.7 Rejections and reclamations**
  - 4.2.8 Close-out**
  - 4.2.9 Good faith deposits**
  - 4.2.10 Settlement of joint or similar account**
  - 4.2.11 Distribution of customer credits**
  - 4.2.12 Interest payment claims**
- 4.3. Rule G-14—Reports of Sales or Purchases**
  - 4.3.1 Transaction reporting requirements**
  - 4.3.2 RTRS procedures**
- 4.4 Rule G-15—Confirmations, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers**
  - 4.4.1 Customer confirmations**
  - 4.4.2 Settlement dates**
  - 4.4.3 Deliveries to customers**

- 4.4.4 **Delivery/receipt vs. payment transactions**
- 4.4.5 **Interest payment claims**
- 4.4.6 **Minimum denominations**
- 4.4.7 **Forwarding official communications**
- 4.5 **Rule G-17—Conduct of Municipal Securities Activities**
- 4.6 **Rule G-37—Political Contributions and Prohibitions on Municipal Securities Business**
  - 4.6.1 **Purpose, bans on municipal securities business and prohibitions against solicitations (G-37(a)-(d))**
  - 4.6.2 **Definitions (G-37(g))**
- 4.7 **Rule G-32—Disclosures in Connection with Primary Offerings**
  - 4.7.1 **Customer disclosure requirements**
  - 4.7.2 **Inter-dealer disclosure requirements**
  - 4.7.3 **Responsibility of managing underwriters, sole underwriters and financial advisors**
  - 4.7.4 **Definitions: offered municipal securities; primary offering disclosure period; official statement; primary offering**
- 4.8 **Rule G-34—CUSIP Numbers, New Issue Market Information Requirements**
  - 4.8.1 **Offered securities**
  - 4.8.2 **Secondary market securities**
  - 4.8.3 **Application for depository eligibility (G-34(a)(ii)(A))**
  - 4.8.4 **Variable rate security market information (VRDOs and ARS)**
- 4.9 **Rule G-33—Calculations**
  - 4.9.1 **Accrued interest**
  - 4.9.2 **Interest bearing securities**
  - 4.9.3 **Discounted securities**
  - 4.9.4 **Standards of accuracy; truncation**
  - 4.9.5 **Day counting**

**4.10 Administrative Rule**

**4.10.1 Rule A-13—Underwriting and transaction assessments for brokers, dealers and municipal securities dealers**

## **5.0 Extensions Of Credit In The Securities Industry**

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### **5.1 Regulation T — Credit by Brokers and Dealers**

#### **5.1.1 Authority, purpose and scope**

#### **5.1.2 General provisions**

5.1.2.1 Separation of accounts

5.1.2.2 Maintenance of credit

5.1.2.3 Guarantee of accounts

5.1.2.4 Receipt of funds or securities

5.1.2.5 Exchange of securities

5.1.2.6 Arranging for loans by others

#### **5.1.3 Margin Accounts**

5.1.3.1 Margin transactions

5.1.3.2 Required margin

5.1.3.3 When additional margin is required

5.1.3.4 Liquidation in lieu of deposit

5.1.3.5 Withdrawals of cash or securities

#### **5.1.4 Special Memorandum account**

#### **5.1.5 Good faith account**

5.1.5.1 Non-purpose credit

#### **5.1.6 Cash Account**

Permissible transactions

Time periods for payment; cancellation or liquidation

90-day freeze

Extension of time periods; transfers

#### **5.1.7 Borrowing and lending securities**

#### **5.1.8 Supplement: Margin requirements**

## **5.2 Short Sales**

### **5.2.1 Mechanics of Short Sales**

5.2.1.1 Borrowing securities

5.2.1.2 Lender's privileges

5.2.1.3 Closing the contract

### **5.2.2 Short Sale Rules**

5.2.2.1 SEC Regulations SHO

Rule 200—Definition of “short sale”

Rule 201—Price test and marking requirements

Rule 203—Borrowing and delivery requirements

5.2.2.2 SEC Rule 10a-1—Short sales

## **5.3 Conduct Rules**

### **5.3.1 FINRA Rule 4210 — Margin requirements**

General requirements

Broker/dealer accounts

Joint back office arrangements

Special initial and maintenance margin requirements

Day trading

### **5.3.2 FINRA Rule 4220 – Daily record of required margin**

### **5.3.3 FINRA Rule 4230 – Required submissions of requests for extensions of time**

## **6.0 Procedural Rules**

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- 6.1 Uniform Practice Code**
- 6.1.1 Rule 11100 — Scope of uniform practice code**
- 6.1.2 Rule 11130 — When, as and if issued/distributed contracts**
- 6.1.3 Rule 11140 — Transactions in securities “ex-dividend,” “ex-rights,” or “ex-warrants” (NYSE Rules 235 and 236)**
- 6.1.4 Rule 11150 — Transactions “ex-interest” in bonds which are dealt in “flat”**
- 6.1.5 Rule 11160 — “Ex” liquidating payments**
- 6.1.6 Rule 11170 — Transactions in “part-redeemed” bonds (NYSE Rule 193)**
- 6.1.7 Rule 11190 — Reconfirmation and pricing service participants**
- 6.1.8 Rule 11200 — Comparisons or confirmations and “Don’t Know Notices”—  
*Sent by each party***
- 6.1.9 Rule 11220 — Description of securities**
- 6.1.10 Rule 11310 — Book entry settlement**
- 6.1.11 Rule 11320 — Dates of delivery**
- 6.1.12 Rule 11361 — Units of delivery — stocks**
- 6.1.13 Rule 11362 — Units of delivery — bonds**
- 6.1.14 Rule 11363 — Units of delivery —unit investment trust securities**
- 6.1.15 Rule 11364 — Units of delivery —certificates of deposit for bonds**
- 6.1.16 Rule 11400 — Delivery of securities with draft attached**
  - Rule 11410(a)—Time of presentation
  - Rule 11410(b) — Prior to settlement date
  - Rule 11410(c) — With irregularities
- 6.1.17 Rule 11510 — Delivery of temporary certificates**
- 6.1.18 Rule 11520 — Delivery of mutilated securities (NYSE Rules 223 and 224)**
- 6.1.19 Rule 11550 — Assignments and powers of substitution; delivery of registered securities (NYSE Rules 198, 199, 201 and 207)**

- 6.1.20 Rule 11574 — Certificate in name of deceased person, trustee, etc.**
- 6.1.21 Rule 11620 — Computation of interest (NYSE Rule 243)**
- 6.1.22 Rule 11630 — Due-bills and due-bill checks (NYSE Rule 255)**
- 6.1.23 Rule 11640 — Claims for dividends, rights, interest, etc.**
- 6.1.24 Rule 11650 — Transfer fees (NYSE Rule 182)**
- 6.1.25 Rule 11700 — Reclamations and rejections**
  - Rule 11710 — General provisions
  - Time for delivery of reclamation and manner of settlement
  - IM-11710 — Uniform reclamation form
- 6.1.26 Rule 11720 — Irregular delivery; transfer refused; lost or stolen securities**
- 6.1.27 Rule 11740 — Marking to the market (NYSE Rules 165, 166 and 168)**
- 6.1.28 Rule 11810 — “Buying-in”**
- 6.1.29 Rule 11820 — “Selling-out” (NYSE Rule 283)**
- 6.1.30 Rule 11840 — Rights and warrants**
- 6.1.31 Rule 11850 — Tendering procedures for exercise of options**
- 6.1.32 Rule 11860 — Acceptance and settlement of COD orders**
- 6.1.33 Rule 11870 — Customer account transfer contracts (MSRB Rule G-26 and NYSE Rule 412)**
- 6.1.34 Rule 11880 — Settlement of syndicate accounts**
- 6.1.35 Rule 11890 — Clearly erroneous trades — authority to declare transactions void**
- 6.1.36 Rule 11900 — Clearance of corporate debt securities**

## **7.0 Other Relevant Regulation and Interpretations**

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- 7.1 Insider Trading and Securities Fraud Enforcement Act of 1988**
  - 7.1.1 Section 3 — Civil penalties of controlling persons for illegal insider trading by controlled persons**
    - 7.1.1.1 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
    - 7.1.1.2 Investment Advisers Act of 1940
      - Section 204 — Annual and other reports
  - 7.1.2 Section 4 — Increases in criminal penalties**
    - 7.1.2.1 Securities Exchange Act of 1934
      - Section 32(a) — Penalties
  - 7.1.3 Section 5 — Liability to contemporaneous traders of insider trading**
    - 7.1.3.1 Securities Exchange Act of 1934
      - Section 20A — Liability to contemporaneous traders for insider trading
- 7.2 Securities Exchange Act of 1934 and SEC Rules Thereunder**
  - 7.2.1 Section 10 — Regulation of the use of manipulative and deceptive devices**
    - 7.2.1.1 Rule 10b-5 — Employment of manipulative and deceptive
      - Devices Insider trading
      - Non-public information
      - Insiders and tippees
      - The Chinese Wall doctrine
- 7.3 FINRA/NASD — Regulations**
  - 7.3.1 FINRA By-Laws**
    - 7.3.1.1 Article I — Definitions
    - 7.3.1.2 Article III — Qualifications of members and associated persons
      - Section 4—Definition of disqualification
    - 7.3.1.3 Article IV — Membership

7.3.1.4 Article V — Registered representatives and associated persons (NYSE Rules 345 and 347)

**7.3.2 Membership, Registration and Qualification Requirements  
NASD Rules**

7.3.2.1 Rule 1010 — Applications for membership

7.3.2.2 Rule 1020 — Registration of principals  
Registration requirements  
Categories of Principal Registration

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

7.3.2.4 Rule 1040 — Registration of assistant representatives — order processing

7.3.2.5 Rule 1060 — Persons exempt from registration

7.3.2.6 Rule 1070 — Qualification examinations and waiver of requirements

7.3.2.7 Rule 1080 — Confidentiality of examinations

7.3.2.8 Rule 1120 — Continuing education requirements (NYSE Rule 345A)

7.3.2.9 Rule 1150—Executive representatives

**7.3.3 NASD Conduct Rules**

7.3.3.1 Rule 2110—Standards of commercial honor and principles of trade

**FINRA Rules**

7.3.3.2 Rule 2020 — Use of fraudulent devices (NYSE Rule 77)

**NASD Conduct Rules**

7.3.3.3 FINRA Rule 2262 — Disclosure of control relationship with issuer

7.3.3.4 FINRA Rule 2251 — Forwarding of proxy and other materials

7.3.3.5 FINRA Rule 2150 — Improper use of customers' securities or funds;  
prohibition against guarantees and sharing in accounts (NYSE 353)  
Improper use  
Prohibition against guarantees  
Sharing in accounts; extent permissible

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

7.3.3.7 FINRA Rule 3240—Borrowing from or lending to customers

7.3.3.8 Rule 2420 — Dealing with non-members  
Transactions with non-members  
Transactions with foreign non-members  
Non-member broker or dealer  
IM-2420-1 — Interpretations between member and non-members

7.3.3.9 Rule 2430 — Charges for services performed

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

#### **FINRA Rules**

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

7.3.3.12 FINRA Rule 5122 — Private placements of securities issued  
By a member firm or control entity

7.3.3.13 FINRA Rule 5121 — Public offerings of securities with conflicts of interest

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

#### **FINRA Rules**

7.3.3.15 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

#### **NASD Conduct Rules**

7.3.3.16 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

7.3.3.17 Rule 3012—Supervisory control system

**FINRA Rules**

7.3.3.18 Rule 3130—Annual certification of compliance and supervisory processes

**FINRA and NASD Conduct Rules**

7.3.3.19 FINRA Rule 3270 — Outside business activities of registered persons

7.3.3.20 Rule 3040 — Private securities transactions of an associated person

7.3.3.21 Rule 3050 — Transactions for or by associated persons (NYSE Rule 407)  
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

7.3.3.22 FINRA Rule 3220 — Influencing and rewarding employees of others (NYSE Rule 350)

7.3.3.23 FINRA Rule 4530 — Reporting requirements

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

7.3.3.25 FINRA Rule 4311 — Carrying agreements

7.3.3.26 FINRA Rule 4370 — Business continuity plans and emergency contact information

**7.3.4 FINRA Procedural Rules**

7.3.4.1 Rule 8000 — Investigations and sanctions (NYSE Rules 475, 476, and 477)  
Rule 8100 — General provisions  
Rule 8200 — Investigations  
Rule 8300 — Sanctions

7.3.4.2 Rule 9000 — Code of procedure  
Rule 9100 — Application and purpose of code  
Rule 9200 — Disciplinary proceedings  
Rule 9300 — Review of disciplinary proceeding by national adjudicatory council and NASD Board; application for commission review  
Rule 9500 — Other proceedings

- 7.3.4.3
  - 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
- 7.3.4.4
  - Rule 10000 — Code of arbitration procedure (NYSE Rules 347(a), 600 and 601)
  - Rule 10100 — Administrative provisions
  - Rule 10200 — Industry and clearing controversies
  - Rule 10300 — Uniform code of arbitration
  - Rule 10400 — Mediation rules (NYSE Rule 638)
- 7.4 Proprietary Accounts of Introducing Broker/Dealers NASD Notices to Members 99 – 44 and 98/99)**
  - 7.4.1 Required computations**
    - Net capital
    - Customer reserve
    - Segregation of introducing broker/dealer accounts
    - Frequency of calculations
  - 7.4.2 Required written agreements**

## Sample Question

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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. (C)
3. (A)
4. (D)

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, what is the haircut for the Firm inventory of 2000 shares of WXYZ at 154?

- (A) \$154,000
- (B) \$ 92,400
- (C) \$ 46,200
- (D) \$ 23,100

3. 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

4. Under NASD rules, which two of the following are TRUE regarding a fully disclosed clearing agreement between two NASD members?

- I. Customers must provide a written acknowledgement of the clearing agreement.
- II. The introducing member is required to submit the agreement to NASD for review.
- III. The agreement must provide for written notification to customers, upon account opening, of the existence of the clearing agreement.
- IV. The clearing member is required to submit the agreement to NASD for review.

- (A) I and III
- (B) I and IV
- (C) II and III
- (D) II and IV

