Financial Industry Regulatory Authority

General Securities Principal Qualification Examination
Sales Supervisor Module
(Test Series 23)

Study Outline

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Introduction

The FINRA General Securities Principal Qualification Examination Sales Supervisor Module (Series 23) is designed to test a candidate's knowledge of the rules and statutory provisions applicable to the management of a general securities broker-dealer. This study outline has been prepared to assist member firms in preparing candidates to sit for the examination. The outline is designed for use by course developers in the preparation of training material, for training directors in the development of lecture notes and seminar programs, and for use by candidates, both to structure their study and as a final review checklist prior to taking the examination. The General Securities Principal Qualification Examination Sales Supervisor Module and this study outline are composed of five general areas of supervision, which are listed below with the number of questions in each section.

Section	Description	Number Of Questions
1	Supervision of Investment Banking, Underwriting Activities and Research	30
2	Supervision of Trading and Market Making Activities	24
3	Supervision of Brokerage Office Operations	12
4	Sales Supervision and General Supervision of Employees	23
5	Compliance with Financial Responsibility Rules	11
Total		**100**

Structure of the Examination

The examination is composed of 100 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 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.

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 23 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 23 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.

References

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

Code of Federal Regulations, Title 17
Superintendent of Documents
U.S. Government Printing Office
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

Handbook of Stock Brokerage Accounting
Richard Ross
New York Institute of Finance
Two Broadway
New York, NY 10004

Inside Investment Banking
Ernest Block
Beard Group, Inc.
P. O. Box 4250
Frederick, MD 21705

Modern Securities Transfers
Egon Guttman
Warren, Gorham & Lamont
31 St. James Avenue
Boston, MA 02116

Regulation of Brokers, Dealers and Securities Markets
N. Wolfson, R.M. Phillips, and T.A. Russo
Warren Gorham & Lamont Inc.
31 St. James Avenue
Boston, MA 02116

Resales of Restricted Securities
J. William Hicks
Clark Boardman Callahan
375 Hudson Street
New York, NY 10014

Securities Law Handbook
Harold Bloomenthal
Clark Boardman Callahan
375 Hudson Street
New York, NY 10014

Securities Regulation
Warren, Gorham & Lamont
31 St. James Avenue
Boston, MA 02116

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

Publications available from www.finra.org

FINRA Rules
NASD Rules
FINRA Notices
FINRA Interpretations of Financial and Operational Rules
FINRA Sanctions Guidelines

Publications available from www.nasdaqtrader.com

NASDAQ Marketplace Rules
Head Trader Alerts

Publications available from www.nyse.com

NYSE Rules
NYSE Information Memos

1.0
Supervision of Investment Banking, Underwriting Activities and Research

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1.1 New Issue Market— Underwriting Corporate Securities (negotiated)

1.1.1 Issuer Requirements

1.1.1.1 SEC Rule 405 — Definitions of terms
- Ineligible issuer
- Unseasoned reporting issuer (not primary S-3 eligible)
- Seasoned issuer (primary S-3 eligible)
- Well-known seasoned issuer

1.1.1.2 Issuer organizations
- C Corporations
- S Corporations
- Limited Liability Companies
- Limited Partnerships
- Trusts
- Master Limited Partnerships
- REITs

1.1.1.3 Issuer-related on-going reporting obligations

1.1.1.3.1 Registration of issuer's securities under the Securities Exchange Act of 1934
- Section 12(a) — Exchange-listed securities
- Section 12(g) — Registration of issuers engaged in interstate commerce
- Section 12(j) — Suspension or revocation of registration
- Section 12(k) — Trading Suspension

1.1.1.3.2 Regulation FD — Fair Disclosure
- Purpose
- Requirements
- Issuer obligations

1.1.1.4 Disclosure of control relationships

1.1.1.4.1 Securities Exchange Act of 1934
- Rule 15c1-5 — Disclosure of control
- Rule 15c1-6 — Disclosure of interest in distributions

1.1.1.4.2 FINRA Rules
- Rule 2262 — Disclosure of control relationship with issuer
- Rule 2269 — Disclosure of participation or interest in primary or secondary distribution

1.1.2 Public Offerings

1.1.2.1 NASDAQ initial public offering (IPO) process *(See Head Trader Alert 2005-096)*

Obligation of lead underwriter to notify NASDAQ IPO has been released by SEC
FINRA Rule 6130 — Transactions related to initial public offerings

1.1.2.2 FINRA Rule 5190 — Notification requirements for offering participants

1.1.2.3 New issues and overallotment
Limitations on overselling
Pro-rata distribution of managing underwriter's short position losses among co-underwriters

1.1.2.4 Primary

1.1.2.5 Secondary

1.1.2.6 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

1.1.3 Transactions Exempt from the Registration Requirements of the Securities Act of 1933

1.1.3.1 Private Placements
Private investments in public equities (PIPEs)
Primary
Secondary

1.1.3.2 Distribution of private placement offerings
Section 4(2) — Transactions by an issuer not involving any public offering
Section 4(6) — Transactions involving offers or sales by an issuer solely to one or more accredited investors up to the Section 3(b) maximum
Regulation D — Rules governing the limited offer and sale of securities without registration under the Securities Act of 1933
Rule 501 — Definitions and terms used in Regulation D
Accredited investor
Affiliate
Aggregate offering price
Business combination
Calculation of number of purchasers
Executive officer
Issuer
Purchaser representative

Rule 502 — General conditions to be met
- Integration
- Information requirements
- Limitation on manner of offering
- Limitations on resale

Rule 503 — Filing of notice of sales
- Filing Form D

Rule 504 — Exemption for limited offerings and sales of securities not exceeding $1,000,000
- Exemption
- Conditions to be met
- Limitation on aggregate offering price

Rule 505 — Exemption for limited offers and sales of securities not exceeding $5,000,000
- Exemption
- Conditions to be met
- General conditions
- Specific conditions
- Limitation on aggregate offering price
- Limitation on number of purchasers
- Disqualifications

Rule 506 — Exemption for limited offers and sales without regard to dollar amount of offering
- Exemption
- Conditions to be met
- General conditions
- Specific conditions
  - Limitation on number of purchasers
  - Nature of purchasers

1.1.3.3 Rule 144A — Private resales of securities to institutions

1.1.3.4 Regulation S — Rules governing offers and sales made outside the U.S. without registration under the Securities Act of 1933
- Rule 901 — General statement
- Rule 902 — Definitions
- Rule 903 — Offers or sales of securities by the issuer, a distributor, and of their respective affiliates, conditions relating to specific securities
- Rule 904 — Resales

1.1.3.5 Rule 144 — Persons deemed not to be engaged in a distribution and therefore not underwriters
- Definitions
- Conditions to be met
- Current public information
- Holding period for restricted securities
- Limitation on amount of securities sold

Manner of sale
Brokers' transactions
Notice of proposed sale
Bona fide intention to sell
Non-exclusive rule
Termination of certain restrictions on sale of restricted securities by persons other than affiliates

1.1.3.6 Section 4(1) — Transactions by any person other than an issuer, underwriter or dealer

1.1.3.7 Section 4(3) — Transactions by a dealer

1.1.3.8 Section 4(4) — Broker's transactions

1.1.4 Securities Exempt from the Registration Requirements of the Securities Act of 1933

1.1.4.1 Rule 147 — "Part of an issue," "person resident" and "doing business within," for purposes of Section 3(a)(11)
Transactions covered
Part of an issue
Nature of the issuer
Offerees and purchasers, person resident
Limitation of resales
Precautions against interstate offers and sales

1.1.4.2 Regulation A — General exemptions
Rule 251 — Definition of terms
Rule 254 — Amount of securities exempted
Rule 256 — Filing and use of the offering circular
Rule 258 — Sales material to be filed

1.1.5 Shelf Distributions

1.1.5.1 SEC Rule 415 — Delayed or continuous offering and sale of securities (shelf registration)
Form S-1 filing requirement
Allows issuers and investment bankers the flexibility of matching financing needs to market conditions
Prospectus requirements
Base prospectus
Prospectus supplement
Refreshing requirements
Effective date of prospectus

1.1.5.2 SEC Rule 405 — Definition of terms
Automatic shelf registration statement

1.1.6 Mergers and Acquisitions

1.1.6.1 Leveraged buy-outs
- Private equity

1.1.6.2 SEC Rule 145 — Reclassification of securities, mergers, consolidations, and acquisitions of assets
- Transactions within the rule
- Communications not deemed a "prospectus" or "offer to sell"
- Persons and parties deemed to be underwriters
- Resale provisions for persons and parties deemed to be underwriters
- Definition of "person"
- Form S-4 requirement

1.1.6.3 SEC Regulation M-A — Mergers and acquisitions

1.1.6.4 FINRA Rule 5150 — Fairness opinions

1.2 Securities Distribution

1.2.1 Due Diligence and Financing Proposals
- Preliminary study
- Letter of intent
- General examination
  - Industry data
  - Operational data
  - Management and employee relations
  - Financial data
  - Research, product development and expansion
- Legal examination
- Commitment committee
- Types of covenants
  - Bond
  - Indenture
  - Financial
  - Default
    - Impact of default covenant
  - Covenant analysis

1.2.2 Types of Underwriting Commitments

1.2.2.1 Firm commitment
- Competitive bid or negotiated

1.2.2.2 Stand-by commitment
- All or none
- Best efforts
- Mini-Max
- Market-out clauses

1.2.2.3 Securities Exchange Act of 1934 and SEC Rules Thereunder
- Rule 10b-9 — Prohibited representations in connection with certain offerings
- Rule 15c2-4 — Transmission or maintenance of payments received in connection with underwritings

1.2.3 Underwriting Syndicate
- Role of syndicate manager
- Agreement among underwriters
- Due diligence meeting
- Blue skying the issue

1.2.4 Underwriter's Compensation
- Components of underwriter's spread
- Forms of compensation
- Stand-by commitments
- FINRA Rule 5110 — Corporate financing rule — underwriting terms and arrangements
  - Underwriting compensation and arrangements
  - Determination of whether items of value are included in underwriting compensation
  - Valuation of non-cash compensation
  - Non-cash compensation

1.2.5 Mechanics of Distributions

1.2.5.1 Formation of the Selling Group
- Handled by managing underwriter
- Selling group agreement
  - FINRA Rule 5160 — Disclosure of Price and Concessions in Selling Agreements
    - Retention
    - Designations
- Liabilities of selling group members vs. underwriters' liabilities

1.2.5.2 Role of the placement agent
- Contractual obligation to issuer
- Identification of potential investors
- Liabilities of the placement agent
- Distribution of proceeds

1.2.5.3 Finders

1.2.5.4 SEC Rule 3a4-1 — Associated persons of an issuer deemed not to be brokers

1.2.6 Pricing of the Issue
- Determined on effective date of registration
- Indication of interest
- Factors affecting price of issue
- Opening and closing the books

1.2.7 Stabilization

1.2.7.1 SEC Rules

1.2.7.1.1 Regulation M — Antimanipulation Rules Concerning Securities Offerings

Rule 100 — Definition of ‘Stabilization” and “Stabilizing”

Rule 104 — Stabilizing and other activities in connection with an offering

1.2.7.1.2 SEC Rule 17a-2 — Recordkeeping requirements relating to stabilizing activities

Scope of rule

Definitions

Records required to be maintained by manager

Notification of manager

1.2.7.2 NASDAQ Rules

Rule 4200(b)(36) — Stabilizing bid

Rule 4614 — Stabilizing bids

Rule 4624 — Penalty bids and syndicate covering transactions

1.2.8 SEC Tender Offers

Rule 13e-3 — Going private transactions by certain issuers or their affiliates

Schedule 13E-3 filing requirement

Rule 13e-4 — Tender offers by issuers

Schedule 13E-4 filing requirement

Rule 14d-10 — Equal treatment of security holders

Rule 14e-1 — Unlawful tender offer practices

Rule 14e-2 — Position of subject company with respect to a tender offer

Rule 14e-3 — Transactions in securities on the basis of material, non-public information in the context of tender offers

Rule 14e-4 — Prohibited transactions in connection with partial tender offers

Rule 14e-5 — Prohibiting purchases outside of a tender offer

1.2.9 Distribution-Related FINRA/NASD Rules

1.2.9.1 FINRA Rule 5110 — Corporate financing rule — underwriting terms and arrangements

Definitions

Filing requirements

Unreasonable terms and arrangements

Lock-up restrictions on securities

1.2.9.2 FINRA Rule 2310 — Direct Participation Programs

Definitions

Requirements

Application

Suitability

Disclosure

Organization and offering expenses

Participation in rollups

1.2.9.3 FINRA Rule 5121 — Public Offerings of Securities With Conflicts of Interest
- Definitions
- Participation in distribution of securities of member or affiliate
- Disclosure
- Escrow of proceeds; net capital computation
- Offerings resulting in affiliation or public ownership of member
- Suitability
- Discretionary accounts
- Sales to employees
- Filing requirements

1.2.9.4 FINRA Rule 5122 — Private placements of securities issued by members

1.2.9.5 FINRA Rule 5141 — Sale of Securities in a Fixed Price Offering

1.2.9.6 NASD Rule 11880 — Settlement of syndicate accounts
- Definitions
- Final settlement
- Settlement of underwritten public offerings

1.2.10 Marketing Restrictions under Industry Regulations
- SEC Rule 15c1-8 — Sales at the market
- FINRA Rule 2060 — Use of Information Obtained in a Fiduciary Capacity

1.3 Communications and Liability-Related to the New Issue

1.3.1 Regulatory Requirements Pertaining to a Prospectus

1.3.1.1 Rule 405 — Definition of terms
- Free writing prospectus
- Graphic communication
- Written communication
  - Rule 164 — Post-filing free writing prospectuses in connection with certain registered offerings
  - Rule 433 — Conditions to permissible post-filing free writing prospectuses
    - Well-known seasoned issuers
    - Non-reporting and unseasoned issuers
- Graphic communication
- Written communication
- Electronic road shows

1.3.1.2 Content and filing requirements of prospectus
- Section 10 — Information Required in Prospectus
- Rule 424 — Filing of prospectuses, number of copies
- Rule 427 — Contents of prospectuses used after nine months
- Rule 430 — Prospectus for use prior to effective date
- Rule 430A — Prospectus for use prior to effective date
- Rule 430B — Prospectus in a registration statement at the time of effectiveness

1.3.1.3 Exemptions/Safe Harbors

1.3.1.3.1 Public notices excluded from the definition of prospectus

Rule 134 — Communications not deemed a prospectus

Distribution of information during an underwriting

Rule 135 — Notice of certain proposed offerings

Rule 135a — Generic advertising

Rule 163 — Exemption from Section 5(c) of the Act for certain communications by or on behalf of well-known seasoned issuers

Rule 163A — Exemption from Section 5(c) of the Act for certain communications made by or on behalf of issuers more than 30 days before a registration statement is filed

Rule 168 — Exemptions from Sections 2(a)(10) and 5(c) of the Act for certain communications of regularly released factual business information and forward-looking information

Rule 169 — Exemptions from Sections 2(a)(10) and 5(c) of the Act for certain communications of regularly released factual business information

1.3.1.3.2 Research reports and free writing prospectuses

Rule 137 – Publications or Distributions of Research Reports by Brokers or Dealers that are not Participating in an Issuer's Registered Distribution of Securities

Rule 138 —Publications or Distributions of Research Reports By Brokers or Dealers About Securities Other Than Those They Are Distributing

Rule 139 —Publications or Distributions of Research Reports By Brokers or Dealers Distributing Securities

1.3.1.4 Distribution of the preliminary and final prospectuses

Securities Act of 1933

Rule 153A — Definition of "preceded by a prospectus" as used in Section 5(b)(2) of the Act, in relation to certain transactions requiring approval of security holders

Rule 172 — Delivery of prospectus

Rule 174 — Delivery of prospectus by dealers; exemptions under Section 4(3) of the Act

Rule 460 — Distribution of preliminary prospectus

Prospectus used more than nine months

Summary prospectus

Securities Exchange Act of 1934

Rule 15c2-8 — Delivery of prospectus

Preliminary prospectus

Final prospectus

Delivery to associated persons

Delivery to other broker-dealers by managing underwriter

1.3.1.5 Special issues dealing with electronic offerings

SEC Release 34-42728 — Use of electronic media

1.3.2 Regulatory Requirements Pertaining to Filing of Registration Statements

1.3.2.1 Section 7 — Information Required in Registration Statement
Regulation S-K — Content of non-financial statements portions of registration statements under the Securities Act of 1933 and other documents required under the Securities Exchange Act of 1934
Regulation S-X — Financial statements required to be filed as part of registration under Sections 12, 13 and 14 of the Securities Act of 1933

1.3.2.2 Section 8 — Taking Effect of Registration Statements
Amendments to registration statements prior to and after effective date
Stop orders
Form SB-1/SB-2 filing requirement

1.3.3 Communications-Related Liability

1.3.3.1 Section 11 — Civil Liabilities on account of false registration statement

1.3.3.2 Section 12 — Civil liabilities arising in connection with prospectuses and communications
Rule 159 — Information available to purchaser at time of contract of sale
Rule 412 — Modified or superseded documents

1.3.3.3 Section 15 — Liability of controlling persons

1.3.3.4 Section 17 — Fraudulent interstate transactions

1.3.3.5 Section 23 — Unlawful representations

1.3.3.6 Rule 175 — Liability for certain statements by issuers

1.3.3.7 Rule 3b-6 — Liability for certain statements by issuers

1.3.4 Research Analysts and Research Reports

1.3.4.1 Securities Exchange Act of 1934 and SEC Rules Thereunder
SEC Regulation AC — Analyst certification

1.3.4.2 NASD Rule 2711/ NYSE Rule 472 — Research analysts and research reports
Definitions
Restrictions on relationship with research department
Restrictions on communications with the subject company
Prohibition on participation in road shows
Restrictions on research analyst compensation
Prohibition of promise of favorable research
Restrictions on publishing research reports and public appearances; termination of coverage
Restrictions on personal trading by research analysts
Quiet periods relating to public offerings

Disclosure requirements
Supervisory procedures
Annual attestation of research supervisory procedures
Prohibition of retaliation against research analysts

1.4 Securities Exchange Act of 1934 and SEC Rules Thereunder

1.4.1 Regulation M — Antimanipulation Rules Concerning Securities Offerings

1.4.1.1 Rule 100 — Definitions

1.4.1.2 Rule 101 — Activities by distribution participants

1.4.1.3 Rule 102 — Activities by issuers and selling security holders during a distribution

1.4.2 Schedules, Statements, Forms and Other Reports to Be Filed

1.4.2.1 Rule 13a-11/Rule 15d-11 — Current reports on Form 8-K

1.4.2.2 Rule 13a-13/Rule 15d-13 — Annual reports on form 10-K

1.4.2.3 Rule 13a-13/Rule 15d-13 — Quarterly reports on Form 10-Q

1.4.2.4 Rule 13d-1 — Beneficial ownership reports on Schedules 13D and 13G

1.4.2.5 Rule 13e-3 — Going private transactions by certain issuers or their affiliates
Schedule 13E-3 filing requirement

1.4.2.6 Rule 13f-1 — Reporting by institutional investment managers of information with respect to accounts over which they exercise investment discretion (Schedule 13F)

1.4.2.7 Rule 14a-6 — Proxy statements on Form 14A

1.4.2.8 Rule 16a-1 — Beneficial ownership reports of directors, officers and principal stockholders
Form 3 — Initial statement of beneficial ownership of securities
Form 4 — Statement of changes in beneficial ownership of securities

1.5 Investment Company Act of 1940 and SEC Rules Thereunder

1.5.1 Section 2 — Definitions

1.5.2 Section 3 — Definition of Investment Company

1.5.3 Section 4 — Classification of Investment Company

1.5.4 Section 5 — Sub-classification of Management Companies

1.5.5 Section 8 — Registration of Investment Companies

1.5.5.1 Section 8(b) — Filing requirements for investment companies
Form N-1A — Registration statement of open-end management investment companies

1.5.6 Section 11 — Offers of Exchange

1.5.7 Section 12 — Functions and Activities of Investment Companies

1.5.7.1 Prohibitions
Purchases on margin
Participation in joint trading accounts
Short sales

1.5.7.2 Rule 12b-1 — Distribution of shares by registered open-end management investment company
Disclosure of payment for distribution of funds from assets
Statement of additional information

1.5.8 Section 13 — Changes in Investment Policy

1.5.9 Section 19 — Dividends

1.5.9.1 Accumulated undistributed net income

1.5.9.2 Current net income

1.5.9.3 Statement disclosing source of payment
Rule 19a-1 — Written statement to accompany dividend payments by management companies

1.5.9.4 Distribution of long-term capital gains
Rule 19b-1 — Frequency of distribution of capital gains

1.5.10 Section 35 — Unlawful Representations and Names

1.5.11 Section 37 — Larceny and Embezzlement

1.6 Trust Indenture Act of 1939

1.6.1 Purpose and Basic Provisions

1.6.2 Necessity of Trustee to Safeguard the Rights of Investors in Registered Debt Obligations

1.6.3 Identification of Rights and Powers of Trustee

1.6.4 Full Disclosure of Information in Bond Indentures

1.6.5 Participation of Trustees in the Preparation of Indentures

1.7 Anti-Trust Regulations

1.7.1 Hart-Scott-Rodino Act

Filing Requirements
Cooling-off period
Notification Thresholds

2.0
Supervision of Trading and Market Making Activities

2.1 Overview of Markets Regulated by FINRA

2.1.1 NASDAQ Securities

2.1.1.1 NASDAQ Tier securities
- NASDAQ Capital markets securities (SmallCap)
- NASDAQ Global market securities (NNM)
- NASDAQ Global Select market securities

2.1.1.2 Preferred securities

2.1.1.3 Convertible debt

2.1.1.4 ADRs and International Securities

2.1.2 Over-the-Counter Securities

- Pink Sheets and other similar trading facilities (www.pinksheets.com)
- Third market
  - Trading in exchange listed securities in OTC market
  - Consolidated tape reporting requirement
- Fourth market
  - Private transactions between institutional investors without the use of a broker-dealer

2.1.3 OTC Bulletin Board

2.1.3.1 Allows participants to enter, update, and retrieve quotation information on non-NASDAQ OTC stocks on real-time basis
- Displays firm quotations
- Displays unpriced indications of interest

2.1.3.2 FINRA Rule 6500 — OTC Bulletin Board Service
- FINRA Rule 6510 — Applicability
- FINRA Rule 6520 — Operation of the service
- FINRA Rule 6530 — OTCBB-eligible securities

2.1.4 NASDAQ Market Center Requirements

2.1.4.1 Listing requirements **(**General factors; numerical values not tested)
- Rule 4300 Series — Listing requirements for NASDAQ securities
- Rule 4400 Series — NASDAQ Global market
- Rule 4800 Series — Procedures for review of NASDAQ listing determinations

2.1.4.2 Execution Services
- Rule 4751 — Definitions

Rule 4755 — Order entry parameters
Rule 4756 — Entry and display of quotes and orders
Rule 4757 — Book processing
Rule 4758 — Order routing
Rule 4761 — Adjustment of open quotes and/or orders

2.1.4.3 Alternative Trading Systems
SEC Regulation ATS
Electronic Communications Networks (ECNs)

2.1.5 FINRA Marketplace Rules Regarding Display, Transaction Reporting and Order Tracking Obligations

2.1.5.1 FINRA Alternative Display Facility
Rule 6230 — Use of Alternative Display Facility Data Systems
Rule 6240 — Prohibition from locking or crossing quotations in NMS stocks
Rule 6220 — Definitions

2.1.5.2 Trade Reporting Facility (TRF)
2.1.5.2.1 Function of the Trade Reporting Facility
Primary vehicle for reporting over-the-counter transactions in equity securities (including OTC trades in listed securities)
2.1.5.2.2 FINRA Rules
Rule 6300A — FINRA/NASDAQ Trade Reporting Facility
Rule 6320A — Definitions
Rule 6281 — Reporting transactions in ADF-eligible securities
Rule 6320A(13) — Definitions
Rule 6380A — Transaction reporting

2.1.5.3 Other FINRA transaction reporting obligations rules
Rule 6550 — Transaction reporting in OTC Bulletin Board Service
Rule 6622 — Transaction reporting in over-the-counter equity securities
Rule 6643 — Transaction reporting in direct participation programs

2.1.5.4 FINRA Trade Reporting and Compliance Engine Rules (TRACE Rules)
Rule 6710 — Definitions
Rule 6720 — Participating in TRACE
Rule 6730 — Transaction reporting
Rule 6740 — Termination of TRACE service
Rule 6750 — Dissemination of transaction information
Rule 6760 — Managing underwriter or group of underwriters obligation to obtain CUSIP and provided notice

2.1.5.5 FINRA Alternative Display Facility/TRACS
Rule 7110 — Definitions
Rule 7120 — Participation in TRACS trade comparison feature by participants in the alternative display facility
Rule 7130 — Trade report input
Rule 7170 — Termination of TRACS service

2.1.5.6 FINRA/NASDAQ Trade Reporting Facility/OTC Reporting Facility

- FINRA Rules 7210A/7310 — Definitions
- FINRA Rules 7220A/7320 — Trade reporting participation requirements
  - Mandatory participation for clearing agency members
  - Participant obligations
    - Access
    - System participant obligations
    - Clearing broker obligations
- FINRA Rules7230A/7330 — Trade report input
- FINRA Rules 7240A/7340 — Trade report processing
- FINRA Rules 7270A/7370 — Violation of reporting rules

2.1.5.7 Order Audit Trail and Tracking systems

2.1.5.7.1 FINRA Rules

- Rule 7410 — Definitions
- Rule 7420 — Applicability
- Rule 7430 — Synchronization of member business clocks
- Rule 7440 — Recording of order information
- Rule 7450 — Order data transmission requirements

2.1.5.7.2 NYSE Rules

- Rule 132A — Synchronization of member business clocks
- Rule 132B — Order tracking system
- Rule 410A — Automated submission of trading data
- Rule 410B — Reports of listed securities transactions effected off the Exchange

2.1.6 Requirements for NASDAQ Market Makers and Other Market Center Participants

2.1.6.1 NASD/FINRA Rules

- FINRA Rule 5250 — Payments for Market Making
- FINRA Rule 6250 — Quote and order access requirements
- FINRA Rule 6271 — Registration as an ADF market maker or an ADF ECN
- FINRA Rule 6275 — Withdrawal of quotations
- FINRA Rule 6140 — Other trading practices
- FINRA Rule 6540 — Requirements applicable to market makers
  - Permissible quotation entries (one-sided quotes)
  - Impermissible quotation entries
  - Voluntary termination of registration
  - More than one trading location
  - Clearance and settlement

2.1.6.2 NASDAQ Rules

- Rule 4611 — NASDAQ Market Center participant registration
- Rule 4612 — Registration as a NASDAQ market maker
  - Membership requirement
  - Minimum net capital requirements
- Rule 4619 — Withdrawal of quotations and passive market making

2.1.6.3 Market Hours
FINRA/NASDAQ Rules 6273/4617 — Normal business hours
FINRA Rule 2265 — Extended hours trading risk disclosure

2.1.6.4 SEC Regulation M — Anti-manipulation rules concerning securities offerings
Rule 103 — Passive market making in NASDAQ stocks

2.1.6.5 Determination of spread
Financial condition of issuer
Size of issue
Activity in issue
Market conditions

2.1.6.6 Types of customer business
Retail
Institutional

2.1.7 Quotation and Execution Requirements (general knowledge)

2.1.7.1 FINRA Rules
Rule 5310 — Best Execution and Interpositioning
Rule 6438 — Displaying Priced Quotations in Multiple Quotation Mediums
Rule 5210 — Publication of Transactions and Quotations Marking the close/Marking the opening
Rule 5220 — Offers at Stated Prices
Backing-away
Rule 5290 — Order Entry and Execution Practices
Rule 6430 — Recording of quotation information
Rule 6440 — Submission of Rule 15c2-11 information on non-exchange-listed securities
Rule 6450 — Minimum quotation size requirements for OTC equity securities
Rule 6470 — Withdrawal of quotations in an OTC equity security in compliance with SEC Regulation M

2.1.7.2 FINRA/NASDAQ Rules
Rules 6272/4613 — Character of quotations
Quotation requirements and obligations

2.1.7.3 SEC Rules
Rule 15c2-7 — Identification of quotations
Rule 15c2-11 — Initiation or resumption of quotations with specified information

2.1.8 Trading and Market Halts

2.1.8.1 Trading halts

2.1.8.1.1 NASD/FINRA Rules

FINRA Rule 5260—Prohibition on Transactions, Publication of Quotations, or Publication of Indications of Interest During Trading Halts
FINRA Rule 6120 — Trading halts
FINRA Rule 6121 — Trading halts due to extraordinary market volatility
FINRA Rule 6460 — Trading and quotation halt in OTC equity securities

2.1.8.1.2 NYSE Rules
Rule 123D — Openings and halts in trading
Rule 906 — Impact of trading halts on off-hours trading

2.1.8.2 Market halts

2.1.8.2.1 Agreement between NASDAQ and NYSE (circuit breakers)
NASDAQ Rule 4121 — Market closing

2.1.9 Anti-Competitive Trading Practices (21A Report)
Collusion
Price/size/spread convention
Intimidation
Harassment
FINRA Rule 5240 — Anti-intimidation/coordination

2.2 Auction Markets

2.2.1 Listing Criteria (general understanding, numerical values not tested)

2.2.1.1 Minimum listing standards

2.2.1.2 NYSE-Listed Company Manual

2.2.2 NYSE Trading Regulations

2.2.2.1 Trading post

2.2.2.2 NYSE Rule 54 — Floor broker (member)

2.2.2.3 Role of the designated market maker [DMM] (specialist)
Maintains the limit order book
Rule 104A — DMMs--general
Rule 116 — “Stop” constitutes guarantee
Agent vs. principal functions of DMM (specialist)
Rule 115A — Orders at opening or unusual situations
Arranges buy and sell orders at the opening of daily trading to orchestrate a balanced price

2.2.2.4 Automated trading systems (DOT, PACE, AUTO, AMOS, SCOREX)

2.2.2.5 NYSE Rule 13 — Types of orders

2.2.2.6 NYSE Rule 127 — Block trading

2.2.3 NYSE Regulations

2.2.3.1 Rule 61 — Recognized quotations

2.2.3.2 Rule 76 — "Crossing" orders

2.2.3.3 Rule 77 — Prohibited dealings and activities

2.2.3.4 Rule 78 — Sell and buy orders coupled at same price

2.2.3.5 Rule 91 — Taking or supplying securities named in order

2.2.3.6 Rule 123B — Exchange automated order routing system

2.2.3.7 Rule 123C — Market on-the-close policy and expiration procedures

2.2.3.8 Rule 435(5) — Miscellaneous prohibitions
Circulation of rumors

2.2.4 Consolidated Tape Network

2.2.4.1 Reports all executions of exchange-listed securities, regardless of where the transactions occurred

2.2.4.2 Use of the tape for price information

2.2.4.3 Reports of third market activity

2.3 Securities Exchange Act of 1934 and SEC Rules Thereunder

2.3.1 Section 3 — Certain Definitions Under the Act

2.3.1.1 Section 3(a)(5) — Dealer

2.3.1.2 Section 3(a)(23)(A) — Clearing agency

2.3.1.3 Section 3(a)(38) — Market maker

2.3.1.4 Section 3(b) — Other definitions under the Act
Rule 3b-1 — Listed
Rule 3b-8 — Qualified OTC market maker, qualified third market maker, and qualified block positioner

2.3.2 Section 11 — Trading by Members of Exchanges Brokers and Dealers

2.3.2.1 Rule 11a-1 — Regulation of floor trading

2.3.2.2 Rule 11a1-1(T) — Transactions yielding priority, parity and precedence

2.3.2.3 Rule 11a1-2 — Transactions for certain accounts of associated persons of members

2.3.2.4 Rule 11a1-3(T) — Bona fide hedge transactions in certain securities

2.3.2.5 Rule 11a1-4(T) — Bond transactions on national securities exchanges

2.3.2.6 Rule 11a1-5 — Transactions by registered competitive market makers and registered equity market makers

2.3.2.7 Rule 11a2-2(T) — Transactions effected by exchange members through other members

2.3.3 Regulation NMS — National Market System for Securities

2.3.3.1 Rule 600 — NMS security-designation and definitions
Block size
Electronic communications network
Exchange market maker
Exchange-traded security
NMS security/stock
OTC market maker
Quotation size

2.3.3.2 Rule 602/ NYSE Rule 60 — Dissemination of quotations in NMS securities
Obligations of responsible brokers and dealers

2.3.3.3 Rule 604 — Display customer limit orders
Specialists and OTC market makers

2.3.3.4 Rule 605 — Disclosure of order execution information

2.3.3.5 Rule 606 — Disclosure of order routing information

2.3.3.6 Rule 607 — Customer account statements

2.3.3.7 Rule 611 — Order Protection Rule (trade-throughs)

2.3.3.8 Rule 612 — Minimum pricing increments

2.3.4 Penny Stock Rules
Rule 3a51-1 — Penny stock
Rule 15g-1 — Exemptions for certain transactions
Rule 15g-2 — Risk disclosure document relating to the penny stock market
Rule 15g-3 — Broker or dealer disclosure of quotations and other information relating to the penny stock market
Rule 15g-4 — Disclosure of compensation to brokers or dealers
Rule 15g-5 — Disclosure of compensation of associated persons in connection with penny stock transactions

Rule 15g-6 — Account statements for penny stock customers

Rule 15g-9 — Sales practice requirements for certain low priced securities

2.4 FINRA/NASD Regulations

2.4.1 Conduct Rules

2.4.1.1 Trading standards and practices
- NASD IM-2110-3 — Front running policy
- FINRA Rule 5280 — Trading ahead of research reports

2.4.1.2 FINRA Rule 5320 — Prohibition Against Trading Ahead of Customer Orders

2.4.1.3 FINRA Rule 2124 — Net Transactions with Customers

2.4.1.4 Day-trading accounts
- FINRA Rule 2130/ NYSE Rule 431(b)(4) — Approval Procedures for Day-Trading Accounts
- FINRA Rule 2270 — Day-Trading Risk Disclosure Statement
- FINRA Rule 4210(f)(8)(B) — Day Trading
  - Definition of pattern day trader
  - Definition of day trading buying power
  - Special requirements for pattern day traders

3.0
Supervision of Brokerage Office Operations

3.1 Extensions of Credit in the Securities Industry

3.1.1 Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks — Regulation U of the Federal Reserve Board

Purpose credit secured by stock
Exceptions from general rule for broker-dealers
OTC market maker exemption

3.1.2 General Purpose of Other FED Credit Regulations

Regulation X — Rules governing borrowers who obtain securities credit

3.1.3 Securities Exchange Act of 1934 and SEC Rules Thereunder

3.1.3.1 Regulation S-P — Privacy of consumer financial information
Treatment of nonpublic personal information about consumers by financial institutions

3.1.3.2 Rule 3a12-9 — Exemption of certain direct participation program securities from the restrictions regarding the extending or arranging of credit under Sections 7(c) and 11(d)(1)

3.1.3.3 Rule 10b-16 — Disclosure of credit terms in margin transactions

3.1.3.4 Section 11(d)(1) — Extension of credit
Rule 11d1-1 — Exemption of certain securities from Section 11(d)(1)
Rule 11d1-2 — Exemption from Section 11(d)(1) for certain investment company securities held by broker-dealers as collateral in margin accounts

3.1.3.5 Rule 15c2-5 — Disclosure and other requirements when extending or arranging credit in certain transactions

3.1.4 FINRA/NASD Rules

3.1.4.1 FINRA Rule 2264 — Margin Disclosure Statement
3.1.4.2 FINRA Rule 4210(g) — Portfolio Margin
3.1.4.3 FINRA Rule 4230 – Required Submissions of Requests for Extension of Time Under Regulation T and SEA Rule 15c3-3

3.1.5 Short Sale Rules

3.1.5.1 SEC Rules
Regulation SHO
Rule 200 — Definition of "short sale"
Rule 203 — Borrowing and delivery requirements
List of available securities must be no older than 24 hours old
Regulation M — Anti-manipulation rules concerning securities offerings

Rule 105 — Short selling in connection with a public offering

3.1.5.2 FINRA Rule 4320 — Short Sale Delivery Requirements

3.2 Broker-to-Broker Clearing Procedures

3.2.1 Settlement Procedures

Contract sheet
Netted trades
Continuous net settlement
Money settlement
OTC trade comparisons on locked-in trades
Comparison sheet or ticket
Regular way and when issued contract sheets
SEC Rule 15c6-1 — Settlement cycle
FINRA Rules 6274/6350 — Clearance and settlement

3.2.2 Firm must be Member of One of the Following Clearing Corporations

National Securities Clearing Corporation
Midwest Clearing Corporation
Philadelphia Clearing Corporation
Pacific Clearing Corporation

3.2.3 Depository Trust and Clearing Corporation

Securities certificate safekeeping
Exchange effected by computerized bookkeeping entries

3.2.4 Clearing Funds

Participant contribution based on processing activity
Interest earned is transferred to participant

3.3 Customer Confirmations

3.3.1 SEC Rule 10b-10 — Confirmation of Transactions

3.3.2 FINRA Rule 2232 — Customer Confirmations

3.4 FINRA/NASD Regulations

3.4.1 Conduct Rules

3.4.1.1 NASD Rule 2340/ NYSE Rule 409 — Customer account statements

3.4.1.2 Books and Records

FINRA Rules

Rule 2268 – Requirements When Using Predispute Arbitration Agreements for Customer Accounts
Rule 3250 — Designation of accounts
Rule 4511 – General Requirements
Rule 4512 – Customer Account Information
Rule 4513 – Records of Written Customer Complaints

Rule 4514 – Authorization Records for Negotiable Instruments Drawn From a Customer's Account
Rule 4515 – Approval and Documentation of Changes in Account Name or Designation
Rule 7440 – Recording of Order Information

NASD Rule 3110(i) – Holding of Customer Mail

3.4.1.3 FINRA Rule 4521 — Notifications, Questionnaires and Reports
NASD Rule 3150 — Reporting requirements for clearing firms

3.4.1.4 FINRA Rule 4311 — Clearing Agreements

3.4.1.5 FINRA Rule 5330 — Adjustment of Orders

3.4.1.6 FINRA Rule 4560 — Short-Interest Reporting

3.4.2 FINRA/NASD Uniform Practice Code

3.4.2.1 Rule 11100 — Scope of Uniform Practice Code

3.4.2.2 Rule 11120 — Definitions

3.4.2.3 Rule 11130/ NYSE Rule 63 — When, as and if issued/distributed contracts

3.4.2.4 Rule 11150 — Transactions "ex-interest" in bonds which are dealt in "flat"

3.4.2.5 Rule 11160 — "Ex" liquidating payments

3.4.2.6 Rule 11170/ NYSE Rule 193 — Transactions in "part-redeemed" bonds

3.5.2.7 Rule 11190 — Reconfirmation and pricing service participants

3.4.2.8 Rule 11200/ NYSE Rules 133 — Comparisons or confirmations and "Don't Know Notices"

3.4.2.9 Rule 11220 — Description of securities

3.4.2.10 Rule 11300 — Delivery of Securities

3.4.2.11 Rule 11361/ NYSE Rule 185 — Units of delivery — stocks

3.4.2.12 Rule 11362/ NYSE Rule 186 — Units of delivery — bonds

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

3.4.2.14 Rule 11364/NYSE Rule 187 — Units of delivery—certificates of deposit for bonds
IM-11364 — Trading securities as "units" or bonds "with stock"

3.4.2.15 Rule 11410 — Delivery of securities with draft attached—time of presentation

Prior to settlement date
With irregularities

3.4.2.16 Rule 11620/ NYSE Rule 243 — Computation of interest

3.4.2.17 Rule 11630/ NYSE Rule 255 — Due-bills and due-bill checks

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

3.4.2.19 Rule 11650/ NYSE Rule 182 — Transfer fees

3.4.2.20 Rule 11700 — Reclamations and rejections
Definitions
Time for delivery of reclamation and manner of settlement

3.4.2.21 Rule 11720 — Irregular delivery; transfer refused; lost or stolen securities

3.4.2.22 Rule 11740/ NYSE Rules 165, 166, 168 — Marking to the market

3.4.2.23 Rule 11810 — "Buying-in"

3.4.2.24 Rule 11820 — "Selling-out"

3.4.2.25 Rule 11840 — Rights and warrants

3.4.2.26 Rule 11900 — Clearance of corporate debt securities

3.4.2.27 FINRA Rule 11890 — Clearly Erroneous Transactions
Authority to review transactions
Procedures for reviewing transaction
Procedures for reviewing transactions executed during system disruptions or malfunctions
Review by the Market Operations Review Committee

3.4.3 Customer Account Transfers

3.4.3.1 FINRA Rule 2140 — Interfering with the transfer of customer accounts in the context of employment disputes

3.4.3.2 Rule 11870 — Customer account transfer contracts

4.0
Sales Supervision and General Supervision of Employees

4.1 Securities Exchange Act of 1934 and SEC Rules Thereunder

4.1.1 Section 3 — Certain Definitions under the Act

4.1.1.1 Section 3(a)(39) — Statutory Disqualification

4.1.2 Section 10 — Regulation of the Use of Manipulative and Deceptive Devices

4.1.2.1 Rule 10b-17 — Untimely announcements of record dates

4.1.2.2 Rule 10b-18 — Purchases of certain equity securities by the issuer and others

4.1.3 Section 15 — Registration and Regulation of Brokers and Dealers

4.1.3.1 Section 15(a)(1) — Prohibitions relating to unregistered broker-dealers
4.1.3.1.1 Rule 15a-6 — Exemption of certain foreign brokers or dealers

4.1.3.2 Section 15(b)(4) — Sanctions against brokers or dealers

4.1.3.3 Section 15(b)(6) — Sanctions for person associated with broker or dealer

4.1.4 Soft Dollar Arrangements
Section (a)(35) — Definition of "investment discretion"
Section 28(e) — Research services in exchange for brokerage

4.2 Investment Company Act of 1940 and SEC Rules Thereunder

4.2.1 Section 22 — Distribution, Redemption, and Re-Purchase of Redeemable Securities

4.2.1.1 Section 22(c) — Regulation of underwriters and dealers by Commission
Rule 22c-1 — Pricing of redeemable securities for distribution, redemption and re-purchase

4.2.1.2 Section 22(d) — Persons to and through whom redeemable securities may be sold (offer securities at a price based on NAV)
Rule 22d-1 — Exemption from Section 22(d) to permit sales of redeemable securities at prices which reflect sales loads set pursuant to a schedule
Rule 22d-2 — Exemption from Section 22(d) for certain registered separate accounts

4.2.1.3 Section 22(e) — Suspension of rights of redemption
Rule 22e-1 — Exemption from Section 22(e) during annuity payment period of variable annuity contracts participation in certain registered separate accounts

4.3 Investment Advisers Act of 1940 and SEC Rules Thereunder

4.3.1 Section 202(a)(11) — Definition of Investment Adviser

4.3.2 Section 203 — Registration of Investment Advisers

4.3.3 Section 205 — Investment Advisory Contracts

4.3.4 Section 206 — Prohibited Transactions by Investment Advisers

4.4 Compliance and Ethics

4.4.1 Sarbanes-Oxley Act

4.4.1.1 Section 302 — Corporate responsibility for financial reports
- Development, implementation and assessment of an ethics course

4.4.1.2 Section 401 — Disclosures in periodic reports

4.4.1.3 Section 402 — Enhanced conflict of interest provisions

4.4.1.4 Section 403 — Disclosures of transactions involving management and principal stockholders
- Required documentation
- Annual tests of the control environment by management
- Assessment of the company's internal controls over financial reporting
- External auditors must conduct separate tests and issue opinions on management's assessment and on the effectiveness of the company's internal controls over financial reporting
- "Material weaknesses" found by the auditors or management must be reported in the annual report

4.4.1.5 Section 404 — Management assessment of internal controls
- Execution of mergers and acquisitions; timing of deals
- Extensive documentation
  - Testing of "control environment by management"
  - Testing and issuance of opinions by external auditors
  - Certification and reporting requirements apply to the entire company--including acquisitions

4.4.2 Securities Exchange Act of 1934 and SEC Rules Thereunder

4.4.2.1 Rule 15c1-1 — Definitions

4.4.2.2 Rule 15c1-2 — Fraud and misrepresentation

4.4.2.3 Rule 15c1-3 — Misrepresentation by brokers and dealers as to registration

4.4.2.4 Rule 15c1-9 — Use of pro forma balance sheets

4.4.3 FINRA/NASD Business Conduct Rules

4.4.3.1 NASD Rule 3010

- Supervisory system
- Written procedures
- Internal inspections
- Review of transactions and correspondence
- Supervision of registered representatives
- Review of correspondence
  - Retention of correspondence
- Qualifications investigated
- Applicant's responsibility
- Definitions
  - Office of supervisory jurisdiction
  - Branch office
- IM-3010-1 — Standards for reasonable review

4.4.3.2 FINRA Rule 3310 — Anti-Money Laundering Compliance Program

- Supplementary Material:
  - .01 — Independent testing requirements
  - .02 — Review of anti-money laundering compliance person information

4.4.3.3 NASD Rule 3012/NYSE Rule 342.23 — Supervisory control system

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

4.4.3.5 FINRA Rule 4370 — Business Continuity Plans and Emergency Contact Information

4.5 Communications with the Public

4.5.1 SEC Rule 156 — Investment company sales literature

4.5.2 FINRA Rules

Rule 2212 – Use of Investment Companies Rankings in Retail Communications
Rule 2213 – Requirements for the Use of Bond Mutual Fund Volatility Ratings
Rule 2214 – Requirements for the Use of Investment Analysis Tools
Rule 2216 – Communications with the Public About Collateralized Mortgage Obligations (CMOs)

NASD Rule 2210-2 – Communications with the Public About Variable Life Insurance and Variable Annuities

4.5.3 FINRA Rule 2210 – Communications with the Public

4.6 FINRA/NASD Regulations

4.6.1 FINRA By-Laws

4.6.1.1 Article I — Definitions

4.6.1.2 Article III — Qualifications of members and associated persons
- Section 1 — Persons eligible to become members and associated persons of members
- Section 4 — Definition of disqualification

4.6.2 Membership and Registration Rules

4.6.2.1 NASD Rule 1000/ NYSE Rule 311 — Membership, registration, and qualification requirements
- FINRA Rule 1122 — Filing of misleading information as to membership or registration
- NASD IM-1000-3 — Failure to register personnel
- NASD IM-1000-4/NYSE Rule 342 — Branch offices and offices of supervisory jurisdiction

4.6.2.2 NASD Rule 1010 — Membership proceedings
- Definitions
- General provisions
- New member application and interview
- Department decision
- Review by the National Adjudicatory Council
- Discretionary review by FINRA Board
- Application for approval of change in ownership, control or business operations
- Application to SEC for review

4.6.2.3 NASD Rule 1020/NYSE Rule 342.13 — Registration of principals
- Registration requirements
- Categories of principal registration
  - General securities principal
  - Limited principals

4.6.2.4 Assistant representatives
- NASD Rule 1041 — Registration requirements for assistant representatives
- NASD Rule 1042 — Restrictions for assistant representatives

4.6.2.5 NASD Rule 1050/NYSE Rule 344 — Registration of research analysts

4.6.2.6 NASD Rule 1060 — Persons exempt from registration

4.6.2.7 NASD Rule 1070 — Qualification examinations and waiver of requirements

4.6.2.8 NASD Rule 1080 — Confidentiality of examinations

4.6.2.9 NASD Rule 1090 — Foreign members

4.6.2.10 NASD Rule 1100 — Foreign associates

4.6.2.11 FINRA Rule 1010 — Electronic Filing Requirements for Uniform Forms

4.6.2.12 NASD Rule 1150 — Executive representative

4.6.3 FINRA Rules

4.6.3.1 FINRA Rule 2090 – Know Your Customer
FINRA Rule 2111 – Suitability

4.6.3.2 FINRA Rule 2114 — Recommendations to customers in OTC equity securities

4.6.3.3 FINRA Rule 3160 — Networking Arrangements Between Members and Financial Institutions
- Applicability
- Definitions
- Standards for member conduct
  - Setting
  - Networking and brokerage affiliate agreements
  - Customer disclosure and written acknowledgment
  - Communications with the public
  - Notifications of terminations

4.6.3.4 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

NASD Rule 2330 — Customers' securities or funds
NYSE Rule 352 — Customers' securities or funds

4.6.3.5 FINRA Rule 3240/NYSE Rule 352 — Borrowing From or Lending To Customers

4.6.3.6 NASD Rule 2410 — Net prices to persons not in investment banking or securities business

4.6.3.7 NASD Rule 2420 — Dealing with nonmembers
- Transactions with nonmembers
- Transactions with foreign nonmembers
- Nonmember broker or dealer
- IM-2420-1 — Transactions between members and nonmembers
- IM-2420-2 — Continuing commission policy

4.6.3.8 NASD Rule 2830 — Investment company securities
FINRA Rule 2342 — "Breakpoint" sales

4.6.3.9 NASD Rule 3050/NYSE Rule 407 — Transactions for or by associated persons

4.6.3.10 FINRA Rule 3220 — Influencing or rewarding employees of others

4.6.3.11 FINRA Rule 4530— Reporting Requirements

4.6.3.12 FINRA Rule 2263 – Arbitration Disclosure to Associated Persons Signing or Acknowledging Form U4

4.6.3.13 FINRA Rule 2251/NYSE Rule 451 — Forwarding of Proxy and Other Materials

4.6.3.14 FINRA Rule 2267 — Investor education and protection

4.6.4 FINRA Procedural Rules

4.6.4.1 Rule 9000 — Code of Procedure
4.6.4.1.1 Rule 9100 — Application and purpose
Rule 9110 — Application
Rule 9120 — Definitions
Rule 9130 — Service; filing of papers
Rule 9140 — Proceedings

4.6.4.1.2 Rule 9200 — Disciplinary proceedings
Rule 9210 — Complaint and answer
Rule 9220 — Request for hearing; extensions of time, postponements, adjournments
Rule 9230 — Appointment of hearing panel, extended hearing panel
Rule 9240 — Pre-hearing conference and submission
Rule 9250 — Discovery
Rule 9260 — Hearing and decision
Rule 9270 — Settlement procedure
Rule 9280 — Contemptuous conduct

4.6.4.1.3 Rule 9300 — Review of disciplinary proceeding by National Adjudicatory Council and FINRA Board; application for SEC review
Rule 9310 — Appeal to or review by National Adjudicatory Council
Rule 9340 — Proceedings
Rule 9350 — Discretionary review by FINRA Board
Rule 9360 — Effectiveness of sanctions
Rule 9370 — Application to SEC for review

4.6.4.1.4 Rule 9500 — Other proceedings

4.6.4.1.5 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 SEC for review

4.6.4.1.6 Rule 14000 — Mediation rules

Rule 10404 — Mediation under the Code

Rule 10405 — Effect of mediation on arbitration proceedings

Rule 10408 — Mediation ground rules

4.7 MSRB Rules

4.7.1 Rule G-37 — Political Contributions and Prohibitions on Municipal Securities Business

5.0
Compliance with Financial Responsibility Rules

5.1 Securities Act of 1934 and SEC Rules Thereunder

5.1.1 Section 15 — Registration and Regulation of Brokers and Dealers

5.1.1.1 Rule 15c3-1/ FINRA Rules 4110, 4120 and 4521 — Net capital requirements for brokers and dealers

5.1.1.1.1 Minimum net capital requirements
- Broker-dealers that carry customer accounts
- Prime brokers
- Broker-dealers that carry accounts but do not hold customer funds or securities and operate under Paragraph (k)(2)(i) exemption of Rule 15c3-3
- 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
- Dealers
- 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 (do not otherwise receive or hold funds or securities)
- Market makers
- Brokers or dealers transacting a business only in direct participation programs
- Brokers or dealers engaged exclusively in mergers and acquisition

5.1.1.1.2 Definitions and general understanding of the following terms
- Aggregate indebtedness
- Net capital including adjustments to net worth for illiquid assets
- Securities differences —treatment when computing net capital
- Haircuts — effect on capital of proprietary positions
  - Additional haircuts on securities with a limited market, unduly concentrated positions and non-marketable securities
  - Open contractual commitments
  - Treatment of aged fails to deliver

5.1.1.1.3 Debt-Equity requirements

5.1.1.1.4 Withdrawal of equity capital

5.1.1.1.5 Alternative net capital requirement

5.1.1.1.6 Appendix D — Satisfactory subordination agreements

- Definitions
  - Subordinated loan agreement
  - Collateral Value
  - Secured demand note agreement
- Minimum requirements of subordination agreements
- Temporary and revolving subordination agreements
- Filing requirements (general)

5.1.1.2 Rule 15c3-2/NYSE Rule 409 — Use of customer free credit balances

5.1.1.3 Rule 15c3-3/NYSE Rule 402 — Customer protection — reserves and custody of securities

- Definitions
- Physical possession or control of securities
- Requirement to reduce securities to possession or control —timeliness
- Special reserve bank account for the exclusive benefit of customers
- Notification of banks
- Withdrawals from the reserve bank account
- Buy-in of short security differences
- Exemptions under subsection (k)
- Delivery of fully paid and excess margin securities
- Completion of sell orders on behalf of customers — mandatory buy-in
- Extensions of time

5.1.2 Section 17 — Accounts and Records, Reports, Examinations of Exchanges, Members and Others

5.1.2.1 Rule 17a-3/FINRA Rule 4521 — Records to be made by certain exchange members, brokers and dealers (general understanding of major provisions)

- Blotters or other records of original entry
- Ledgers or other records reflecting all assets and liabilities
- Securities position records
- Memorandum of each brokerage order given or received for the purchase or sale of securities (for customer and firm accounts)
- Memorandum of each purchase and sale for the account of the firm
- Copies of customer confirmations and copies of notices of all other debits and credits for accounts of customers
- Identification data on beneficial owners of all accounts
- Subsidiary ledgers and proofs of money balances in all accounts (trial balance)
- Questionnaire or application for employment executed by each “associated person”
- Fingerprint records required by Rule 17f-2

5.1.2.2 Rule 17a-4 — Records to be preserved by certain exchange members, brokers and dealers

- Requirement for ready accessibility of all records for two years
- General type of record to be maintained for six years
- Maintenance of records with respect to associated persons

Preservation of required records
Outside service bureaus

5.1.2.3 Rule 17a-5/FINRA Rule 4140 — Reports to be made by certain brokers and dealers
Filing of monthly and quarterly reports
Report filed upon termination of membership interest
Customer statements
Who must furnish the statements
Unaudited statements to be furnished
Definition of customer
Annual filing of audited financial statements
Qualification of accountants
Audit objectives
Accountant's reports — general provisions
Accountant's report on material inadequacies
Extensions and exemptions
Notification of changes of fiscal year
Filing requirements

5.1.2.4 Rule 17a-11 — Notification provisions for brokers and dealers

5.1.2.5 Rule 17a-13 — Quarterly security counts to be made by certain exchange members, brokers and dealers (general requirement)
Requirements for each calendar quarter year
Persons to perform or supervise required securities counts

5.2 NASD/FINRA Conduct Rules

5.2.1 FINRA Rule 2261 — Disclosure of Financial Condition
Requirement of members to furnish recent financial statement to other members

5.2.2 NASD Rule 2330 — Customers' Securities or Funds
Authorization to lend
Segregation and identification of securities
IM-2330 — Segregation of customers' securities

5.2.3 FINRA Rule 4360 — Fidelity Bonds
General Provision
Minimum Required Coverage
Deductible Provision
Annual Review of Coverage
Notification of Change
Exemptions
Definitions
Alternative Coverage

5.2.4 FINRA Rule 4110 — Capital Compliance
FINRA Rule 4120 — Regulatory Notification and Business Curtailment
FINRA Rule 4140 — Audit
FINRA Rule 4521 — Notifications, Questionnaires and Reports

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

Loss of 15c3-3(k) exemption when member conducts business that will disqualify it from the exemption without the prior written approval of the NASD

Sample Question Formats

The questions and answers that appear below 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 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. (A)
4. (C)

1. A customer wishes to purchase securities in a margin account. In order for the broker-dealer to borrow money with the margined securities, the customer must sign which of the following?

(A) Power of attorney
(B) Hypothecation agreement
(C) Discretionary account agreement
(D) Maintenance agreement

2. Under what conditions may a member firm sell "new issue" securities to one of its non-registered employees?

(A) The amount of the purchase is small and not disproportionate to the size of the issue.
(B) The employee promises in writing to hold the securities for two years.
(C) The transaction is consistent with the employee's normal investment practice.
(D) Under no circumstances.

3. While engaged in a distribution, a managing underwriter may do each of the following EXCEPT

(A) solicit purchases through an updated research report
(B) accept unsolicited buy orders
(C) effect stabilizing transactions
(D) solicit purchase through use of a prospectus

4. Broker-dealer report on lost or stolen U.S. Government and agency securities are to be filed with the

(A) FINRA
(B) Designated Examining Authority
(C) Securities Information Center
(D) Uniform Practice Committee