Financial Industry Regulatory Authority

Compliance Official Qualification Examination (Test Series 14)

Content Outline

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INTRODUCTION

This *Content Outline* provides a comprehensive guide to the topics covered by the Financial Industry Regulatory Authority (FINRA) *Compliance Official Qualification Examination (Series 14).* The Outline is intended to familiarize examination candidates with the range of subjects covered by the examination as well as the depth of knowledge required. Sample questions are also included to acquaint candidates with the principal **formats** of multiple-choice questions used on the examination. These questions are not indicative of the level of difficulty of the examination.

THE PURPOSE OF THE EXAMINATION

The *Compliance Official Qualification Examination (Series 14)* was created by NYSE Regulation as one of a series of regulatory initiatives designed to codify, clarify and give specificity to compliance obligations, in general, of members and member organizations. The Series 14 Examination is now owned by FINRA. The qualification examination is intended to ensure that the individuals designated as having day-to-day compliance responsibilities for their respective firms or who supervise ten or more people engaged in compliance activities have the knowledge necessary to carry out their job responsibilities. Given this purpose, the Series 14 Examination seeks to measure accurately and reliably the degree to which each candidate possesses the knowledge, skills and abilities required to perform the job functions identified as being essential to the position of Compliance Official.

DEVELOPMENT OF THE EXAMINATION

The Series 14 Examination was developed based on a job analysis of the compliance official position. The job analysis process included collecting data from a wide variety of firms both through questionnaires and personal interviews involving compliance officials, their peers, subordinates and superiors. A committee of compliance professionals representative of FINRA member organizations then identified the major tasks and determined the knowledge and skills necessary to perform these tasks.

All questions on the examination are written by a committee of experienced compliance officials in cooperation with FINRA staff. The passing score is also determined by the committee following professionally accepted standard-setting procedures.

Examination questions and their statistical performance are analyzed routinely to ensure that items are accurate and continue to be relevant to the functions of a compliance official.

Please note that examination questions are updated when necessary to reflect current industry practices and regulations. Candidates are responsible for keeping current on rule changes as the examination is updated to reflect pertinent rule changes. If there are substantive changes to the examination's subject matter, an Information Memo will be distributed announcing these revisions prior to their inclusion in the examination.

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ORGANIZATION OF THE EXAMINATION

The examination contains 110 multiple-choice questions, which are divided into nine categories reflecting the overall knowledge, skills and abilities required of compliance officials. Federal, state, and self-regulatory organization (SRO) rules are listed for reference purposes under each topic heading. Although these references provide an overview of the subject matter and are not intended to be an exhaustive list of references, it may be helpful for candidates to include the review of pertinent SEC releases and/or cases as part of their study. The allocation of questions for each category is as follows:

	Content Area	Question Allocation
Section 1	Regulatory Agencies	3
Section 2	Markets and Operations	20
Section 3	Broker-Dealer Operations	10
Section 4	Credit Regulation/Capital Requirements	7
Section 5	General Supervision	20
Section 6	Investment Banking	15
Section 7	Registration	9
Section 8	Sales Practice-Customer/Employee Accounts	16
Section 9	Sales Practice-Solicitations	10
	Total	110

Candidates are given three hours to complete the examination.

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COMPLIANCE OFFICIAL QUALIFICATION EXAMINATION CONTENT OUTLINE

1.0 REGULATORY AGENCIES AND THEIR JURISDICTIONS -- The jurisdictional authority of the various regulatory organizations

The list below represents the resources for the rules and regulations contained in this examination:

- Securities & Exchange Commission (SEC)
  --Securities Act of 1933
  --Securities and Exchange Act of 1934
  --Investment Advisers Act of 1940
  --Investment Company Act of 1940
- Financial Industry Regulatory Authority (FINRA)
- New York Stock Exchange (NYSE)
- Municipal Securities Rulemaking Board (MSRB)
- Government Sponsored Enterprises (GSE)--Fannie Mae, Ginnie Mae, etc.

1.1 Disciplinary Capabilities and Procedures -- General knowledge and understanding of arbitration rules and disciplinary regulations of self-regulatory organizations.

2.0 MARKET OPERATIONS -- Understands how listed and OTC securities markets operate, how trades and orders are executed, the role of the firm's market makers and traders, and how these practices impact compliance monitoring activities.

2.1 Sales, Trading Practices & Surveillance-- Advises on and monitors procedures covering all aspects of the firm's trading activities including proprietary accounts. Develops surveillance procedures for review of trading. Reviews and/or develops policies for firm participation in new products and trading strategies.

2.1.1 Trading Practices-NYSE Rules

NYSE Rule 127 (Block Crosses Outside the Prevailing NYSE Quotation)
NYSE Rule 179 ("Seller's Option")

2.1.2 Sales Practices- Rules

FINRA Rule 2010 (Standards of Commercial Honor and Principles of Trade)
FINRA Rule 5130 (Restrictions on the Purchase and Sale of Initial Equity Public Offerings)
FINRA Rule 5280 (Trading Ahead of Research Reports)
FINRA Rule 5310 (Best Execution and Interpositioning)
FINRA Rule 5320 (Prohibition Against Trading Ahead of Customer Orders)
NASD IM-2110-3 (Front Running Policy)
NASD Rule 2440 (Fair Prices and Commissions)

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2.1.3 Trading Practices

FINRA 2332 (Customer Confirmations)
FINRA Rule 4320 (Short Sale Delivery Requirements)
FINRA Rule 6380A (Transaction Reporting)
FINRA Rule 6700 Series (Trade Reporting and Compliance Engine- TRACE)
NYSE Rule 72 (Priority of Bids and Offers and Allocations of Executions)
NYSE Rule 76 ("Crossing" Orders)
NYSE Rule 411 (Erroneous Reports)

2.1.4 SEC Rules

Securities Exchange Act of 1934 - Rule 10b-5 (Employment of Manipulative and Deceptive Devices)
Securities Exchange Act of 1934 - Rule 15c2-11 (Initiation or Resumption of Quotations without Specified Information)
Securities Exchange Act of 1934 - Section 16(b) Short Swing Profits
Securities Exchange Act of 1934 - Regulation M
Securities Exchange Act of 1934 - Rule 10b-18 (Purchases of Certain Equity Securities by the Issuer and Others)
Securities Exchange Act of 1933 - Rule 415 (Delayed or Continuous Offering and Sale of Securities--Shelf Registration)
Securities Exchange Act of 1934- Regulation NMS
Securities Exchange Act of 1934- Regulation SHO

2.1.5 Surveillance

FINRA Rule Series 6600 (OTC Reporting Facility)
Securities Exchange Act of 1934 - Rule 11a-1 (Regulation of Floor Trading)
Treasury Department's Auction Market Rules
Securities Exchange Act of 1934 - Rule 15g-1 (Exemptions for Certain Transactions)
Securities Exchange Act of 1934 - Rule 15c2-11 (Initiation or Resumption of Quotations Without Specified Information)

3.0 <u>BROKER-DEALER OPERATIONS</u> -- Understands manual and computer systems required to capture and analyze market and trading information for surveillance purposes; assembles internal and external data for surveillance purposes; develops, modifies, implements, and reviews manual and/or computer-based central surveillance procedures; reviews principal and customer daily trading activities; retrieves background for regulatory inquiries.

3.1 Record keeping

FINRA Rule 2232 (Customer Confirmations)
FINRA Rule 4511 (General Requirements)
FINRA Rule 4512 (Customer Account Information)
FINRA Rule 4513 (Records of Written Customer Complaints)
FINRA Rule 4514 (Authorization Records for Negotiable Instruments Drawn From a

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Customer's Account)
FINRA Rule 4515 (Approval and Documentation of Changes in Account Name or Designation)
FINRA Rule 7440 (Recording of Order Information)
NASD Rule 3110 (Books and Records)
NYSE Rule 409 (Statements of Accounts to Customers)
Securities Exchange Act of 1934 - Section 17(a) (Record keeping Requirements)
Securities Exchange Act of 1934 - Rule 10b-10 (Confirmation of Transactions)

3.2 Reporting Requirements

FINRA Rule 4560 (Short-Interest Reporting)
NYSE Rule 410B (Reports of Listed Securities Transactions Effected Off the Exchange)
Securities Exchange Act of 1934 - Section 13(d) (Accumulations and Reporting Requirements)
Securities Exchange Act of 1934 - Section 13(f) (Reports by Institutional Investment Managers)
Securities Exchange Act of 1934 - Section 13(g) (Disclosure of Shares)
Securities Exchange Act of 1934 - Section 16(a) (Directors, Officers, and Principal Stockholders)

3.2.1 Program Trading (Practical Knowledge)

NYSE Information Memos 88-11 and 90-1 and subsequent Information Memos
Market-On-Close (MOC) Orders - NYSE Information Memos 95-21 and 96-34 and subsequent Information Memos
NYSE Rule 80B (Trading Halts Due to Extraordinary Market Volatility)

4.0 <u>CREDIT REGULATION/CAPITAL REQUIREMENTS</u> -- General understanding of regulatory requirements regarding the extension of credit; general implications of events or trades on net capital (emphasis on knowledge of general concepts).

4.1 Capital Requirements

FINRA Rule 4110 (Capital Compliance)
FINRA Rule 4120 (Regulatory Notification and Business Curtailment)
FINRA Rule 4521 (Notifications, Questionnaires and Reports)
Securities Exchange Act of 1934 - Rule 15c3-1 (Net Capital Requirements for Brokers or Dealers)
Securities Exchange Act of 1934 - Rule 15c3-3 (Possession and Control of Customer Securities/Reserve Requirements)
Securities Exchange Act of 1934 - Rule 17a-11 (Notification Provisions for Brokers and Dealers)

4.2 Credit Regulation

FINRA Rule 4210 (Margin Requirements)
FINRA Rule 4220 (Daily Record of Required Margin)

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Regulation T
Securities Exchange Act of 1934 - Section 11d (Prohibitions on the extension of credit by a broker-dealer)

4.2.1 Day Trading

Regulation T
FINRA (NYSE/NASD) Interpretation notices

4.2.2 Prime Broker Arrangements

SIA Legal Alert 94-1 and subsequent notices
SEC No-Action Letter – January 25, 1994

4.2.3 Joint back office arrangements

FINRA Rule 4210 (Margin Requirements)
Regulation T
FINRA (NYSE/NASD) notices

5.0 GENERAL SUPERVISION -- Advises on, implements and monitors procedures pertaining to the proper delegation of authority throughout the firm's full range of business and to the supervision of its employees.

5.1.1 General Supervision-NYSE Rules

NYSE Rule 342 (Offices--Approval, Supervision and Control)
NYSE Rule 351 (Reporting Requirements)
NYSE Rule 353 (Rebates and Compensation)
NYSE Rule 354 (Reports to Control Persons)
NYSE Rule 401 (Business Conduct)
NYSE Rule 435 (Miscellaneous Prohibitions)

5.1.2 General Supervision- FINRA and Other SRO Rules

FINRA Rule 2010 (Standards of Commercial Honor and Principles of Trade)
FINRA Rule 2150 (Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts)
FINRA Rule 3130 (Annual Certification of Compliance and Supervisory Processes)
FINRA Rule 3220 (Influencing or Rewarding Employees of Others)
FINRA Rule 4311 (Carrying Agreements)
FINRA Rule 4370 (Business Continuity Plans and Emergency Contact Information)
FINRA Rule 4530 (Reporting Requirements)
FINRA Rule 6140 (Other Trading Practices)
FINRA By-Laws of the Corporation, Article III, Section 4 (Definition of Disqualification)
NASD Rule 3010 (Supervision)
MSRB Rule G-32 (Disclosures in Connection with Primary Offerings)
MSRB Rule G-36 (Delivery of Official Statements)

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MSRB Rule G-37 (Political Contributions and Prohibitions on Municipal Securities Business)
MSRB Rule G-38 (Solicitation of Municipal Securities Business)
Securities Exchange Act of 1934 - Rule 15c2-12 (Municipal Securities Disclosure)

5.1.3 Soft Dollar Arrangements

Securities Exchange Act of 1934 - Section 28(e)
Securities Exchange Act Release 34-23170

5.1.4 Joint Regulatory Sales Practice Sweep Report

NYSE Information Memo 97-20 & NASD Notice to Members 97-19 (Sweep Report and Guidance on Heightened Supervision) and subsequent Information Notices

6.0 THE UNDERWRITING PROCESS, MERGERS AND ACQUISITIONS, AND OTHER CORPORATE RESTRUCTURING – General understanding of regulations regarding the underwriting process and other investment banking activities; general implications of efforts such as protection of confidential material.

6.1 The underwriting Process, Mergers and Acquisitions, and other Corporate Restructuring

FINRA Rule 5190 (Notification Requirements for Offering Participants)
Securities Act of 1933 - Section 5 (Prohibitions Relating to Interstate Commerce and the Mails)
Securities Act of 1933 - Rule 137 (Publications or Distributions of Research Reports by Brokers or Dealers That Are Not Participating in an Issuer's Registered Distribution of Securities)
Securities Act of 1933 -Rule 138 (Publications or Distributions of Research Reports by Brokers or Dealers Other Than Those They Are Distributing)
Securities Act of 1933 - Rule 139 ((Publications or Distributions of Research Reports by Brokers or Dealers Distributing Securities)
Securities Act of 1933 - Rule 174 (Prospectus Delivery)
Securities Exchange Act of 1934 - Regulation M
Information Barrier Procedures
NYSE Information Memo 91-22 (NASD/NYSE Joint memo re: Information Barrier Policies and Procedures)
Insider Trading Regulations
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)
Securities Exchange Act of 1934 - Rule 10b-5 (Employment of Manipulative and Deceptive Devices)
Insider Trading & Enforcement Act of 1988
State Securities Laws – Blue Sky Regulations

6.2 Fixed Price Offerings

FINRA Rule 5141 (Sale of Securities in a Fixed Price Offering)

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6.3 Tender Offers

Securities Exchange Act of 1934 - Rule 13e-1 (Purchase of Securities by the Issuer During Third Party Tender Offers)
Securities Exchange Act of 1934 - Rule 14e-3 (Transactions in Securities on the Basis of Material, Nonpublic Information in the Context of Tender Offers)

6.4 Control and Restricted Securities

Securities Act of 1933 - Rule 144 (Control or Restricted Securities)
Securities Act of 1933 - Section 4 (Transactions Exempt from Registration)
Securities Act of 1933 - Rule 145 (Reclassification of Securities, Mergers, Consolidations and Acquisitions of Assets)
Securities Exchange Act of 1934 - Regulation D (Rules Governing the Limited Offer and Sale of Securities Without Registration Under the Securities Act of 1933)

6.5 Private Placements

Securities Act of 1933 - Rule 144A (Private Resales of Securities to Institutions)
Securities Exchange Act of 1934 - Regulation S (Rules Governing Offers and Sales Made Outside the United States without Registration under the Securities Act of 1933)
FINRA Rule 5122 – Private Placement of Securities by an Issuer
FINRA Rule 5123 – Private Placement of Securities

6.6 Limited Offerings

Securities Exchange Act of 1934 - Regulation A (Confidential Small Issues Exemption)

7.0 GENERAL FIRM, BRANCH AND INDIVIDUAL REGISTRATION PROCEDURES Provides firm and branch registration personnel with advice on specific registration and termination procedures; provides regulators with information and documentation on circumstances where employees fail to properly follow NYSE and other SRO rules; monitors firm's registration and trading practices for compliance with regulatory procedures.

7.1 Registration of personnel -- Advises on and monitors the proper registration and employment of industry personnel in compliance with industry regulations

FINRA Rule 3270 (Outside Business Activities of an Associated Person)
NYSE Rule 342 (Offices--Approval, Supervision and Control)
NYSE Rule 345 (Employees – Registration, Approval, Records)
NYSE Rule 345A (Continuing Education for Registered Persons)
NASD Rule 1120 (Continuing Education Requirements)
NYSE Rule 347 (Controversies as to Employment or Termination of Employment)
FINRA By-Laws of the Corporation, Article III, Section 4 (Definition of Disqualification)
Securities Exchange Act of 1934 - Rule 19h-1 (Statutory Disqualification and Application for Relief)

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Securities Exchange Act of 1934 - Section 3(a)39 (Statutory Disqualification)
Securities Exchange Act of 1934 - Section 15(b)4 (Sanctions Against Broker or Dealer)
FINRA By-Laws of the Corporation, Article V (Registered Representatives and Associated Persons)
State Registration/Licensing Regulations

7.2 Registration Forms (Personnel and Broker-Dealer) – Understanding of the use of and proper filing requirements

FINRA Firm Gateway
Form RE-3
Form U4 and amendments (Registration Application)
Form U5 and amendments (Registration Withdrawal)
Form BD and amendments (Broker-Dealer Registration)
Form ADV

8.0 CUSTOMER/EMPLOYEE ACCOUNTS -- Implements and monitors the firm's procedures for opening and supervising customer and employee accounts.

Sales practice issues include: misrepresentation, unauthorized trades, excessive trading, suitability, failure to follow instructions, documentation, solicitation, misappropriation/forgery, communications with the public, research, product origination/investment banking, trading

Requirements for Opening, Maintaining and Monitoring Accounts

8.1.1 NYSE Rules

NYSE Rule 405 (Diligence as to Accounts)
NYSE Rule 407 (Transactions- Employee of Members, Member Organizations and the Exchange)
NYSE Rule 408 (Discretionary Power in Customers' Accounts)

8.1.2 SEC/FINRA/OFAC Rules

Securities Exchange Act of 1934 - Rule 15c1-7 (Discretionary Accounts)
Securities Exchange Act of 1934 – Section 15(g) (Requirements for Transactions in Penny Stocks)
FINRA Rule 2262 (Disclosure of Control Relationship with Issuer)
FINRA Rule 2269 (Disclosure of Participation or Interest in Primary or Secondary Distribution)
FINRA Rule 2360 (Options)
FINRA Rule 3250 (Designation of Accounts)
FINRA Rule 3310 (Anti-Money Laundering Compliance Program)
FINRA Rule 11870 (Customer Account Transfer Contracts)
NASD Rule 2310 (Recommendations to Customers-Suitability)
NASD IM-2310-2 (Fair-dealing with Customers)
NASD Rule 2510 (Discretionary Accounts)

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NASD Rule 3010(d) (Review of Transactions and Correspondence)
NASD Rule 3050 (Transaction for or by Associated Persons)
Bank Secrecy Act
USA PATRIOT Act of 2001
Treasury Department's Office of Foreign Assets Control (OFAC) Rules
Suspicious activity monitoring
Penny Stock Reform Act of 1990

8.2 Customer Complaints--Reports, maintains records and participates in the preparation of responses

FINRA Rule 2360 (Options)
NYSE Rule 401A (Customer Complaints)
MSRB Rule G-10 (Delivery of Investor Brochure)

9.0 SOLICITATIONS -- Reviews and/or develops policies for firm and product advertising, research reports, lectures, seminars, magazine and newspaper articles and media appearances, and direct solicitation, etc.

9.1 Definition and approval of public communications

NYSE Rule 342 (Offices--Approval, Supervision and Control) NYSE Information Memo 98-3
FINRA Rule 2210 (Communications with the Public)
FINRA Rule 2220 (Options Communications to Customers)

9.2 Regulation of telephone solicitations ("cold calling") -- Reviews and advises marketing and sales personnel on procedures for cold calling.

FINRA Rule 3230 (Telemarketing)
NASD Rule 2211 (Institutional Sales Material and Correspondence)
Telephone Consumer Protection Act of 1991

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EXAMINATION QUESTION FORMATS & ORIENTATION

The questions in the exam range from simple recall of basic facts to the drawing of conclusions from a set of facts. Many of the questions are presented as job-related scenarios or problems that typically require candidates to go beyond the simple recall of facts. Other questions require the evaluation of subjective information to arrive at decisions about the "BEST" or the "FIRST" action to take in a particular situation.

All exam questions will be presented in one of five multiple-choice formats: closed stem, sentence completion, "EXCEPT," complex multiple-choice ("Roman Numeral") and "MOST/LEAST/BEST." Examples of these formats are shown below. Candidates are advised to become familiar with them.

1. Closed Stem Format-In this type of item, you are asked a question and are given four possible answers from which to choose.

   Under Rule 144, what is the holding period for stock purchased in the open market by a control person?

   (A) Two years
   (B) One year
   (C) Six months
   (D) No holding period **

2. Incomplete Sentence Format-This type of item is characterized by an incomplete sentence followed by four options that represent conclusions to that sentence.

   According to NYSE rules, a block of stock is defined as

   (A) 10,000 shares, or a quantity with a market value of $150,000 or more, whichever is less
   (B) 10,000 shares, or a quantity with a market value of $200,000 or more, whichever is less **
   (C) 20,000 shares, or a quantity with a market value of $200,000 or more, which is less
   (D) 20,000 shares, or a quantity with a market value of $200,000 or more, whichever is more

3. "EXCEPT" Format-This type of item requires you to recognize the one choice that is an exception among the four answer choices presented.

   All of the following require the successful completion of one or more examinations EXCEPT

   (A) specialist
   (B) trader
   (C) securities lending representative **
   (D) two-dollar broker

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4. Complex Multiple-Choice ("Roman Numeral") Format-In this type of item, you are asked a question, which is followed by two or more statements identified by Roman numerals. The four answer choices represent combinations of these statements. You are to select the combination that best answers the question.

Which TWO of the following employees of a member organization MUST be registered and qualified under NYSE Rule 345?

I. An employee with authority to bind the firm to a contract involving securities activities

II. An employee who only trades for the firm's account and does not transact business with the public

III. An employee with duties and responsibilities similar to those of a registered representative

IV. A supervisor of an employee who solicits business for the firm from another member firm

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

This format is also used in items that ask you to rank a set of statements from high to low or to place a series of events in the proper sequence.

In which order, from first to last, are the following actions performed during the underwriting of an issue of corporate securities?

I. The holding of a due diligence meeting

II. Investigation and analysis of the issuer

III. The filing of a registration statement

IV. Distribution of the red herring to customers giving indications of interest

(A) I, II, III, IV
(B) II, III, I, IV **
(C) III, I, II, IV
(D) IV, II, III, I

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5. "MOST/LEAST/BEST" Format-This type of item requires you to identify the MOST/LEAST appropriate or the BEST course of action to take in response to a stated problem.

Ten minutes before the close of trading, an NYSE member firm's order room receives an order entered by XYZ Corp., an Exchange-listed security, to purchase 10,000 shares of its own stock for its own account. Which of the following would be the BEST course of action for the firm to take?

(A) Execute the order, as no further action by the firm is required.
(B) Refuse to accept the order because the SEC would deem it manipulative.
(C) Inform the client before executing the order that "safe harbor" provisions of Rule 10b-18 will not apply. **
(D) Execute the transaction in the third market before the Exchange closes.

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