

Proposed Rule Change by National Association of Securities Dealers
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input type="checkbox"/>	Section 19(b)(3)(A) <input checked="" type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
			Rule		
			<input checked="" type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>
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Description
Provide a brief description of the proposed rule change (limit 250 characters).

Revisions to the Series 4 examination program.

Contact Information
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name	<input type="text" value="Afshin"/>	Last Name	<input type="text" value="Atabaki"/>
Title	<input type="text" value="Counsel"/>		
E-mail	<input type="text" value="afshin.atabaki@nasd.com"/>		
Telephone	<input type="text" value="(202) 728-8902"/>	Fax	<input type="text" value="(202) 728-8264"/>

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date

By (Name)

Senior Vice President and Deputy General Counsel

(Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

PATRICE GLINIECKI,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

Add Remove View

Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

Add Remove View

Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

Add Remove View

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ the National Association of Securities Dealers, Inc. (“NASD”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) revisions to the study outline and selection specifications for the Limited Principal – Registered Options (Series 4) examination program.² The proposed revisions update the material to reflect changes to the laws, rules, and regulations covered by the examination, as well as modify the content of the examination program to track more closely the functional workflow of a Series 4 limited principal. NASD is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD. The revisions that NASD is submitting with this filing supersede all prior revisions to the Series 4 examination program submitted by NASD.

The revised study outline is attached. However, NASD has omitted the Series 4 selection specifications from this filing and has submitted the specifications under separate cover to the Commission with a request for confidential treatment pursuant to Rule 24b-2 under the Act.³

¹ 15 U.S.C. 78s(b)(1).

² NASD also is proposing corresponding revisions to the Series 4 question bank, but based upon instruction from the Commission staff, NASD is submitting SR-NASD-2005-109 for immediate effectiveness pursuant to Section 19(b)(3)(A)(i) of the Act and Rule 19b-4(f)(1) thereunder, and is not filing the question bank for Commission review. See Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000. The question bank is available for Commission review.

³ 17 CFR 240.24b-2.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

At its meeting on January 24, 2001, the Board of Directors of NASD Regulation, Inc. authorized the staff to propose modifications to examination programs, including study outlines, examination specifications, and question banks, and to file the proposed modifications with the Commission, without obtaining further or specific authorization from the Board of Directors of NASD Regulation, Inc. The Board of Governors of NASD had an opportunity to review that action at its meeting on January 25, 2001. Further, counsel for The Nasdaq Stock Market, Inc. and NASD Dispute Resolution, Inc. were provided an opportunity to consult with respect to that action. No other action by NASD is necessary for the filing of the proposed rule change.

As further discussed below, NASD is filing the proposed rule change for immediate effectiveness. NASD proposes to implement the revised Series 4 examination program no later than November 30, 2005. NASD will announce the proposed rule change and the implementation date in a Notice to Members (“NTM”) to be published no later than 60 days after SEC Notice of this filing.

3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

Pursuant to Section 15A(g)(3) of the Act,⁴ which requires NASD to prescribe

⁴ 15 U.S.C. 78o-3(g)(3).

standards of training, experience, and competence for persons associated with NASD members, NASD has developed examinations, and administers examinations developed by other self-regulatory organizations (“SROs”), that are designed to establish that persons associated with NASD members have attained specified levels of competence and knowledge. NASD periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

NASD Rule 1022(f) states that member firms engaged in, or intending to engage in, transactions in security futures or put or call options with the public must have at least one Registered Options and Security Futures Principal. In addition, every individual engaged in the management of the day-to-day options or security futures activities of a firm must be registered as a Registered Options and Security Futures Principal. The Series 4 examination, an industry-wide examination, qualifies an individual to function as a Registered Options and Security Futures Principal, but only for purposes of supervising a member firm’s options activities.⁵ The Series 4 examination tests a candidate’s knowledge of options trading generally, the industry rules applicable to trading of option contracts, and the rules of registered clearing agencies for options. The Series 4 examination covers, among other things, equity options, foreign currency options, index options, and options on government and mortgage-backed securities.

⁵ A Registered Options and Security Futures Principal also must complete a firm-element continuing education program that addresses security futures and a principal’s responsibilities for security futures before such person can supervise security futures activities.

The Series 4 examination program is shared by NASD and the following SROs: the American Stock Exchange LLC (“AMEX”), the Chicago Board Options Exchange, Incorporated (“CBOE”), the New York Stock Exchange, Inc. (“NYSE”), the Pacific Exchange, Inc. (“PCX”), and the Philadelphia Stock Exchange, Inc. (“PHLX”).

A committee of industry representatives, together with the staff of NASD and the SROs, recently undertook a periodic review of the Series 4 examination program. As a result of this review and as part of an ongoing effort to align the examination more closely to the supervisory duties of a Series 4 limited principal, NASD is proposing to modify the content of the examination to track the functional workflow of a Series 4 limited principal. More specifically, NASD is proposing to revise the main section headings and the number of questions on each section of the Series 4 study outline as follows: Options Investment Strategies, decreased from 35 to 34 questions; Supervision of Sales Activities and Trading Practices, increased from 71 to 75 questions; and Supervision of Employees, Business Conduct, and Recordkeeping and Reporting Requirements, decreased from 19 to 16 questions. NASD is further proposing revisions to the study outline to reflect the SEC short sale requirements. The revised examination continues to cover the areas of knowledge required to supervise options activities.

NASD is proposing these changes to the entire content of the Series 4 examination, including the selection specifications and question bank. The number of questions on the Series 4 examination will remain at 125, and candidates will continue to have three hours to complete the exam. Also, each question will continue to count one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

On February 9, 2005, NASD filed with the SEC for immediate effectiveness similar revisions to the Series 4 examination program.⁶ NASD originally had proposed to implement the Series 4 examination program revisions by no later than April 29, 2005. However, due to administrative issues, NASD delayed until no later than November 30, 2005 the implementation date of the revisions.⁷ In the interim, the SROs that share the Series 4 examination program recommended additional revisions to the examination program. These additional revisions are reflected in the examination material that NASD is submitting with this filing. As noted below, NASD understands that the other SROs also will file with the Commission similar proposed rule changes reflecting the revisions to the Series 4 examination program. NASD continues to propose to implement the revised Series 4 examination program no later than November 30, 2005.

(b) Statutory Basis

NASD believes that the proposed revisions to the Series 4 examination program are consistent with the provisions of Sections 15A(b)(6)⁸ and 15A(g)(3) of the Act,⁹

⁶ See Securities Exchange Act Release No. 51216 (February 16, 2005), 70 FR 8866 (February 23, 2005) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Revisions to the Series 4 Examination Program; File No. SR-NASD-2005-025).

⁷ See Securities Exchange Act Release No. 51688 (May 12, 2005), 70 FR 28970 (May 19, 2005) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Delay Implementation Date of Revisions to the Series 4 Examination Program; File No. SR-NASD-2005-053).

⁸ 15 U.S.C. 78o-3(b)(6).

⁹ 15 U.S.C. 78o-3(g)(3).

which authorize NASD to prescribe standards of training, experience, and competence for persons associated with NASD members.

4. **Self-Regulatory Organization's Statement on Burden on Competition**

NASD does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

5. **Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

Written comments were neither solicited nor received.

6. **Extension of Time Period for Commission Action**

Not applicable.

7. **Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A)(i) of the Act¹⁰ and Rule 19b-4(f)(1) thereunder,¹¹ in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of NASD. NASD proposes to implement the revised Series 4 examination program no later than November 30, 2005. NASD will announce the implementation date in a NTM to be published no later than 60 days after SEC Notice of this filing.

8. **Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

¹⁰ 15 U.S.C. 78s(b)(3)(A)(i).

¹¹ 17 CFR 240.19b-4(f)(1).

NASD understands that the AMEX, CBOE, NYSE, PCX, and PHLX also will file with the Commission similar proposed rule changes reflecting the revisions to the Series 4 examination program.

9. Exhibits

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 3a. Revised Study Outline for the Series 4 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 4 Examination.

NASD has requested confidential treatment for the Series 4 revised selection specifications, and thus the specifications are omitted from this filing. The Series 4 revised selection specifications have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.¹²

Exhibit 3c. Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, Inc. from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000.

¹² 17 CFR 240.24b-2.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-2005-109)

SELF-REGULATORY ORGANIZATIONS

Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Revisions to the Series 4 Examination Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on , the National Association of Securities Dealers, Inc. (“NASD”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASD. NASD has designated the proposed rule change as constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the self-regulatory organization pursuant to Section 19(b)(3)(A)(i) of the Act³ and Rule 19b-4(f)(1) thereunder,⁴ which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(i).

⁴ 17 CFR 240.19b-4(f)(1).

NASD is filing revisions to the study outline and selection specifications for the Limited Principal – Registered Options (Series 4) examination program.⁵ The proposed revisions update the material to reflect changes to the laws, rules, and regulations covered by the examination, as well as modify the content of the examination program to track more closely the functional workflow of a Series 4 limited principal. NASD is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD. The revisions that NASD is submitting with this filing supersede all prior revisions to the Series 4 examination program submitted by NASD.

The revised study outline is attached. However, NASD has omitted the Series 4 selection specifications from this filing and has submitted the specifications under separate cover to the Commission with a request for confidential treatment pursuant to Rule 24b-2 under the Act.⁶

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, NASD included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. NASD has prepared summaries, set forth in

⁵ NASD also is proposing corresponding revisions to the Series 4 question bank, but based upon instruction from the Commission staff, NASD is submitting SR-NASD-2005-109 for immediate effectiveness pursuant to Section 19(b)(3)(A)(i) of the Act and Rule 19b-4(f)(1) thereunder, and is not filing the question bank for Commission review. See Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000. The question bank is available for Commission review.

⁶ 17 CFR 240.24b-2.

Sections (A), (B), and (C) below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Pursuant to Section 15A(g)(3) of the Act,⁷ which requires NASD to prescribe standards of training, experience, and competence for persons associated with NASD members, NASD has developed examinations, and administers examinations developed by other self-regulatory organizations (“SROs”), that are designed to establish that persons associated with NASD members have attained specified levels of competence and knowledge. NASD periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

NASD Rule 1022(f) states that member firms engaged in, or intending to engage in, transactions in security futures or put or call options with the public must have at least one Registered Options and Security Futures Principal. In addition, every individual engaged in the management of the day-to-day options or security futures activities of a firm must be registered as a Registered Options and Security Futures Principal. The Series 4 examination, an industry-wide examination, qualifies an individual to function as a Registered Options and Security Futures Principal, but only for purposes of supervising a member firm’s options activities.⁸ The Series 4 examination tests a

⁷ 15 U.S.C. 78o-3(g)(3).

⁸ A Registered Options and Security Futures Principal also must complete a firm-

candidate's knowledge of options trading generally, the industry rules applicable to trading of option contracts, and the rules of registered clearing agencies for options. The Series 4 examination covers, among other things, equity options, foreign currency options, index options, and options on government and mortgage-backed securities.

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A committee of industry representatives, together with the staff of NASD and the SROs, recently undertook a periodic review of the Series 4 examination program. As a result of this review and as part of an ongoing effort to align the examination more closely to the supervisory duties of a Series 4 limited principal, NASD is proposing to modify the content of the examination to track the functional workflow of a Series 4 limited principal. More specifically, NASD is proposing to revise the main section headings and the number of questions on each section of the Series 4 study outline as follows: Options Investment Strategies, decreased from 35 to 34 questions; Supervision of Sales Activities and Trading Practices, increased from 71 to 75 questions; and Supervision of Employees, Business Conduct, and Recordkeeping and Reporting Requirements, decreased from 19 to 16 questions. NASD is further proposing revisions to the study outline to reflect the SEC short sale requirements. The revised examination continues to cover the areas of knowledge required to supervise options activities.

element continuing education program that addresses security futures and a principal's responsibilities for security futures before such person can supervise security futures activities.

NASD is proposing these changes to the entire content of the Series 4 examination, including the selection specifications and question bank. The number of questions on the Series 4 examination will remain at 125, and candidates will continue to have three hours to complete the exam. Also, each question will continue to count one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

On February 9, 2005, NASD filed with the SEC for immediate effectiveness similar revisions to the Series 4 examination program.⁹ NASD originally had proposed to implement the Series 4 examination program revisions by no later than April 29, 2005. However, due to administrative issues, NASD delayed until no later than November 30, 2005 the implementation date of the revisions.¹⁰ In the interim, the SROs that share the Series 4 examination program recommended additional revisions to the examination program. These additional revisions are reflected in the examination material that NASD is submitting with this filing. NASD understands that the other SROs also will file with the Commission similar proposed rule changes reflecting the revisions to the Series 4 examination program. NASD continues to propose to implement the revised Series 4 examination program no later than November 30, 2005.

⁹ See Securities Exchange Act Release No. 51216 (February 16, 2005), 70 FR 8866 (February 23, 2005) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Revisions to the Series 4 Examination Program; File No. SR-NASD-2005-025).

¹⁰ See Securities Exchange Act Release No. 51688 (May 12, 2005), 70 FR 28970 (May 19, 2005) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Delay Implementation Date of Revisions to the Series 4 Examination Program; File No. SR-NASD-2005-053).

2. Statutory Basis

NASD believes that the proposed revisions to the Series 4 examination program are consistent with the provisions of Sections 15A(b)(6)¹¹ and 15A(g)(3) of the Act,¹² which authorize NASD to prescribe standards of training, experience, and competence for persons associated with NASD members.

B. Self-Regulatory Organization's Statement on Burden on Competition

NASD does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The proposed rule change has become effective pursuant to Section 19(b)(3)(A)(i) of the Act¹³ and Rule 19b-4(f)(1) thereunder,¹⁴ in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the self-regulatory organization. NASD proposes to implement the revised Series 4 examination program no later than

¹¹ 15 U.S.C. 78o-3(b)(6).

¹² 15 U.S.C. 78o-3(g)(3).

¹³ 15 U.S.C. 78s(b)(3)(A)(i).

¹⁴ 17 CFR 240.19b-4(f)(1).

November 30, 2005. NASD will announce the implementation date in a Notice to Members to be published no later than 60 days after SEC Notice of this filing.

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASD-2005-109 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-0303.

All submissions should refer to File Number SR-NASD-2005-109. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site

(<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of NASD.

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to the File Number SR-NASD-2005-109 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁵

Secretary

¹⁵ 17 CFR 200.30-3(a)(12).

**Registered Options Principal
Qualification Examination
(Test Series 4)**

Study Outline

**Property of the:
American Stock Exchange, LLC
Chicago Board Options Exchange, Inc.
NASD
New York Stock Exchange, Inc.
Pacific Exchange, Inc.
Philadelphia Stock Exchange, Inc.**

Registered Options Principal Qualification Examination Series 4 Study Outline

Introduction

The Registered Options Principal (ROP) Qualification Examination is designed to test a candidate's knowledge of the rules and statutory provisions applicable to the supervisory management of a firm's options personnel and options accounts. This study outline, the examination question bank and question allocation have been developed by a committee of securities industry professionals with experience in the management of the broker/dealer's day-to-day options activities. This 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 the candidates themselves, both to structure their study and as a final review check list prior to sitting for the examination.

A passing score will satisfy the qualification requirements of the American Stock Exchange, the Chicago Board Options Exchange, NASD, the New York Stock Exchange, the Pacific Exchange, and the Philadelphia Stock Exchange (jointly referred to as SROs) for a candidate who will function as a Registered Options Principal. The Registered Options Principal Qualification Examination and this study outline are composed of three general areas of supervision. These areas are specified below, accompanied by the number of questions that have been assigned to each section.

Section	General Area	Number of Questions
1	Options Investment Strategies	34
2	Supervision of Sales Activities and Trading Practices	75
3	Supervision of Employees, Business Conduct, and Recordkeeping and Reporting Requirements	16
Total		125

Detail on the content of each of these general areas of supervision is included in the text of the study outline that follows.

Structure of the Examination and Grading Procedures

The ROP Examination is composed of 125 multiple-choice questions covering all of the material in the following outline in accordance with the subject-matter distribution shown above. A maximum of 3 hours testing time is allowed for candidates to complete the examination. Each multiple-choice question is worth one point. No credit is given for incorrect answers to these

questions. The passing grade is equal to 70% of the total number of questions on the examination. Candidates will be required, therefore, to correctly answer 88 of the 125 questions on the ROP Examination to receive a passing grade. The results will identify the percentage performance of the candidate in each of the three general sections of the examination.

The examination is a closed book test and candidates will not be permitted to use any reference material during their testing session. Severe penalties are imposed on candidates who cheat on securities industry qualification examinations. Scratch paper and basic electronic calculators will be provided to a candidate by the test administrator, but must be returned to the administrator at the end of the testing session.

Questions used in the examination will be updated to reflect the current interpretations of the rules and regulations on which they are based. Questions on new rules will be added to the pool of questions for the examination within a reasonable time period after their effective dates. Questions on rescinded rules will be promptly deleted from the pool of questions. Unless a question is specifically asking about conventional OTC options, all questions should be read and answered as they apply to exchange listed standardized options. Also, unless a question is specifically worded to the contrary, all questions involving calculations exclude commissions and other transactions cost considerations.

The reference materials listed below may be used as a starting point for course developers in preparing training programs. Much of the reference material overlaps topics covered in other references. It is, therefore, not necessary, to obtain each reference listed. In addition, non-member commercial training vendors offer packaged study courses specifically designed for this registration category. These vendors are often listed in local Yellow Page directories and advertise in securities industry periodicals.

This outline is available on the NASD Web Site at www.nasd.com

At the end of the outline there are four sample questions written in the various formats used in the Series 4 test questions. These samples do not reflect the difficulty level of the test questions or the subject-matter distribution of the test itself. Their purpose is to familiarize candidates with the types of multiple-choice question formats used in the Series 4.

Reference Materials

While options rules are to a large extent uniform throughout the industry, trading floor procedures and operations requirements for conducting an options business vary slightly from exchange to exchange. Rule manuals and often options educational material may be obtained by contacting the following organizations:

American Stock Exchange, LLC

Constitution and Rules

86 Trinity Place
New York, NY 10006
www.amex.com

Securities Act Handbook

Aspen Publishers
111 Eighth Avenue
New York, NY 10011
www.aspenpublishers.com

Chicago Board Options Exchange

Constitution and Rules

LaSalle at Van Buren
Chicago, IL 60605
www.cboe.com

Code of Federal Regulations

Title 17 — Commodity and Securities Exchanges

Superintendent of Documents
U.S. Government Printing Office
Washington, DC 20402

Dictionary of Finance and Investment Terms

Barron's Educational Series, Inc.
250 Wireless Boulevard
Hauppauge, NY 11788
www.barronsedu.com

NASD Manual

1735 K Street, N.W.
Washington, D.C. 20006
www.nasd.com

New York Stock Exchange, Inc.

Constitution and Rules

11 Wall Street
New York, NY 10005
www.nyse.com

Options, Futures, and Other Derivative Securities

J.C. Hull
Prentice Hall
Englewood Cliffs, NJ 07632

Pacific Exchange Incorporated

Constitution and Rules

115 Sansome Street
San Francisco, CA 94104
www.pacificex.com

Philadelphia Stock Exchange, Inc.

Manual

1900 Market Street
Philadelphia, PA 19103
Phone: (215) 496-5214
www.phlx.com

The Stock Market

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

**1.0
Options Investment Strategies**

1.1 Listed Options

- **Understand terms and definitions of options products, investment strategies, and the inherent risks**
- **Apply knowledge of terms and definitions in supervising options transactions**

1.1.1 Equity Options

Underlying securities
Selection /withdrawal process
Exercise settlement
 American
 European
Expiration cycles
 Cycles vary
Long-term equity anticipation securities (LEAPs)
Strike price intervals
 Dependent upon the price of the stock
Adjustment to option terms
 Cash dividends
 Stock dividends
 Stock splits
 Spin-offs
Premiums
 Premium increments
 Factors affecting option premiums
Expiration date

AMEX Rules
 Rule 900—Applicability, definitions and references
 Flexible exchange options
 Rule 900G – Applicability and definitions
 Rule 903G – Terms of flex options
 Rule 904G – Flex trading procedures and principles

CBOE Rules
 Rule 1.1—Definitions

NASD Rule
 Rule 2522—Definitions
 Rule 2860(b)(2)—Definitions

NYSE Rule
 Rule 700—Applicability, definitions and references
 Rule 701—Contracts to be traded
 Rule 703—Series of options open for trading
 Rule 716—Withdrawal of approval of underlying stocks and groups

PCX Rule
 Rule 6.1(a)—Options trading, definitions

PHLX Rules

Rule 1000—Applicability, definitions and references
Rule 1010—Withdrawal of approval of underlying securities
Rule 1012.05(a)—Series of options open for trading

1.1.2 Index Options

- Broad-based index
- Narrow-based index
- Exchange traded funds (ETFs)
- Industry-based index
- Exercise style
 - By cash payment on the next business day
 - Settlement amount is the difference between strike price and index closing value
- Expiration cycles
 - Cycles vary
 - LEAPs
- Flexible Exchange options (FLEX)
- Strike price intervals
- Premium increments
- Expiration date
- Exercise assignment
 - European
 - American

- AMEX Rule
 - Rule 900C—Stock index options
- CBOE Rules
 - Chapter XXIV—Index options
- NASD Rule
 - Rule 2871—NASDAQ index options—definitions
- NYSE Rules
 - Rule 700(b)(2A)—American style index options
 - Rule 700(b)(19)—European style index options
 - NYSE Rule 703(c)—Expiration months—index options
- PCX Rules
 - Rule 5.10—Index options
- PHLX Rules
 - Rule 1006—Order restrictions on exchange option transactions and exercises
 - Rule 1101A(a) and (ii)—Terms of option contracts

1.1.3 Foreign Currency Options

- Contract sizes
- Expiration cycles
- Expiration date
- Settlement style
 - American style
 - European style
- Trading hours
- Strike price intervals
- Premium increments
- PHLX Rules

Rule 1000(b)(13)—Definitions – foreign currency
Rule 1012(a)(ii)—Foreign currency options series
Rule 1016—Block transactions in foreign currency options

1.2 Strategy Investment Posture for Various Market Scenarios and Their Tax Implications

- **Assist Registered representatives in formulating investment strategy for customers**
- **Identify uneconomic trades**
- **Understand investment strategies**

1.2.1 Strategies for Using Puts or Calls

Call buying strategies
 Alternative to buying the underlying security
 To lock-in a purchase price
 To hedge a short sale
Put buying strategies
 To hedge a long position
 Alternative to short sale
Covered call writing concepts
 Increase yield
 Hedge a position
Put writing concepts
 Increase income
 Acquire stocks below current prices
Types of Spread
 Bull spread
 Bear spread
 Time spread
 Diagonal spread
 Variable spread
 Butterfly spread
Straddle

1.2.2 Strategies Based on Market Outlook

Neutral
 Covered call writing (at market)
 Straddle writing
 Combination writing
Bullish
 Covered call writing (above market)
 Uncovered put writing
 Call purchasing
 Long stock/long put
 Bull spreading
Bearish
 Uncovered call writing
 Put purchasing
 Bear spreading

1.2.3 Other Strategy Considerations

Synthetic positions

Long stock/short call = short put

Short stock/long call = long put

Short stock/short put = short call

Long call/short put = long stock

Long stock/long put = long call

Short call/long put = short stock

1.3 Calculation of Profit, Loss and Break-even

- **Know how to calculate profit, loss and breakeven points of various strategies**

1.3.1 Ability to calculate profit, loss and breakeven limits and amounts at expiration of aggregate positions relative to movements in the underlying security - percentage return (loss)

Limits will fluctuate from time of recommendation to time of close-out or expiration

1.4 Taxation

- **Understand tax implications of options transactions**
- **Understand wash sales and their impact on customer accounts**

1.4.1 General Concepts

Identification of securities

Holding periods of securities

Wash Sale rules

Tax treatment of short options

Determination of cost basis

Determination of taxable event

Cabinet trading

1.4.2 Tax Treatment of Options

1.4.2.1 Options purchased by investors

Subsequent sale of options

Expired options

Exercised call options

Exercised put options

1.4.2.2 Options written by investors

Short-term gain or loss

Expired options

Exercised put options

Exercised call option

Subsequent purchase of options

1.4.2.3 Tax treatment of long straddles and combinations

2.0

Supervision of Sales Activities and Trading Practices

2.1 Supervision of Account Activities

- **Supervise RR and customer activities relating to options**
- **Ensure that SROP approves options discretionary accounts**
- **Ensure that CROP provides frequent appropriate supervisory review**
- **Ensure that discretionary option orders are approved and initialed on the day entered**
- **Ensure that options programs are in writing**
- **Establish written supervisory procedures**
- **Ensure that branch office manager reviews all correspondence**

2.1.1 Supervisory Procedures

Written policies and procedures

Supervisory reviews

Account approvals

Training

Transactions with issuers

Members may not accept transaction for sale (writing) of call options for issuer of underlying security

Determination that necessary appropriate documentation is on file

Level of trading

Must specify the delineation of supervisory responsibilities within the firm for specific tasks

SROP must establish separate review procedures to insure that delegated authority is being properly exercised

AMEX Rules

Rule 320—Offices—approval, supervision and control

Rule 921(g)—Written procedures

Rule 922(a)—Duty to supervise, designation of supervisory personnel

Rule 922—Commentary .01—Supervision of accounts

Rule 991—Communications to customers

CBOE Rules

Rule 9.8(a)—Supervision of accounts; Interpretation .01

NASD Rules

Rule 2350—Broker/dealer conduct on the premise of financial institutions

Rule 2860(b)(20)—Supervision of accounts

Rule 3010—Supervision

Rule 3012—Supervisory control system

Rule 3013—Annual certification of compliance and supervisory processes

NYSE Rules

Rule 342(a) and (d)(3)—Offices – approval, supervision and control

Rule 343—Offices – sole tenancy, hours, display of membership certificates

Rule 722—Supervision of accounts

PCX Rules

Rule 9.1(c)—Office Supervision

Rule 11.18—Supervision

PHLX Rules

Rule 748—Supervision

Rule 761—Supervisory procedures

Rule 1025—Supervision of accounts

2.1.2 Account-Related Communications With Customers

2.1.2.1 Confirmations to customers

AMEX Rules

Rule 925—Confirmations

CBOE Rules

Rule 9.11—Confirmation to customers

NASD Rules

Rule 2860(b)(12)—Confirmations

NYSE Rules

Rule 725—Confirmations

PHLX Rules

Rule 1028—Confirmations

Securities Exchange Act of 1934

Rule 10b-10—Confirmation of transactions

2.1.2.2 Statements of accounts to customers

AMEX Rules

Rule 930—Statement of accounts

CBOE Rules

Rule 9.12—Statements of accounts to customers

NASD Rules

Rule 2340—Customer account statements

Rule 2860(b)(15)—Statements of account

NYSE Rules

Rule 409—Statement of accounts to customers

Rule 730—Statement of accounts

PCX Rules

Rule 9.15—Statements of accounts to customers

PHLX Rules

Rule 1032—Statements of accounts

Securities Exchange Act of 1934

Rule 17a-5(c)—Customer statements

2.1.2.3 Statements of financial condition to customers

AMEX Rules

Rule 442—Disclosure of financial condition to customers

CBOE Rules

Rule 9.13—Statement of financial condition to customers

NASD Rules

Rule 2270—Disclosure of financial condition to customers

2.1.2.4 Anti-money laundering compliance program

AMEX Rules

Rule 432—Anti-money laundering compliance program

CBOE Rules

Rule 4.20—Anti-money laundering compliance program

NASD Rules

Rule 3011—Anti-money laundering compliance program

NYSE Rules

Rule 445—Anti-money laundering compliance program

PHLX Rules

Rule 757—Anti-money laundering compliance program

2.1.2.5 Offer and sale of new issue securities—indications of interest

NASD Rules

Rule 2790—Restrictions on the purchase and sale of initial equity public offerings

2.2 Supervising Options Sales Practices

- **Supervise sales practice activities of registered representatives as they assist their customers in buying and writing options**
- **Conduct suitability review to ensure use of options is consistent with client profile**
- **Understand written supervisory procedures, application and adherence thereto**
- **Understand documentation requirements for options accounts**
- **Ensure compliance with firm's written supervisory procedures for trading of options**
- **Ensure that complaints are segregated and forwarded to main office within prescribed time**
- **Review account documentation for completion**
- **Review to ensure customer verification within 15 days of ROP approval and receipt of signed options agreement**
- **Ensure options disclosure document is delivered at or prior to account approval**
- **Provide special statement for uncovered writers**
- **Ensure that accounts approved for uncovered options transactions meet the firm's internal standards for approval**
- **Understand minimum net equity requirements for approval and maintenance of uncovered transactions**
- **Ensure that any exceptions must be approved and evidenced by SROP/CROP**

2.2.1 Client Account Documentation

2.2.1.1 Types of customer accounts

Individual customer

Joint customer

Corporate customers

Partnership accounts

Fiduciaries

Trust accounts

Qualified retirement accounts

Investment advisory accounts

Institutional discretionary accounts

2.2.1.2 Options new account form

Limited authorization

- Full authorization
- Discretionary
- Client profile
- Terms of approval
 - Account approval based on evaluation of client profile
 - Approval required not later than the time an initial option order is accepted for the account
 - Branch office manager approval
 - Options accounts must be approved for only certain strategies
 - Copy of background and financial data must be sent to customer for verification within 15 days after approval
 - New account form must be retained at both the branch office and the principal supervisory office
 - Account approval for foreign currency options

AMEX Rules

- Rule 421—Discretion as to customer's accounts
- Rule 921(c)—Diligence in openings
- Rule 922—Supervision of accounts

CBOE Rules

- Rule 9.7(b)—Diligence in opening account
- Rule 9.10(a)—Authorization and approval required
- Rule 9.10(e)—Options programs
- Rule 9.14—Addressing of communications to customers

NASD Rules

- Rule 2860(b)(16)(B)—Diligence in opening options accounts
- Rule IM-2860-2—Diligence in opening options accounts

NYSE Rules

- Rule 405—Diligence as to accounts
- Rule 721—Opening of accounts
- Rule 726—Delivery of options disclosure document and prospectus

PCX Rules

- Rule 9.2(a)—Diligence as to accounts
- Rule 9.2(b)—Account supervision
- Rule 9.2(c)—Customer records
- Rule 9.18—Doing a public business in options

PHLX Rule

- Rule 1024—Diligence in opening accounts
- Rule 1024(b)(iii)—Verification of customer background and financial information
- Rule 1049—Communications to customers

- 2.2.1.3 Other supplementary account documentation and customer verification
 - Hypothecation and loan consent agreement
 - Margin agreement
 - Credit terms disclosure
 - Third party trading authorization
 - Signed option account agreement
 - Risk disclosure document
 - Account guarantee acknowledgment

Information required for institutional customers engaging in foreign currency options

Escrow receipts, bank letters of guarantee, depository trust receipts or other special collateral arrangements

Requirements regarding accounts of deceased/incompetent persons

Transfer On Death (TOD) Account

Outstanding orders

 Cancellation

 Freeze on assets in account

Fiduciary treatment of positions

Death of a joint tenant

Death of tenant-in-common

Death of a partner

Death of a principal on a power of attorney

AMEX Rules

 Rule 411—Duty to know and approve customers

 Rule 413—Agreement does not warrant delivery of customer's securities for firm or corporation account

 Rule 462(d)(2)(K)(4)—Guaranteed accounts

 Rule 921(d) and Commentary .03—Verifications of customer background and financial information

 Rule 921(e)—Agreements to be obtained

CBOE Rules

 Rule 9.7(d)—Agreements to be obtained

 Rule 9.15—Delivery of current options disclosure documents

 Rule 9.16—Restrictions on pledge and lending of customers' securities

 Rule 12.8—Guaranteed accounts

NASD Rules

 Rule 2860(b)(16)(C)— Verifications of customer background and financial information

NYSE Rules

 Rule 431—Margin requirements

 Rule 721(c)—Verifications of customer background and financial information

 Rule 721(d)—Agreements to be obtained

PHLX Rules

 Rule 256—Option risk disclosure

 Rule 724—Guaranteed accounts

 Rule 1024(b)(iii)—Verification of customer background and financial information

 Rule 1024(b)—Opening accounts

 Rule 1024(b)(iv)—Agreements to be obtained

Securities Exchange Act of 1934

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

 Regulation S-P — Privacy of consumer financial information

2.2.1.4 Discretionary accounts authorization and approval

 Records to be maintained

 Excessive transactions prohibited

Discretion as to time or price excepted
Options programs
Supervision

AMEX Rules

Rule 924—Discretionary accounts

CBOE Rules

Rule 9.10— Discretionary accounts

NASD Rules

Rule 2860(b)(18)—Discretionary accounts

NYSE Rules

Rule 408—Discretionary power in customers' accounts

Rule 724—Discretionary accounts

PHLX Rules

Rule 1027—Discretionary accounts

Securities Exchange Act of 1934

Rule 15c1-7—Discretionary accounts

2.2.1.5 Options programs

Amex Rules

Rule 924(b)—Options programs

CBOE Rules

Rule 9.10(e)—Options programs

NASD Rules

Rule 2860(b)(18)(C)—Options programs

NYSE Rules

Rule 724(b)—Options programs

PHLX Rule

Rule 1027(b)— Options programs

2.2.1.6 Minimum net equity requirements

Amex Rules

Rule 921(g)(4)—Minimum net equity requirements

CBOE Rules

Rule 9.7(f)(4)—Opening of accounts

NASD Rules

Rule 2520—Margin requirements

NYSE Rules

Rule 721(e)4—Uncovered short option accounts

2.2.1.7 Special statement for uncovered writers

Amex Rules

Rule 921(g)(5)—Special written description of the risks

CBOE Rules

Rule 9.7(f)(5)—Opening of accounts

Rule 9.15(c)—Delivery of current options disclosure documents and prospectus

NASD Rule 2860(b)(16)(E)—Uncovered short option contracts

NYSE Rules

Rule 721(e)5—Uncovered short option accounts

Rule 726(c)—Uncovered short options risk disclosure
PHLX Rules
Rule 1029—Delivery of options disclosure documents and prospectus

2.2.1.8 Uncovered options transactions

Amex Rules
Rule 921(g) and Commentary .04—Written procedures
CBOE Rules
Rule 9.7(f)—Opening of accounts
Rule 9.8(a)—Duty to supervise
NASD Rules
Rule 2860(b)(7)—Limit on uncovered short positions
NYSE Rules
Rule 721(e)—Uncovered short option accounts
PCX Rules
Rule 6.18—Limits on uncovered short options
PHLX Rules
Rule 1024(c)—Uncovered options supervision

2.2.2 Suitability

- **Assist registered representatives in helping customers formulate investment objectives and to set financial goals**
- **Review trading and suitability of trade activity, *e.g.*, use of margin, day trading or concentrated positions and/or excessive transactions**
- **Review for initial and ongoing suitability of various investment portfolios and objectives**
- **Review managed accounts to ensure that the investment styles of the advisers and managers are consistent with the objectives of the customer**
- **Ensure that registered representatives have necessary product knowledge**
- **Ensure suitability of recommending options strategies**
- **Ensure that registered representatives understand suitability requirements**

2.2.2.1 Suitability of recommendations

Clear understanding of customer's investment objectives
Need for customer understanding of strategies
Customer's understanding of and ability to assume financial risk/loss
Potential for excessive transaction costs
Consequences of exercise
Tax implications
Margin implications
Investment risks relative to customer's total portfolio
Substitution problems
Restrictions on profit sharing
Prohibition on assuming losses

AMEX Rules
Rule 923—Suitability
CBOE Rules
Rule 9.9—Suitability of recommendations
NASD Rules
Rule 2310—Recommendations to customers

Rule 2860(b)(19)—Suitability
NYSE Rules
Rule 721(e)—Uncovered short options accounts
Rule 723—Suitability
PHLX Rules
Rule 1026—Suitability

2.3 Communications With the Public

- **Supervise registered representatives' use of options advertisements, sales literature and educational material**
- **Ensure that all advertisements, educational material and sales literature are approved in advance by the CROP**
- **Review and approve options sales literature and educational material**
- **Ensure compliance with recordkeeping and record retention requirements**
- **Ensure that options materials comply with SRO requirements**
- **Review and approve public seminars and presentations**
- **Monitor the use of 'internal use only' sales material**
- **Monitor telemarketing procedures, e.g., maintain 'do not call' list**
- **Maintain a log of public seminars and presentations given by registered representatives**

2.3.1 Definitions

Advertisement
Educational material
Sales literature
Market letters
Research reports
Internal communications
Exchange-produced materials
Seminar texts
Worksheets
Telemarketing scripts
Correspondence
Institutional sales material

AMEX Rules

Rules 991 (e)(i), (e)(ii), (iii)—Definitions

CBOE Rules

Rules 9.21 (e)(i), (ii), (iii)—Definitions

NASD Rules

Rule 2211(a)—Definitions

Rule 2220(a)—Definitions

Rule 2711(a)—Definitions

NYSE Rules

Rule 472—Communications with the public

Rule 791(e)—Communications to customers, Definitions

PHLX Rules

Rule 605—Advertisements, market letters, research reports and sales literature

Rule 1049(e)—Communications to customers

2.3.2 Required Approval

2.3.2.1 Approval by CROP

AMEX Rules

Rule 991(b)—Required approval by a CROP

CBOE Rules

Rule 9.21(b)—Approval by CROP

NASD Rules

Rule 2220(b)—Approval by CROP and recordkeeping

Rule 2711(i)—Supervisory procedures

NYSE Rules

Rule 791(b)—Approval by CROP

PHLX Rules

Rule 1049(b) —Approval by a CROP

2.3.2.2 SRO approval requirements

AMEX Rules

Rule 991(c)—Exchange approval required for options advertisements and educational material

CBOE Rules

Rule 9.21(c)—Exchange approval required for options advertisements and educational material

NASD Rules

Rule 2220(c)—Association approval requirements and review procedures

NYSE Rules

Rule 791(c)—Exchange approval required for options advertisements and educational material

PHLX Rules

Rule 1049(c)—Exchange approval required for options advertisements and educational material

2.3.2.3 Guidelines and standards of approval

In the case of "option programs" the cumulative history or unproven nature and underlying assumptions must be disclosed

Worksheets must conform with sales literature requirements

Such communications must be kept in an easily accessible place for a period of three years

Prohibitions against:

Untrue statements and material omissions

Promises of specific results or exaggerated claims

Hedge clauses

Disclaimers

Failure to meet general standards of good taste and truthfulness

Communications that would constitute a prospectus

AMEX Rules

Rule 991(a)— Communications to customers, general rules

CBOE Rules

Rule 9.21—Communications to customers

Rule 9.21.01—Special risks

Rule 9.21.02—Advertisements
Rule 9.21.03—Educational Material
Rule 9.21.04—Sales Literature

NASD Rules

Rule 2220(d)—Standards applicable to communications with the public

NYSE Rules

Rule 791(a)—Communications to Customers, General Rule

PCX Rules

Rule 9.28—Advertisements, market letters and sales literature relating to option

PHLX Rules

Rule 1049(a)—Communications to customers

2.3.3 Options Disclosure Documents

2.3.3.1 Delivery requirements

Must be offered in advertisements and educational material.

Must precede or accompany sales literature

AMEX Rules

Rule 921 (f) – options disclosure document to be furnished

Rule 926 – Delivery of options disclosure document and prospectus

Rule 991(d)—Delivery of disclosure documents

CBOE Rules

Rule 9.7(e)—Options disclosure documents to be furnished

Rule 9.21(d)—Communications to customers

NASD Rules

Rule 2860(b)(11)—Delivery of current disclosure document

NYSE Rules

Rule 791(d)—Options disclosure document required

PHLX Rules

Rule 1029—Delivery of options disclosure document and prospectus

Rule 1049(d)—Communications to customers

2.3.4 Telemarketing Requirements

AMEX Rules

Rule 428—Telephone solicitation--recordkeeping

Rule 429—Telemarketing

CBOE Rules

Rule 9.24—Telephone solicitation

NASD Rules

Rule 2212—Telemarketing

NYSE Rules

Rule 440A—Telephone solicitation

PHLX Rules

Rule 762—Telemarketing

2.4 Federal Regulations Pertaining to Sales Practices

2.4.1 Securities Act of 1933

- 2.4.1.1 Section 2—Definitions under the Act
 - Rule 134—Communications not deemed a prospectus
 - Interpretations as applied to options of the OCC
 - Rule 144—Persons deemed not to be engaged in a distribution and therefore not underwriters
 - Rule 145—Reclassification of securities, mergers, consolidations and acquisitions of assets
- 2.4.1.2 Section 5 – Prohibitions Relating to Interstate Commerce and the Mails
 - Rule 135—Notice of certain proposed offerings
 - Rule 135A—Generic advertising
 - Use of "worksheets", "substantially identical" letters, "prospecting" letters
 - Rule 153(b)—Definition of “preceded by a prospectus”, as used in Section 5(b)(2), in connection with certain transactions in standardized options

2.4.2 Securities Exchange Act of 1934

- 2.4.2.1 Section 3 – Certain definitions under the Act
 - Exchange
 - Member
 - Broker
 - Dealer
 - Issuer
 - Security
 - Equity security
 - Buy-Purchase
 - Sale-sell
 - Clearing agency
- 2.4.2.2 Section 9 – Prohibition Against Manipulation of Security Prices
 - Section 9(a)(1)—Misleading appearance of active trading
 - Section 9(a)(2)—Inducing purchase or sale by others
 - Section 9(a)(3)—Dissemination of information as to rise or fall of securities prices
 - Section 9(a)(4)—Making false or misleading statements
 - Section 9(a)(5)—Dissemination of information for consideration
 - Section 9(a)(6)—Pegging, fixing or stabilizing prices
 - Section 9(b)—Options disclosure document
 - Section 9(e)—Liability for unlawful acts or transactions
- 2.4.2.3 Section 10(b)—Use or Employment of Deceptive Devices
 - Rule 10b-3—Employment of manipulative and deceptive devices by brokers or dealers
 - Rule 10b-18—Purchases of certain equity securities by the issuer and others
- 2.4.2.4 Regulation 14E—Tender offers
 - Rule 14e-4—Prohibited transactions in connection with partial tender offers

- 2.4.2.5 Regulation M—Antimanipulation Rules Concerning Securities Offerings
Rule 101—Activities by distribution participants
Rule 102—Activities by issuers and selling security holders during a distribution
Rule 103—Nasdaq passive market making
Rule 104—Stabilizing and other activities in connection with an offering
Rule 105—Short selling in connection with a public offering

- 2.4.2.6 Regulation FD—Fair disclosure
Requirement that when an issuer discloses material nonpublic information to certain persons (such as, securities market professionals and holders of the issuer's securities who may well trade on the basis of the information), it must make public disclosure of that information
Enhancement of existing prohibitions against insider trading

2.4.3 Insider Trading

- Insider Trading and Securities Fraud Enforcement Act of 1988
Section 3—Civil penalties of controlling persons for illegal insider trading by controlled persons
CBOE Rules
Rule 4.18—Prevention of misuse of material, nonpublic information
NYSE Rules
Rule 342.21—Trade review and investigation
Rule 351(e)— Reporting Requirements
PCX Rules
Rule 11.3—Prevention of misuse of material, nonpublic information
PHLX Rules
Rule 761—Supervisory procedures relating to Insider Trading and Securities Fraud Enforcement Act of 1988
Securities Exchange Act of 1934
Section 15(f)—Registration and regulation of brokers and dealers – written policies and procedures relating to misuse of material, non-public information
Rule 10b-5—Employment of manipulative or deceptive devices
Rule 10b5-1—Trading on the basis of material nonpublic information in insider trading cases
Rule 10b5-2—Duties of trust or confidence in misappropriation insider trading cases

2.5 Extensions of Credit in the Securities Industry

- **Understand margin implications associated with various strategies**
- **Understand minimum margin requirements set by regulation for initial/maintenance requirements**
- **Recognize that firms and/or exchanges may set higher requirements**
- **Obtain documentation related to margin agreement**
- **Understand margin calculations**
- **Know how to calculate initial/maintenance/variation call**
- **Understand mark to market to calculate amount of call**
- **Know what is required to meet margin call daily**
- **Know the acceptable collateral deposits**
- **Understand margin strategy offsets under NYSE Rule 431 and NASD Rule 2520(b)(11)**

- **Review customer accounts/transactions to ensure compliance with short sale and buy-in rules**

2.5.1 General Margin Requirements

- 2.5.1.1 Long accounts
Regulation T
 - 2.5.1.2 Spread
Any options position having both long options and short options of the same type on the same underlying instrument; for a spread to qualify for margin, the long must expire prior to the short position
 - 2.5.1.3 Uniform options margin requirements:
 - Initial requirement
 - Maintenance call
 - 2.5.1.4 Short accounts
 - Federal initial requirements for short sales
 - Maintenance margin requirements for short sales
 - 2.5.1.5 Margin substitutions
 - Same day substitutions
 - Adjusted debit balance
 - 2.5.1.6 Withdrawal of dividend and interest credit
 - AMEX Rules
 - Rule 462—Minimum margins
 - CBOE Rules
 - Chapter XII—Margins
 - NASD Rules
 - Rule 2520(f)(2)—Puts, calls and other options
 - NYSE Rules
 - Rule 431—Margin requirements
 - Rule 700(b)(14)—Covered short positions
 - Rule 772—Option contracts of suspended members
 - PHLX Rules
 - Rule 721—Proper and adequate margin
 - Rule 722—Margin accounts
 - Securities Exchange Act of 1934
 - Regulation T
 - Section 7—Margin requirements
 - Section 8—Restrictions on borrowing by members, brokers and dealers
- ## **2.5.2 Other Provisions of Regulation T**
- General rule
 - Prompt payment
 - Extensions of time
 - Cash accounts

Escrow Agreements
Letters of guarantee
Depository trust receipts

2.5.3 Short Sales and Mandatory Buy-ins

AMEX Rules
Rule 7—Short sales
Rule 784—Mandatory closing of fails
NASD Rules
Rule 11810—Buying-in
Rule 3350—Short sale rule
NYSE Rules
Rule 440B—Short sales
Rule 440C – Deliveries of Short Sales
PHLX Rules
Rule 455—Short sales
Securities Exchange Act of 1934
Regulation SHO—Short sales
Rule 200—Definition of “short sale”
Rule 201—Price test and marking requirements
Rule 203—Borrowing and delivery requirements
Rule 15c3-3(h)—Customer Protection – reserves and custody of securities

2.6 Trading Practices

- **Understand when and why a trading rotation and fast markets will be utilized**
- **Understand the roles and responsibilities of market participants**
- **Comply with relevant position/exercise limits**
- **Ensure appropriate aggregation of accounts for reporting position limits, exercise limits, and large positions**
- **Understand contract adjustment due to such events as splits, mergers, dividends**
- **Review orders to ensure they are eligible for electronic order routing/execution**
- **Review orders to ensure that orders are not "unbundled"**

2.6.1 Terms and Definitions

AMEX Rules
Rule 900—Applicability, definitions and references
Rule 950(d)—Precedence of bids and offers
CBOE Rules
Rule 6.45—Priority of bids and offers—allocation of trades
Rule 6.70—Floor broker defined
Rule 8.1—Market maker defined
Rule 8.80—DPM defined
PCX Rules
Rule 6.52—Obligations for orders

2.6.2 Trading Rotation

Opening

Closing

Business day prior to expiration

Intra-day

Re-open after halt

AMEX Rules

Rule 1 Commentary .02 Hours of business (Trading rotation)

Rule 918 (a) – Trading rotations

Rule 918 – Commentary .01, .02, .03 and .04

Rule 918C(a)—Supervision of trading

Rule 918C – Commentary .03, .04, .05 and .06 (Trading rotations)

CBOE Rules

Rule 6.2—Trading rotations

Rule 6.2A—Rapid opening system

Rule 6.2B—Hybrid opening system

NYSE Rules

Rule 717 (a)—Trading rotations

PCX Rules

Rule 6.64—Trading rotations

PHLX Rules

Rule 1047—Trading rotations, halts and suspensions

2.6.3 Fast Markets and Trading Halts

AMEX Rules

Rule 918 – Trading halts

Rule 918(b) – Trading halts

Rule 918 – Commentary .05 – Delayed openings

Rule 918(c) – Supervision of trading

Rule 958A(d) – Application of the firm quote rule – use of unusual market exception

CBOE Rules

Rule 6.3—Trading halts

NASD Rules

Rule 3340—Prohibition on transactions, publication of quotations, or publication of indications of interest during trading halts

Rule 4120—Trading halts

NYSE Rules

Rule 717 (b)—Trading halts or suspensions

PCX Rules

Rule 6.65—Trading halts and suspensions

PHLX Rules

Rule 1047—Trading rotations, halts and suspensions

2.6.4 Position and Exercise Limits

AMEX Rules

Rule 904—Position limits

Rule 904C – Position limits – stock index options

Rule 904D – Position limits – T-Bill options

Rule 904D – Exercise limits – T- Bill options
Rule 905—Exercise limits
Rule 905C – Exercise limits – stock index options
Rule 906G – Position Limits – Flexible exchange options
Rule 907G – Exercise Limits – Flexible exchange options
Rule 980—Exercise of options contracts

CBOE Rules:

Rule 4.11—Position limits
Rule 4.12—Exercise limits
Rule 24.4—Position limits for broad-based index options
Rule 24.4A—Position limits for industry index options
Rule 24.5—Exercise limits
Rule 24.18—Exercise of American style index options

NASD Rules

IM-2860-1—Position limits
Rule 2860(b)(23)(A)—Exercise of options contracts
Rule 2860(b)(23)(E)—Exercise of NASDAQ index option contracts
Rule 2860(b)(4)—Exercise limits

NYSE Rules

Rule 704—Position limits
Rule 705—Exercise limits

PCX Rules

Rule 6.8(a)—Options Trading, Position limits
Rule 6.9—Options trading, exercise limits
Rule 6.11—Exercise of options contracts

PHLX Rules

Rule 1001—Position limits
Rule 1001A—Position limits—options on indices
Rule 1002—Exercise limits

2.6.5 Contract Adjustments

AMEX Rules

Rule 956—Open orders on open quotation ex-date

CBOE Rules

Rule 5.7—Adjustments

NYSE Rules

Rule 703(g)—Contract adjustments

2.6.6 Exchange Order Routing Systems

AMEX Rules

Rule 60 – Responsibility for PER and AMOS orders, subparagraph (a)

CBOE Rules

Rule 6.8 – RAES Operations

2.6.7 Types of orders

Market orders
Limit orders
Stipulation

Day
GTC
Market not held
Stop limit
Spread
Straddle
Combination
Contingency
Immediate-or-cancel
At the close

AMEX Rules
Rule 131—Types of orders
Rule 131A—Market on the close policy and expiration procedures
Rule 950(e)—Types of orders
CBOE Rules
Rule 6.53 – Certain types of orders defined
NYSE Rules
Rule 123A—Miscellaneous requirements
PHLX Rules
Rule 1066—Certain types of orders defined

2.7 Exercise/Assignment of Options

- **Understand the mechanics and ramifications of the tendering of exercise notices for options; exercise by exception and same day exercise**
- **Understand the effect of exercise prior to ex-dividend date**
- **Understand applicable time limitations**
- **Understand the mechanics and effects of assignment, particularly on ex-dividend date**
- **Understand OCC assignment procedure and firm/market maker/customer assignment**
- **Understand firm procedures for allocating customer assignments (FIFO, random)**
- **Ensure customer notification of allocation method**
- **Ensure compliance with requirement for delivery and payment/settlement**
- **Understand priority offered orders**
- **Understand time priority**
- **Understand off-floor accommodations and the necessary reporting obligations**

2.7.1 Tender of Exercise Notices

Equity options
Effect of exercise prior to ex-dividend date
Time limitations
Same day exercise
Exercise by exception
Index options
Foreign currency options

AMEX Rules
Rule 980—Exercise of options contracts

CBOE Rules

Rule 11.1—Exercise of option contracts

NASD Rules

Rule 2860(b)(23)—Tendering procedures for exercise of options

NYSE Rules

Rule 780—Exercise of options contracts

PHLX Rules

Rule 1042—Exercise of equity option contracts

Rule 1042A—Exercise of option contracts – options on indices

2.7.2 Assignment of Exercise Notices

Effect of assignment on ex-dividend date of equities

OCC assignment procedure

Firm/market maker/customer assignment

Acceptable procedures for allocating customer assignments

Allocation methods

Delivery and payment /settlement date

Workpapers and documentary materials regarding assignment notices

AMEX Rules

Rule 981—Allocation of exercise notices

Rule 982—Delivery and payment

CBOE Rules

Rule 11.2—Allocation of exercise notices

Rule 11.3—Delivery and payment

NASD Rules

Rule 2860(b)(23)(C)—Allocation of exercise assignment notices

NYSE Rules

Rule 781—Allocation of exercise assignment

PCX Rules

Rule 6.25—Allocation of exercise assignment

PHLX Rules

Rule 1043—Allocation of exercise notices

2.7.3 Obligations of Floor Personnel

Specialists

Order Book Official (OBO)

Market makers/ Registered Option Traders (ROT's)

Limited Trading Permits (LTP's – for indices only)

Designated Primary Market Maker (DPM)

Lead Market Maker

Agency capacity

Principal capacity

Cabinet trading

Supervision of specialist/OBO

.01 per lot

Time priority

Not reported to vendors

Off-floor accommodations

AMEX Rules

- Rule 950(f)—Orders left with specialist
- Rule 950(g) —Representation of orders
- Rule 950(n) —Registration and functions of specialists
- Rule 958—Options transactions of registered traders
- Rules 959—Accommodation transactions

CBOE Rules

- Rule 6.54 – Accommodation liquidations
- Rule 6.73 – Responsibilities of floor brokers
- Rule 8.4—Remote market makers
- Rule 8.8 – Restriction on acting as market maker and floor broker
- Rule 8.85—DPM obligations

PCX Rules

- Rule 6.37 – Obligations of market makers
- Rule 6.46 – Responsibilities of floor brokers

NASD Rules

- Rule 2860(b)(24) – Options transactions and reports by market makers in

listed securities

NYSE Rules

- Rule 756 – Transaction off the exchange
- Rule 759 – Accommodation transactions

PCX Rules

- Rule 6.37—Obligations of market makers
- Rule 6.46—Responsibilities of floor brokers

PHLX Rules

- Rule 1059—Accommodation transactions

2.8 Clearance, Transaction Review and Settlement Procedures

- **Ensure registered representatives understand and are able to explain to customers the settlement procedures, e.g., prompt receipt and delivery, affirmative determination, denominations of delivery, assignments, ex-dividend transactions, etc.**
- **Ensure proper documentation is obtained for settlement**
- **Ensure proper handling of customer requests to transfer accounts**
- **Review erroneous transactions for proper resolution**

2.8.1 OCC Clearance Procedures

2.8.1.1 Daily Position Report

- Trades compared from previous business day
- Net premium balance due to or from OCC for all settled transactions
- All exercises and assignments
- All daily activity

2.8.1.2 Daily Margin Report

- Amount of margin on deposit, amount of margin required, margin excess or deficit, acceptable forms of margin
- Underlying stock
- Un-segregated long positions (spread margin)
- Cash or equivalent, T-bills, Letter of Credit

2.8.1.3 Depository Record

2.8.1.4 Advisory In-the-Money Report

2.8.2 Transaction Review

2.8.2.1 Position adjustments

Trade adjustments form

Unmatched adjustment report

Types of errors

Account type errors (firm/customer)

Trade type error (open/close)

AMEX Rules

Rule 129—Price Binding Despite Erroneous Report

Rule 152—Taking or supplying stock to fill customer's order

Rule 731—Resolution of uncomparing transactions

Rule 970—Comparison of option transactions excluded from clearance

CBOE Rules

Rule 6.52—Price binding despite erroneous report

NASD Rules

Rule 11890—Clearly erroneous transactions

NYSE Rules

Rule 134(a)—Differences and omissions: cleared transactions (QTs)

Rule 411—Erroneous reports

PCX Rules

Rule 6.70—Price binding despite erroneous report

2.8.3 Settlement Practices

2.8.3.1 Settlement and delivery requirements

AMEX Rules

Rule 752 – Failure to deliver

Rule 753—Payment on delivery

Rule 982 – Delivery and payment

NASD Rules

Rule 3370—Purchases

Rule 11550—Assignments and powers of substitutions; Delivery of registered securities

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

NYSE Rules

Rule 198—Signatures

Rule 199—Corporate assignments

Rule 200—Assignments - by member organizations

Rule 201—Assignments - by persons since deceased, trustees, guardians, etc.

Rule 207—Two or more names

National Medallion Signature Guarantee Program

PHLX Rules

Rule 1044—Delivery and payment

2.8.3.2 Account transfer requirements

CBOE Rules

Rule 9.20—Transfer of accounts

NASD Rules

Rule 11870—Customer account transfer contracts

IM-2110-7—Interfering with the transfer of customer accounts in the context of employment disputes

NYSE Rules

Rule 412—Customer account transfer contracts

3.0
Supervision of Employees, Business Conduct, and
Recordkeeping and Reporting Requirements

3.1 Hiring, Qualifications and Continuing Education

- **Ensure that registered representatives' Form U4s are current**
- **Ensure that state registration requirements for agents and investment advisers are met**
- **Ensure that registered representatives are adequately trained with respect to options**
- **Initiate pre-hire investigations**
- **Review new employees' previous registration and work history**
- **Supervise registered representatives' compliance with Continuing Education requirements**

3.1.1 Qualification and Registration Requirements

- 3.1.1.1 Registered Representative (RR)
 - Persons required to be registered
 - Terminations
- 3.1.1.2 General Securities Sales Supervisor (BM or SU)
 - Persons required to be registered
 - Limitations on principal supervisory function
- 3.1.1.3 Registered Options Principal (ROP)
 - Persons required to be registered
 - Terminations
- 3.1.1.4 Compliance Registered Options Principal (CROP)
 - Designation of Compliance ROP
 - Conditions that require that CROP have no sales functions
- 3.1.1.5 Senior Registered Options Principal (SROP)
 - Designation of Senior ROP

AMEX Rule

Rule 920—Registration and examination of options personnel - Options principal

CBOE Rules

Rule 9.2—Registration of options principals

Rule 9.3—Registration and termination of representatives

Rule 9.6(b)—Branch offices of member organizations

Rule 9.8—Supervision of accounts

NASD Rules

Article III, Section 3—Ineligibility of certain persons for membership or association

Article V, Section 1—Qualification requirements

Rule 1022(f)—Registration of options principals

Rule 1032(d)—Registration of options representatives

NYSE Rules

Rule 345—Employees—registration, approval, records

- Rule 346—Limitations—employment and association with members and member organizations
- Rule 347—Controversies as to employment or termination of employment
- Rule 351—Reporting requirements
- Rule 720—Registration of options principals
- Rule 722(a)—Supervision of accounts, duty to supervise: SROP
- Rule 722(b)—Compliance registered options principal
- PCX Rule
 - Rule 9.26—Registration of Options Principals
 - Rule 9.18—Doing public business in options
 - Rule 9.27 (a)—Registration of Representatives
- PHLX Rules
 - Rule 604—Registration and termination of registered persons
 - Rule 1024(a)(i)—Registration of options principals
 - Rule 1024(a)(iii)—Foreign currency options—qualified customer personnel

3.1.2 Special Registration Review for Disciplinary History

3.1.2.1 Statutory Disqualification

AMEX Rules

- Rule 310(d) – Formation of or admission to member organization or membership owner
- Rule 341B – Independent contractors
- Rule 342(e) – Association of members, member organizations, and persons associated with member organizations
- Rule 353 – Regular and options principal membership and limited trading permit holders requirements
- Rule 356 – Member organizations

CBOE Rules

- Rule 3.18—Members and associated persons who are or become subject to a statutory disqualification

NASD By-Laws and Rules

- Article 3 Sec.4—Definition of disqualification

NYSE Rules

- Rule 345.11—Investigation and records
- Rule 346(f)—Statutory disqualification

Securities Exchange Act of 1934

- Sec. 3(a)(39)—Definition of “statutory disqualification”

3.1.3 Continuing Education for Registered Persons

3.1.3.1 Regulatory element

AMEX Rules

- Rule 341A(a)—Regulatory element

CBOE Rules

- Rule 9.3A(a) and (b)—Regulatory element

NASD Rules

- Rule 1120(a)—Regulatory element

NYSE Rules

- Rule 345A(a)—Regulatory element

PCX Rules
Rule 9.27(c)—Regulatory element
PHLX Rules
Rule 640(a)—Regulatory element

3.1.3.2 Firm element
AMEX Rules
Rule 341A(b)—Firm element
CBOE Rules
Rule 9.3A(c)—Firm element
NASD Rules
Rule 1120 (b)—Firm element
NYSE Rules
Rule 345A(b)—Firm element
PHLX Rules
Rule 640(b)—Firm element

3.2 General Supervision—Conduct of Associated Persons

- **Ensure compliance with firm written supervisory procedures and systems**
- **Monitor registered representatives' activities regarding gifts and gratuities**
- **Review possible outside business activities of registered representatives – obtain necessary approvals**
- **Review for possible private securities transactions by registered representatives (selling away)**
- **Review registered representatives' accounts and employee-related accounts held at other firms – ensure necessary approvals are obtained, review confirmations and statements**
- **Monitor trading activities for possible selling away**
- **Review customer accounts to determine that registered representatives are properly handling customer securities or funds**
- **Prevent improper use of customer assets**
- **Monitor and document third party transfer of securities or funds**
- **Monitor entry and allocation of block orders**
- **Ensure correct entry and handling of orders**
- **Review employee related accounts for any irregularities**
- **Review customer accounts to ensure that investments are consistent with stated objectives and risk tolerance**
- **Ensure that proper disclosures are made regarding nature of securities sold to a customer**

3.2.1 Business Conduct

AMEX Rules
Rule 16 – Business conduct
Article V, Section 4(h) – Violation of constitution, rules or resolution-inequitable conduct
CBOE Rules
Rule 4.1—Just and equitable principles of trade
NASD Rules

- Rule 2110—Standards of commercial honor and principles of trade
- Rule 2420—Dealing with non-members
- NYSE Rules
 - Rule 401—Business conduct
 - Rule 435(1)—Miscellaneous prohibitions
- PHLX Rules
 - Rule 707—Just and equitable principles of trade

3.2.2 Gifts and Gratuities

- AMEX Rules
 - Rule 347—Gratuities to employees of financial concerns
- CBOE Rules
 - Rule 4.4—Gratuities
- NASD Rules
 - Rule 3060—Influencing or rewarding employees of others
- NYSE Rules
 - Rule 350—Compensation or gratuities to employees of others

3.2.3 Outside Business Activities

- AMEX Rules
 - Rule 342 – Association of members, member organizations and persons associated with member organizations
- CBOE Rules
 - Rule 9.4—Other affiliations of registered associated persons
- NASD Rules
 - Rule 3030—Outside business activities of an associated person
 - Rule 3040—Private securities transactions of an associated person
- NYSE Rules
 - Rule 346(b)—Limitations – employment and association with members and member organizations

3.2.4 Non-cash Compensation

- NASD Rules
 - Rule 2710(e)—Valuation of non-cash compensation
 - Rule 2710(i)—Non-cash compensation

3.2.5 Sharing in Customer Accounts

- AMEX Rules
 - Rule 390—Assumption of loss prohibited
- CBOE Rules
 - Rule 9.18—Guarantees and profit sharing
 - Rule 9.19—Assuming losses
- NASD Rules
 - Rule 2330(e)—Prohibition against guarantees
 - Rule 2330 (f)—Sharing in accounts; extent permissible
- NYSE Rules

Rule 352—Guarantees and sharing in accounts

3.2.6 Transactions with Customers

CBOE Rules

Rule 9.25—Borrowing from or lending to customers

NASD Rules

Rule 2370—Borrowing from or lending to customers

3.2.7 Transactions with Other Professionals

AMEX Rules

Rule 415—Member's transactions with another member organization

CBOE Rules

Rule 9.17—Transactions of certain customers

NASD Rules

Rule 3050—Transactions for or by associated persons

NYSE Rules

Rule 407—Transactions of employees of members, member organizations and the Exchange

Rule 407A—Disclosure of all member accounts

PHLX Rules

Rule 751—Accounts of employees of members of participating organizations

3.3 Customer Complaints

- **Review and investigate customer complaints (oral and written)**
- **Document and keep records of customer complaints**
- **Ensure that complaints are forwarded to main office within prescribed time frames**
- **Comply with firm and SRO reporting requirements**
- **Ensure that options related complaints are segregated and forwarded to main office within prescribed time**

3.3.1 Handling Customer Complaints and Reporting Requirements

Complaints must be kept in a central file/log

Branch offices must forward complaint to the central file no later than 30 days after receipt

Copies of complaints must be maintained at the branch office

AMEX Rules

Rule 341 Commentary .09—Termination of employment – Form U5 Filing

Rule 932—Customer complaints

CBOE Rules

Rule 4.9—Disciplinary action by other organizations

Rule 9.3(b)—Termination – reporting of U-5s

Rule 9.3(c)—Termination – filing of amended U-5s

Rule 9.23—Customer complaints

NASD Rules

Rule 3110(d)—Record of written complaints

Rule 3110(e)—“Complaint” defined

Rule 3070—Reporting requirements

NYSE Rules

Rule 351(a)(2)(8)—Reporting requirements

Rule 401A—Customer complaints

Rule 732—Customer complaints

PHLX Rules

Rule 1070—Customer complaints

3.4 Disciplinary Proceedings and Arbitration/Mediation

- **Ensure that registered representatives understand the consequences of failure to comply with industry regulations**
- **Disclose to associated persons the effect of signing a pre-dispute arbitration clause**
- **Understand matters subject to arbitration**
- **Understand the difference between arbitration and mediation processes**
- **Ensure compliance with rules pertaining to suspended associated persons**

3.4.1 Investigations, Sanctions and Disciplinary Proceedings

AMEX Rules

Article V of AMEX Constitution

Sec.1—Assistance of counsel permitted

Sec.2—Delegation of disciplinary power

Sec.4—Suspension or expulsion

Sec.6—Retention of jurisdiction over former members

Rules of Procedure in Disciplinary Matters Rules 1 through 12

American Stock Exchange Sanction Guidelines Overview, et. seq.

CBOE Rules

Rule 17.1—Disciplinary jurisdiction

Rule 17.2—Complaint and investigation

Rule 17.3—Expedited proceeding

Rule 17.4—Charges

Rule 17.7—Summary proceedings

Rule 17.8—Offers of settlement

Rule 17.11—Judgment and sanction

NASD Rules

Rule 8000—Investigations and sanctions

Rule 8210—Provisions of information and testimony and inspection and copying of books

Rule 8310—Sanction for violation of the rules

Rule 8320—Payment of fines, other monetary sanctions, or costs; summary action for failure to pay

Rule 9200 Series—Disciplinary proceedings

Rule 9300 Series—Review of disciplinary proceeding by National Adjudicatory Council and NASD Board; application for Commission review

Rule 9800—Temporary cease and desist orders

NYSE Rules

Rule 475—Prohibition or limitation

Rule 476—Disciplinary proceedings

Rule 476A—Imposition of fines for minor violations of rules

Rule 477—Retention of jurisdiction—failure to cooperate

PCX Rules

Rule 10—Disciplinary proceedings and appeals

PHLX Rules

Rule 960—Disciplinary Rules

3.4.2 Arbitration and Mediation Procedures

AMEX Rules

Rule 600—Arbitration

CBOE Rules

Chapter XVIII—Arbitration

NASD Rules

Rule 3080—Disclosure to associated persons when signing Form U-4

Rule 10100—Administrative provisions

Rule 10200—Industry and clearing controversies

Rule 10300—Uniform code of arbitration

Rule 10400—Mediation rules

NYSE Rules

Rule 347(a)—Controversies as to employment or termination of employment

Rule 600—Arbitration

Rule 636—Requirements when using pre-dispute arbitration agreements with customers

Rule 638—Mediation

PHLX Rules

Rule 950—Arbitration

3.5 Recordkeeping and Reporting Requirements

- **Comply with firm and regulatory requirements regarding review of correspondence, complaints and records**
- **Comply with all document retention requirements, including any action taken**
- Ensure compliance with SRO filing requirements; such as, reports related to position limits; uncovered short positions; market maker accounts; activity in market maker accounts; etc.

3.5.1 Books and Records

AMEX Rules

Amex Constitution Article XI Section 3 – Keeping of books

Rule 31—Requests for books, papers, records or testimony

Rule 153 – Record of orders

Rule 302 – Provisions with respect to books of account

Rule 324 – Books and records

Rule 922(b)—Maintenance of customer records

CBOE Rules

Rule 15.1—Maintenance, retention and furnishing of books, records and other information

NASD Rules

Rule 2860(b)(17)—Maintenance of records

Rule 3110—Books and records

NYSE Rules

Rule 410(a)(1-4)—Records of orders

Rule 440—Books and records

PHLX Rules

Rule 760—Maintenance, retention and furnishing of books records and other information

Securities Exchange Act of 1934

Rule 17a-3—Records to be made by certain exchange members, brokers and dealers

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

Rule 17a-5—Reports to be made by certain brokers and dealers

Rule 17a-8—Financial record keeping and reporting of currency and foreign transactions

Rule 17f-1—Requirements for reporting and inquiry with respect to missing, lost, counterfeit or stolen securities

3.6 Securities Investor Protection Act and SIPC Rules

- **Know coverage limits for various types of accounts**
- **Know advertising requirements by members of SIPC**

3.6.1 Securities Investor Protection Act and SIPC Rules Thereunder

Sample Questions

The questions that appear on the following pages 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 acquaint candidates and training personnel with the types of multiple-choice questions that will appear on the examination.

Answers

1. (B)
2. (B)
3. (C)
4. (C)

Questions

1. Which two of the following are TRUE regarding a firm's minimum net equity requirements, both initial and maintenance, for uncovered options transactions?
 - I. They may exceed regulatory requirements.
 - II. They are determined by the level of customer activity in the account.
 - III. They must be maintained as part of the written policies of the member firm.
 - IV. They must match regulatory requirements.
 - (A) I and II
 - (B) I and III
 - (C) II and IV
 - (D) III and IV

2. A customer with no other cash or securities in the account sells one XYZ Jul 100 call for 10 and buys 100 shares of XYZ at \$105 per share. What is the market price per share of XYZ stock at which the customer breaks even?
 - (A) \$ 90
 - (B) \$ 95
 - (C) \$110
 - (D) \$115

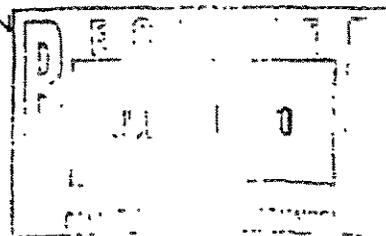
3. How long must advertisements, market letters and sales literature issued by a member organization pertaining to listed options be retained and readily available for inspection?
 - (A) 6 months
 - (B) 1 year
 - (C) 3 years
 - (D) 5 years

4. A customer buys 1 XYZ Oct 50 put at a premium of \$7 and subsequently exercises the put with stock purchased at \$40 per share. For Federal income tax purposes, the sale proceeds upon exercise of the put are equal to
 - (A) \$3,300
 - (B) \$4,000
 - (C) \$4,300
 - (D) \$5,000



DIVISION OF
MARKET REGULATION

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549



July 24, 2000

Mr. Alden S. Adkins
Senior Vice President & General Counsel
NASD Regulation, Inc.
1735 K Street, N. W.
Washington, D.C. 20006-1500

Re: Procedure for Filings Relating to Qualification Examinations

Dear Mr. ^{Adkins} Adkins:

I am writing to inform you of a change in the filing requirements for proposed rule changes involving qualification examinations for associated persons. In the past, the Division required the SROs to file question banks for new examinations for Commission approval pursuant to Section 19(b)(2) of the Exchange Act. The Division also required SROs to file questions being added to the question bank for Commission approval.

The Division has decided that it is no longer necessary for SROs to file new exam question banks for Commission approval under Section 19(b)(2). In the future, any new examinations should be filed as non-controversial rule changes for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange Act and Rule 19b-4(f)(6) thereunder. As you know, Rule 19b-4(f)(6) requires the SRO to give notice to the Commission of its intent to file a proposed rule change five days before doing so. During the five days prior to filing, the Division will determine if the proposed rule change is appropriately filed as non-controversial. To assist us in our analysis, please include a complete description of the examination in your rule filing. For example, the proposed rule change should address who will be required to take the exam, what information the exam will cover, the time allotted for each section, the weight assigned to each topic, the effective date of the exam requirement, and any other information that would be helpful to us in determining whether the proposal should become effective on filing. Also, pursuant to Rule 19b-4(f)(6), the rule change should be designated as effecting a change that does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition and, by its terms, does not become operative for 30 days after the date of the filing.

Alden S. Adkins
Page 2

Filings to modify an existing examination should be submitted as "constituting a stated policy, practice, or interpretation with respect to the meaning, administration or enforcement of an existing rule..." pursuant to Section 19(b)(3)(A) of the Exchange Act.

Our goal in changing these procedures is to expedite the effectiveness of proposed rule changes involving examination requirements for persons associated with SRO members. Please contact Kathy England, Assistant Director, at 202-942-0154, or Karl Varner, Special Counsel, at 202-942-7125, if you have any questions.

Sincerely,



Belinda Blaine
Associate Director