

Proposed Rule Change by Financial Industry Regulatory Authority
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"/>
--	---

Description
Provide a brief description of the proposed rule change (limit 250 characters).

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="Assistant General Counsel"/>		
E-mail	<input type="text" value="afshin.atabaki@finra.org"/>		
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 officer.

Date

By (Name) (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.

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 Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a 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 Representative—Options (Series 42) examination program.² The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and responsibilities of a Limited Representative—Options. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of FINRA.

The revised study outline is attached. The Series 42 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to Rule 24b-2 under the Act.³

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

¹ 15 U.S.C. 78s(b)(1).

² FINRA also is proposing corresponding revisions to the Series 42 question bank, but based upon instruction from the Commission staff, FINRA is submitting SR-FINRA-2007-029 for immediate effectiveness pursuant to Section 19(b)(3)(A) 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.

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 FINRA (then known as NASD) had an opportunity to review that action at its meeting on January 25, 2001. No other action by FINRA is necessary for the filing of the proposed rule change.

As further discussed below, FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the revised Series 42 examination program on February 12, 2008. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice (“Notice”) to be published on the same date as this filing.

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

(a) Purpose

Section 15A(g)(3) of the Act⁴ requires FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with that provision, FINRA has developed examinations, and administers examinations developed by other self-regulatory organizations, that are designed to establish that persons associated with FINRA members have attained specified levels of competence and knowledge. FINRA periodically reviews the content of the examinations to

⁴ 15 U.S.C. 78o-3(g)(3).

determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

Pursuant to NASD Rule 1032(d), each associated person of a member who is included within the definition of representative in NASD Rule 1031(b) may register with FINRA as a Limited Representative—Options and Security Futures if: (1) the individual's activities in the investment banking and securities business of the member are limited solely to the solicitation or sale of option or security futures contracts, including option contracts on government securities as that term is defined in Section 3(a)(42)(D) of the Act, for the account of a broker-dealer or public customer; (2) the individual also registers as either a Limited Representative—Corporate Securities (Series 62) or Limited Representative—Government Securities (Series 72); (3) the individual passes the Series 42 qualification examination; and (4) the individual completes a firm element continuing education program that addresses security futures before engaging in any security futures business.

A committee of industry representatives, together with FINRA staff, recently undertook a review of the Series 42 examination program. As a result of this review, FINRA is proposing to make revisions to the study outline to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and responsibilities of a Limited Representative—Options.

Among other revisions, FINRA is proposing to add sections on NASD IM-2110-7 (Interfering With the Transfer of Customer Accounts in the Context of Employment

Disputes) and NASD Rules 2370 (Borrowing From or Lending to Customers) and 2790 (Restrictions on the Purchase and Sale of Initial Equity Public Offerings).

As a result of the revisions discussed above, FINRA is proposing to decrease the number of sections covered by the Series 42 outline from five to four. Further, FINRA is proposing to modify the section headings and the number of questions on each section of the outline as follows: Section 1, Terminology, Types of Options, Investment Strategies and Taxation, 20 questions; Section 2, Handling Options Accounts, 14 questions; Section 3, Trading and Settlement Practices, 10 questions; and Section 4, Qualifications and Business Conduct of Registered Options Representatives, Reporting and Recordkeeping Requirements, 6 questions.

FINRA is proposing similar changes to the Series 42 selection specifications and question bank. The number of questions on the Series 42 examination will remain at 50, and candidates will continue to have 1½ 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.

(b) Statutory Basis

FINRA believes that the proposed revisions to the Series 42 examination program are consistent with the provisions of Sections 15A(b)(6)⁵ and 15A(g)(3) of the Act,⁶ which authorize FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members.

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

⁵ 15 U.S.C. 78o-3(b)(6).

FINRA 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.

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 Act⁷ and Rule 19b-4(f)(1) thereunder,⁸ 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 FINRA. FINRA proposes to implement the revised Series 42 examination program on February 12, 2008. FINRA will announce the implementation date in a Notice to be published on the same date as this filing.

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

Not applicable.

9. Exhibits

⁶ 15 U.S.C. 78o-3(g)(3).

⁷ 15 U.S.C. 78s(b)(3)(A)(i).

⁸ 17 CFR 240.19b-4(f)(1).

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

Exhibit 3a. Revised Study Outline for the Series 42 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 42 Examination.

FINRA has requested confidential treatment for the Series 42 revised selection specifications, and thus the specifications are omitted from this filing. The Series 42 revised selection specifications have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.⁹

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.

⁹ 17 CFR 240.24b-2.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-FINRA-2007-029)

Self-Regulatory Organizations: Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Revisions to the Series 42 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 , Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a 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 FINRA. FINRA 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).

FINRA is filing revisions to the study outline and selection specifications for the Limited Representative—Options (Series 42) examination program.⁵ The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and responsibilities of a Limited Representative—Options. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of FINRA.

The revised study outline is attached. The Series 42 selection specifications have been submitted to the Commission under separate cover 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, FINRA 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. FINRA has prepared summaries, set forth in 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

⁵ FINRA also is proposing corresponding revisions to the Series 42 question bank, but based upon instruction from the Commission staff, FINRA is submitting SR-FINRA-2007-029 for immediate effectiveness pursuant to Section 19(b)(3)(A) 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.

Section 15A(g)(3) of the Act⁷ requires FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with that provision, FINRA has developed examinations, and administers examinations developed by other self-regulatory organizations, that are designed to establish that persons associated with FINRA members have attained specified levels of competence and knowledge. FINRA 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.

Pursuant to NASD Rule 1032(d), each associated person of a member who is included within the definition of representative in NASD Rule 1031(b) may register with FINRA as a Limited Representative—Options and Security Futures if: (1) the individual's activities in the investment banking and securities business of the member are limited solely to the solicitation or sale of option or security futures contracts, including option contracts on government securities as that term is defined in Section 3(a)(42)(D) of the Act, for the account of a broker-dealer or public customer; (2) the individual also registers as either a Limited Representative—Corporate Securities (Series 62) or Limited Representative—Government Securities (Series 72); (3) the individual passes the Series 42 qualification examination; and (4) the individual completes a firm element continuing education program that addresses security futures before engaging in any security futures business.

A committee of industry representatives, together with FINRA staff, recently

⁶ 17 CFR 240.24b-2.

⁷ 15 U.S.C. 78o-3(g)(3).

undertook a review of the Series 42 examination program. As a result of this review, FINRA is proposing to make revisions to the study outline to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and responsibilities of a Limited Representative—Options.

Among other revisions, FINRA is proposing to add sections on NASD IM-2110-7 (Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes) and NASD Rules 2370 (Borrowing From or Lending to Customers) and 2790 (Restrictions on the Purchase and Sale of Initial Equity Public Offerings).

As a result of the revisions discussed above, FINRA is proposing to decrease the number of sections covered by the Series 42 outline from five to four. Further, FINRA is proposing to modify the section headings and the number of questions on each section of the outline as follows: Section 1, Terminology, Types of Options, Investment Strategies and Taxation, 20 questions; Section 2, Handling Options Accounts, 14 questions; Section 3, Trading and Settlement Practices, 10 questions; and Section 4, Qualifications and Business Conduct of Registered Options Representatives, Reporting and Recordkeeping Requirements, 6 questions.

FINRA is proposing similar changes to the Series 42 selection specifications and question bank. The number of questions on the Series 42 examination will remain at 50, and candidates will continue to have 1½ 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.

2. Statutory Basis

FINRA believes that the proposed revisions to the Series 42 examination program

are consistent with the provisions of Sections 15A(b)(6)⁸ and 15A(g)(3) of the Act,⁹ which authorize FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members.

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

FINRA 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.

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 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 the self-regulatory organization. FINRA proposes to implement the revised Series 42 examination program on February 12, 2008. FINRA will announce the implementation date in a Regulatory Notice to be published on the same date as this filing.

⁸ 15 U.S.C. 78o-3(b)(6).

⁹ 15 U.S.C. 78o-3(g)(3).

¹⁰ 15 U.S.C. 78s(b)(3)(A)(i).

¹¹ 17 CFR 240.19b-4(f)(1).

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-FINRA-2007-029 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2007-029. 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. Copies of such filing also will be available for inspection and copying at the principal office of FINRA.

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 File Number SR-FINRA-2007-029 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.¹²

Nancy M. Morris

Secretary

¹² 17 CFR 200.30-3(a)(12).



Registered Options Representative Qualification Examination (Test Series 42)

Study Outline

INTRODUCTION

The Series 42 examination is a pure options examination that is used to qualify a candidate as a registered options representative. A co-requisite to registration as a Series 42 representative is registration as a Limited Representative—Corporate Securities (Series 62) or Limited Representative—Government Securities (Series 72). The Series 42 examination is composed of four major sections as follows:

Section	Title	Number of Questions
1	Terminology, Types of Options, Investment Strategies and Taxation	20
2	Handling Options Accounts	14
3	Trading and Settlement Practices	10
4	Qualifications and Business Conduct of Registered Options Representatives; Reporting and Recordkeeping Requirements	6
Total		50

The Series 42 examination is comprised of 50 questions. Candidates have 1½ hours to complete the exam. A score of 70% correct is required to receive a passing grade. 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.

Unless a question specifically asks about conventional OTC options, all questions should be read and answered as they would apply to exchange listed standardized options. Also, unless a question is specifically worded to the contrary, all questions involving calculations exclude commissions and other transaction cost considerations. A sample of test questions follows the text of this outline as a means of familiarizing candidates with the formats of questions that may appear on the Series 42.

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.

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

REFERENCES

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. Options educational material may be obtained by contacting the following organizations:

Dictionary of Finance and Investment Terms

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

Options, Futures, and Other Derivative Securities

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

Getting Started in Options, 6th ed.
Michael C. Thomsett
John Wiley Publishers, Inc.
111 River Street
Hoboken, NJ 07030

Securities Act Handbook

Aspen Publishers
111 Eighth Avenue
New York, NY 10011

How I Trade Options
Jon Najarian
John Wiley Publishers, Inc.
111 River Street
Hoboken, NJ 07030

The Stock Market

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

An Introduction to Options Trading
Frans de Weert
John Wiley Publishers, Inc.
111 River Street
Hoboken, NJ 07030

Other publications are available through the FINRA Web Site:

Compliance Checklist
NASD Guide to Rule Interpretations
Notices to Members
NASD Sanctions Guidelines

NASD Manual

1735 K Street, N.W.
Washington, D.C. 20006
Phone: (202) 590-6500
www.finra.org

Other Websites:

www.cboe.com
www.theoptionsinstitute.com
www.1888options.com
[/www.law.uc.edu/CCL/xyz/sldtoc.html](http://www.law.uc.edu/CCL/xyz/sldtoc.html)

1.0

Terminology, Types of Options, Investment Strategies and Taxation

1.1 Terminology

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

1.1.1 Basic Definitions

Type

Classification of an option as either a put or a call

Call

Gives the buyer (holder) the right to purchase underlying instrument at a fixed price until a specified expiration date

Obligates the writer (seller), if assigned, to sell the underlying instrument at the exercise price

Put

Gives the buyer (holder) the right to sell a particular underlying instrument at a fixed price until a specified expiration date

Obligates the writer (seller), if assigned, to buy the underlying instrument at the exercise price

Class

All options of the same type covering the same underlying instrument

Series

Put or call options of the same class having the same strike price and expiration month

1.1.2 Options Nomenclature

Options Clearing Corporation (OCC)

Issuer and guarantor of listed options contracts

Serves as clearing agency for all listed options

Provides the Option Disclosure Document

Strike price (exercise price)

The price per unit at which the holder of an option may purchase (in the case of a call option) or sell (in the case of a put option) the underlying instrument

Strike Price Intervals – General Understanding

Dependent on the price level of the stocks

Usually vary from 2 1/2 to 10

Vary according to contract

Expiration date

Equity and index options

The date that the right to buy or sell the underlying instrument terminates

Saturday following the third Friday of the expiration month

Foreign currency options

Firms and exchanges may set deadlines for last trade orders in spot expiration options

11:59 p.m. EST on the Saturday preceding the third Wednesday of the settlement date of the option

Expiration Cycles

Cycles vary according to the underlying issue and exchange

Exercise

The use of the holder's right to buy or sell the underlying instrument

Exercise style

European style— can be exercised only on expiration date

American style - can be exercised anytime up to and including expiration date

Exercise/Assignment Settlement

Equity options

By delivery or receipt of the underlying securities three business days after exercise

Index options

For cash delivery or receipt of the underlying securities – T+1

By cash payment on the next business day

Settlement amount is the difference between strike price and index closing value

Foreign currency options

Assignment

The option writer is required to fulfill the contractual obligation by delivering the underlying instrument, in the case of a call, or to take delivery of the underlying instrument, in the case of a put

Premium

Price paid or received for a call or a put option

Factors affecting options premiums

Current price of underlying instrument

Exercise price of option

Time remaining

Volatility of underlying instrument

Dividend rate

Current interest rates or yield curve

Prevailing market conditions

In-the-money

When the strike of a call is less than the current price of the underlying instrument, or the strike price of a put is greater than the current market price of the underlying instrument

Parity

When an in-the-money option's premium equals its intrinsic value

Out-of-the-money

When the strike price of a call is greater than the current price of the underlying instrument or the strike price of a put is less than the current price of the underlying instrument

Intrinsic value

The in-the-money amount of an option premium

Time value

The portion of an option premium that exceeds the intrinsic value relative to the time left on the option

Opening transaction

- The buying or selling of an option that initiates or increases a position
- Closing transaction
 - The buying or selling of an option that eliminates or decreases a position
 - A closing sell (buy) that offsets the opening buy (sell)
- Open interest
 - The total number of options currently outstanding in any series, class, or type
- Opening rotation
 - Upon the opening of the options market, the order book official (OBO) or specialist is required to conduct trading rotations which consist of calling for bids and offers from the crowd for each option series
- Closing rotation
 - Conducted in order to establish a closing price or quote for each option series that is representative of its relationship to the price of the underlying instrument
- Position and exercise limits
 - The maximum number of contracts on the same side of the market in the same underlying security that an individual or group of individuals acting in concert may control
 - Long put and short call positions are aggregated
 - Long call and short put positions are aggregated
- Covered call
 - A writer is covered if long one of the following:
 - The underlying instrument or securities convertible into the underlying instrument without the payment of money
 - A call option with the same or lower strike price that expires on or after the short call
 - A specific deposit, escrow receipt, or guarantee letter equal in quantity or value of the underlying shares represented by the contract
- Covered put
 - A writer is covered if long one of the following:
 - A put with the same or higher strike price expiring on or after the short put
 - A short put covered by cash sufficient to pay for the full assignment of the underlying security
 - An escrow receipt or option guarantee letter
- Uncovered (naked) call writer
 - A call writer is uncovered when he does not own either the underlying instrument upon which the option is written, a long call of the same class with an equal or lower strike price, or an escrow receipt (potentially unlimited risk)
- Uncovered (naked) put writer
 - A put writer is uncovered when he does not hold a long put of the same class with an equal or higher strike price, or an option guarantee letter
- Spread
 - Long and short positions in different series of the same class at the same time
 - Debit spread - when the cost of the option purchased is more than the proceeds of the option sold
 - Credit spread - when the proceeds of the option sold exceed the cost of the option purchased
- Types of Spread

- Bull spread
- Bear spread
- Time spread
- Diagonal spread
- Variable spread
- Butterfly spread
- Box spread
- Reverse conversion
- Collars
- Reverse collars

Straddle

A put and call (either both long or both short) on the same underlying instrument with the same exercise price and the same expiration month

Combination

A put and a call (either both long or both short) on the same underlying instrument with different exercise prices and/or expiration dates

Ratio writing/spreading

A strategy where more short options are held than either long options or the underlying instrument (part of the position is uncovered)

Hedges

Strategies used to offset investment risk

1.1.3

NASD Rule

- Rule 2522—Definitions
- Rule 2842—Definitions
- Rule 2860(b)(2)—Definitions
- Rule 2871—NASDAQ index options—definitions
- IM-2860-1—Position limits
- Rule 2860(b)(4)—Exercise limits
- Rule 2860(b)(23)(A)—Exercise of options contracts
- Rule 2860(b)(23)(E)—Exercise of NASDAQ index option contracts

1.2 Types of Options

1.2.1 Equity Options

1.2.1.1

Underlying Securities

Common stocks listed on exchanges

1.2.1.2

Selection/Withdrawal Process - General Understanding

Options listings determined by exchanges
New series may not be offered if stocks become relatively low-priced, closely held, or inactive

1.2.1.3

Adjustment to Terms

Cash dividends - no adjustment
Stock dividends –
Adjusted exercise price, adjusted number of shares
Stock splits

Less than 100 share multiples: adjusted exercise price, adjusted number of shares

Stock splits

Multiples of 100 shares: split contracts, adjusted exercise price

Spin-offs, rights, and warrants –

Adjusted to reflect security distribution exercise price and number of shares rounded to the next lowest whole share

1.2.2 Foreign Currency Options

1.2.2.1 Underlying Currencies

Interbank market

Spot transactions settle in 2 business days

Forward transactions settle in more than 2 business days

Forward exchange rates differ from spot

Exchange rates

European terms - reciprocal relationship, unit of foreign currency per \$1

U.S. terms – reciprocal relationship, U.S. dollars per unit of foreign currency

1.2.2.2 NASD Rules

Rule 2840—Trading in index warrants, currency index warrants, currency warrants

Rule 2841(a)—Applicability

1.2.3 Index Options

1.2.3.1 Underlying Securities

An index or group of securities intended to reflect movement in the market or a particular industry or sector

Broad-based index

Tracks a specific segment of the market or the market as a whole

Narrow-based index

A sector-based index meant to reflect movement in a particular industry group or sector of the economy

Exchange traded funds (ETFs) and holders

Volatility index (VIX)

1.3 Investment Strategies for Various Market Scenarios

- **Understand appropriate investment strategies for customers**

1.3.1 Strategies Based on Market Outlook

1.3.1.1 Neutral

Covered call writing (at market)

Straddle writing

Combination writing

1.3.1.2 Bullish

Covered call writing (above market)

Uncovered put writing

Call purchasing
Long stock/long put
Bull spreading

- 1.3.1.3 Bearish
Uncovered call writing
Put purchasing
Bear spreading

1.3.2 Using Puts or Calls

- 1.3.2.1 Call buying strategies
Alternative to buying the underlying security
To lock-in a purchase price
To hedge a short sale

- 1.3.2.2 Put buying strategies
To hedge a long position
Alternative to short sale

- 1.3.2.3 Covered call writing concepts
Increase yield
Hedge a position
Rolling

- 1.3.2.4 Put writing concepts
Increase income
Acquire stocks below current prices

1.3.3 Other Strategy Considerations

- 1.3.3.1 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

1.4 Calculation of Profit, Loss and Breakeven

- Know how to calculate profit, loss and breakeven points of various strategies
- Recognize uneconomic trades

1.4.1 Ability to calculate potential profit, loss, and breakeven point

Profit or loss will fluctuate due to market activity until the position is closed-out or expires
Uneconomic trades

1.5 Taxation

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

1.5.1 General Concepts

Identification of securities

Holding periods of securities

Wash sale rules

Applicable time period of 30 days prior to and after a sale

Definition of "substantially identical" property

Case by case determination by IRS

General guidelines

Securities of different corporations - not normally considered substantially identical securities

Each option series is deemed a different type of security

1.5.2 Tax Treatment of Listed Put and Call Options

1.5.2.1 Options purchased by investors

Impact of a put purchase on the holding period of the underlying security

Closing sale of options

Proceeds minus cost equals gain or loss

Holding period determines short or long-term nature

Expired options

Expiration date treated as sale date

Premium equals amount of loss

Exercised call options

Addition of call premium to cost basis of acquired security

Exercised put options

1.5.2.2 Options written by investors

Closing purchase of options

Short-term gain or loss

Expired options

Short-term gain treatment of premiums received

Exercised put option

Exercise price minus premium equals cost basis of acquired security

Holding period of acquired stock begins on day following exercise of put

Exercise of call option

Sale proceeds from stock plus call premium equals proceeds of transaction for tax purposes

Gain or loss established by subtracting original cost basis of security sold from total sale proceeds of transaction

Qualified versus unqualified for tax purposes

2.0

Handling Options Accounts

2.1 Customer Accounts

2.1.1 New Options Account Information

- 2.1.1.1 Essential facts necessary from the customer
 - Marital status
 - Age
 - Investment objectives
 - Financial situation
 - Employment status
 - Estimated annual income
 - Estimated net worth
 - Estimated liquid net worth
 - Investment experience and knowledge
 - NASD Rule IM-2860-2— Diligence in opening options accounts
- 2.1.1.2 ROP approval based on evaluation of essential facts obtained from the customer
 - Approval required not later than the time an initial option order is accepted for the account
 - Options account approval may be limited to certain strategies
 - NASD Rule 2860(b)(16)(C)—Diligence in opening accounts
- 2.1.1.3 Risk Disclosure Documents
 - Delivery requirements
 - Delivered to customer at or prior to the initial approval of the account
 - Special statement for uncovered options writers
 - NASD Rule 2860(b)(11)—Delivery of current disclosure documents

2.1.2 Customer Account Documentation

- Customer must agree that the agreement be handled 'in accordance with self-regulatory organizations' and OCC rules
- Customer must agree not to the violate position or exercise limits
- Verification of customer background and financial information

2.1.3 Discretionary Options Accounts

- 2.1.3.1 Accounts must be opened in accordance with securities industry rules and firm's policies and procedures
- 2.1.3.2 Authorization by the customer and approval by appropriate firm personnel required
 - Customer must authorize use of discretion in writing
 - Account must be accepted in writing by a ROP and approval reviewed by a Senior ROP

Each order must be approved and initialed by a ROP on the day of entry, and must be identified as discretionary at the time of entry
Frequent supervisory review of the account by the CROP
Excessive transactions prohibited
Options programs

Customer must be furnished with a written explanation of the nature and risks of such program

NASD Rule 2860(b)(18)—Discretionary accounts

2.2 Transactions in Options Accounts

2.2.1 Suitability of Recommendations

Assess customer's investment experience and knowledge
Clear understanding of customer's investment objectives
Need for customer understanding of options strategies and their inherent risks
Customer must be capable of meeting foreseeable margin calls with respect to both the option positions and any other portfolio security positions
Customer must be capable of meeting the obligation of option assignments
Financial ability to assume risk/loss
Potential for excessive transaction costs
Effects of certain options transactions on the tax holding periods of underlying stock positions
Consequences of exercise
Tax implications
Margin implications
Investment risks relative to customer's total portfolio
Prohibition against excessive trading activity
NASD Rules
Rule 2310—Recommendations to customers
IM2310-3—Suitability obligations to institutional customers
Rule 2860(b)(19)—Suitability

2.2.2 Types of orders

Market
Limit
Day
GTC
Stop
Stop limit
All-or-none
Spread
Straddle
Combination
Fill-or-kill
Immediate-or-cancel
Not held
At the close/At the open

2.2.3 Order tickets

NASD Rules

Rule 2860(b)(12)—Confirmations
Rule 3110(b)—Marking order tickets
Securities Exchange Act of 1934
Rule 10b-10—Confirmation of transactions

2.2.4 Prohibited Transactions

- 2.2.4.1 Transactions with issuers
Member may not accept a transaction for sale (writing) of call options on behalf of the issuer of the underlying security
NASD Rule 2860(b)(13)—Transactions with issuers
- 2.2.4.2 Transactions in restricted securities
Members may not accept transactions for covered calls in restricted securities
NASD Rule 2860(b)(14)—Restricted stock

2.3 Communications with Customers

- **Ensure that all advertisements, educational material and sales literature are approved in advance by the CROP**
- **Comply with recordkeeping and record retention requirements**
- **Understand the restrictions regarding the use of ‘internal use only’ sales material**
- **Observe telemarketing procedures, e.g., maintain ‘do not call’ list**

2.3.1 NASD Rule 2220—Options Communications with customers

Definitions

- Advertisement
- Educational material
 - Options disclosure document must be offered and delivered if requested by customer
 - Must be offered in advertisements and educational material.
 - Must precede or accompany sales literature
- Sales literature
 - Market letters
 - Research reports
 - Internal communications
 - Exchange-produced materials
 - Seminar texts
 - Worksheets
 - Telemarketing scripts
- Correspondence
- Institutional sales material

Approval by CROP and recordkeeping
FINRA approval requirements and review procedures
General standards

- Prohibitions against:
 - Untrue statements and material omissions
 - Promises of specific results or exaggerated claims
 - Hedge clauses or disclaimers
- Failure to meet general standards of good faith and fair dealing
- Communications that would constitute a prospectus

2.3.2 Statement of account to customers
NASD Rule 2860(b)(15)—Statements of account

2.4 Extension 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 the margin agreement**
- **Understand margin calculations**
- **Know how to calculate initial/maintenance call**
- **Understand mark to market to calculate amount of margin call**
- **Know what is required to meet margin calls**
- **Know the acceptable collateral deposits**
- **Understand portfolio margining**
- **Understand day trading requirements**

2.4.1 Regulatory Margin Requirements

Long-term options

Pay in full for each put or call

LEAPs—long-term options that expire in excess of nine months and have special margin treatment

Short options

100% of options proceeds plus 20% of underlying security value less out-of-the money amount, if any, to a minimum of option proceeds plus 10% of underlying security value in the case of a call option and 10% of the exercise price in the case of put options

Spreads

For a spread to qualify for margin, the short position must expire at or prior to the long position

For debit spreads, payment for the net debit must be made in full

For credit spreads, the difference between the exercise prices of the options

Straddle/Combination

For long put and long call, payment for the debit on each leg is required in full

Short put and short call

Short put or short call requirement, which ever is greater, increased by the current option premium of the other side

Covered put (short put and short the underlying security)

No requirement on short put; 50% initial requirement on stock position

Covered call (short call and long the underlying security)

No requirement on short call; 50% initial requirement on stock position

Short call and long marginable convertibles

No requirement on short call; 50% requirement on convertible security

Must be immediately convertible or exchangeable

The right to convert may not expire before the short call

Short call and long marginable warrants

No requirements on short call; 50% requirement on warrants plus amount by which exercise price of warrants exceeds option exercise price; long warrants may not expire before the short call
NASD Rule 2520—Margin Requirements

3.0

Trading and Settlement Practices

3.1 Trading Practices

- **Understand the roles and responsibilities of market participants**
- **Comply with relevant position/exercise limits**
- **Understand appropriate aggregation of accounts for reporting position limits, exercise limits, and large positions (acting in concert rules)**

3.1.1 Exchange Operations

Agency capacity
Principal capacity
Cabinet trading
.01 per lot (\$1.00 per contract)
Time priority
Not reported to vendors
Off-floor accommodations
NASD Rule 2860(b)(24) – Options transactions and reports by market makers in listed securities

3.1.2 Trading Rotation (General Understanding)

Opening
Closing
Business day prior to expiration
Intra-day
Reopen after halt

3.1.3 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

3.2 Exercise/Assignment of Options

- **Understand the mechanics of 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 of assignment, particularly on ex-dividend date**
- **Understand OCC assignment procedure**
- **Understand firm procedures for allocating customer assignments (FIFO, random)**
- **Ensure customer notification of allocation method**
- **Understand the requirements for delivery and payment/settlement**

3.2.1 Assignment of Exercise Notices

Effect of assignment on ex-dividend date of equities
OCC assignment procedure
Acceptable procedures for allocating customer assignments
Allocation methods
Delivery and payment /settlement date
NASD Rule 2860(b)(23)(C)—Allocation of exercise assignment notices

3.2.2 Tender of Exercise Notices

Equity options
 Effect of exercise prior to ex-dividend date
 Time limitations
 Same day exercise
 Exercise by exception
 Automatic exercise
 Contrary exercise advice
Index options
Foreign currency options
NASD Rule 2860(b)(23)—Tendering procedures for exercise of options

3.3 Transaction Review and Settlement Procedures

- **Understand 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**

3.3.1 Transaction Review

Contract adjustments
Position adjustments
Trade adjustments form
Types of errors
 Account type errors (firm/customer)
 Trade type error (open/close)
NASD Rule 11890—Clearly erroneous transactions

3.3.2 Settlement and Delivery Practices

3.3.2.1 Delivery requirements
 NASD Rule 2860(b)(23)(D)—Delivery and payment

3.3.2.2 Account transfer requirements
 NASD Rules
 Rule 11870—Customer account transfer contracts
 IM-2110-7—interfering with the transfer of customer accounts in the context of employment disputes

4.0

Qualification and Business Conduct of Registered Options Representatives; Reporting and Recordkeeping Requirements

4.1.1 NASD Qualification and Registration Requirements

- 4.1.1.1 Rule 1022(f)—Limited principal—registered options and security futures
 - Compliance Registered Options Principal (CROP)
 - Designation of Compliance ROP
 - Conditions that require that CROP have no sales functions
 - Senior Registered Options Principal (SROP)
 - Designation of Senior ROP
- 4.1.1.2 Rule 1022(g)—Limited principal—general securities sales supervisor
- 4.1.1.3 Rule 1032(a) General securities representative
- 4.1.1.4 Rule 1032(d)—Limited representative—options and security futures
- 4.1.1.5 Rule 1032(e)—Limited Representative—corporate securities
- 4.1.1.6 Rule 1080—Confidentiality of examinations

4.1.2 Special Registration Review for Disciplinary History

- 4.1.2.1 Statutory Disqualification
 - NASD By-Laws
 - Article 3 Sec.4—Definition of disqualification

4.1.3 Continuing Education for Registered Persons

- 4.1.3.1 Regulatory element
 - NASD Rule 1120(a)—Regulatory element
- 4.1.3.2 Firm element
 - NASD Rule 1120 (b)—Firm element

4.2 Conduct of Associated Persons

4.2.1 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

4.2.2 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

4.2.3 NASD Conduct Rules

Rule 2110—Standards of commercial honor and principles of trade

Rule 2330 Customers' securities or funds

Rule 2330(e)—Prohibition against guarantees

Rule 2330 (f)—Sharing in accounts; extent permissible

Rule 2370—Borrowing from or lending to customers

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

Rule 3010—Supervision

Rule 3011 – Anti money laundering compliance program

Rule 3030—Outside business activities of an associated person

Rule 3040—Private securities transactions of an associated person

Definitions

Private securities transaction

Selling compensation

Rule 3050—Transactions for or by associated persons

4.3 Customer Complaints

- **Document and report customer complaints**
- **Understand firm and SRO reporting requirements**
- **Ensure that options related complaints are forwarded to the registered representative's supervisor immediately**

4.3.1 Handling Customer Complaints and Reporting Requirements

Must be kept in a central file/log

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

Maintain a copy at the branch office

NASD Rules

Rule 3110(d)—Record of written complaints

Rule 3110(e)—“Complaint” defined

Rule 3070—Reporting requirements

4.4 Disciplinary Proceedings and Arbitration/Mediation

- **Understand the consequences of failure to comply with industry regulations**
- **Understand the effect of signing a pre-dispute arbitration clause**
- **Understand matters subject to arbitration**
- **Understand the difference between arbitration and mediation processes**

4.4.1 Investigations, Sanctions and disciplinary proceedings

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

4.4.2 Code of Procedure

Rule 9200 Series—Disciplinary proceedings
Rule 9300 Series—Review of disciplinary proceeding by National Adjudicatory Council and NASD Board; application for Commission review

4.4.3 Arbitration and Mediation Procedures

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

4.5 Recordkeeping and Reporting Requirements

- **Understand firm and regulatory requirements regarding review of correspondence, complaints and records**
- **Comply with all document retention requirements, including any action taken**

4.5.1 Books and Records

4.5.1.1 NASD Rules

Rule 2860(b)(17)—Maintenance of records
Rule 3110—Books and records

4.5.1.2 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-8—Financial record keeping and reporting of currency and foreign transactions

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. The purpose here is to acquaint candidates and training personnel with the types of multiple-choice questions which will appear on the examination.

Answers

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

Questions

1. When XYZ commences trading "ex" a 5% stock dividend, what will be (a) the adjusted exercise price and, (b) the adjusted number of shares, for the XYZ July 50 contracts held on ex-date?

- (A) (a) 50 and (b) 100
- (B) (a) 50 and (b) 105
- (C) (a) $47 \frac{5}{8}$ and (b) 95
- (D) (a) $47 \frac{5}{8}$ and (b) 105

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 firm, pertaining to listed options be retained and readily available for inspection?

- (A) 6 months
- (B) 1 year
- (C) 3 years
- (D) 5 years

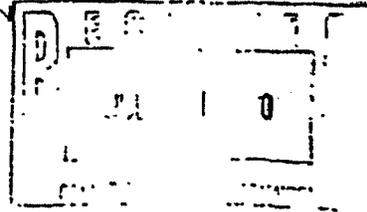
4. A customer buys 1 XYZ Oct 50 put at a premium of \$7 and subsequently exercises the put with stock purchased at \$40 per share. For Federal income tax purposes, the sale proceeds upon exercise of the put are equal to

- (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: ^{Alden}

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.

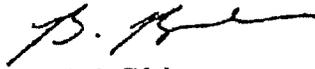
The Division has decided that it is no longer necessary for SROs to file new exam question banks for Commission approval under Section 19(b)(2). In the future, any new examinations should be filed as non-controversial rule changes for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange 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