



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

## **Content Outline**

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## **INTRODUCTION**

The Series 4 exam is the Registered Options Principal Qualification Examination. The exam is developed and maintained by the Financial Industry Regulatory Authority (FINRA). This content outline provides a comprehensive guide to the topics covered on the Series 4 exam. The outline is intended to familiarize exam candidates with the range of subjects covered on the exam, as well as the depth of knowledge required. Sample items are also included to acquaint candidates with the types of multiple-choice items used on the exam. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam.

## **PURPOSE OF THE EXAM**

The Series 4 exam is designed to assess the competency of entry-level Registered Options Principal. It is intended to safeguard the investing public by helping to ensure that Registered Options Principals are competent to perform their jobs. Given this purpose, the Series 4 exam seeks to measure the degree to which each candidate possesses the knowledge, skills and abilities needed to perform the critical functions of a Registered Options Principal. For more information about the permissible activities of a Registered Options Principal under FINRA rules, please see FINRA Rule 1220(a), which is viewable in the FINRA Rule Manual through the following link: [www.finra.org](http://www.finra.org).

## **ELIGIBILITY REQUIREMENTS**

The candidate must be associated with and sponsored by a FINRA member firm or other applicable self-regulatory organization (SRO) to be eligible to take the Series 4 exam. In order to register in this category, candidates must first qualify as a General Securities Representative (Series 7), United Kingdom Module of Series 7 (Series 17), Canada Module of Series 7 (Series 37 or 38) or a combination of the Corporate Securities Representative (Series 62) and the Options Representative (Series 42). For more information on eligibility requirements, please see FINRA Rule 1220(a), which is viewable in the FINRA Rule Manual through the following link: [www.finra.org](http://www.finra.org) or other applicable SRO rules.

## **APPLICATION PROCEDURES**

The FINRA member firm or other applicable SRO that sponsors the applicant must file a Uniform Application for Securities Industry Registration or Transfer (Form U4) in the Central Registration Depository (CRD<sup>®</sup>) and request the Registered Options Principal position (OP) on the Form U4.

## STRUCTURE OF THE EXAM

The exam consists of 125 multiple-choice items, which are distributed among the six major content areas listed in the table below.

Job Functions		Number of Items
Function 1	Supervise the Opening of New Options Accounts	21
Function 2	Supervise Options Account Activities	25
Function 3	Supervise General Options Trading	30
Function 4	Supervise Options Communications	9
Function 5	Implement Practices and Adhere to Regulatory Requirements	12
Function 6	Supervise Associated Persons and Personnel Management Activities	28
Total		125

## DEVELOPMENT AND MAINTENANCE OF THE CONTENT OUTLINE AND EXAM

The Series 4 content outline was developed based on the results of a job analysis study of Registered Options Principals. The job analysis process included collecting data about the job functions, tasks and required knowledge of Registered Options Principals from a wide variety of firms using numerous data collection techniques, including a survey.

Under the guidance of FINRA staff, a committee of industry representatives (Committee) writes, reviews and validates all exam items to ensure and sustain the job relevance of the exam. Exam items are subject to multiple reviews prior to inclusion on the exam, and each item links directly to a component of the content outline. Items vary in difficulty and complexity. Each item has only one correct or best answer.

The bank of items changes frequently as a result of amendments to, or the introduction of, government and SRO rules and regulations, changes in industry practice, and the introduction of new products. Exam items and their statistical performance are analyzed routinely by FINRA staff and the Committee to ensure relevance to the functions of Registered Options Principals. **Candidates are responsible for keeping abreast of changes made to the applicable rules and regulations as the exam is updated when new rules are introduced and when the rules are amended.**

Candidates should read and answer all items as they apply to exchange-listed standardized options unless an item specifically asks about conventional over-the-counter (OTC) options. Also, unless an item is specifically worded to the contrary, all items involving calculations exclude commissions and other transactions cost considerations.

## **ADMINISTRATION OF THE EXAM**

The exam is administered via computer. A tutorial on how to take the exam via computer is provided prior to the exam. Each candidate's exam includes 10 additional, unidentified pretest items that do not contribute toward the candidate's score. The 10 items are randomly distributed throughout the exam. Therefore, each candidate's exam consists of a total of 135 items (125 scored and 10 unscored). There is no penalty for guessing. Therefore, candidates should attempt to answer all items. Candidates will be allowed 3 hours and 15 minutes to complete the exam.

The test administrator will provide white boards/dry erase markers and basic electronic calculators to candidates, who must return these materials to the test center administrator at the end of the testing session. Some exam items may involve calculations. Only calculators provided by the test center administrators are allowed for use during the exam.

Candidates are not permitted to bring any reference material to their testing session. Severe penalties are imposed on candidates who cheat or attempt to cheat on FINRA-administered exams.

## **HOW THE PASSING EXAM IS SCORED**

Following a well-established process known as standard setting, FINRA determines the passing score for the examination based on a number of factors including industry trends, historical exam performance and evaluations of the content difficulty by a committee of industry professionals with the designated registration. For the Series 4 exam, the passing score is 72%. This passing score reflects the competency needed to hold the designated registration.

## **EQUATING OF TEST SCORES**

All candidate test scores have been placed on a common scale using a statistical adjustment process known as equating. Equating scores to a common scale accounts for the slight variations in difficulty that may exist among the different sets of exam items that candidates receive. This allows for a fair comparison of scores and ensures that every candidate is held to the same passing standard regardless of which set of exam items he or she received.

# SERIES 4 CONTENT OUTLINE

## **FUNCTION 1—Supervise the Opening of New Options Accounts**

### **1.1 Review new account documentation for completeness**

#### **KNOWLEDGE OF:**

- **Different classifications of customers (e.g., institutional, retail)**
- **Types of accounts (e.g., IRA, trust, fiduciary)**
- **Documentation requirements for each type of account**
- **Anti-Money Laundering (AML) requirements**
- **Customer Identification Program (CIP) requirements**
- **Due Diligence and Know Your Customer (KYC) requirements**

#### Cboe Rules

- 8.12—Anti-Money Laundering Compliance Program
- 9.1—Opening of Accounts

#### FINRA Rules

- 2090—Know Your Customer
- 2111—Suitability
- 2360(b)(16)—Options: Requirements: Opening of Accounts
- 3310—Anti-Money Laundering Compliance Program

### **1.2 Verify proper disclosures are provided to customers within required timeframe**

#### **KNOWLEDGE OF:**

- **Options disclosure document requirements**
- **Options disclosure document supplements**
- **Written Procedures for TPH Business in Uncovered Options Contracts.**
- **Margin requirements and related disclosure requirements**

#### Cboe Rules

- 9.1(e)—Opening of Accounts: Options Disclosure Documents to Be Furnished
- 9.1(f)(5)—Opening of Accounts (Written Procedures for TPH Business in Uncovered Options Contracts)
- 9.4(e)—Discretionary Accounts: Options Programs
- 9.15(a)—Delivery of Current Options Disclosure Documents: Options Disclosure Documents
- 9.9(c)—Delivery of Current Options Disclosure Documents (Special Statement for Uncovered Options Writers)
- 915 (h)—Options Communications: Options Programs
- 10.4(c)—Portfolio Margin: Opening of Accounts

#### FINRA Rules

2220(d)(5)—Options Communications: Standards Applicable to Communications: Options Programs

2360(b)(11)—Options: Requirements: Delivery of Current Disclosure Documents

2360(b)(16)(E)—Options: Requirements: Opening of Accounts: Uncovered Short Option Contracts

2360(b)(18)(C)—Options: Requirements: Discretionary Accounts: Option Programs

2270—Day-Trading Risk Disclosure Statement

2360(c)—Options: Portfolio Margining Disclosure Statement and Acknowledgement

4210(g)(5)—Margin Requirements: Portfolio Margin: Opening of Accounts

#### Securities Exchange Act of 1934

Rule 10b-16—Disclosure of Credit Terms in Margin Transactions

SEC Regulation S-P—Privacy of Consumer Financial Information and Safeguarding Personal Information

### **1.3 Review customers' trading objectives and evaluate risk levels to determine if account approval meets applicable standards**

#### **KNOWLEDGE OF:**

- **Options programs and trading strategies**
- **Minimum net equity requirement for approval of uncovered options accounts**
- **New account information as it relates to various option strategy approval levels**

#### Cboe Rules

9.1(b)—Opening of Accounts: Diligence in Opening Account

9.1(f)—Opening of Accounts (Uncovered Option Contracts)

9.2(a)—Supervision of Accounts: Duty to Supervise

10.3—Margin Requirements

#### FINRA Rules

2111—Suitability

2360(b)(7)—Options: Requirements: Limit on Uncovered Short Positions

2360(b)(16)—Options: Requirements: Opening of Accounts

4210—Margin Requirements

### **1.4 Review customer verification and confirm receipt of signed options agreement**

#### **KNOWLEDGE OF:**

- **Customer verification**
- **Authorization and approval of any discretionary handling**
- **Discretionary accounts approval and review requirements**
- **Approval requirements for the opening of options accounts**

Cboe Rules

9.1(c)—Opening of Accounts: Verification of Customer Background and Financial Information

9.1(d)—Opening of Accounts: Agreements to Be Obtained

9.4—Discretionary Accounts

FINRA Rules

2360(b)(16)—Options: Requirements: Opening of Accounts

2360(b)(18)—Options: Requirements: Discretionary Accounts

NYSE Rule

408—Discretionary Power in Customers' Accounts

Securities Exchange Act of 1934

Rule 15c1-7—Discretionary Accounts



## **FUNCTION 2—Supervise Options Account Activities**

### **2.1 Review recommendations to determine if strategies meet applicable standards**

#### **KNOWLEDGE OF:**

- **Best interest obligations and suitability requirements**
- **Requirement to monitor sales activities of registered persons**
- **Requirement to perform reviews to determine if the use of options is consistent with the customer profile**
- **Investment strategies and inherent risks in options transactions**
- **Investment strategies align with customer's investment objectives**
- **Position and exercise limits that impact customer trading**

#### Cboe Rules

- 6.20 (e) —Exercise of American-style Index Options
- 8.16 —Supervision
- 8.30—Position Limits
- 8.31 Position Limits for Broad-Based Index Options
- 8.32 —Position Limits for Industry Index Options
- 8.42—Exercise Limits
- 9.2—Supervision of Accounts (including Interpretations and Policies .01 and .02)
- 9.3—Suitability of Recommendations

#### FINRA Rules

- 2111—Suitability
- 2360(b)(3)—Options: Requirements: Position Limits
- 2360(b)(4)—Options: Requirements: Exercise Limits
- 2360(b)(19)—Options: Requirements: Suitability
- 2360(b)(20)—Options: Requirements: Supervision of Accounts

#### Securities Exchange Act of 1934

- 15l-1 – Regulation Best Interest
- 17a-14 – Form CRS, for Preparation, Filing and Delivery of Form CRS

### **2.2 Review margin accounts to confirm proper handling and timely adherence to margin requirements**

#### **KNOWLEDGE OF:**

- **Margin implications associated with various strategies**
- **Margin requirements set by regulation for initial/maintenance requirements**

- **Margin calculations**
- **Mark-to-market to calculate required amount of margin**
- **Failure to meet margin call**
- **Portfolio margin**

Cboe Rules

- 7.8 —Risk Analysis of Portfolio Margin Accounts
- 10.3—Margin Requirements
- 10.4—Portfolio Margin
- 10.9 —Margin Required Is Minimum

FINRA Rule

- 4210—Margin Requirements

Securities Exchange Act of 1934

- Section 7—Margin Requirements
- Section 8—Restrictions on Borrowing By Members, Brokers and Dealers

Federal Reserve Board Regulation T- Credit by Brokers and Dealers (“Regulation T”)

**2.3 Review risk exposure of customers' accounts**

**KNOWLEDGE OF:**

- **Calculations for profit, loss and breakeven points of various strategies**
- **Tax implications of options transactions**
- **Impact of tender offers on customers' accounts**
- **Contract adjustments due to such events as splits, mergers and dividends**

Cboe Rule

- 4.6 —Adjustments

FINRA Rule

- 11810—Buy-In Procedures and Requirements

Securities Exchange Act of 1934

- Rule 15c3-3(h)—Customer Protection—Reserves and Custody of Securities: Buy-In of Short Security Differences
- Regulation 14E—Tender Offers

**2.4 Receive and investigate customer complaints; if necessary, take appropriate corrective actions**

**KNOWLEDGE OF:**

- **Requirement to investigate and compile customer complaint information**
- **Appropriate timeframe response**
- **Record retention and segregation requirements**
- **Regulatory reporting of customer complaints**

Cboe Rule

9.17 —Customer Complaints

FINRA Rules

3110—Supervision

4513—Records of Written Customer Complaints

4530—Reporting Requirements

2360(b)(17)—Options: Requirements: Maintenance of Records

## **FUNCTION 3—Supervise General Options Trading**

### **3.1 Monitor the general operational process of options trades**

#### **KNOWLEDGE OF:**

- **Electronic order routing/execution**
- **Aggregation of accounts for reporting position limits, exercise limits, and large positions**
- **Exercise notices (e.g., contrary exercise advice)**
- **Impact of option assignments**
- **Options Clearing Corporation assignment procedure and firm/market, maker/customer assignment**
- **Assignment allocation methods (e.g., FIFO, random)**
- **Customer notification of allocation method**
- **Delivery and payment/settlement**

#### Cboe Rules

- 6.20 —Exercise of Option Contracts
- 6.21 —Allocation of Exercise Notices
- 6.22 —Delivery and Payment
- 8.30 —Position Limits
- 8.42 —Exercise Limits
- 8.43 —Reports Related to Position Limits
- 8.46 —Other Restrictions on Options Transactions and Exercises

#### FINRA Rules

- 2360(b)(3)—Options: Requirements: Position Limits
- 2360(b)(4)—Options: Requirements: Exercise Limits
- 2360(b)(5)—Options: Requirements: Reporting of Options Positions
- 2360(b)(8)—Options: Requirements: Restrictions on Option Transactions and Exercises
- 2360(b)(23)—Options: Requirements: Tendering Procedures for Exercise of Options
- 11860—COD Orders

### **3.2 Review firm and customer options trading for exceptions**

#### **KNOWLEDGE OF:**

- **Regulation SHO (e.g., short sale and buy-in rules)**

- **Large option position reporting**
- **Order origin codes**
- **Qualified contingent cross**
- **Prohibited activities**
- **Best execution**
- **Order marking**
- **Trades economics**
- **Separation of proprietary, market making and customer 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

5.7 —Entry of Orders and Quotes

8.1—Just and Equitable Principles of Trade

8.6 —Manipulation

8.10 —Prevention of the Misuse of Material, Nonpublic Information

FINRA Rules

2010—Standards of Commercial Honor and Principles of Trade

2020—Use of Manipulative, Deceptive or Other Fraudulent Devices

3110—Supervision

Securities Exchange Act of 1934

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(f) (Liability for unlawful acts or transactions)

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

Rule 10b-3—Employment of Manipulative and Deceptive Devices by Brokers or Dealers

Rule 10b-5—Employment of Manipulative and 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

Section 15(g)

SEC Regulation NMS—Regulation of the National Market System

SEC Regulation SHO—Regulation of Short Sales

Rule 200—Definition of “Short Sale” and Marking Requirements

Rule 201—Circuit Breaker

Rule 203—Borrowing and Delivery Requirements

Rule 204—Close-Out Requirement

### **3.3 Oversee the correction of options trade errors**

#### **KNOWLEDGE OF:**

- **Cancel and rebills**
- **Error accounts**

Cboe Rules

5.11 —Binding Transactions

6.5—Nullification and Adjustment of Options Transactions including Obvious Errors

9.13—Assuming Losses

FINRA Rule

11890—Clearly Erroneous Transactions

### **3.4 Authorize and monitor customer market access**

#### **KNOWLEDGE OF:**

- **Credit limits/capital limits**
- **Regulatory controls**

Securities Exchange Act of 1934

Rule 15c3-5—Risk Management Controls for Brokers or Dealers with Market Access

## **FUNCTION 4—Supervise Options Communications**

### **4.1   Oversee options telemarketing practices**

#### **KNOWLEDGE OF:**

- **Telemarketing procedures (e.g., do-not-call lists)**
- **Time of day restrictions**

Cboe Rule

9.18—Telemarketing

FINRA Rule

3230—Telemarketing

### **4.2   Review options retail communications and determine appropriate approval**

#### **KNOWLEDGE OF:**

- **Definition of retail communication**
- **Types of retail communications**
- **Required approvals**
- **Requirements for trading programs and option worksheets**
- **Appropriate disclosures**

Cboe Rule

9.15—Options Communications

FINRA Rules

2210—Communications with the Public

2220—Options Communications

2241—Research Analysts and Research Reports

2260 Series—Disclosures

Securities Act of 1933

Rule 135a—Generic Advertising

### **4.3   Review incoming and outgoing options correspondence including approval where required**

#### **KNOWLEDGE OF:**

- **Definition of correspondence**
- **Review communications that are sent to customers**
- **Appropriate disclosures**
- **Registered principal reviews of correspondence**

Cboe Rule

9.15 —Options Communications

FINRA Rules

2210—Communications with the Public

2220—Options Communications

2241—Research Analysts and Research Reports

2260 Series—Disclosures

Securities Act of 1933

Rule 135a—Generic Advertising

#### **4.4 Review institutional communications and determine appropriate approval**

##### **KNOWLEDGE OF:**

- **Definition of institutional communication**
- **Identification of institutional communications**
- **Appropriate disclosures**

Cboe Rule

9.15 —Options Communications

FINRA Rules

2210—Communications with the Public

2220—Options Communications

2241—Research Analysts and Research Reports

2260 Series—Disclosures

Securities Act of 1933

Rule 135a—Generic Advertising



## **FUNCTION 5—Implement Practices and Adhere to Regulatory Requirements**

### **5.1 Establish and oversee compliance with supervisory control functions**

#### **KNOWLEDGE OF:**

- **Supervisory procedure requirements (e.g., discretionary account controls, space-sharing arrangements, gifts and gratuities)**
- **SRO requirements regarding written supervisory procedures**
- **Written options programs**

#### Cboe Rules

- 3.40 —Branch Offices of TPH Organizations
- 8.3 —Gratuities
- 8.16 —Supervision
- 9.2 —Supervision of Accounts
- 9.8—Addressing of Communications to Customers

#### FINRA Rules

- 2360(b)(20)—Options: Requirements: Supervision of Accounts
- 3110—Supervision
- 3120—Supervisory Control System
- 3130—Annual Certification of Compliance and Supervisory Processes
- 3160—Networking Arrangements Between Members and Financial Institutions
- 3220—Influencing or Rewarding Employees of Others

### **5.2 Maintain required books and records**

#### **KNOWLEDGE OF:**

- **SRO requirements for options-related record keeping**
- **Retention of options communications**
- **SIPC requirements**

#### Cboe Rules

- 3.4—Foreign Trading Permit Holders
- 3.7—Persons Associated with TPH Organizations
- 3.40 —Branch Offices of TPH Organizations
- 6.21 —Allocation of Exercise Notices
- 7.1—Maintenance, Retention and Furnishing of Books, Records and Other Information
- 9.1—Opening of Accounts
- 9.2 —Supervision of Accounts
- 9.4—Discretionary Accounts
- 9.5 —Confirmation to Customers

- 9.6 —Statements of Accounts to Customers
- 9.7 —Statement of Financial Condition to Customers
- 9.8 —Addressing of Communications to Customers
- 9.15 —Options Communications
- 9.17 —Customer Complaints
- 10.11 —Daily Margin Record
- Chapter 7 —Records, Reports and Audits

#### FINRA Rules

- 2261—Disclosure of Financial Condition
- 2266—SIPC Information
- 2360(b)(12)—Options: Requirements: Confirmations
- 2360(b)(15)—Options: Requirements: Statements of Account
- 2360(b)(17)— Options: Requirements: Options: Requirements: Maintenance of Records
- 3150—Holding of Customer Mail
- 4510 Series—Books and Records Requirements
- 5340—Pre-Time Stamping
- 7440(a)(4)—Recording of Order Information

#### Securities Exchange Act of 1934

- Rule 10b-10—Confirmation of Transactions
- 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(c)—Reports to be Made by Certain Brokers and Dealers: Customer Statements
- Rule 17a-8—Financial Recordkeeping and Reporting of Currency and Foreign Transactions
- Rule 17f-1—Requirements for Reporting and Inquiry with Respect to Missing, Lost, Counterfeit or Stolen Securities

#### Securities Investor Protection Act and SIPC Rules Thereunder

## **FUNCTION 6—Supervise Associated Persons and Personnel Management Activities**

### **6.1 Verify the qualifications of newly hired associated persons**

#### **KNOWLEDGE OF:**

- **Pre-hire investigations**
- **New employees' previous registration and work history**
- **Review for statutory disqualification**

#### Cboe Rules

3.7 —Persons Associated with TPH Organizations

3.13—Trading Permit Holders and Associated Persons Who Are or Become Subject to a Statutory Disqualification

3.37 —Registration and Termination of Representatives

3.40 —Branch Offices of TPH Organizations

#### FINRA Rule

3110—Supervision

#### FINRA By-Laws

Article III, Section 3—Ineligibility of Certain Persons for Membership or Association

Article III, Section 4—Definition of Disqualification

Article V, Section 1—Qualification Requirements

#### Securities Exchange Act of 1934

Section 3(a)(39)—Definition of Statutory Disqualification

### **6.2 Review and maintain associated persons' registrations and disclosures**

#### **KNOWLEDGE OF:**

- **Continuing Education requirements (e.g., firm and regulatory elements)**
- **Outside business activities (e.g., secondary employments)**
- **Private securities transactions by registered persons**
- **Employee and employee-related accounts**
- **Sharing in customers' accounts**
- **Lending arrangements**
- **Suspended associated persons**
- **Form U4 and Form U5 updates**
- **Disciplinary actions**
- **Heightened supervision**
- **Qualification and registration requirements of a Registered Options Principal**

## Cboe Rules

- 3.33 —Continuing Education for Registered Persons
- 3.36 —Registration of Options Principals
- 3.37 —Registration and Termination of Representatives
- 3.38 —Other Affiliations of Registered Associated Persons
- 8.1—Just and Equitable Principles of Trade
- 8.8 —Disciplinary Action by Other Organizations
- 9.11—Transactions of Certain Customers

## FINRA Rules

- 1220—Registration Categories
- 1240—Continuing Education Requirements
- 2010—Standards of Commercial Honor and Principles of Trade
- 2040—Payments to Unregistered Persons
- 3270—Outside Business Activities of Registered Persons
- 3280—Private Securities Transactions of an Associated Person
- 6140—Other Trading Practices
- 9000 Series—Code of Procedure
  - 9110—Application
  - 9120—Definitions
  - 9130—Service; Filing of Papers
  - 9140—Proceedings
  - 9210—Complaint and Answer
  - 9230—Appointment of Hearing Panel, Extended Hearing Panel
  - 9250—Discovery
  - 9260—Hearing and Decision
  - 9310—Appeal to or Review by National Adjudicatory Council
  - 9350—Discretionary Review by FINRA Board
  - 9370—Application to SEC for Review

## FINRA By-Laws

- Article V, Section 3—Notification by Member to the Corporation and Associated Person of Termination; Amendments to Notification

## NYSE Rules

- 345A(a)—Continuing Education For Registered Persons: Regulatory Element
- 345A(b)—Continuing Education For Registered Persons: Firm Element
- 435—Miscellaneous Prohibitions

## **6.3 Maintain marketplace and associated product and regulatory knowledge**

### **KNOWLEDGE OF:**

- **Order types and trading strategies**
- **When trading rotation and fast markets are used**
- **Trading practices and roles of market participants**
- **Trading halts**

#### Cboe Rules

- 3.35 —DPM Obligations
- 3.50 (a) —Floor Broker Defined
- 3.52 —Market-Maker Defined
- 3. 53 (a)—DPM Defined
- 4.58 —Priority of Bids and Offers: Allocation of Trades
- 5.20 —Trading Halts
- 5.33 — Complex Orders 5.1 —Transaction Off the Exchange
- 5.52 —Obligations of Market-Makers
- 5.91 —Floor Brokers Responsibilities
- 8.19—Restriction on Acting as Market-Maker and Floor Broker

#### FINRA Rules

- 5260—Prohibition on Transactions, Publication of Quotations, or Publication of Indications of Interest During Trading Halts
- 2360(b)(24)—Options: Requirements: Options Transactions and Reports by Market Makers in Listed Securities
- 6120—Trading Halts

### 6.4 Supervise the conduct of associated persons

#### **KNOWLEDGE OF:**

- **Terms, definitions and sophisticated strategies related to options products**
- **Noncash compensation regulation**
- **Transactions with customers to prevent improper use of customer assets**
- **Transactions with other professionals**

#### Cboe Rules

- 1.1—Definitions
- 9.11—Transactions of Certain Customers
- 9.12—Prohibitions Against Guarantees and Sharing in Accounts
- 9.13—Assuming Losses
- 9.19—Borrowing From or Lending to Customers
- Section B. —Index Options

FINRA Rules

2150—Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts

2360—Options

3240—Borrowing From or Lending to Customers

4210—Margin Requirements

## SAMPLE ITEMS

The following sample items are included to provide an introduction to the basic formats of multiple-choice items used on the exam. The sample items do not reflect the difficulty level of actual exam items.

Candidates who familiarize themselves with these formats may be able to improve their test-taking skills so their performance on the exam will better reflect their knowledge of the areas tested. An asterisk indicates the correct answer to each sample item.

**Closed-Stem:** The stem (the part that poses the question) is a complete sentence and thus concludes with a question mark. The options (answer choices) may be complete or incomplete sentences.

**Example:** With a broad-based index at 266, a customer writes 1 Feb 270 index call at 2.75, writes 1 Feb 260 put at 2.25, buys 1 Feb 275 call at 1.25 and buys 1 Feb 255 put at 1. What is the maximum potential profit in this position?

- (A) \$225
- (B) \$275\*
- (C) \$500
- (D) \$725

**Open-Stem (Sentence Completion):** The stem is an incomplete statement, and the options represent conclusions to the sentence.

**Example:** A put is considered out-of-the-money when the market price of the underlying security is:

- (A) equal to or higher than the strike price.\*
- (B) lower than the strike price.
- (C) lower than the strike price less the premium.
- (D) higher than the strike price less the premium.

**Except or Not:** "Except" or "not" is used when the task is to select the response option that is an exception to the principle or rule stated in the stem. In such cases, the stem may be open or closed.

**Example:** Listed equity options would **not** be adjusted for which of the following actions in the underlying security?

- (A) A 2-for-1 stock split
- (B) A 1-for-5 reverse stock split
- (C) A stock dividend of 5%
- (D) A cash dividend of \$0.50\*

## REFERENCES

Listed below are government and SRO websites that provide information about rules and other information candidates may find useful in preparing for the exam. In addition to information about rules, the SRO may publish glossaries of terms, explanations of securities products, and compliance procedures. Candidates are encouraged to refer to the SRO websites for information memos or regulatory notices concerning amendments to rules and the announcement of new rules that may relate to the exam. Candidates can purchase copies of federal securities laws and SEC rules through the network of federal government printing offices. However, some of this information may be available on the SRO and pertinent federal government (*e.g.*, the SEC) websites. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam. FINRA produces only the content outline and is not involved with, nor does it endorse, any particular course of study.

### **Cboe**

**[www.Cboe.com](http://www.Cboe.com)**

### **Financial Industry Regulatory Authority (FINRA)**

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

### **Options Clearing Corporation**

**[www.theocc.com](http://www.theocc.com)**

### **The Options Industry Council**

**[www.888options.com](http://www.888options.com)**

**Securities and Exchange Commission  
Office of Investor Education and Advocacy  
[www.sec.gov](http://www.sec.gov)**

**Securities Industry/Regulatory Council  
on Continuing Education  
[www.cecouncil.com](http://www.cecouncil.com)**