Financial Industry Regulatory Authority

Securities Industry Essentials (SIE) Examination

CONTENT OUTLINE

PURPOSE OF THE EXAM

The Securities Industry Essentials (SIE) exam assesses a candidate's basic knowledge of the securities industry. The exam focuses on industry terminology, securities products, the structure and function of the markets, regulatory agencies and their functions, and regulated and prohibited practices. For more information about the SIE, see FINRA Rule 1210.03.

STRUCTURE OF THE EXAM

The exam consists of 75 multiple-choice items, and each item consists of four answer choices. The allocation of test items is as follows:

Section	Description	Percentage of Exam Items	Number of Items
1	Knowledge of Capital Markets	16%	12
2	Understanding Products and Their Risks	44%	33
3	Understanding Trading, Customer Accounts and Prohibited Activities	31%	23
4	Overview of the Regulatory Framework	9%	7
	TOTAL	100%	75

Much of the content on the SIE outline is based on common securities industry knowledge and general concepts. This knowledge is often not based on any one rule or regulation. Examples include basic characteristics of investment products such as the relationship between the price and yield of a bond and the rights of a common stockholder. Alternately, some knowledge is based on specific rules and regulations. Examples include the reporting requirements for a Suspicious Activity Report (SAR) and the Uniform Application for Securities Industry Registration or Transfer (Form U4) filing requirements. The exam will assess candidates on both rule- and non-rule-based industry knowledge.

Several federal laws and regulations serve as the foundation for some of the knowledge contained in this outline. The content upon which the outline is based includes but is not limited to rules and regulations under the following Acts:

The Securities Act of 1933
The Securities Exchange Act of 1934
The Investment Company Act of 1940
The Investment Adviser Act of 1940

ADMINISTRATION OF THE EXAM

The exam is administered via computer. A tutorial on how to take the exam is provided prior to taking the exam. Each candidate's exam includes 5 additional, unidentified pretest items that do not contribute toward the candidate's score. The pretest items are randomly distributed throughout the exam. Therefore, each candidate's exam consists of a total of 80 items (75 scored and 5 unscored). There is no penalty for guessing. Therefore, candidates should attempt to answer all items. Candidates will be allowed 1 hour and 45 minutes to complete the SIE exam.

All candidate test scores are 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 they received.

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

Please visit www.finra.org for additional details.

Section 1: Knowledge of Capital Markets

1.1 Regulatory Entities, Agencies and Market Participants

1.1.1 The Securities and Exchange Commission (SEC)
- The high-level purpose and mission of securities regulation
- Definition, jurisdiction and authority of the SEC

1.1.2 Self-regulatory Organizations (SROs)
- Purpose and mission of an SRO
- Jurisdiction and authority of SROs (*e.g.*, CBOE, FINRA, MSRB)

1.1.3 Other Regulators and Agencies
- Department of the Treasury/IRS
- State regulators (*e.g.*, NASAA)
- The Federal Reserve
- Securities Investor Protection Corporation (SIPC)
- Federal Deposit Insurance Corporation (FDIC)

1.1.4 Market Participants and their Roles
- Investors (*e.g.*, accredited, institutional, retail)
- Broker-Dealers (*e.g.*, introducing, clearing, prime brokers)
- Investment advisers
- Municipal advisors
- Issuers and underwriters
- Traders and market makers
- Custodians and trustees
- Transfer agents
- Depositories and clearing corporations (*e.g.*, Depository Trust & Clearing Corporation (DTCC), Options Clearing Corporation (OCC))

1.2 Market Structure

1.2.1 Types of Markets
- The primary market
- The secondary market (*e.g.*, electronic, over-the-counter (OTC), physical)
- The third market
- The fourth market

1.3 Economic Factors

1.3.1 The Federal Reserve Board's Impact on Business Activity and Market Stability
- Monetary vs. fiscal policy
- Open market activities and impact on economy
- Different rates (*e.g.*, interest rate, discount rate, federal funds rate)

1.3.2 Business Economic Factors
- Purpose of financial statements (*e.g.*, balance sheet, income statement)
- Business cycle (*e.g.*, contraction, trough, expansion, peak)
- Indicators (*e.g.*, leading, lagging, coincident, inflation)
- Basic effects on bond and equity markets (*e.g.*, cyclical, defensive, growth)

- Principal economic theories (*e.g.*, Keynesian, Monetarist)

1.3.3 International Economic Factors
- U.S. balance of payments
- Gross domestic product (GDP), gross national product (GNP)
- Exchange rates

1.4 Offerings

- Roles of participants (*e.g.*, investment bankers, underwriting syndicate, municipal advisors)
- Types of offerings
  - Public vs. private securities offering
  - Initial public offering (IPO), secondary offering and follow-on offering
  - Methods of distribution (*e.g.,* best efforts, firm commitment)
- Shelf registrations and distributions (*e.g.*, definition, purpose)
- Types and purpose of offering documents and delivery requirements (*e.g.*, official statement, program disclosure document, prospectus)
- Regulatory filing requirements and exemptions (*e.g.*, SEC, blue-sky laws)

Rules

FINRA Rules
- 2266 – SIPC Information
- 2269 – Disclosure of Participation or Interest in Primary or Secondary Distribution
- 5250 – Payments for Market Making

MSRB Rules
- G-11 – Primary Offering Practices
- G-32 – Disclosures in Connection with Primary Offerings
- G-34 – CUSIP Numbers, New Issue and Market Information Requirements

SEC Rules and Regulations
- Securities Act of 1933
  - Section 7 – Information Required in a Registration Statement
  - Section 8 – Taking Effect of Registration Statements and Amendments Thereto
  - Section 10 – Information Required in Prospectus
  - Section 23 – Unlawful Representations
  - 215 – Accredited Investor
  - 431 – Summary Prospectuses
  - Schedule A – Schedule of Information Required in Registration Statement
  - Schedule B – Schedule of Information Required in Registration Statement
- Securities Exchange Act of 1934
  - Section 3(a) – Definitions and Application of Title
  - Section 12 — Registration Requirements for Securities
  - Section 15 – Registration and Regulation of Brokers and Dealers
  - Section 15A – Registered Securities Associations
  - Regulation D – Rules Governing the Limited Offer and Sale of Securities Without Registration Under the Securities Act of 1933
    - 144 – Persons Deemed Not to Be Engaged in a Distribution and Therefore Not Underwriters
    - 144A – Private Resales of Securities to Institutions
    - 145 – Reclassification of Securities, Mergers, Consolidations and Acquisitions of Assets
    - 147 – "Part of an Issue," "Person Resident," and "Doing Business Within" for Purposes of Section 3(a)(11)
    - 164 – Post-filing Free Writing Prospectuses in Connection with Certain Registered Offerings

Securities Investor Protection Act of 1970 (SIPA)

Section 2: Understanding Products and Their Risks

2.1 Products

2.1.1 Equity Securities

- Types of equities
  - Common stock
  - Preferred stock
  - Rights
  - Warrants
  - American Depositary Receipts (ADRs)

Knowledge of:

- Ownership (*e.g.*, order of liquidation, limited liability)
- Voting rights
- Convertible
- Control and restrictions (*e.g.*, SEC Rule 144)

2.1.2 Debt Instruments

- Treasury securities (*e.g.*, bills, notes, receipts, bonds)
- Agency (*e.g.*, asset-backed and mortgage-backed securities)
- Corporate bonds
- Municipal securities
  - General obligation (GO) bonds
  - Revenue bonds
  - Others (*e.g.*, special type bonds, taxable municipal securities, short-term obligations)
- Others (*e.g.*, money market instruments, certificate of deposit (CD), bankers' acceptance, commercial paper)

Knowledge of:

- Varying maturities
- Generate income (*e.g.*, interest)
- Coupon value
- Par value
- Yield
- Ratings and rating agencies
- Callable and convertible features
- Short-term vs. long-term characteristics
- Relationship between price and interest rate
- Negotiated vs. competitive offerings via underwriters and syndicates
- Auction

2.1.3 Options

- Types of options
  - Puts and calls
  - Equity vs. index

Knowledge of:

- Hedging or speculation
- Expiration date
- Strike price
- Premium

- Underlying or cash settlement
- In-the-money, out-of-the money
- Covered vs. uncovered
- American vs. European
- Exercise and assignment
- Varying strategies (*e.g.*, long, short)
- Special disclosures (*e.g.*, Options Disclosure Document (ODD))
- Options Clearing Corporation (OCC) for listed options

2.1.4 Packaged Products

- Investment companies
  - Types of investment companies
    - Closed-end funds
    - Open-end funds
    - Unit investment trusts (UITs)
    - Variable contracts/annuities

Knowledge of:

- Loads
- Share classes
- Net asset value (NAV)
- Disclosures
- Costs and fees
- Breakpoints
- Right of accumulation (ROA)
- Letter of intent (LOI)
- Net transactions
- Surrender charges
- Sales charges

2.1.5 Municipal Fund Securities

- 529 Plans
  - Prepaid tuition
  - Savings plans
- Local government investment pools (LGIPs)
- ABLE accounts

Knowledge of:

- Municipal fund securities
- Owner vs. beneficiary
- Restricted use of plan assets
- Tax advantages
- Direct or adviser sold

2.1.6 Direct Participation Programs (DPPs)

- Types of DPPs
  - Limited partnerships
  - Tenants in common (TIC)

Knowledge of:

- Pass-through tax treatment
- Unlisted
- Generally illiquid

2.1.7 Real Estate Investment Trusts (REITs)

- Types of REITs
  - Private
  - Registered, non-listed
  - Listed

Knowledge of:

- Real estate equity or debt
- Tax-advantaged income without double taxation

2.1.8 Hedge Funds

Knowledge of:

- Minimum investment
- Partnership structure
- Private equity
- Generally illiquid

2.1.9 Exchange-traded Products (ETPs)

- Types of ETPs
  - Exchange-traded funds (ETFs)
  - Exchange-traded notes (ETNs)

Knowledge of:

- Alternative investments to mutual funds
- Fee considerations
- Active vs. passive

2.2 Investment Risks

- Definition and Identification of Risk Types
  - Capital
  - Credit
  - Currency
  - Inflationary/purchasing power
  - Interest rate/reinvestment
  - Liquidity
  - Market/systematic
  - Non-systematic
  - Political
  - Prepayment

- Strategies for Mitigation of Risk
  - Diversification
  - Portfolio rebalancing
  - Hedging

Rules

FINRA Rules
- 2261 – Disclosure of Financial Condition
- 2262 – Disclosure of Financial Relationship with Issuer
- 2310 – Direct Participation Programs
- 2330 – Members' Responsibilities Regarding Deferred Variable Annuities
- 2342 – "Breakpoint" Sales
- 2360 – Options

MSRB Rules
- D-12 – Definition of Municipal Fund Securities
- G-17 – Conduct of Municipal Securities and Municipal Advisory Activities
- G-30 – Pricing and Commissions
- G-45 – Reporting of Information on Municipal Fund Securities

CBOE Rule
- Rule 1.1 – Definitions

SEC Rules and Regulations
- Securities Exchange Act of 1934
  - 3a11-1 – Definition of the Term "Equity Security"
  - 10b-18 – Purchases of Certain Equity Securities by the Issuer and Others
- Investment Company Act of 1940
  - Section 3(a) – Definitions - "Investment Company"
  - Section 4 – Classification of Investment Companies
  - Section 5 – Subclassification of Management Companies
  - 12b-1 – Distribution of Shares by Registered Open-end Management Investment Company

Section 3: Understanding Trading, Customer Accounts and Prohibited Activities

3.1 Trading, Settlement and Corporate Actions

3.1.1 Orders and Strategies

- Types of orders (*e.g.*, market, stop, limit, good-til-canceled (GTC), discretionary vs. non-discretionary, solicited vs. unsolicited)
- Buy and sell, bid-ask
- Trade capacity (*e.g.*, principal, agency)
- Long and short, naked and covered
- Bearish and bullish

3.1.2 Investment Returns

- Components of return (*e.g.*, interest, dividends, realized/unrealized gains, return on capital)
- Different types of dividends (*e.g.*, cash, stock)
- Dividend payment dates (*e.g.*, record date, ex-dividend date, payable date)
- Concepts of measurement (*e.g.*, yield, yield to maturity (YTM), yield to call (YTC), total return, basis points)
- Cost basis requirements
- Benchmarks and indices

3.1.3 Trade Settlement

- Settlement time frames for various products (*e.g.*, T, T + 1)
- Physical vs. book entry (*e.g.*, delivery and settlement)

3.1.4 Corporate Actions

- Types of corporate actions (*e.g.*, splits, reverse splits, buybacks, tender offers, exchange offers, rights offerings, mergers and acquisitions (M&A))
- Impact of stock splits and reverse stock splits on market price and cost basis
- Adjustments to securities subject to corporate actions
- Delivery of notices and corporate action deadlines
- Proxies and proxy voting

3.2 Customer Accounts and Compliance Considerations

3.2.1 Account Types and Characteristics

- Cash
- Margin
- Options
- Discretionary vs. non-discretionary
- Fee-based vs. commission
- Educational accounts

3.2.2 Customer Account Registrations

- Individual
- Joint
- Corporate/institutional
- Trust (*e.g.*, revocable, irrevocable)
- Custodial (*e.g.*, UTMA)
- Partnerships
- Retirement (*e.g.*, individual retirement account (IRA), qualified plans)
  - Types and characteristics

  - Required minimum distributions
  - Contributions

3.2.3 Anti-money Laundering (AML)
- Definition of money laundering
- Stages of money laundering (*e.g.*, structuring, layering, placement)
- AML compliance program
- Suspicious Activity Report (SAR)
- Currency Transaction Report (CTR)
- FinCEN
- Office of Foreign Asset Control (OFAC) and the Specially Designated Nationals and Blocked Persons (SDNs) List

3.2.4 Books and Records and Privacy Requirements
- Books and records retention requirements
- Confirmations and account statements
- Holding of customer mail
- Business continuity plans (BCP)
- Customer protection and custody of assets
- Privacy requirements (*e.g.*, Regulation S-P)
  - Nonpublic personal information
  - Confidentiality of information
  - Privacy notifications
  - Safeguard requirements

3.2.5 Communications with the Public and General Best Interest Obligations and Suitability Requirements
- Communications with the public and telemarketing
  - Classifications and general requirements
  - Do-not-call list
- Best interest obligations and suitability requirements
  - Know-your-customer (KYC)
  - General requirements (*e.g.*, what constitutes a recommendation)

3.3 Prohibited Activities

3.3.1 Market Manipulation
- Definition of market manipulation
- Types of market manipulation (*e.g.*, market rumors, pump and dump, front running, excessive trading, marking the close, marking the open, backing away, freeriding)

3.3.2 Insider Trading
- Definition of insider trading
- Definition of material nonpublic information
- Identifying involved parties
- Penalties (*e.g.*, fines, expulsion, incarceration)

3.3.3 Other Prohibited Activities
- Restrictions preventing associated persons from purchasing initial public offerings (IPOs)
- Use of manipulative, deceptive or other fraudulent devices
- Improper use of customers' securities or funds
  - Borrowing from customers
  - Sharing in customer accounts

- Financial exploitation of seniors
- Activities of unregistered persons
  - Prohibition against paying commissions to unregistered persons
  - Prohibition against solicitation of customers and taking orders
- Falsifying or withholding documents
  - Signatures of convenience
  - Responding to regulatory requests
- Prohibited activities related to maintenance of books and records (*e.g.*, falsifying records and improper maintenance/retention of records)

Rules

FINRA Rules

2010 – Standards of Commercial Honor and Principles of Trade
2020 – Use of Manipulative, Deceptive or Other Fraudulent Devices
2040 – Payments to Unregistered Persons
2090 – Know Your Customer
2111 – Suitability
2120 – Commissions, Mark Ups and Charges
2150 – Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts
2165 – Financial Exploitation of Specified Adults
2210 – Communications with the Public
2231 – Customer Account Statements
2251 – Forwarding of Proxy and Other Issuer-related Materials
2264 – Margin Disclosure Statement
2232 – Customer Confirmations
3150 – Holding of Customer Mail
3210 – Accounts at Other Broker-Dealers and Financial Institutions
3230 – Telemarketing
3240 – Borrowing from or Lending to Customers
3250 – Designation of Accounts
3260 – Discretionary Accounts
3310 – Anti-money Laundering Compliance Program
4210 – Margin Requirements
4370 – Business Continuity Plans and Emergency Contact Information
4511 – General Requirements
4512 – Customer Account Information
4514 – Authorization Records for Negotiable Instruments Drawn From a Customer's Account
5130 – Restrictions on the Purchase and Sale of Initial Equity Public Offerings
5210 – Publication of Transactions and Quotations
5220 – Offers at Stated Prices
5230 – Payments Involving Publications that Influence the Market Price of a Security
5240 – Anti-intimidation/Coordination
5270 – Front Running of Block Transactions
5280 – Trading Ahead of Research Reports
5290 – Order Entry and Execution Practices
5310 – Best Execution and Interpositioning
5320 – Prohibition Against Trading Ahead of Customer Orders
6438 – Displaying Priced Quotations in Multiple Quotation Mediums

MSRB Rules

G-8 – Books and Records to be Made by Brokers, Dealers, Municipal Securities Dealers, and Municipal Advisors

G-9 – Preservation of Records
G-13 – Quotations
G-14 – Reports of Sales or Purchases
G-15 – Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers
G-18 – Best Execution
G-21 – Advertising
G-25 – Improper Use of Assets
G-39 – Telemarketing
G-41 – Anti-money Laundering Compliance Program
G-47 – Time of Trade Disclosure

SEC Rules and Regulations
Regulation M
Regulation S-P – Privacy of Consumer Financial Information and Safeguarding Personal Information
Securities Exchange Act of 1934
Section 10 – Regulation of the Use of Manipulative and Deceptive Devices
Section 11(d) – Trading by Members of Exchanges, Brokers and Dealers – "Prohibition on Extension of Credit by Broker-Dealer"
Section 14 – Proxies
Section 15 – Rules Relating to Over-the-Counter Markets
Section 20A – Liability to Contemporaneous Traders for Insider Trading
Section 21A – Civil Penalties for Insider Trading
10b-1 – Prohibition of Use of Manipulative or Deceptive Devices or Contrivances with Respect to Certain Securities Exempted from Registration
10b-3 – Employment of Manipulative and Deceptive Devices by Brokers or Dealers
10b-5 – Employment of Manipulative and Deceptive Devices
10b5-1 – Trading on Material Nonpublic Information in Insider Trading Cases
10b5-2 – Duties of Trust or Confidence in Misappropriation Insider Trading Cases
10b-10 – Confirmation of Transactions
15c1-2 – Fraud and Misrepresentation
15c1-3 – Misrepresentation by Brokers, Dealers and Municipal Securities Dealers as to Registration
15c2-12 – Municipal Securities Disclosure
15l-1 – Regulation Best Interest
17a-3 – Records to be Made by Certain Exchange Members, Brokers and Dealers
17a-4 – Records to be Preserved by Certain Exchange Members, Brokers and Dealers
17a-14 – Form CRS, for Preparation, Filing and Delivery of Form CRS
Investment Company Act of 1940
17a-6 – Exemption for Transactions with Portfolio Affiliates
17a-7 – Exemption of Certain Purchase or Sale Transactions Between an Investment Company and Certain Affiliated Persons Thereof

Insider Trading & Securities Fraud Enforcement Act of 1988 (ITSFEA)

Federal Reserve Board
Regulation T

Federal Trade Commission
Telemarketing Sales Rule

USA PATRIOT Act
Section 314 – Cooperative Efforts to Deter Money Laundering
Section 326 – Verification of Identification
Section 352 – Anti-Money Laundering Programs

Section 4: Overview of the Regulatory Framework

4.1 SRO Regulatory Requirements for Associated Persons

4.1.1 Registration and Continuing Education

- SRO qualification and registration requirements
  - Definition of registered vs. non-registered person
  - Permitted activities of registered and non-registered persons
  - Ineligibility for membership or association
  - Background checks
  - Fingerprinting
  - Statutory disqualification
  - Failing to register an associated person
- State registration requirements (*e.g.*, blue-sky laws)
- Continuing Education (CE) requirement
  - Firm Element
  - Regulatory Element

4.2 Employee Conduct and Reportable Events

4.2.1 Employee Conduct

- Form U4 and Form U5 (*e.g.*, purpose, when to update forms)
- Consequences of filing misleading information or omitting information
- Customer complaints
- Potential red flags

4.2.2 Reportable Events

- Outside business activities
- Private securities transactions
- Reporting of political contributions and consequences for exceeding dollar contribution thresholds
- Dollar and value limits for gifts and gratuities and non-cash compensation
- Business entertainment
- Felony, financial-related misdemeanors, liens, bankruptcy

<u>Rules</u>

FINRA By-Laws
- Article I – Definitions
- Article III – Qualifications of Members and Associated Persons
- Article IV – Membership
- Article V – Registered Representatives and Associated Persons
- Article VI – Dues, Assessments, and Other Charges
- Article XII – Disciplinary Proceedings
- Article XV – Limitations of Power

FINRA Rules
- 0100 Series – General Standards
- 1000 Series – Member Application and Associated Person Registration
- 1122 – Filing of Misleading Information as to Membership or Registration
- 1240 – Continuing Education
- 2060 – Use of Information Obtained in Fiduciary Capacity
- 2263 – Arbitration Disclosure to Associated Persons Signing or Acknowledging Form U4

2267 – Investor Education and Protection
2310(c) – Non-cash Compensation
2320(g)(4) – Non-cash Compensation
2341(l)(5) – Non-cash Compensation
3110(e) – Responsibility of Member to Investigate Applicants for Registration
3220 – Influencing or Rewarding the Employees of Others
3270 – Outside Business Activities of Registered Persons
3280 – Private Securities Transactions of an Associated Person
4513 – Written Customer Complaints
4330 – Customer Protection – Permissible Use of Customers' Securities
4530 – Reporting Requirements
5110(h) – Non-cash Compensation
8312 – FINRA's BrokerCheck Disclosure

CBOE Rule
7.10 – Fingerprint-based Background Checks of Exchange Directors, Officers, Employees and Others

MSRB Rules
G-2 – Standards of Professional Qualifications
G-3 – Professional Qualification Requirements
G-7 – Information Concerning Associated Persons
G-10 – Delivery of Investment Brochure
G-20 – Gifts, Gratuities and Non-cash Compensations
G-37 – Political Contributions and Prohibitions on Municipal Securities Business

SEC Rules and Regulations
Securities Exchange Act of 1934
Section 3(a)(39) – Definitions and Application of Title (Statutory Disqualification)
17f-2 – Fingerprinting of Securities Industry Personnel