

INFORMATIONAL

Membership And Registration Rules

Series 22, 27, 28, 39,
55, And 82 Modified

SUGGESTED ROUTING

The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.

- Legal & Compliance
- Operations
- Registration
- Training

KEY TOPICS

- Direct Participation Programs Limited Principal (Series 39)
- Direct Participation Programs Limited Representative (Series 22)
- Equity Trader Limited Representative (Series 55)
- Financial and Operations Limited Principal (Series 27)
- Introducing Broker/Dealer Financial and Operations Limited Principal (Series 28)
- Private Securities Offerings Limited Representative (Series 82)
- NASD Rules 1022(b), (c), and (e)
- NASD Rules 1032(c), (f), and (h)
- Qualification Examinations

Executive Summary

NASD Regulation, Inc. (NASD Regulation) has modified the examination programs for the Direct Participation Programs Limited Representative (Series 22), the Financial and Operations Limited Principal (Series 27), the Introducing Broker/Dealer Financial and Operations Limited Principal (Series 28), the Direct Participation Programs Limited Principal (Series 39), the Equity Trader Limited Representative (Series 55), and the Private Securities Offerings Limited Representative (Series 82).¹ The changes are reflected in study outlines that will soon be available on the NASD Regulation Web Site (www.nasdr.com). The changes will appear in examinations administered starting on August 1, 2002.

Questions/Further Information

Questions concerning this *Notice to Members* may be directed to one of the following persons in NASD Regulation's Testing and Continuing Education Department: Karen Bescher at (240) 386-4677; Eva Cichy at (240) 386-4680; Carole Hartzog at (240) 386-4678; Nicole Hillman at (240) 386-4681; or Elaine Warren at (240) 386-4679.

Background And Discussion

Committees of industry representatives (including compliance officers, sales managers, and training personnel), together with NASD Regulation staff, recently reviewed the Series 22, 27, 28, 39, 55, and 82 examination programs. As a result of their review, NASD Regulation has revised these examinations to reflect changes in relevant laws, rules, and regulations covered by the examinations, and, in some cases, to reflect more accurately the duties and

responsibilities of the individuals who are taking these examinations. Several examinations have been modified to include sections on recently implemented Securities and Exchange Commission (SEC) and NASD rules. Two of the examinations were reformatted into one-part examinations. Also, the method for scoring one of the examinations has been modified.

Series 22

The Series 22 examination is a limited representative qualification examination for a person associated with a member whose activities in the investment banking and securities business are limited solely to the solicitation, purchase, and/or sale of equity interests in or debt of direct participation programs.

NASD Regulation has reorganized the substantive sections of the Series 22 examination and has allocated questions to each section as follows: Investment Entities for Direct Participation Programs, 12 questions; Types of Direct Participation Programs, 11 questions; Offering Practices Applicable to Direct Participation Programs, 14 questions; Tax Issues Applicable to Direct Participation Programs, 20 questions; Regulation of Direct Participation Programs, 32 questions; and Factors to Consider in Evaluating Direct Participation Programs, 11 questions. The Series 22 examination will remain a 2 1/4-hour, 100 multiple-choice question examination with 70% as the passing score.

Series 27

The Series 27 examination qualifies an individual to function as a limited principal responsible for matters involving a member's financial and operational management. A Series 27 principal may

serve as a member's chief financial officer.

NASD Regulation has reformatted the Series 27 examination. Previously, the Series 27 examination was a two-part test graded on a 140-point system. The first part included 100 multiple-choice questions (each worth one point) and the second part, which was worth 40 points, required individuals to perform computations based on financial information in a member's trial balance. Individuals taking the examination may have received partial credit for answers to computational questions in the second part. NASD Regulation has changed the format of the Series 27 examination and has made it a one-part examination with a total of 145 multiple-choice questions (each worth one point). No partial credit will be given for any answers.

NASD Regulation also has reorganized the substantive sections of the Series 27 examination and has allocated questions to each section as follows: Keeping and Preservation of Records and Broker/Dealer Financial Reporting Requirements, 16 questions; Net Capital Requirements, 44 questions; Customer Protection, 37 questions; Municipal Securities Rulemaking Board Regulations, 10 questions; Federal Reserve Board Regulations, 8 questions; Uniform Practice Rules, 15 questions; and Other Relevant Regulations and Interpretations, 15 questions. The Series 27 examination will remain a 3 1/2-hour examination and the passing score for the examination will continue to be 70%.

Series 28

The Series 28 examination qualifies an individual to function as a limited principal responsible for matters involving an introducing member's financial and operational

management. A Series 28 principal may serve as an introducing member's chief financial officer.

NASD Regulation has reformatted the Series 28 examination. Previously, the Series 28 examination was a two-part test graded on a 100-point system. The first part included 75 multiple-choice questions (each worth one point) and the second part, which was worth 25 points, required individuals to perform computations based on financial information in a member's trial balance. Individuals taking the examination may have received partial credit for answers to computational questions in the second part. NASD Regulation has changed the format of the Series 28 examination and has made it a one-part examination with a total of 85 multiple-choice questions (each worth one point). No partial credit will be given for any answers.

NASD Regulation also has reorganized the substantive sections of the Series 28 examination and has allocated questions to each section as follows: Keeping and Preservation of Records and Broker/Dealer Financial Reporting Requirements, 15 questions; Net Capital Requirements, 36 questions; Customer Protection, 10 questions; and Other Relevant Regulations and Interpretations, 24 questions. Additionally, NASD Regulation has reduced the testing time for the Series 28 examination to 2 hours from 3 hours. The passing score for the examination will continue to be 70%.

Series 39

The Series 39 examination qualifies an individual to function as a limited principal responsible solely for a member's activities with respect to equity interests in or the debt of direct participation programs.

NASD Regulation has changed the method for scoring the Series 39 examination. Previously, the Series 39 examination was graded based on two passing scores. Individuals taking the examination were required to obtain a score of 70% on the substantive section relating to compliance with financial responsibility rules and a score of 70% on the remaining substantive sections. Individuals who failed either part were required to retake the Series 39 examination. NASD Regulation has combined both parts and will now require a 70% passing score for the combined portion.

NASD Regulation also has reorganized the substantive sections of the Series 39 examination and has allocated questions to each section as follows: Structure and Regulation of Direct Participation Program Offerings, 47 questions; Sales Supervision, General Supervision of Employees, Regulatory Framework of NASD, 31 questions; and Compliance with Financial Responsibility Rules, 17 questions. NASD Regulation has reduced the total number of multiple-choice questions to 95 from 100. The testing time for the Series 39 examination will remain at 2 hours.

Series 55

The Series 55 examination is required, with certain limited exceptions, for registered representatives who are engaged in proprietary trading, the execution of transactions on an agency basis, or the direct supervision of such activities, with respect to transactions in equity, preferred or convertible debt securities effected otherwise than on a securities exchange. There is an exception from the requirement for the Series 55 examination for any person associated with a member whose

trading activities are conducted principally on behalf of an investment company that is registered with the SEC pursuant to the Investment Company Act of 1940 and that controls, is controlled by, or is under common control with the member.

NASD Regulation has reorganized the substantive sections of the Series 55 examination and has allocated questions to each section as follows: Nasdaq and Over-The-Counter Markets, 45 questions; Nasdaq Automated Execution and Trading Systems, 9 questions; Trade Reporting Requirements, 18 questions; and General Industry Standards, 28 questions. Consequently, NASD Regulation has increased the total number of multiple-choice questions on the Series 55 examination to 100 from 90. The Series 55 examination will remain a 3-hour examination and the passing score for the examination will continue to be 70%.

Series 82

The Series 82 examination is a limited representative qualification examination for a person associated with a member whose activities in the investment banking and securities business are limited to effecting sales as part of a primary private securities offering pursuant to Section 3(b), 4(2) or 4(6) of the Securities Act of 1933 and the rules and regulations thereunder. The Series 82

examination does not qualify a registered representative to effect sales of municipal or government securities, equity interests in or the debt of direct participation programs, or resales of or secondary market transactions in private placement securities.

NASD Regulation has reorganized the substantive sections of the Series 82 examination and has allocated questions to each section as follows: Characteristics of Corporate Securities, 13 questions; Regulation of The Market for Registered and Unregistered Securities, 45 questions; Analyzing Corporate Securities, 15 questions; and Handling Customer Accounts and Industry Regulations, 27 questions. The Series 82 examination will remain a 2 1/2-hour, 100 multiple-choice question examination with 70% as the passing score.

Availability Of Study Outlines

The study outlines for the revised examination programs will be available in June 2002 from the NASD Regulation Qualifications Web Page at http://www.nasdr.com/5200_explan.htm.

Endnote

- 1 These changes were submitted to the SEC (for immediate effectiveness) on April 10, 2002 in rule filings SR-NASD-2002-52 (Series 22), SR-NASD-2002-48 (Series 27), SR-NASD-2002-47 (Series 28), SR-NASD-2002-50 (Series 39), SR-NASD-2002-51 (Series 55), and SR-NASD-2002-49 (Series 82).

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