

INFORMATIONAL

Continuing Education

Content Outline For New Series 6 Program Regulatory Element (S106) For Investment Representatives

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.

- Continuing Education
- Legal & Compliance
- Registration Department
- Senior Management

KEY TOPICS

- Regulatory Element
- General Program (S101)
- Series 6 Program (S106)

Executive Summary

NASD Rule 1120 (Continuing Education Requirements) permits the NASD, as appropriate, to designate specific Continuing Education Regulatory Element programs for various registration categories. The first initiative under Rule 1120 was the General Program (S101) in 1995, followed by the Supervisor's Program (S201) in 1998. We are now preparing to introduce the Series 6 Program (S106), which has been developed specifically for Series 6 registered persons.

The S106 will differ in three respects from the existing General Program (S101).

- 1) The Series 6 Program will feature audio in addition to text on screen.
- 2) Module 7 of the Series 6 Program is called Application Of Product Knowledge To Sales Practice. It replaces New and Secondary Offerings, Module 7 of the General Program.
- 3) The scenarios in all seven modules of the S106 will only deal with mutual funds or variable contracts.

Upon implementation of the new program, Series 6 registered persons will take the S106 Program. Supervisors/Principals of Series 6 registered persons will continue to take the Supervisor's Program (S201). Other registration categories will continue to take the General Program (S101).

Attached is the combined Content Outline for both the S101 and S106 programs. Please note that there is some overlap in subject matter between the two programs. However, those areas specific to the individual programs are indicated.

A future *Notice to Members* will be published with the specific date of the implementation of the Series 6 Program as soon as that date is determined. In the interim period, Series 6 registered persons will continue to take the General Program.

To obtain copies of the *Content Outline For The Regulatory Element*, phone either of the parties listed below, or download it from www.securitiescep.com, the Web Site of the Securities Industry/Regulatory Council on Continuing Education.

Questions/Further Information

Questions about this *Notice* should be directed to John Linnehan, Director, Continuing Education, NASD Regulation, at (240) 386-4684; or Heather Bevans, Continuing Education Communications Coordinator, NASD Regulation, at (240) 386-4685.

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Securities Industry/Regulatory Council on Continuing Education

Content Outline For The Regulatory Element

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Introduction

Six self-regulatory organizations (SROs) - The American Stock Exchange, Inc.; the Chicago Board Options Exchange, Inc.; the Municipal Securities Rulemaking Board; the National Association of Securities Dealers, Inc.; the New York Stock Exchange, Inc.; and the Philadelphia Stock Exchange, Inc. - have enacted rules establishing a continuing education program for the securities industry. The rules call for a formal, two-part program, comprising a Firm Element and a Regulatory Element.

The Firm Element requires broker/dealers to keep employees up to date on job- and product-related subjects by means of a formal, ongoing training program. Each broker/dealer is required to establish a training process meeting certain minimum criteria and standards. In planning, developing, and implementing the Firm Element, each broker/dealer must take into consideration its size, structure, scope of business, and regulatory concerns.

The Regulatory Element requires all registered persons to participate in a prescribed computer-based training session within 120 days of their second registration anniversary date and every three years thereafter. The Regulatory Element is designed to cover significant subject matter which is broadly applicable to all registered persons. Programs have been specifically developed for registered Supervisors/Principals and Series 6 (Investment Company Products/Variable Contracts Representative), in addition to the General Program for persons in other registration categories (Series 7 General Securities Representative and other registration categories not covered in the Supervisor and Series 6 programs). The content is developed by industry committees representing a diverse range of broker/dealers, in conjunction with the Securities Industry/Regulatory Council on Continuing Education, industry regulatory agencies, and SROs.

The Securities Industry Continuing Education Program is intended to keep registered securities industry personnel current regarding rules and other issues important to performing their jobs appropriately.

The Regulatory Element

The Regulatory Element focuses on compliance, regulatory, ethical, and sales-practice standards. Its content is derived from rules and regulations, as well as standards and practices widely accepted within the industry. Although the specific requirements of certain rules may differ slightly among the various SROs, the program is based on standards and principles applicable to all. In certain instances, particular SRO requirements may be more restrictive than those represented in the program. Additionally, many broker/dealers limit the types of activities in which their registered employees may engage and/or the investment products they may represent, or they may require specific approvals for certain functions. Registered persons and their supervisors are responsible for ensuring that their activities are within the scope permitted by their employing broker/dealers and conducted in accordance with the rule requirements of all the SROs and jurisdictions regulating them.

The content for the General (101) and Series 6 (106) programs is organized into seven modules. While the content is specific to the respective registration categories covered by each program, the subject titles for modules 1 through 6 in both the General (101) and Series 6 (106) programs are the same. The content of Module 7 will vary according to the program. Each of these topics is covered thoroughly in the corresponding module, and some may be covered in more than one module. The content of these modules is outlined starting on page 3. Unless otherwise specified, the topics are covered at basic levels of knowledge and understanding.

Please note that there is no specific content outline for the Supervisor/Principal program (201). This program is designed to draw on the experience of the supervisor/principal involving such topics as supervision, suitability, insider trading, money laundering, and interviewing and hiring.

There are no study materials available from the Council or the SROs as the Regulatory Element programs are based on industry experience. Please consult your training or compliance department if you need additional information on any of the topics listed in this outline.

General Program (101)	
Module 1	Registration & Reporting Issues
Module 2	Communications with the Public
Module 3	Suitability
Module 4	Handling Customer Accounts
Module 5	Business Conduct
Module 6	Customer Accounts, Trade & Settlement Practices
Module 7	New & Secondary Offerings

Series 6 Program (106)	
Module 1	Registration & Reporting Issues
Module 2	Communications with the Public
Module 3	Suitability
Module 4	Handling Customer Accounts
Module 5	Business Conduct
Module 6	Customer Accounts, Trade & Settlement Practices
Module 7	Application of Product Knowledge to Sales Practices

How The Training Is Presented In Each Program

In each module of the General Program and the Series 6 Program, participants are led through scenarios depicting situations faced by registered persons in the course of their business. The format of the scenarios in the General Program (101) is computer interactive text based, while the Series 6 Program (106) will also feature audio segments. After reading the scenario, the participant must demonstrate his or her understanding of the issues by choosing the most appropriate response(s) to questions concerning the facts in the scenario. The program will assess the individual's understanding of the topic. If the individual does not answer a sufficient number of questions correctly, the program delivers tutorials about the topics in the module and the participant must try again with another scenario on the same general topic. The participant must successfully complete one scenario in the module before he or she can advance to the next module.

The Supervisor/Principal Program (201) is specifically designed to enhance a supervisor's problem-detection and resolution skills. The program comprises lifelike situations in the form of cases covering such topics as suitability, supervision, insider trading, money laundering, and interviewing and hiring.

A participant in the Regulatory Element must complete the entire program to satisfy the Regulatory Element requirement. Each program is designed to provide ample time to complete all scenarios within the timeframe allotted. Failure to complete the Regulatory Element within 120 days after the prescribed anniversary dates will result in a person's registration becoming inactive. This means that he or she may not engage in, or be compensated for, activities requiring a securities registration until he or she satisfies the requirements.

This is the content outline for both the General (101) and the Series 6 (106) programs. Topics that are specific to the 101 General Program appear in text boxes.

Module 1: Registration And Reporting Issues

1.1 Registration/Licensing Requirements

Requirements of the self-regulatory organizations (SROs)
State authority and jurisdiction, general requirements for registered representative (RR) and broker/dealer registration/licensing in states
Conditions, restrictions, and requirements for amending Form U-4
Restrictions on activities of RRs
General registration/licensing requirements for and limitations on activities of Investment Advisers
Restrictions on activities of nonregistered persons
Consequences of violating registration/licensing requirements
Continuing Education requirements

1.2 Securities And Exchange Commission (SEC) And SRO Authority And Investigations

Jurisdiction of SEC, SROs, and state regulators
Obligations for response to regulatory inquiries
Definition and consequences of statutory disqualification [Section 3(a)(39) of the Securities Exchange Act of 1934]
Settlement of employer-employee disputes

1.3 Blue-Sky Laws, Registration Of Securities

Requirements for securities to be registered or exempt in states in which they are being sold
Distinction between exempt/nonexempt securities
General exemptions from registration

1.4 Differences In Insurance Appointments And Securities Licensing

Variable Annuity/Variable Universal Life

Module 2: Communications With The Public

2.1 Communications With The Public

Definitions, general standards, and required approvals for public communications:

Telephone solicitations, correspondence, advertisements, market letters, research reports, sales literature, educational material, electronic communications, communications in and with the press, seminars, lectures, shareholder services, broker/dealer use only, summary statements

Restrictions on telephone solicitations/cold calling

2.2 Customer Complaints And Inquiries

Requirements for reporting, investigation, and documentation

Handling of disputes with customers; arbitration procedures and awards

CRD toll-free number and type of information publicly disclosed in disciplinary records

Module 3: Suitability

3.1 Specific Elements In Evaluating Current Status Of Customer

Financial profile - Balance sheet, income statement, other financial considerations

Life profile - Non-financial investment considerations

Risk tolerance and investment experience

Investment objectives and considerations

Solicited versus unsolicited accounts and transactions

Tax considerations

3.2 Concepts And Implications Related To Risk

Diversification and risk reduction - Concepts and specific responsibilities of the RR

Definitions and examples of types of risk - Liquidity risk, interest rate risk, call risk, credit risk, legislative risk, purchasing power risk (inflation risk), reinvestment risk, principal risk, currency risk, political risk, sector risk

Risk characteristics of categories of investments (e.g., equity, debt, asset-backed, mutual funds, insurance products)

Business cycle - Definition and effects

Effects of international events, interest rate fluctuations

3.3 Monitoring Customer Needs, Objectives, And Portfolio

Obligation and procedures for routine monitoring and updating of customer's financial and life profile, investment objectives, and portfolio.

Module 4: Handling Customer Accounts

4.1 Prohibited/Fraudulent Practices

Definitions and examples of prohibited and improper activities such as insider trading, entering false orders, misappropriation of funds, stealing/conversion, forgery, unauthorized trading, guarantees to customers, selling away, piggy-backing/shadowing, selling dividends, commingling funds, selling to breakpoints, churning, switching, and twisting.

In addition to the above stated practices, the following also pertains to the 101 Program only: market manipulations, unfair and excessive pricing, front running, free-riding, parking, trading at the close/marketing the close.

4.2 Third-Party Orders And Authority To Transact

Required instructions, requirements for third-party checks, requirements for written authorization for orders

4.3 Account Transfers And Customer Records

General requirements and procedures for transferring account (e.g., dealer-to-dealer, representative-to-representative)

Confidentiality issues and responsibilities related to customer accounts and records; firm ownership of records

4.4 Gifts And Gratuities

Restrictions on giving and receiving; requirements for approvals

Noncash compensation, sales contests

Prohibition on compensating nonmembers

4.5 Sharing Profits And Losses

Restrictions on and allowable circumstances

4.6 “Prudent Man” Rule

Basic principle

4.7 “Chinese Wall” Requirements (Pertains to the 101 Program only)

Module 5: Business Conduct

5.1 Private Securities Transactions

Restrictions, required authorizations, legal risks

5.2 Outside Business Activities

Permitted and prohibited activities - Dual licensing, part-time employment, conflicts of interest
Required notifications/approvals (regulatory and broker/dealer)

5.3 Compensation

Rules, regulations, and standards governing sharing commissions or part of compensation

5.4 Payment Of Referral Fees (To Nonaffiliated Persons)

Restrictions; approval and disclosure requirements

5.5 Restrictions On Loans To/From Customers

5.6 Conflicts Of Interest And Potentially Illegal Situations

RR awareness, things to watch for, recognition, prohibitions

5.7 Cash Transaction Reporting Requirements (e.g., money laundering)

Module 6: Customer Accounts, Trade And Settlement Practices

6.1 Customer Accounts, Documents, Approvals, And Restrictions

Procedures for opening customer accounts, including required approvals, and recordkeeping

Definitions and requirements related to:

Accounts for Clients of Investment Advisers - Additional trading authorization required, written evidence of power of attorney

Discretionary Accounts - Requirements for written authorization and broker/dealer approval; prohibition by many broker/dealers

Legally Restricted Accounts - Restrictions/prohibitions on accounts for minors, persons incompetent, entities, death of customer, fiduciary accounts

Custodial Accounts (UGMA/UTMA) - General requirements and characteristics

Qualified Accounts [such as 401(k), IRA, IRA Rollover, 403(b), & 457] - Tax advantages, restrictions

Joint Accounts - Characteristics and purpose of accounts such as joint tenants with right of survivorship, joint tenants in common.

Broker/Dealer Employee Accounts - Approval of and disclosures, procedures for opening

Obligations of and limits on fiduciaries, limits on the use of powers of attorney

Authorization to transact

6.2 Regulation T, SRO Margin And Short Sales Rules (Pertains to the 101 Program only)

Basic distinctions between cash and margin accounts.

Appropriate use of margin accounts and associated risks - Initial and maintenance concepts

Obligations for informing customers of risks and benefits.

Margin accounts for fiduciaries.

6.3 Securities Investor Protection Corporation (SIPC)

Purpose of SIPC, coverage limits and amounts, disclosures to customers

6.4 Payment And Delivery For Securities Transactions

General requirements, consequences of nonpayment/nondelivery

6.5 Payment For Investment Company/Variable Contract Products

Regulation T requirements for payment

Free-look provisions

Forward pricing of shares

6.6 Correction Of Errors

Procedures, approvals, and prohibitions

Module 7: New And Secondary Offerings (Pertains to the 101 Program only)

7.1 SEC Registration and Prospectus Requirements (Securities Act of 1933)

General Requirements - Definition of offer; prospectus delivery requirements; limits on advertising and other written materials; prohibition of sales before effective date; use of preliminary prospectus (red herring); restrictions before, during, and after a distribution; exemptions from registrations; restrictions on hot issues

New Issues and Securities Trading - Registration requirements, restricted accounts, prospectus requirements, exemptions from registration

7.1 Penny Stock Rules

General knowledge of written suitability and disclosure requirements

Module 7: Application Of Product Knowledge To Sales Practices

Note: *Module 7 content for the 106 Program will consist of subject matter described below. The same subject areas may also be covered in Modules 1 through 6 of the 101 Program.*

7.1 Investment Companies

Characteristics of Unit Investment Trusts (UIT); Closed-end investment companies; open-ended investment companies; diversified and non-diversified companies

7.1.1 Mutual Funds

Structure and Operation of funds - costs of operation; functions/responsibilities of board of directors, investment advisers, underwriters (distributor), custodians, and transfer agents; rights of shareholders; conveniences and services provided to shareholders

7.1.2 Types Of Distributions

Net investment income, capital gains, returns of capital, distribution alternatives

7.1.3 Types Of Mutual Funds

Characteristics and investment policies by objective and underlying investment (e.g., aggressive growth funds, income funds, money market funds, municipal bond funds)

7.1.4 Important Factors In Comparing Funds

Basis of comparison; performance statistics and other factors (e.g., sales and distribution charges, minimum purchase requirements)

7.1.5 Prices Of Mutual Fund Shares

Determination and consequences of Net Asset Value (NAV)

Sales Charges - computation of; types (e.g., front end load, level load, contingent deferred and no load); qualification for reduction (e.g., breakpoints, letter of intent), expenses and 12b-1 fees

Definition of Dollar Cost Averaging (DCA)

7.1.6 Redemption Of Mutual Fund Shares

Redemption prices and systematic withdrawals

7.1.7 Prospectus And Statement Of Additional Information (SAI)

Delivery requirements

7.1.8 Federal Income Tax Regulations For Mutual Funds

Tax consequences of activities by the Investment Company or investor.

Cost basis, holding period, wash sales, inheritance of securities

7.1.9 Contractual Plan/Periodic Payment Plan

Characteristics; prospectus requirements; operation of contractual plan

7.2 Variable Contracts

Separate Accounts

7.2.1 Variable Annuity Contracts

Characteristics and types of variable and fixed annuities, related sales charges and expenses, valuation of a variable annuity contract, and tax treatment of individual non-tax qualified variable annuity contracts

7.2.2 Variable Life Insurance (Fixed And Flexible Premium Types)

Characteristics of universal and variable life insurance (*e.g.*, death benefits, cash value, risk premium payments, conversion privileges)

Fees and related expenses (*e.g.*, mortality costs, cost of insurance, investment management fee)

Valuation of a variable life insurance policy

Tax treatment of variable life insurance to the policyholder

7.3 Retirement Plans

Characteristics including purpose, funding, eligibility, employee coverage, contribution limits, taxation, rollover/transfer rules, distribution rules, taxation:

Individual Retirement Accounts (IRAs), Simplified Employee Pension (SEP) Plans, Keogh/HR 10 Plans, Corporate Pension Plans - Defined contribution plan and Defined benefit plan, Profit sharing plans, 401(k) plans, 403(b) Tax-Deferred Annuity Plans/Custodial Accounts

