

Notice to Members

OCTOBER 2005

SUGGESTED ROUTING

Legal & Compliance
Operations
Registration
Training

KEY TOPICS

Limited Principal – General Securities Sales Supervisor (Series 9/10)
Limited Principal – Registered Options (Series 4)
Limited Representative – Investment Company and Variable Contracts Products (Series 6)
Rule 1022(f)
Rule 1022(g)
Rule 1032(b)

GUIDANCE

Qualification Examinations

Revisions to the Series 4, 6 and 9/10 Examination Programs; Implementation Date: November 30, 2005

Executive Summary

NASD has revised the examination programs for the Limited Principal – Registered Options (Series 4), Limited Representative – Investment Company and Variable Contracts Products (Series 6), and Limited Principal – General Securities Sales Supervisor (Series 9/10).¹ The changes are reflected in study outlines that are available on the NASD Web site (www.nasd.com). The changes will appear in examinations administered starting on November 30, 2005.

Questions/Further Information

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Background and Discussion

The Series 4, 6 and 9/10 examination programs were recently reviewed by NASD staff, committees of industry representatives and, in the case of the Series 4 and 9/10 examination programs, the staff of other self-regulatory organizations (SROs) that share those examination programs. As a result of these reviews and as discussed in greater detail below, NASD has revised the examination programs generally to reflect changes in relevant laws, rules and regulations covered by the examinations, and to reflect more accurately the duties and responsibilities of the individuals who are taking these examinations. The Series 4 and 9/10 examinations also have been modified to reflect the Securities and Exchange Commission (SEC) short sale requirements.²

Series 4

NASD Rule 1022(f) states that firms engaged in, or intending to engage in, transactions in security futures or put or call options with the public must have at least one registered options and security futures principal. In addition, every individual engaged in the management of the day-to-day options or security futures activities of a firm must be registered as an options and security futures principal. The Series 4 examination, an industry-wide examination, qualifies an individual to function as a registered options and security futures principal, but only for purposes of supervising a firm's options activities.³ The Series 4 examination tests a candidate's general knowledge of options trading, the industry rules applicable to trading of option contracts, and the rules of registered clearing agencies for options. The Series 4 examination covers, among other things, equity options, foreign currency options, index options and options on government and mortgage-backed securities.

NASD has revised the Series 4 study outline to reflect changes to the laws, rules and regulations covered by the examination. NASD has further revised the study outline to reflect the SEC short sale requirements, and to align the examination more closely to the supervisory duties of a Series 4 limited principal. In addition, NASD has revised the main section headings and the number of questions on each section of the Series 4 study outline as follows: Options Investment Strategies, decreased from 35 to 34 questions; Supervision of Sales Activities and Trading Practices, increased from 71 to 75 questions; and Supervision of Employees, Business Conduct, and Recordkeeping and Reporting Requirements, decreased from 19 to 16 questions. The revised examination continues to cover the areas of knowledge required to supervise options activities.

NASD has made these changes to the entire content of the Series 4 examination, including the selection specifications and question bank. The number of questions on the Series 4 examination remains at 125, and candidates continue to have three hours to complete the exam. Also, each question continues to count one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

The Series 4 examination program is shared by NASD and the following SROs: the American Stock Exchange LLC (AMEX), the Chicago Board Options Exchange, Incorporated (CBOE), the New York Stock Exchange, Inc. (NYSE), the Pacific Exchange, Inc. (PCX), and the Philadelphia Stock Exchange, Inc. (PHLX). The revised Series 4 examination program reflects revisions made by all the SROs that share the examination, and not just NASD. Moreover, the revised Series 4 examination program supersedes all prior revisions to the examination.⁴

Series 6

The Series 6 examination qualifies persons seeking registration with NASD as a limited representative of investment company and variable contracts products. In accordance with NASD Rule 1032(b), registered representatives in this limited category are permitted solely to engage in transactions involving redeemable securities of companies registered under the Investment Company Act of 1940 (Investment Company Act), securities of closed-end companies registered under the Investment Company Act during the period of original distribution only, and variable contracts and insurance premium funding programs and other contracts issued by an insurance company except contracts that are exempt securities pursuant to Section 3(a)(8) of the Securities Act of 1933.

NASD has revised the Series 6 study outline to cover Regulation S-P, anti-money laundering rules, municipal fund securities (e.g., 529 college savings plans), and Regulation D. NASD also has revised the study outline to align the examination more closely to the functions of a Series 6 limited representative. In addition, NASD has increased the number of sections covered by the Series 6 outline from four to six. Further, NASD has modified the section headings and the number of questions on each section of the outline as follows: Section 1, Securities Markets, Investment Securities, and Economic Factors, 8 questions; Section 2, Securities and Tax Regulations, 23 questions; Section 3, Marketing, Prospecting, and Sales Presentations, 18 questions; Section 4, Evaluation of Customers, 13 questions; Section 5, Product Information: Investment Company Securities and Variable Contracts, 26 questions; and Section 6, Opening and Servicing Customer Accounts, 12 questions.

NASD has made these changes to the entire content of the Series 6 examination, including the selection specifications and question bank. The number of questions on the Series 6 examination remains at 100, and candidates continue to have 2 hours and 15 minutes to complete the exam. Also, each question continues to count one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

Series 9/10

NASD Rule 1022(g) states that firms may register with NASD an individual as a general securities sales supervisor if the individual's supervisory responsibilities in the investment banking and securities business are limited to the securities sales activities of a firm, including the training of sales and sales supervisory personnel and the maintenance of records of original entry and/or ledger accounts of the firm required to be maintained in branch offices by SEC recordkeeping rules. A general securities sales supervisor is precluded from performing any of the following activities: supervision of the origination and structuring of underwritings; supervision of market-making commitments; final approval of advertisements as these are defined in NASD Rule 2210; supervision of the custody of firm or customer funds and/or securities for purposes of SEC Rule 15c3-3; or supervision of overall compliance with financial responsibility rules for broker-dealers

promulgated pursuant to the provisions of the Securities Exchange Act of 1934. The Series 9/10 examination, an industry-wide examination, qualifies an individual to function as a general securities sales supervisor. The Series 9/10 examination tests a candidate's knowledge of securities industry rules and regulations and certain statutory provisions pertinent to the supervision of sales activities.

NASD has revised the Series 9/10 study outline to cover Regulation S-P, Municipal Securities Rule Making Board (MSRB) Rules G-37 and G-38, SRO research analyst and anti-money laundering rules, municipal fund securities (e.g., 529 college savings plans), and exchange traded funds. NASD has further revised the study outline to reflect the SEC short sale requirements, and to align the examination more closely to the supervisory duties of a Series 9/10 limited principal.

In addition, NASD has modified the main section headings and the number of questions on each section of the Series 9/10 study outline as follows: Section 1 – Hiring, Qualifications, and Continuing Education, 9 questions; Section 2 – Supervision of Accounts and Sales Activities, 94 questions; Section 3 – Conduct of Associated Persons, 14 questions; Section 4 – Recordkeeping Requirements, 8 questions; Section 5 – Municipal Securities Regulation, 20 questions; and Section 6 – Options Regulation, 55 questions. Sections 1 through 5 constitute the Series 10 portion of the examination. Section 6 constitutes the Series 9 portion of the examination. Series 10 covers general securities and municipal securities, and Series 9 covers options. The revised examination continues to cover the areas of knowledge required for the supervision of sales activities.

NASD has made these changes to the entire content of the Series 9/10 examination, including the selection specifications and question bank. The number of questions on the Series 9/10 examination remains at 200, and candidates continue to have four hours to complete the Series 10 portion and one and one-half hours to complete the Series 9 portion. Also, each question continues to count one point, and each candidate must correctly answer 70 percent of the questions on each series, 9 and 10, to receive a passing grade.

The Series 9/10 examination program is shared by NASD and the following SROs: the AMEX, CBOE, MSRB, NYSE, PCX and PHLX. The revised Series 9/10 examination program reflects revisions made by all the SROs that share the examination, and not just NASD.

Availability of Study Outlines

The study outlines for the revised examination programs are available on the NASD Qualifications Web page at www.nasd.com.

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Endnotes

- 1 See Securities Exchange Act Release No. 52546 (September 30, 2005) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Revisions to the Series 4 Examination Program; File No. SR-NASD-2005-109); Securities Exchange Act Release No. 52547 (September 30, 2005) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Revisions to the Series 6 Examination Program; File No. SR-NASD-2005-110); and Securities Exchange Act Release No. 52548 (September 30, 2005) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Revisions to the Series 9/10 Examination Program; File No. SR-NASD-2005-111). The three rule filings were filed with the SEC for immediate effectiveness on September 13, 2005.
- 2 NASD has repealed Rules 3110(b)(1), 3210, 3370(b), and 11830 in light of the requirements of SEC Regulation SHO. See *Notice to Members 04-93* (December 2004) (Issues Relating to the SEC's Adoption of Regulation SHO). Accordingly, NASD has deleted references to these rules from the Series 4 and 9/10 examination programs.
- 3 A registered options and security futures principal also must complete a firm-element continuing education program that addresses security futures and a principal's responsibilities for security futures before such person can supervise security futures activities.
- 4 More specifically, the current revisions to the Series 4 examination program supersede, among other things, the revisions filed with the SEC for immediate effectiveness on February 9, 2005. See Securities Exchange Act Release No. 51216 (February 16, 2005), 70 FR 8866 (February 23, 2005) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Revisions to the Series 4 Examination Program; File No. SR-NASD-2005-025).