

Notice to Members

JULY 2006

SUGGESTED ROUTING

Legal & Compliance
Operations
Registration
Training

KEY TOPICS

Limited Principal – Direct Participation Programs (Series 39)
Limited Principal – Financial and Operations (Series 27)
Limited Principal – Introducing Broker-Dealer Financial and Operations (Series 28)
Limited Representative – Direct Participation Programs (Series 22)
Limited Representative – Equity Trader (Series 55)
Rule 1022(b)
Rule 1022(c)
Rule 1022(e)
Rule 1032(c)
Rule 1032(f)

GUIDANCE

Qualification Examinations

Revisions to the Series 22, 27, 28, 39 and 55 Examination Programs; **Implementation Date: August 15, 2006**

Executive Summary

NASD has revised the following examination programs:

- ◆ Limited Representative – Direct Participation Programs (Series 22);
- ◆ Limited Principal – Financial and Operations (Series 27);
- ◆ Limited Principal – Introducing Broker-Dealer Financial and Operations (Series 28);
- ◆ Limited Principal – Direct Participation Programs (Series 39); and
- ◆ Limited Representative – Equity Trader (Series 55).¹

The changes are reflected in study outlines that are available on the NASD Web site (www.nasd.com/brokerqualifications). The changes will appear in examinations administered starting on August 15, 2006.

Questions/Further Information

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Background and Discussion

Section 15A(g)(3) of the Securities Exchange Act of 1934 requires NASD to prescribe standards of training, experience and competence for persons associated with NASD members. In accordance with that provision, NASD has developed examinations, and administers examinations developed by other self-regulatory organizations, that are designed to establish that persons associated with NASD members have attained specified levels of competence and knowledge. NASD periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

NASD staff and committees of industry representatives recently reviewed the Series 22, 27, 28, 39 and 55 examination programs. As a result of these reviews, and as discussed in greater detail below, NASD has revised the examination programs to reflect changes to the laws, rules and regulations covered by the examinations and to better reflect the duties and responsibilities of the individuals who are taking these examinations.

Series 22

NASD Rule 1032(c) provides that an associated person of a member firm who meets the definition of “representative” in Rule 1031 may register with NASD as a Limited Representative – Direct Participation Programs if 1) the individual’s 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 as defined in Rule 1022(e)(2) and 2) the individual passes the Series 22 qualification examination.

NASD has revised the Series 22 study outline to add a section on the Securities and Exchange Commission (SEC) Form S-1 registration. NASD also has added a section on NASD Rule 2370 (Borrowing from or Lending to Customers) and a section on like-kind exchanges.

In addition, NASD has removed the sections on Section 4(3) under the Securities Act of 1933 and SEC Rule 174; NASD Rules 1040 (Registration of Assistant Representatives and Proctors) and 1110 (formerly Registration of Government Securities Principals and Representatives); and NASD Certificate of Incorporation.

NASD has made these changes to the entire content of the Series 22 examination, including the selection specifications and question bank. The number of questions on each section of the Series 22 examination remains the same. In addition, the number of questions on the examination remains at 100, and candidates continue to have 2¹/₄ hours (135 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 27

Pursuant to NASD Rule 1022(b), member firms that have a minimum net capital requirement of \$250,000 under SEC Rules 15c3-1(a)(1)(ii) and 15c3-1(a)(2)(i), as well as members that have a minimum net capital requirement of \$150,000 under SEC Rule 15c3-1(a)(8), are required to designate as a Limited Principal – Financial and Operations those individuals associated with them who are responsible for the members' financial and operational management, including, but not limited to, final approval and responsibility for the accuracy of financial reports submitted to regulators. In addition, Rule 1022(b) provides that the chief financial officer of such firms must be a Limited Principal – Financial and Operations. The Series 27 examination is an NASD exam that qualifies an individual to function as a Limited Principal – Financial and Operations.

NASD has revised the Series 27 study outline to add sections on Municipal Securities Rulemaking Board (MSRB) Rules G-8(g) (Transactions in Municipal Fund Securities), G-14 (Reports of Sales and Purchases), G-15(f) (Minimum Denominations), G-15(g) (Forwarding Official Communications), G-17 (Conduct of Municipal Securities Activities), G-37 (Political Contributions and Prohibitions on Municipal Securities Business) and G-32(b) (Inter-Dealer Disclosure Requirements).

NASD has added a section on SEC Regulation SHO, including Rules 200 (Definition of "Short Sale" and Marking Requirements) and 203 (Borrowing and Delivery Requirements).

NASD also has added sections on NASD Rules 1150 (Executive Representatives), 2350 (Broker-Dealer Conduct on the Premises of Financial Institutions), 2370, 3012 (Supervisory Control System), 3013 (Annual Certification of Compliance and Supervisory Processes), 3510 (Business Continuity Plan) and 9800 (Temporary Cease and Desist Orders).

In addition, NASD has revised the study outline to remove the sections on NASD Rules 1110, 2320 (Best Execution and Interpositioning), 3370 (Purchases), 11100(d) (CUSIP Number), 11110 (Uniform Practice Committees), 11120 (Definitions), 11180 (formerly Use of Trade Acceptance and Reconciliation Service) and 11830 (formerly Mandatory Close-Out for Short Sales). Further, NASD has removed the following two subsections of the Insider Trading and Securities Fraud Enforcement Act of 1988 section: Investigatory Assistance to Foreign Securities Authorities and Cooperation with Foreign Authorities and International Organizations in Enforcement.

NASD also has removed the sections on Form X17F-1A (Report for Missing, Lost, Stolen, or Counterfeit Securities), NASD Certificate of Incorporation and Articles VII, XII, XIII and XV of the NASD By-Laws.

NASD has modified the number of questions on several sections of the Series 27 study outline as follows:

- ◆ Keeping and Preservation of Records and Broker-Dealer Financial Reporting Requirements: decreased from 16 to 15 questions;
- ◆ Customer Protection: decreased from 37 to 36 questions;
- ◆ Municipal Securities Rulemaking Board Regulations: decreased from 10 to 9 questions;
- ◆ Uniform Practice Rules: decreased from 15 to 12 questions; and
- ◆ Other Relevant Regulations and Interpretations: increased from 15 to 21 questions.

NASD also has changed the title of Section 5 from “Federal Reserve Board Regulations” to “Extension of Credit in the Securities Industry.”

NASD has made these changes to the entire content of the Series 27 examination, including the selection specifications and question bank. The number of questions on the Series 27 examination remains at 145, and candidates continue to have 3½ hours (210 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 28

In accordance with NASD Rule 1022(c), member firms that are subject to the net capital requirements of SEC Rule 15c3-1, other than those members that are subject to the net capital requirements of SEC Rules 15c3-1(a)(1)(ii), (a)(2)(i) or (a)(8), are required to designate as a Limited Principal – Introducing Broker-Dealer Financial and Operations those individuals associated with them who are responsible for the firms’ financial and operational management, including, but not limited to, final approval and responsibility for the accuracy of financial reports submitted to regulators. In addition, Rule 1022(c) provides that the chief financial officer of such firms must be a Limited Principal – Introducing Broker-Dealer Financial and Operations. The Series 28 examination is an NASD examination that qualifies an individual to function as a Limited Principal – Introducing Broker-Dealer Financial and Operations.

NASD has revised the Series 28 study outline to add a section on MSRB Rule G-37. NASD also has added a section on SEC Regulation SHO, including Rules 200 and 203. NASD has added sections on NASD Rules 1150, 2350, 2370, 3012, 3013, 3510 and 9800.

In addition, NASD has revised the study outline to remove the sections on NASD Rules 1100 (Foreign Associates), 1110 and 2320. NASD also has removed the sections on Form X17F-1A, NASD Certificate of Incorporation and Articles VII, XII, XIII and XV of the NASD By-Laws.

Further, NASD has added a new section covering certain rules of the NASD Uniform Practice Code (Uniform Practice Rules). NASD has added the Uniform Practice Rules under Section 4 and has moved the section on Other Relevant Regulations and Interpretations (formerly under Section 4) to Section 5, a new section.

NASD has modified the number of questions on several sections of the Series 28 study outline as follows:

- ◆ Keeping and Preservation of Records and Broker-Dealer Financial Reporting Requirements: increased from 15 to 16 questions;
- ◆ Uniform Practice Rules (new section): 5 questions; and
- ◆ Other Relevant Regulations and Interpretations: increased from 24 to 28 questions.

NASD has made these changes to the entire content of the Series 28 examination, including the selection specifications and question bank. The number of questions on the Series 28 examination has increased from 85 to 95 questions. Candidates continue to have 2 hours (120 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 39

NASD Rule 1022(e) provides that an associated person of a member firm who meets the definition of "principal" in Rule 1021 may register with NASD as a Limited Principal – Direct Participation Programs if 1) the individual's activities in the investment banking and securities business are limited solely to the equity interests in or the debt of direct participation programs as defined in Rule 1022(e)(2); 2) the individual also is registered as either a General Securities Representative (Series 7) or a Limited Representative – Direct Participation Programs (Series 22); and 3) the individual passes the Series 39 qualification examination.

NASD has revised the Series 39 study outline to add a section on SEC Form S-1 registration. NASD also has added sections on NASD Rules 2370, 3012, 3013, 3510 and 3520 (Emergency Contact Information).

NASD has revised the study outline to remove the sections on Section 4(3) under the Securities Act of 1933 and SEC Rule 174; NASD Rules 1040, 1110 and 2750 (Transactions with Related Persons); and NASD Certificate of Incorporation.

NASD has modified the number of questions on each section of the Series 39 study outline as follows:

- ◆ Structure and Regulation of Direct Participation Program Offerings: decreased from 47 to 46 questions;
- ◆ Sales Supervision, General Supervision of Employees, Regulatory Framework of NASD: increased from 31 to 32 questions; and
- ◆ Compliance with Financial Responsibility Rules: increased from 17 to 22 questions.

NASD has made these changes to the entire content of the Series 39 examination, including the selection specifications and question bank. The number of questions on the Series 39 examination has increased from 95 to 100 questions, and candidates now have 2¹/₄ hours (135 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 55

Pursuant to NASD Rule 1032(f), the Series 55 examination is required, with certain limited exceptions, for associated persons who are engaged in or directly supervise proprietary trading or the execution of transactions on an agency basis with respect to transactions in equity, preferred or convertible debt securities effected otherwise than on a securities exchange. There is an exception from the Series 55 examination requirement 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 has revised the Series 55 study outline to add a section on Rules 600 (NMS Security Designation and Definitions), 602 (Dissemination of Quotations in NMS Securities), 604 (Display of Customer Limit Orders), 605 (Disclosure of Order Execution Information), 606 (Disclosure of Order Routing Information) and 612 (Minimum Price Increments) of SEC Regulation NMS.

NASD also has added sections on NASD Rules 2111 (Trading Ahead of Customer Market Orders) and 3380 (Order Entry and Execution Practices). NASD has modified the section on the NASDAQ Market Center – Execution Services to add specific references to NASD Rules 4701 (Definitions), 4704 (Opening Process for NASDAQ-Listed Securities), 4706 (Order Entry Parameters), 4707 (Entry and Display of Quotes/Orders), 4709 (NASDAQ Closing Cross), 4710 (Participant Obligations in the NASDAQ Market Center), 4714 (Routing NASDAQ-Listed Securities), 4715 (Adjustment of Open Quotes and/or Orders) and 4719 (Anonymity).

NASD has added a section on the NASDAQ Initial Public Offering Process (NASDAQ Head Trader Alert 2005-096) and has modified the section on SEC Regulation SHO to add specific references to Rules 200 and 203. Further, NASD has added references to the specific types of NASDAQ securities covered by the Series 55 examination, added two additional modifiers (.ST (Pre-Open and Aftermarket Trades Not Reported Within 90 Seconds) and .W (Stop Orders)) to the list of Trade Reporting Service modifiers and added a section on reporting cancelled trades.

In addition, NASD has revised the study outline to remove the following sections: SEC Rules 11Ac1-1 (formerly Dissemination of Quotations), 11Ac1-4 (formerly Display of Customer Limit Orders), 11Ac1-5 (formerly Disclosure of Order Execution Information) and 11Ac1-6 (formerly Disclosure of Order Routing Information); NASDAQ Levels 1, 2 and 3 Service; SEC Rule 10b-10 (Confirmation of Transactions); and NASD Rules 3360 (Short Interest Reporting), 3370 and 4643 (Customer Confirmations).

NASD has modified the number of questions on each section of the Series 55 study outline as follows:

- ▶ NASDAQ and Over-the-Counter Markets: decreased from 42 to 41 questions;
- ▶ NASDAQ Display, Execution and Trading Systems: increased from 15 to 17 questions;
- ▶ Trade Reporting Requirements: increased from 16 to 19 questions; and
- ▶ General Industry Standards: decreased from 27 to 23 questions.

NASD has made these changes to the entire content of the Series 55 examination, including the selection specifications and question bank. The number of questions on the Series 55 examination remains at 100, and candidates continue to have 3 hours (180 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.

Availability of Study Outlines

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

Endnote

- 1 See File Nos. SR-NASD-2006-082 (Proposed Rule Change Relating to Revisions to the Series 22 Examination Program); SR-NASD-2006-083 (Proposed Rule Change Relating to Revisions to the Series 27 Examination Program); SR-NASD-2006-084 (Proposed Rule Change Relating to Revisions to the Series 28 Examination Program); SR-NASD-2006-085 (Proposed Rule Change Relating to Revisions to the Series 39 Examination Program); and SR-NASD-2006-086 (Proposed Rule Change Relating to Revisions to the Series 55 Examination Program). These rule filings were filed with the SEC for immediate effectiveness on July 14, 2006.

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