

Qualification Examinations

Revisions to the Series 23, 24, 42, 55, 62, 72 and 82 Examination Programs

Implementation Date: February 12, 2008

Executive Summary

FINRA has revised the following examination programs:

- General Securities Principal Sales Supervisor Module (Series 23);
- General Securities Principal (Series 24);
- Limited Representative – Options (Series 42);
- Limited Representative – Equity Trader (Series 55);
- Limited Representative – Corporate Securities (Series 62);
- Limited Representative – Government Securities (Series 72); and
- Limited Representative – Private Securities Offerings (Series 82).¹

The changes are reflected in the study outlines on FINRA's Web site at www.finra.org/brokerqualifications/exams. The changes will appear in examinations starting on February 12, 2008.

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Notice Type

- Qualifications Exam Updates

Suggested Routing

- Compliance
- Legal
- Operations
- Registration
- Training

Key Topic(s)

- Qualification Examinations
- General Securities Principal Sales Supervisor Module (Series 23)
- General Securities Principal (Series 24)
- Limited Representative – Corporate Securities (Series 62)
- Limited Representative – Equity Trader (Series 55)
- Limited Representative – Government Securities (Series 72)
- Limited Representative – Options (Series 42)
- Limited Representative – Private Securities Offerings (Series 82)

Referenced Rules & Notices

- NASD Rule 1022(a)
- NASD Rule 1032(d, e, f, g, h)
- NYSE Rule 342.13

Background and Discussion

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

FINRA and committees of industry representatives recently reviewed the Series 23, 24, 42, 55, 62, 72 and 82 examination programs. As a result of these reviews, and as discussed in greater detail below, FINRA 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 23 (General Securities Principal Sales Supervisor Module)

The Series 23 is a limited qualification examination that tests a candidate's knowledge of securities industry rules and regulations pertaining to the supervision of investment banking, securities markets and trading as well as financial responsibility requirements. The Series 23 examination, in combination with the General Securities Sales Supervisor (Series 9/10) examination, is an acceptable qualification alternative to the General Securities Principal (Series 24) examination for associated persons who are required to register and qualify as a General Securities Principal with FINRA. The Series 23 examination covers material from the Series 24 examination not otherwise covered under the Series 9/10 examination.

Among other revisions, FINRA has changed the references to the FINRA and the Nasdaq Stock Market LLC (NASDAQ) rules in the Series 23 study outline to reflect NASDAQ's separation from FINRA (then known as NASD). In addition, FINRA has added sections on:

- SEC Regulation M-A (Mergers and Acquisitions)
- SEC Regulation S-K
- SEC Regulation S-X
- SEC Regulation NMS
- SEC Regulation SHO
- the Sarbanes-Oxley Act

- SEC Rule 3a4-1 (Associated Persons of an Issuer Deemed Not to Be Brokers)
- SEC Rule 405 (Definitions of Terms)
- NASDAQ Initial Public Offering Process (NASDAQ Head Trader Alert 2005-096)
- NYSE Rule 392 (Notification Requirements for Offerings of Listed Securities)
- NASD IM-2110-7 (Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes)
- NASD IM-2210-6 (Requirements for the Use of Investment Analysis Tools)
- NASD Rule 2111 (Trading Ahead of Customer Market Orders)
- NASD Rule 2290 (Fairness Opinions)
- NASD Rule 2370 (Borrowing From or Lending to Customers)
- NASD Rule 2441 (Net Transactions with Customers)
- NASD Rule 5110 (Transactions Related to Initial Public Offerings)

FINRA has changed the title of Section 1 of the study outline from “Supervision of Investment Banking Activities” to “Supervision of Investment Banking, Underwriting Activities and Research,” and the title of Section 4 from “Sales Supervision; General Supervision of Employees; Regulatory Framework of NASD” to “Sales Supervision and General Supervision of Employees.”

Further, FINRA has modified the number of questions in each section of the study outline as follows:

- Supervision of Investment Banking, Underwriting Activities and Research: increased from 25 to 30 questions;
- Supervision of Trading and Market Making Activities: decreased from 29 to 24 questions;
- Supervision of Brokerage Office Operations: decreased from 16 to 12 questions;
- Sales Supervision and General Supervision of Employees: increased from 19 to 23 questions; and
- Compliance with Financial Responsibility Rules: no change to the number of questions (11).

FINRA has made similar changes to the Series 23 selection specifications and question bank. The number of questions on the Series 23 examination remains at 100, and candidates continue to have 2½ hours to complete the exam. Also, each question continues to count as one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

Series 24 (General Securities Principal)

Pursuant to NASD Rule 1022(a), each associated person of a member firm who is included within the definition of principal in NASD Rule 1021(b), and each person designated as a Chief Compliance Officer on Schedule A of Form BD (Uniform Application for Broker-Dealer Registration), is required to register with FINRA as a General Securities Principal, or in such other limited principal registration categories, as may be appropriate.² An associated person also may be required to register as a General Securities Principal due to other FINRA rule requirements.³ The Series 24 examination is the FINRA examination that qualifies an individual to function as a General Securities Principal. An associated person seeking to register as a General Securities Principal also must register as either a General Securities Representative (Series 7) or, depending on the scope of his or her supervisory responsibilities, as a Limited Representative – Corporate Securities (Series 62).⁴

Among other revisions, FINRA has changed the references to the FINRA and NASDAQ rules in the Series 24 study outline to reflect NASDAQ's separation from FINRA (then known as NASD). In addition, FINRA has added sections on:

- ▶ SEC Regulation M-A
- ▶ SEC Regulation S-K
- ▶ SEC Regulation S-X
- ▶ SEC Regulation NMS
- ▶ SEC Regulation SHO
- ▶ the Sarbanes-Oxley Act
- ▶ SEC Rule 3a4-1
- ▶ SEC Rule 405
- ▶ NASDAQ Initial Public Offering Process (NASDAQ Head Trader Alert 2005-096)
- ▶ NYSE Rule 392
- ▶ NASD IM-2110-7
- ▶ NASD IM-2440-2 (Additional Mark-Up Policy for Transactions in Debt Securities, Except Municipal Securities)
- ▶ NASD IM-2210-6
- ▶ NASD Rule 2111
- ▶ NASD Rule 2290
- ▶ NASD Rule 2370
- ▶ NASD Rule 2441
- ▶ NASD Rule 5110

FINRA has changed the title of Section 1 of the study outline from “Supervision of Investment Banking Activities” to “Supervision of Investment Banking, Underwriting Activities and Research,” and the title of Section 4 from “Sales Supervision; General Supervision of Employees; Regulatory Framework of NASD” to “Sales Supervision and General Supervision of Employees.”

Further, FINRA has modified the number of questions in each section of the study outline as follows:

- ▶ Supervision of Investment Banking, Underwriting Activities and Research: increased from 23 to 33 questions;
- ▶ Supervision of Trading and Market Making Activities: decreased from 39 to 31 questions;
- ▶ Supervision of Brokerage Office Operations: decreased from 34 to 29 questions;
- ▶ Sales Supervision and General Supervision of Employees: increased from 38 to 43 questions; and
- ▶ Compliance with Financial Responsibility Rules: decreased from 16 to 14 questions.

FINRA has made similar changes to the Series 24 selection specifications and question bank. The number of questions on the Series 24 examination remains at 150, and candidates continue to have 3½ hours to complete the exam. Also, each question continues to count as one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

Series 42 (Limited Representative – Options)

Pursuant to NASD Rule 1032(d), each associated person of a member firm who is included within the definition of representative in NASD Rule 1031(b) may register with FINRA as a Limited Representative – Options and Security Futures if: (1) the individual’s activities in the investment banking and securities business of the member firm are limited solely to the solicitation or sale of option or security futures contracts, including option contracts on government securities as that term is defined in Section 3(a)(42)(D) of the Exchange Act, for the account of a broker-dealer or public customer; (2) the individual also registers as either a Limited Representative – Corporate Securities (Series 62) or Limited Representative – Government Securities (Series 72); (3) the individual passes the Series 42 qualification examination; and (4) the individual completes a firm element continuing education program that addresses security futures before engaging in any security futures business.

Among other revisions, FINRA has changed the Series 42 study outline to add sections on NASD IM-2110-7 and NASD Rules 2370 and 2790 (Restrictions on the Purchase and Sale of Initial Equity Public Offerings).

FINRA also has decreased the number of sections covered by the Series 42 outline from five to four. Further, FINRA has modified the section headings and the number of questions in each section of the outline as follows:

- ▶ Section 1, Terminology, Types of Options, Investment Strategies and Taxation (20 questions);
- ▶ Section 2, Handling Options Accounts (14 questions);
- ▶ Section 3, Trading and Settlement Practices (10 questions); and
- ▶ Section 4, Qualifications and Business Conduct of Registered Options Representatives, Reporting and Recordkeeping Requirements (6 questions).

FINRA has made similar changes to the Series 42 selection specifications and question bank. The number of questions on the Series 42 examination remains at 50, and candidates continue to have 1½ hours to complete the exam. Also, each question continues to count as one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

Series 55 (Limited Representative – Equity Trader)

Pursuant to NASD Rule 1032(f), each associated person of a member firm who is included within the definition of representative in NASD Rule 1031(b) is required to register with FINRA as a Limited Representative – Equity Trader if, with respect to transactions in equity, preferred or convertible debt securities effected otherwise than on a securities exchange, such person is engaged in proprietary trading, the execution of transactions on an agency basis or the direct supervision of such activities. There is an exception from the Limited Representative – Equity Trader requirement for any associated person of a member firm 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 (Investment Company Act) and that controls, is controlled by or is under common control with the member firm. The Series 55 examination is the FINRA examination that qualifies an individual to function as a Limited Representative – Equity Trader. Before registration as a Limited Representative – Equity Trader may become effective, the individual must be registered as either a General Securities Representative (Series 7) or Limited Representative – Corporate Securities (Series 62).

Among other revisions, FINRA has changed the references to the FINRA and NASDAQ rules in the Series 55 study outline to reflect NASDAQ's separation from FINRA (then known as NASD). FINRA also has added sections on NASD Rules 2441 and 5110.

FINRA has changed the title of Section 2 of the study outline from “NASDAQ Display, Execution and Trading Systems” to “Display, Execution and Trading Systems.” Further, FINRA has modified the number of questions in each section of the study outline as follows:

- NASDAQ and Over-the-Counter Markets: increased from 41 to 42 questions;
- Display, Execution and Trading Systems: decreased from 17 to 12 questions;
- Trade Reporting Requirements: increased from 19 to 22 questions; and
- General Industry Standards: increased from 23 to 24 questions.

FINRA has made similar changes to the Series 55 selection specifications and question bank. The number of questions on the Series 55 examination remains at 100, and candidates continue to have 3 hours to complete the exam. Also, each question continues to count as one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

Series 62 (Limited Representative – Corporate Securities)

Pursuant to NASD Rule 1032(e), each associated person of a member firm who is included within the definition of representative in NASD Rule 1031(b) may register with FINRA as a Limited Representative – Corporate Securities if: (1) the individual’s activities in the investment banking and securities business of the member firm are limited solely to the solicitation, purchase and sale of a “security,” as that term is defined in Section 3(a)(10) of the Exchange Act; (2) the individual does not engage in any activities relating to the following securities: municipal securities as defined in Section 3(a)(29) of the Exchange Act, option securities as defined in NASD Rule 2860, redeemable securities of companies registered pursuant to the Investment Company Act (except for money market funds), variable contracts of insurance companies registered pursuant to the Securities Act of 1933 (Securities Act) and direct participation program securities as defined in NASD Rule 1022(e); and (3) the individual passes the Series 62 qualification examination.

Among other revisions, FINRA has changed the references to the FINRA and NASDAQ rules in the Series 62 study outline to reflect NASDAQ’s separation from FINRA (then known as NASD). In addition, FINRA has added sections on:

- exchange-traded funds
- hedge funds
- unit investment trusts
- SEC Regulation M-A

- SEC Regulation S-K
- SEC Regulation S-X
- SEC Regulation NMS
- SEC Regulation SHO
- SEC Rule 405
- NASD IM-2110-7
- NASD IM-2440-2
- NASD IM-2210-6
- NASD Rule 2111
- NASD Rule 2370
- NASD Rule 2441

FINRA has changed the title of Section 1 of the study outline from “Characteristics of Corporate Securities” to “Types and Characteristics of Securities and Investments,” the title of Section 3 from “Valuing Corporate Securities” to “Evaluation of Securities and Investments,” and the title of Section 4 from “Handling Customer Accounts” to “Handling Customer Accounts and Securities Industry Regulations.”

Further, FINRA has modified the number of questions in each section of the study outline as follows:

- Types and Characteristics of Securities and Investments: decreased from 28 to 25 questions;
- The Market for Corporate Securities: increased from 31 to 40 questions;
- Evaluation of Securities and Investments: no change to the number of questions (14); and
- Handling Customer Accounts and Securities Industry Regulations: decreased from 42 to 36 questions.

FINRA has made similar changes to the Series 62 selection specifications and question bank. The number of questions on the Series 62 examination remains at 115, and candidates continue to have 2½ 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.

Series 72 (Limited Representative – Government Securities)

Pursuant to NASD Rule 1032(g), each associated person of a member firm who is included within the definition of representative in NASD Rule 1031(b) may register with FINRA as a Limited Representative – Government Securities if: (1) the individual's activities in the investment banking and securities business of the member firm are limited solely to the solicitation, purchase and sale of "government securities," as that term is defined in Sections 3(a)(42)(A) through (C) of the Exchange Act, for the account of a broker-dealer or public customer; and (2) the individual passes the Series 72 qualification examination.

Among other revisions, FINRA has changed the Series 72 study outline to add sections on NASD IM-2210-6, NASD Rule 2370 and NASD Rule 2790.

FINRA also has changed the title of Section 3 of the study outline from "Other Related Securities and Financial Instruments" to "Related Securities and Financial Instruments," and the title of Section 5 from "Legal Considerations" to "Securities Industry Regulations and Legal Considerations." Further, FINRA has modified the number of questions in each section of the study outline as follows:

- Government Securities: decreased from 25 to 22 questions;
- Mortgaged-Backed Securities: no change to the number of questions (25);
- Related Securities and Financial Instruments: no change to the number of questions (9);
- Economic Activity, Government Policy and the Behavior of Interest Rates: decreased from 16 to 13 questions;
- Securities Industry Regulations and Legal Considerations: increased from 10 to 15 questions; and
- Customer Considerations: increased from 15 to 16 questions.

FINRA has made similar changes to the Series 72 selection specifications and question bank. The number of questions on the Series 72 examination remains at 100, and candidates continue to have 3 hours to complete the exam. Also, each question continues to count as one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

Series 82 (Limited Representative – Private Securities Offerings)

Pursuant to NASD Rule 1032(h), each associated person of a member firm who is included within the definition of representative in NASD Rule 1031(b) may register with FINRA as a Limited Representative – Private Securities Offerings if: (1) the individual's activities in the investment banking and securities business of the member firm are limited solely to effecting sales as part of a primary offering of securities not involving a public offering, pursuant to Sections 3(b), 4(2) or 4(6) of the Securities Act and the rules and regulations thereunder; (2) the individual does not effect sales of municipal or government securities, or equity interests in or the debt of direct participation program securities as defined in NASD Rule 1022(e); and (3) the individual passes the Series 82 qualification examination.

Among other revisions, FINRA has revised the Series 82 study outline to add sections on exchange-traded funds, Private Investment in Public Equity (PIPE) offerings, NASD IM-2110-7 and NASD Rule 2370.

FINRA also has changed the title of Section 3 of the study outline from "Analyzing Corporate Securities" to "Analyzing Corporate Securities and Investment Planning." Further, FINRA has modified the number of questions in each section of the study outline as follows:

- ▶ Characteristics of Corporate Securities: no change to the number of questions (13);
- ▶ Regulation of The Market for Registered and Unregistered Securities: no change to the number of questions (45);
- ▶ Analyzing Corporate Securities and Investment Planning: increased from 15 to 16 questions; and
- ▶ Handling Customer Accounts and Industry Regulations: decreased from 27 to 26 questions.

FINRA has made similar changes to the Series 82 selection specifications and question bank. The number of questions on the Series 82 examination remains at 100, and candidates continue to have 2½ hours to complete the exam. Also, each question continues to count as 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 FINRA's Web site at www.finra.org/brokerqualifications/exams.

Endnotes

- 1 See File Nos. SR-FINRA-2007-027 (Proposed Rule Change Relating to Revisions to the Series 23 Examination Program); SR-FINRA-2007-028 (Proposed Rule Change Relating to Revisions to the Series 24 Examination Program); SR-FINRA-2007-029 (Proposed Rule Change Relating to Revisions to the Series 42 Examination Program); SR-FINRA-2007-030 (Proposed Rule Change Relating to Revisions to the Series 55 Examination Program); SR-FINRA-2007-031 (Proposed Rule Change Relating to Revisions to the Series 62 Examination Program); SR-FINRA-2007-032 (Proposed Rule Change Relating to Revisions to the Series 72 Examination Program); and SR-FINRA-2007-033 (Proposed Rule Change Relating to Revisions to the Series 82 Examination Program). These rule filings were filed with the SEC for immediate effectiveness on December 12, 2007.
- 2 In addition, NYSE Rule 342.13 recognizes the Series 24 examination as an acceptable alternative to the Series 9/10 examination for persons whose duties do not include supervision of options or municipal securities sales activities. FINRA has incorporated into its rulebook certain rules of NYSE, including NYSE Rule 342.13. FINRA's NYSE Rule 342.13 applies solely to those members of FINRA that also are members of NYSE on or after July 30, 2007.
- 3 See, e.g., NASD Rules 3010(a)(2), 3010(a)(4) and 3012(a)(1).
- 4 As a prerequisite to the Series 24 examination, FINRA also recognizes the Limited Registered Representative (Series 17), Canada Modules of the Series 7 (Series 37 and Series 38) and Limited Representative – Private Securities Offerings (Series 82) examinations.