

Regulatory Notice

14-18

Qualification Examinations

FINRA Revises the Investment Company and Variable Contracts Products Principal (Series 26) Examination Program

Implementation Date: June 16, 2014

Executive Summary

FINRA periodically reviews the content of qualification examinations to determine whether revisions are necessary or appropriate in view of changes—including changes to the laws, rules and regulations—pertaining to the subject matter the examinations cover. Based on this review process, FINRA has revised the Investment Company and Variable Contracts Products Principal (Series 26) examination program.¹

The changes are reflected in the [Series 26 content outline](#) on FINRA's website and will appear in Series 26 examinations administered on or after June 16, 2014.

Questions regarding this *Notice* should be directed to:

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Background & Discussion

Section 15A(g)(3) of the Securities Exchange Act of 1934² authorizes FINRA to prescribe standards of training, experience and competence for persons associated with FINRA-regulated firms. In accordance with that provision, FINRA has developed examinations that are designed to establish that persons associated with FINRA-regulated firms have attained specified levels of competence and knowledge, consistent with applicable registration requirements under FINRA rules.

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Notice Type

- ▶ Guidance

Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Registration
- ▶ Training

Key Topics

- ▶ Series 26 Qualification Examination

Referenced Rules & Notices

- ▶ FINRA Rule 2090
- ▶ FINRA Rule 2111
- ▶ FINRA Rule 3230
- ▶ FINRA Rule 4510
- ▶ Information Notice 3/12/08
- ▶ NASD Rule 1022(b)
- ▶ NASD Rule 2212
- ▶ NASD Rule 2310
- ▶ NASD Rule 2510
- ▶ NASD Rule 3110
- ▶ NYSE Rule 345.15(3) and its interpretation
- ▶ SEA Rule 15c1-7
- ▶ SEA Section 15A(g)(3)
- ▶ Securities Act Section 3(a)(8)



Financial Industry Regulatory Authority

Pursuant to NASD Rule 1022(b)³ (Limited Principal – Investment Company and Variable Contracts Products), if a principal's activities are limited solely to 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, 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), and he or she is registered as either a General Securities Representative or a Limited Representative – Investment Company and Variable Contracts Products, the principal may register and qualify as an Investment Company and Variable Contracts Products Principal.⁴ The Series 26 examination qualifies an individual to function as an Investment Company and Variable Contracts Products Principal.

In consultation with a committee of industry representatives, FINRA recently undertook a review of the Series 26 examination program. As a result of this review, FINRA has revised the content outline to reflect changes to the laws, rules and regulations the examination covers and to incorporate the functions and associated tasks an Investment Company and Variable Contracts Products Principal currently performs. FINRA also has revised the format of the content outline.

Revisions

FINRA has divided the content outline into three major job functions and included specific tasks for each function. The following are the three major job functions and the number of questions associated with each function:

Function 1: Personnel Management Activities and Registration of the Broker-Dealer, 16 questions;

Function 2: Supervises Associated Persons and Oversees Sales Practices, 49 questions; and

Function 3: Oversees Compliance and Business Processes of the Broker-Dealer and its Offices, 45 questions.

FINRA also adjusted the number of questions assigned to each major job function to ensure that the overall examination better reflects the key tasks performed by an Investment Company and Variable Contracts Products Principal. The questions on the revised Series 26 examination place greater emphasis on key tasks such as supervision of registered persons, sales practices and compliance.

Each function also includes specific tasks describing activities associated with performing that function. There are two tasks (1.1 – 1.2) associated with Function 1; six tasks (2.1 – 2.6) associated with Function 2; and six tasks (3.1 – 3.6) associated with Function 3.⁵ For example, one task (Task 2.1) is monitors, supervises and documents the sales activities of associated persons to achieve compliance with securities industry rules and regulations and firm policies and provides feedback regarding product knowledge and performance.⁶ Further, the outline lists the knowledge required to perform each function and associated tasks (*e.g.*, standards of conduct and prohibited activities).⁷ In addition, where applicable, the outline lists the laws, rules and regulations a candidate is expected to know to perform each function and associated tasks. These include the applicable FINRA Rules (*e.g.*, FINRA Rule 2090), NASD Rules (*e.g.*, NASD Rule 2510) and SEC rules (*e.g.*, SEA Rule 15c1-7).⁸

FINRA conducted a job analysis study of Investment Company and Variable Contracts Products Principals, which included the use of a survey, in developing each function and associated tasks and updating the required knowledge set forth in the revised outline. The functions and associated tasks, which appear in the revised outline for the first time, reflect the day-to-day activities of an Investment Company and Variable Contracts Products Principal. FINRA also has revised the content outline to reflect changes to the laws, rules and regulations the examination covers. Among other revisions, FINRA has revised the content outline to reflect the adoption of FINRA rules that replace NASD rules in the consolidated FINRA rulebook (*e.g.*, FINRA Rules 2111 (Suitability), 3230 (Telemarketing) and 4510 Series (Books and Records Requirements), respectively).⁹ FINRA has adopted similar changes to the Series 26 selection specifications and question bank.

Finally, FINRA has revised the format of the content outline, including the preface, sample questions and reference materials.

The number of questions on the Series 26 examination will remain at 110 multiple-choice questions,¹⁰ and candidates will continue to have 165 minutes to complete the examination. A score of 70 percent is required to pass the examination, which is the same as the current passing score.

Availability of Content Outline

The revised [Series 26 content outline](#) is available on FINRA's website.

Endnotes

1. See Securities Exchange Act Release No. 71998 (April 23, 2014); 79 FR 24047 (April 29, 2014); File No. SR-FINRA-2014-015, which was filed with the SEC for immediate effectiveness on April 15, 2014.
2. 15 U.S.C. 78o-3(g)(3).
3. The current FINRA rulebook consists of (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from NYSE (Incorporated NYSE Rules) (together, the NASD Rules and Incorporated NYSE Rules are referred to as the “Transitional Rulebook”). While the NASD Rules generally apply to all FINRA members, the Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE (Dual Members). The FINRA Rules apply to all FINRA members, unless such rules have a more limited application by their terms. For more information about the rulebook consolidation process, see [Information Notice March 12, 2008](#) (Rulebook Consolidation Process).
4. See also Incorporated NYSE Rule 345.15(3) and Incorporated NYSE Rule Interpretation 345.15/02.
5. See Content Outline Pages 6-18.
6. See Content Outline Page 9.
7. See Content Outline Page 9.
8. See Content Outline Page 11.
9. See [Rule Conversion Chart](#).
10. Consistent with FINRA’s practice of including “pre-test” questions on certain qualification examinations, which is designed to ensure that new examination questions meet acceptable testing standards prior to use for scoring purposes, the examination includes 10 additional, unidentified pre-test questions that do not contribute towards the candidate’s score. Therefore, the examination actually consists of 120 questions, 110 of which are scored. The 10 pre-test questions are randomly distributed throughout the examination.