

## Qualification Examinations

### FINRA Revises the Series 27 and Series 28 Examination Programs

Implementation Date: December 14, 2015

#### 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 Financial and Operations Principal (Series 27) and Introducing Broker-Dealer Financial and Operations Principal (Series 28) examination programs.<sup>1</sup>

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#### Background and Discussion

Section 15A(g)(3) of the Securities Exchange Act 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. 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 covered by the examinations.

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#### Notice Type

- ▶ Guidance

#### Suggested Routing

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

#### Key Topics

- ▶ Financial and Operations Principal
- ▶ Introducing Broker-Dealer Financial and Operations Principal
- ▶ Qualification Examinations
- ▶ Series 27
- ▶ Series 28

#### Referenced Rules & Notices

- ▶ NASD Rule 1021
- ▶ NASD Rule 1022
- ▶ SEA Section 15A(g)(3)
- ▶ SEA Rule 15c3-1

### Financial and Operations Principal

NASD Rule 1022(b)(1) requires that each firm that operates pursuant to the provisions of SEA Rule 15c3-1(a)(1)(ii),<sup>2</sup> SEA Rule 15c3-1(a)(2)(i)<sup>3</sup> or SEA Rule 15c3-1(a)(8)<sup>4</sup> must designate as Financial and Operations Principal<sup>5</sup> those persons associated with it, at least one of whom must be its chief financial officer, who perform the duties described in paragraph (b)(2) of the rule. The rule provides that each person associated with a firm who performs such duties must register as a Financial and Operations Principal with FINRA and must pass an appropriate qualification examination before the registration may become effective. Paragraph (b)(2) of the rule provides that the term Financial and Operations Principal means a person associated with a firm whose duties include:

- ▶ final approval and responsibility for the accuracy of financial reports submitted to any duly established securities industry regulatory body;
- ▶ final preparation of such reports;
- ▶ supervision of individuals who assist in the preparation of such reports;
- ▶ supervision of and responsibility for individuals who are involved in the actual maintenance of the member's books and records from which such reports are derived;
- ▶ supervision and/or performance of the member's responsibilities under all financial responsibility rules promulgated pursuant to the provisions of the Exchange Act;
- ▶ overall supervision of and responsibility for the individuals who are involved in the administration and maintenance of the member's back office operations; or
- ▶ any other matter involving the financial and operational management of the member.

NASD Rule 1022(b)(3) provides that a person registered solely as a Financial and Operations Principal shall not be qualified to function in a principal capacity with responsibility over any area of business activity not described in paragraph (b)(2) of the rule.

### Introducing Broker-Dealer Financial and Operations Principal

NASD Rule 1022(c)(1) requires that every firm that is subject to the requirements of SEA Rule 15c3-1, other than a firm operating pursuant to SEA Rule 15c3-1(a)(1)(ii),<sup>6</sup> SEA Rule 15c3-1(a)(2)(i)<sup>7</sup> or SEA Rule 15c3-1(a)(8),<sup>8</sup> must designate as Introducing Broker-Dealer Financial and Operations Principal<sup>9</sup> those persons associated with it, at least one of whom must be its chief financial officer, who perform the duties described in paragraph (c)(2) of the rule. The specified duties under the rule are identical to those for Financial and Operations Principals as discussed above. The rule provides that each person associated with a firm who performs such duties is required to register as an Introducing Broker-Dealer Financial and Operations Principal with FINRA and must pass an appropriate qualification examination before such registration may become effective.

NASD Rule 1022(c)(3) provides that, except as set forth in NASD Rule 1021(c),<sup>10</sup> a person designated pursuant to the provisions of NASD Rule 1022(c)(1) is not be required to take the Introducing Broker-Dealer Financial and Operations Principal examination and shall be qualified for registration as such if the person is qualified to be registered or is registered as a Financial and Operations Principal.

NASD Rule 1022(c)(4) provides that a person registered solely as an Introducing Broker-Dealer Financial and Operations Principal shall not be qualified to function in a principal capacity with responsibility over any area of business activity not described in paragraph (c)(2) of the rule. The rule provides that such person shall not be qualified to function in a principal capacity at a member unless the member operates under paragraph (c)(1) of the rule.

### Revisions to the Series 27 and Series 28 Examination Programs

In consultation with a committee of industry representatives, FINRA recently undertook a review of the Series 27 and Series 28 examination programs. As a result of this review, FINRA has revised the content outlines for the examinations to reflect changes to the laws, rules and regulations covered by the examinations and to incorporate the functions and associated tasks currently performed by a Financial and Operations Principal, with respect to the Series 27 examination, and an Introducing Broker-Dealer Financial and Operations Principal, with respect to the Series 28 examination. FINRA has also made changes to the format of the content outlines.

To develop the revised outlines, FINRA conducted a job analysis study of Financial and Operations Principals and Introducing Broker-Dealer Financial and Operations Principals, which included the use of a survey. The study provided detailed information regarding the day-to-day roles, responsibilities and job functions of these principals. As a result, FINRA has revised the structure of the content outlines as described below to include functions and associated tasks that reflect the day-to-day activities of a Financial and Operations Principal and an Introducing Broker-Dealer Financial and Operations Principal.

#### *Series 27*

FINRA has divided the Series 27 content outline into five major job functions that are performed by a Financial and Operations Principal. The following are the five major job functions, denoted Function 1 through Function 5, with the associated number of questions:

- ▶ Function 1: Financial Reporting, 25 questions;
- ▶ Function 2: Operations, General Securities Industry Regulations, and Preservation of Books and Records, 42 questions;
- ▶ Function 3: Customer Protection, 24 questions;
- ▶ Function 4: Net Capital, 41 questions; and
- ▶ Function 5: Funding and Cash Management, 13 questions.

### *Series 28*

Similarly, FINRA has divided the Series 28 content outline into four major job functions that are performed by an Introducing Broker-Dealer Financial and Operations Principal. The following are the four major job functions, denoted Function 1 through Function 4, with the associated number of questions:

- ▶ Function 1: Financial Reporting, 16 questions;
- ▶ Function 2: Operations, General Securities Industry Regulations, and Preservation of Books and Records, 30 questions;
- ▶ Function 3: Net Capital, 31 questions; and
- ▶ Function 4: Customer Protection, Funding and Cash Management, 18 questions.

### *Job Functions and Specific Tasks*

As noted above, each major job function includes an assigned number of questions. FINRA determined the number of questions for each function based on the results of the job analysis study. Thus, the allocation of questions in the revised Series 27 and Series 28 outlines more closely reflects the current day-to-day activities of a Financial and Operations Principal or an Introducing Broker-Dealer Financial and Operations Principal.

Each function also includes specific tasks describing activities associated with performing that function. In the Series 27 content outline, there are five tasks (1.1 – 1.5) associated with Function 1; three tasks (2.1 – 2.3) associated with Function 2; five tasks (3.1 – 3.5) associated with Function 3; seven tasks (4.1 – 4.7) associated with Function 4; and two tasks (5.1 – 5.2) associated with Function 5.<sup>11</sup> Similarly, in the Series 28 content outline, there are five tasks (1.1 – 1.5) associated with Function 1; three tasks (2.1 – 2.3) associated with Function 2; seven tasks (3.1 – 3.7) associated with Function 3; and three tasks (4.1 – 4.3) associated with Function 4.<sup>12</sup>

For example, one such task (Task 2.2 in both the Series 27 and the Series 28 content outline) is to prepare and preserve financial records to ensure accuracy and completeness of internal financial documents.<sup>13</sup> Further, the outline lists the knowledge required to perform each function and associated tasks (*e.g.*, general ledger and sub-ledgers).<sup>14</sup> 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 4160), NASD Rules (*e.g.*, NASD Rule 2340) and SEC rules (*e.g.*, SEA Rule 17a-4).<sup>15</sup>

### *Other Revisions*

As noted above, FINRA has revised the Series 27 and Series 28 content outlines to reflect changes to the laws, rules and regulations covered by the respective examination. Among other revisions, FINRA has revised the content outlines to reflect the adoption of rules in the consolidated FINRA rulebook (e.g., NASD Rule 2430 (Charges for Services Performed) and NASD Rule 3110 (Books and Records) were adopted as FINRA Rule 2122 (Charges for Services Performed) and FINRA Rule 4510 Series (Books and Records Requirements), respectively).<sup>16</sup> Further, based on the MSRB's elimination of the Financial and Operations Principal requirements in MSRB Rule G-3(d), the revised Series 27 outline does not include any MSRB rules.<sup>17</sup>

The number of questions on the Series 27 examination will remain at 145 scored multiple-choice questions,<sup>18</sup> and candidates will continue to have 225 minutes to complete the examination. The number of questions on the Series 28 examination will remain at 95 multiple-choice questions, and candidates will continue to have 120 minutes to complete the examination. Currently, a score of 70 percent is required to pass the Series 27 and Series 28 examinations. The passing score for the revised Series 27 and Series 28 examinations will be 69 percent.

Finally, FINRA has made changes to the format of the content outlines, including the preface, sample questions and reference materials.

### **Availability of Content Outlines**

The current Series 27 and Series 28 content outlines are available on FINRA's website, at <http://www.finra.org/industry/qualification-exams>. The revised Series 27 and Series 28 content outlines will replace the current content outlines on FINRA's website.

## Endnotes

1. See Securities Exchange Act Release No. 76189 (October 19, 2015), 80 FR 64465 (October 23, 2015) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Series 27 Examination Program; File No. SR-FINRA-2015-038); Securities Exchange Act Release No. 76190 (October 19, 2015), 80 FR 64458 (October 23, 2015) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Series 28 Examination Program; File No. SR-FINRA-2015-039).
2. SEA Rule 15c3-1 is the SEC's net capital rule. SEA Rule 15c3-1(a)(1)(ii) addresses net capital requirements for brokers or dealers that elect not to be subject to the Aggregate Indebtedness Standard of paragraph (a)(1)(i) under Rule 15c3-1.
3. SEA Rule 15c3-1(a)(2)(i) addresses net capital requirements for brokers or dealers that carry customer accounts.
4. SEA Rule 15c3-1(a)(8) addresses net capital requirements for municipal securities brokers' brokers, as defined under the rule.
5. The term "Limited Principal—Financial and Operations" as set forth in NASD Rule 1022(b) is referred to as "Financial and Operations Principal" for purposes of the Series 27 examination. The term "principal" is defined in NASD Rule 1021(b) (Definition of Principal).
6. See note 2.
7. See note 3.
8. See note 4.
9. The term "Limited Principal—Introducing Broker/Dealer Financial and Operations" as set forth in NASD Rule 1022(c) is referred to as "Introducing Broker-Dealer Financial and Operations Principal" for purposes of the Series 28 examination.
10. NASD Rule 1021(c) addresses requirements for examination on lapse of registration.
11. See Series 27 Outline Pages 6-20.
12. See Series 28 Outline Pages 6-17.
13. See Series 27 Outline Page 10 and Series 28 Outline Page 10.
14. See Series 27 Outline Page 10 and Series 28 Outline Page 10.
15. See Series 27 Outline Page 10 and Series 28 Outline Page 10.
16. See Rule Conversion Chart.
17. See Securities Exchange Act Release No. 72743 (August 1, 2014), 79 FR 46290 (August 7, 2014) (Order Approving File No. SR-MSRB-2014-04).
18. 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 Series 27 examination includes ten additional, unidentified pre-test questions that do not contribute towards the candidate's score. Therefore, the examination actually consists of 155 questions, 145 of which are scored. The ten pre-test questions are randomly distributed throughout the examination.