

April 2, 2001

Katherine A. England
Assistant Director
Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-1001

Re: **File No. SR-NASD-2001-26**
Series 82 Examination Program

Dear Ms. England:

Pursuant to Rule 19b-4, enclosed please find the above-numbered rule filing. Also enclosed is a 3-1/2" disk containing the above numbered exhibits in Microsoft Word 7.0 to facilitate production of the exhibits for the Federal Register release.

If you have any questions, please contact Kosha K. Dalal, Office of General Counsel, NASD Regulation, Inc., at (202) 728-6903; e-mail kosha.dalal@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Patrice M. Gliniecki
Vice President and
Deputy General Counsel

Enclosures

cc: Marie Ito, Securities and Exchange Commission

File No. SR-NASD-2001-26
Consists of 49 Pages

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

Form 19b-4

Proposed Rule Change

by

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

1. Text of Proposed Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”), the National Association of Securities Dealers, Inc. (“NASD” or “Association”), through its wholly owned subsidiary, NASD Regulation, Inc. (“NASD Regulation”), is filing with the Securities and Exchange Commission (“SEC” or “Commission”) the examination specifications and study outline for the Limited Representative-Private Securities Offerings (Series 82) examination program.¹ The Series 82 examination program is proposed in connection with a proposed change to NASD Rule 1032² to implement Section 203 of the Gramm-Leach-Bliley Act of 1999 (“GLBA”),³ which requires the NASD, as a registered securities association, to create a new limited registration category for any associated person of a member whose investment banking and securities business is limited solely to effecting sales of private securities offerings. NASD Regulation is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD Regulation or the National Association of Securities Dealers, Inc. (“NASD” or “Association”).

A description of the Series 82 examination is included in the attached study outline. Confidential information on the examination is included in the examination specifications, which have been omitted from this filing and are being submitted under separate cover to the Secretary of the SEC pursuant to Rule 24b-2 under the Act.

¹ Based upon instruction from the Commission staff, NASD Regulation is submitting SR-NASD-2001-26 for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange Act and Rule 19b-4(f)(6) thereunder, and is not attaching the examination bank for Commission review. See Letter to Alden S. Adkins, Senior Vice President & General Counsel, NASD Regulation, Inc. from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000.

² On November 28, 2000, NASD Regulation filed SR-NASD-00-69 with the Commission proposing amendments to NASD Rule 1032 to create a new limited registration category for private securities offerings.

³ Gramm-Leach-Bliley Act of 1999, Pub.L.No. 106-102, 113 Stat. 1338 (1999).

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

(a) The proposed study outline and specifications to the Series 82 examination program were developed jointly by an industry committee and NASD Regulation staff. The proposed rule change to NASD Rule 1032 (including development of a related examination program) was approved by the Board of Directors of NASD Regulation at its meeting on October 4, 2000, which authorized the filing of the proposed rule change with the SEC. Counsel for The Nasdaq Stock Market, Inc. and NASD Dispute Resolution, Inc. have been provided an opportunity to consult with respect to the proposed rule change, pursuant to the Plan of Allocation and Delegation of Functions by the NASD to its Subsidiaries. No other action by NASD Regulation is necessary for the filing of the proposed rule change. Section 1 of Article IV of the NASD Regulation By-Laws and Section II.A.1. of the Delegation Plan permit the Board of Directors of NASD Regulation to adopt amendments to NASD Rules without recourse to the membership for approval. The implementation date for the proposed Series 82 examination program is May 12, 2001, or such later date on which Title II of the GLBA becomes effective.

(b) Questions regarding this submission may be directed to Kosha Kantharia Dalal, Assistant General Counsel, NASD Regulation, Office of General Counsel, at (202) 728-6903.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

The GLBA requires the creation of a new limited registration category for private securities offerings. More specifically, Title II of the GLBA, which becomes effective on May 12, 2001, requires the NASD, as a registered securities association, to create a limited registration category for any

associated person of a member whose investment banking and securities business is limited solely to effecting sales of private securities offerings. Therefore, pursuant to Section 15A(g)(3) of the Act, which requires the NASD to prescribe standards of training, experience, and competence for persons associated with NASD members, the NASD has developed the proposed Series 82 examination program to establish that persons associated with NASD members who are seeking to register under the new limited registration category for private securities offerings have attained specified levels of competence and knowledge.

The proposed Series 82 Limited Representative-Private Securities Offerings examination will be an NASD examination that qualifies an associated person of a member, whose investment banking and securities business is limited solely to effecting sales of private securities offerings, to effect such sales. This examination tests a candidate's knowledge of securities industry rules and regulations pertinent to such products. The Series 82 will not qualify a registered representative in this category to effect sales of municipal or government securities, equity interests in or the debt of direct participation programs (DPP securities), or resales of or secondary market transactions in private placement securities. Persons seeking to effect the aforementioned sales must register in one or more of the other NASD limited representative categories or as a General Securities Registered Representative and pass the appropriate qualification examination(s).

A committee of industry representatives, in conjunction with NASD Regulation staff, developed the Series 82 study outline and specifications. The examination will be divided into four topical sections. The topical sections and the number of questions designated to each such section are: Characteristics of Corporate Securities (14); Regulation of The Market for Registered and Unregistered Securities (45); Analyzing Corporate Securities (15); and Handling Customer Accounts and Industry Regulations (26).

The specifications for the Series 82 examination, which have been omitted from this filing and are being submitted under separate cover to the Secretary of the SEC pursuant to Rule 24b-2 under the Act, describe additional confidential information regarding the examination.

The examination will be a 150 minutes, 100 multiple choice question examination with 70% as the passing score.

(b) Statutory Basis

NASD Regulation believes that the proposed Series 82 examination program is consistent with the provisions of Sections 15A(b)(6) and 15A(g)(3) of the Act, which authorize the NASD to prescribe standards of training, experience, and competence for persons associated with NASD members. The proposed Series 82 examination program also is necessary to implement Section 203 of the GLBA.

4. Self-Regulatory Organization's Statement on Burden on Competition

NASD Regulation does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

Not Applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3)

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A) of the Act and paragraph (f)(6) of Rule 19b-4 thereunder, in that the proposed rule change does not significantly affect the protection of investors or the public interest; does not impose any significant burden on competition; and will not become operative within 30 days after filing. In accordance with Rule 19b-4, NASD Regulation submitted written notice of its intent to file the proposed rule change, along with the study outline for the examination, at least five business days prior to the date of filing. NASD Regulation proposes to make the proposed rule change effective on May 12, 2001, or such later date on which Title II of the GLBA becomes effective.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposed Series 82 examination program is based on the proposed change to NASD Rule 1032,⁴ which implements Section 203 of GLBA. Specifically, Section 203 of GLBA adds a new subsection (j) to Section 15A of the Act, which requires that the NASD, as a registered securities association, create a limited registration category for persons engaged solely in sales of private securities offerings. The proposed change to NASD Rule 1032 will establish this new limited registration category and the proposed Series 82 examination program will test the qualifications of persons seeking to register under this new category.

9. Exhibits

1. Completed notice of proposed rule change for publication in the Federal Register.
2. Study Outline for the Limited Representative-Private Securities Offerings (Series 82) Examination.

3. Specifications for the Limited Representative-Private Securities Offerings (Series 82)

Examination. The specifications for the Series 82 examination are confidential and are omitted from this filing. The specifications for the Series 82 examination have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.

Pursuant to the requirements of the Securities Exchange Act of 1934, NASD Regulation has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

NASD REGULATION, INC.

BY: _____

Patrice M. Gliniecki
Vice President and Deputy General Counsel

Date: April 2, 2001

⁴ File No. SR-NASD-00-69, originally filed on November 28, 2000 with the Commission.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASD-2001-26)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by NASD Regulation, Inc. Relating to a Qualification Examination for a New Limited Registration Category: Limited Representative-Private Securities Offerings (Series 82)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)⁵ and Rule 19b-4 thereunder,⁶ notice is hereby given that on , the National Association of Securities Dealers, Inc. (“NASD”), through its wholly owned subsidiary, NASD Regulation, Inc. (“NASD Regulation”), filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASD Regulation. NASD Regulation has designated the proposed rule change as constituting a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 under the Act,⁷ which renders the proposal effective upon receipt of this filing by the Commission.⁸ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

⁵ 15 U.S.C. 78s(b)(1).

⁶ 17 CFR 240.19b-4.

⁷ 17 CFR 240.19b-4(f)(6).

⁸ Based upon instruction from the Commission staff, NASD Regulation is submitting SR-NASD-2001-26 for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange Act and Rule 19b-4(f)(6) thereunder, and is not attaching the examination bank for Commission review. See Letter to Alden S. Adkins, Senior Vice President & General Counsel, NASD Regulation, Inc. from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000.

I. SELF-REGULATORY ORGANIZATION'S STATEMENT OF THE TERMS OF SUBSTANCE OF THE PROPOSED RULE CHANGE

NASD Regulation is filing with the Securities and Exchange Commission (“SEC” or “Commission”) the examination specifications and study outline for the Limited Representative-Private Securities Offerings (Series 82) examination program. The Series 82 examination program is proposed in connection with a proposed change to NASD Rule 1032⁹ to implement Section 203 of the Gramm-Leach-Bliley Act of 1999 (“GLBA”),¹⁰ which requires the NASD, as a registered securities association, to create a new limited registration category for any associated person of a member whose investment banking and securities business is limited solely to effecting sales of private securities offerings. NASD Regulation is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD Regulation or the National Association of Securities Dealers, Inc. (“NASD” or “Association”).

A description of the Series 82 examination is included in the attached study outline.

Confidential information on the examination is included in the examination specifications, which have been omitted from this filing and are being submitted under separate cover to the Secretary of the SEC pursuant to Rule 24b-2 under the Act.

II. SELF-REGULATORY ORGANIZATION'S STATEMENT OF THE PURPOSE OF, AND STATUTORY BASIS FOR, THE PROPOSED RULE CHANGE

In its filing with the Commission, NASD Regulation included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below.

⁹ On November 28, 2000, NASD Regulation filed SR-NASD-00-69 with the Commission proposing amendments to NASD Rule 1032 to create a new limited registration category for private securities offerings.

¹⁰ Gramm-Leach-Bliley Act of 1999, Pub.L.No. 106-102, 113 Stat. 1338 (1999).

NASD Regulation has prepared summaries, set forth in Sections (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(1) **Purpose**

The GLBA requires the creation of a new limited registration category for private securities offerings. More specifically, Title II of the GLBA, which becomes effective on May 12, 2001, requires the NASD, as a registered securities association, to create a limited registration category for any associated person of a member whose investment banking and securities business is limited solely to effecting sales of private securities offerings. Therefore, pursuant to Section 15A(g)(3) of the Act, which requires the NASD to prescribe standards of training, experience, and competence for persons associated with NASD members, the NASD has developed the proposed Series 82 examination program to establish that persons associated with NASD members who are seeking to register under the new limited registration category for private securities offerings have attained specified levels of competence and knowledge.

The proposed Series 82 Limited Representative-Private Securities Offerings examination will be an NASD examination that qualifies an associated person of a member, whose investment banking and securities business is limited solely to effecting sales of private securities offerings, to effect such sales. This examination tests a candidate's knowledge of securities industry rules and regulations pertinent to such products. The Series 82 will not qualify a registered representative in this category to effect sales of municipal or government securities, equity interests in or the debt of direct participation programs (DPP securities), or resales of or secondary market transactions in private placement securities.

Persons seeking to effect the aforementioned sales must register in one or more of the other NASD limited representative categories or as a General Securities Registered Representative and pass the appropriate qualification examination(s).

A committee of industry representatives, in conjunction with NASD Regulation staff, developed the Series 82 study outline and specifications. The examination will be divided into four topical sections. The topical sections and the number of questions designated to each such section are: Characteristics of Corporate Securities (14); Regulation of The Market for Registered and Unregistered Securities (45); Analyzing Corporate Securities (15); and Handling Customer Accounts and Industry Regulations (26). The specifications for the Series 82 examination, which have been omitted from this filing and are being submitted under separate cover to the Secretary of the SEC pursuant to Rule 24b-2 under the Act, describe additional confidential information regarding the examination.

The examination will be a 150 minutes, 100 multiple choice question examination with 70% as the passing score.

(2) Statutory Basis

NASD Regulation believes that the proposed Series 82 examination program is consistent with the provisions of Sections 15A(b)(6) and 15A(g)(3) of the Act, which authorize the NASD to prescribe standards of training, experience, and competence for persons associated with NASD members. The proposed Series 82 examination program also is necessary to implement Section 203 of the GLBA.

(B) Self-Regulatory Organization's Statement on Burden on Competition

NASD Regulation does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. DATE OF EFFECTIVENESS OF THE PROPOSED RULE CHANGE AND TIMING FOR COMMISSION ACTION

The proposed rule change has been filed by the Association as a “non-controversial” rule change under Rule 19b-4(f)(6) under the Act.¹¹ Consequently, because the foregoing proposed rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative until May 12, 2001 (or such later date on which Title II of the GLBA becomes effective), more than 30 days after the date on which it was filed, and NASD Regulation provided the Commission with written notice of its intent to file the proposed rule change at least five days prior to the filing date, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.

At any time within 60 days of this filing, the Commission may summarily abrogate this proposal if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. SOLICITATION OF COMMENTS

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change

¹¹ 17 CFR 240.149b-4(f)(6).

between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to the file number in the caption above and should be submitted by [insert date 21 days from the date of publication].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority, 17 CFR 200.30-3(a)(12).

Jonathan G. Katz
Secretary

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
NASD REGULATION, INC.

LIMITED REPRESENTATIVE-PRIVATE SECURITIES OFFERINGS
QUALIFICATION EXAMINATION
(SERIES 82)

STUDY OUTLINE

Copyright 2001
NASD Regulation, Inc.

01/09/2001

INTRODUCTION

The Gramm-Leach-Bliley Act of 1999 (GLBA) mandates that the NASD, as a registered securities association, create a limited registration category for associated persons of a member whose investment banking and securities business is limited solely to effecting sales of private securities offerings.

The Limited Representative-Private Securities Offerings Qualification Examination (Series 82) is used to qualify individuals seeking registration with the NASD under By-Laws Article III, Section 2, and the Membership and Registration Rules. A registered representative in this category may effect sales of private securities offerings only. The Series 82 Examination does not qualify a registered representative in this category to effect sales of municipal or government securities, or equity interests in or the debt of direct participation programs (DPP securities). Moreover, the Series 82 Examination permits a registered representative in this category only to effect sales of private placement securities as part of a primary offering. As such, representatives in this category will not be permitted to effect resales of or engage in secondary market transactions in private placement securities.

Candidates seeking to effect sales of municipal or government securities, or DPP securities, or effect resales of or engage in secondary market transactions in private placement securities must register in one or more of the other NASD limited representative categories or as General Securities Registered Representatives and pass the appropriate qualification examination(s).

This study outline has been prepared to assist NASD member firms in preparing candidates to sit for the Series 82 Examination. It may be used to structure or prepare training material, develop lecture notes and seminar programs, and as a training aid for the candidates themselves. The outline and the test are divided into the four topical sections, which are listed below along with the number of questions designated to each section.

SECTION	DESCRIPTION	NUMBER OF QUESTIONS
1	Characteristics of Corporate Securities	14
2	Regulation of The Market for Registered and Unregistered Securities	45
3	Analyzing Corporate Securities	15
4	Handling Customer Accounts and Industry Regulations	26
	TOTAL	100

The Series 82 Examination is comprised of 100 questions and candidates will be allowed 150 minutes to complete the examination. Each multiple choice question is worth one point. The passing grade is equal to 70% of the total number of questions on the examination. A candidate must, therefore,

correctly answer 70 of the 100 questions on the Limited Representative- Private Securities Offerings Qualification Examination in order to receive a passing grade.

The test is administered as a closed book exam and candidates will not be permitted to use any reference materials during their testing session. Severe penalties are imposed on candidates who cheat on NASD Regulation-administered examinations. Scratch paper and basic electronic calculators will be provided by the proctor. At the completion of the test, candidates will receive an informational breakdown of their performance in each section, and their overall score.

Examination questions will be updated to reflect the most current interpretations of the rules and regulations on which the exam is based. Questions on new rules will be added to the pool of questions for this examination within a reasonable time period after their effective dates. Questions on rescinded rules will be promptly deleted from the pool of questions.

Below is a list of reference materials that may be used as a source material starting point for course developers in preparing training programs. Much of the reference material overlaps topics covered in other references, so it is not necessary to obtain each reference listed. In addition, non-member commercial training vendors offer packaged study courses specifically designed for this registration category. These vendors are often listed in local yellow page directories and advertise in securities industry periodicals.

Copies of this outline and registration applications may be obtained from NASD MediaSource at (301) 590-6142 or from any of the NASD Regulation District Offices.

At the end of this outline there are five sample questions written in the various formats used in the Series 82 Examination. The samples do not mirror the difficulty level of actual test questions or the subject-matter distribution of the test itself. Their use is merely to familiarize the candidate with the styles of multiple choice questions used in the Series 82 Examination.

REFERENCES

Appeal Securities Act Handbook

Bowne & Co., Inc.
345 Hudson Street
New York, NY 10014

Dictionary of Finance and Investment Terms

John Downes and Jordan E. Goodman
Barron's Educational Series, Inc.
250 Wireless Boulevard
Hauppauge, NY 11788

Economics

Paul A. Samuelson
McGraw-Hill Book Company
New York, NY

Financial Analyst Handbook, Volume I

Summer N. Levine, Ed.
Dow Jones - Irwin
1824 Ridge Road
Homewood, IL 60430

The Handbook of Fixed Income Securities

Frank J. Fabozzi and Irving M.
Pollacks, Eds.
Dow Jones - Irwin
1824 Ridge Road
Homewood, IL 60430

How Charts Can Help You in the Stock Market

William L. Jiler
Trendline
345 Hudson Street
New York, NY 10014

**Securities Credit Transactions
Regulations X, T and U**
Board of Governors, Federal Reserve

The Interpretation of Financial Statements

Benjamin Graham and Charles
McGolrich
Harper & Row Publishers, Inc.
10 East 53rd Street
New York, NY 10022

Introduction to Brokerage Operations Department Procedures

New York Institute of Finance
Two Broadway
New York, NY 10004

Modern Securities Transfers

Egon Guttman
Warren, Gorham & Lamont
31 St. James Avenue
Boston, MA 02116

NASD Manual

Commerce Clearing House, Inc.
4025 W. Peterson Avenue
Chicago, IL

The NYIF Vest-Pocket Guide to Stock Brokerage Math

William A. Rini
New York Institute of Finance
Two Broadway, 5th Floor
New York, NY 10004

Resales of Restricted Securities

J. William Hicks
Clark Boardman Callahan
375 Hudson Street
New York, NY 10014

System
Constitution Avenue at 20th Street,

N.W.
Washington, DC

Securities Law Handbook

Harold S. Bloomenthal
Clark Boardman Callahan
375 Hudson Street
New York, NY 10014

Securities Regulation

Warren, Gorham & Lamont
31 St. James Avenue
Boston, MA 02116

Securities Transfer Principles and Procedures

Martin Torosian
New York Institute of Finance
Two Broadway
New York, NY 10004

The Stock Market, 7th Edition

Richard J. Teweles and Edward S. Bradley

John Wiley & Sons, Inc.
605 Third Avenue
New York, NY 10158

Words of Wall Street

Allan H. Pessin and Joseph A. Ross
1824 Ridge Road
Homewood, IL 60430

*Other Publications Available
through NASD MediaSource:*

Compliance Checklist

NASD Guide to Rule Interpretations

NASD Sanctions Guidelines

Securities Regulations in the United States

1.0

CHARACTERISTICS OF CORPORATE SECURITIES

1.1 Equity Securities

1.1.1 Common Stock

- 1.1.1.1 Ownership in a corporation
- 1.1.1.2 Rights of stockholders
 - Limited liability
 - Proportionate ownership
 - Transfer rights
 - Receive dividends, when declared by board of directors
 - Record date
 - Payable date
 - Inspect corporate books
 - Subscribe proportionately to any new issue of stock
 - Vote at stockholders' meetings
 - Protect the corporation against wrongful acts of management
 - Restrain radical acts of the corporation
 - Residual claims to assets at dissolution
 - Statutory voting rights
 - Cumulative voting rights
 - Preemptive rights
 - Contingent voting rights of preferred stockholders
 - Proxies
 - Voting trusts
 - Trustee
 - Voting trust certificates
 - Beneficial interests
 - Non-voting common stock
- 1.1.1.3 Stock certificate
 - Negotiability
 - Endorsements and assignments
 - Transfer procedures
 - Transfer agent
 - Registrar
 - Fractional shares
- 1.1.1.4 Value at issuance
 - Par value
 - Normally an arbitrary amount
 - Full-paid and nonassessable
 - Low par value
 - Excess recorded as paid-in surplus

- No-par value
 - True no-par stock
 - Stock with stated value
 - Capital or paid-in surplus

1.1.1.5 Stock terms and definitions

- Authorized stock
 - Reasons for authorizing more stock than that issued
- Issued stock
- Outstanding stock
- Treasury stock
 - Reasons for reacquiring issued stock
- Book value

1.1.2 Preferred Stock

1.1.2.1 Dividend preference over common

- Dividend stated as percentage of par
- Dividend stated in dollars per share
- Adjustable/variable rates of return
- Right to dividend only if declared by board
- Auction rate

1.1.2.2 Asset preference of preferred over common

1.1.2.3 Classes of preferred and degree of preference

1.1.2.4 Types of preferred stock

- Cumulative preferred
- Participating preferred
- Convertible preferred
 - Perpetual
 - Limited
 - Delayed
- Callable preferred
 - Sinking fund provisions

1.1.2.5 Protective provisions regarding preferred stock

1.1.3 Rights and Warrants

1.1.3.1 Rights (subscription rights)

- Issued in conjunction with additional stock offerings
- Terms of offering
- Value of subscription rights
- Disposition of rights

1.1.3.2 Warrants (subscription warrants)

- Origination of warrants

Warrant exercise terms
Valuation of warrants
Warrant leverage

1.1.4 American Depositary Receipts/American Depositary Shares; Global Depositary Receipts/Global Depositary Shares

Origin and nature of ADR's/ADS's and GDS's/GDR's
Sponsored vs. non-sponsored
Duties of the issuing/depository bank
Converts and distributes cash dividend in U.S. currency
Converts and distributes rights offerings
Distributes information on non-U.S. corporate developments
Shareholders' rights to demand delivery of the underlying shares
Relationship to ordinary shares

1.1.5 Foreign Securities

Securities denominated in foreign currency versus those denominated in U.S. dollars
Relationship to ADR's/ADS's and GDS's/GDR's
Purpose of issuing these securities versus trading the foreign securities directly
Provide shareholders with annual balance sheet and operations statement
Coordination of regulatory activities with issuer's principal marketplace
Eligible with respect to Section 12(g) of the Securities Exchange Act of 1934

Role of Eurobonds

1.2 Corporate Debt Securities

1.2.1 Features of Bonds

- 1.2.1.1 General characteristics
Promise to pay
Maturity of bonds and notes
Denominations
Registered as to both principal and interest
Book-entry-only bonds
Funded debt
- 1.2.1.2 Terms of Payment
Payable in legal tender at par
Payable in one or more foreign currencies if issued abroad
Interest payment periods
- 1.2.1.3 Trust indenture or deed of trust
Trustee
Protective covenants
Remedies of bondholders
Acceleration of maturity in cases of default

- Releases of mortgaged property
- Protection for bondholders in consolidations and mergers
- Changes in trust indenture
 - Voting provisions of indenture

1.2.1.4 Debt Retirement

1.2.1.4.1 Call feature

- Optional vs. compulsory calls
- Advantage to issuer
 - Eliminate issues with unfavorable indenture provisions
 - Change terms of debt
 - Reduce debt
 - Refund high coupon bonds with low coupon bonds
- Call protection for investors
 - Expiration of minimum time period before call can be invoked
 - Call premiums
 - Change in premiums as bond approaches maturity

1.2.1.4.2 Put feature

- Conventional bonds which allow the holder to redeem the bonds prior to maturity (just the opposite of the issuer's "call" feature)
- Allows investors to reinvest principal at higher coupon rates as the opportunity arises
- Put bonds carry slightly lower coupon rates than bonds without this feature and thereby save the issuer interest expense, but require the issuer to maintain funds available for early redemption

1.2.1.4.3

Redemption of bonds

- Prior notice required
- Bonds to be redeemed drawn by lot by trustee
- Amortization through a sinking fund

1.2.1.4.4

Refunding of bonds

- Direct exchange vs. sale of new issue
- Refunding prior to maturity
- Refunding at maturity
- Extensions of maturity

1.2.2 Types of Bonds

1.2.2.1

Mortgage bonds

- Debt obligation secured by property pledge
- Priority of claim
- Closed mortgages
- Open-end mortgages
 - Restrictions on the issuance of additional bonds relative:
 - Value of pledged property
 - Earnings coverage of interest

Net current or net quick assets
Stockholders' equity
Bonds issued in series

- 1.2.2.2 Debenture Bonds
 - General credit obligations
 - Importance of protective covenants
 - Subordinated debentures
 - Unsecured junior claim
 - Subordinated to other debt issue(s)
 - Maturity
 - Higher yields
 - Conversion features
- 1.2.2.3 Convertible bonds
 - 1.2.2.3.1 Convertible into either preferred or common, or units of both
 - 1.2.2.3.2 Advantages/disadvantages to investor of convertible bonds
 - Coupon rate offers a "floor" return, but slightly lower than non-convertible bonds
 - Allows holder to participate in major upswings in the price of the common stock by converting the bonds or selling them outright
 - Holders have prior claims to assets over shareholders in the event of corporate liquidation, but junior claims to mortgage bond holders
 - 1.2.2.3.3 Advantage/disadvantages to issuer of convertible bonds
 - Issued at lower rate of interest than non-convertible bonds
 - Interest expense reduced upon conversion, but taxable income increased
 - Upon conversion, higher price usually obtained for issued stock
 - Avoidance of immediate dilution of earnings per share, but stockholders' equity is reduced at issuance
 - Reduced depressant effect on price of common at issuance
 - Upon conversion, shifts in "ownership" can occur
 - Usually priced at a premium to the market value of the common stock
 - 1.2.2.3.4 Conversion ratio or price
 - Factors affecting initial conversion rate or price
 - Price of stock at time of issuance
 - Earnings prospect
 - State of market
 - Length of conversion period
 - 1.2.2.3.5 Time of conversion
 - At issuance
 - Delayed conversion
 - Expiration at maturity
 - Expiration prior to maturity

- 1.2.2.3.6 Protective features relative to:
 - Stock splits
 - Change in class of conversion securities
 - Stock dividends
 - Issuance of new shares of conversion stock
 - Merger, consolidation, dissolution
- 1.2.2.3.7 Factors influencing conversion
 - Computation of parity relationship
 - Arbitrages
 - Forced conversion by issuer
 - Increased dividend on stock
 - Call on bonds when market value of stock is higher than redemption price
 - Granting of substantial subscription rights to stockholders
- 1.2.2.4 Other types of bonds
 - 1.2.2.4.1 Collateral trust bonds
 - Secured by pledge of securities as collateral with a trustee
 - 1.2.2.4.2 Equipment trust obligations
 - Protective covenants
 - 1.2.2.4.3 Guaranteed bonds
 - Purpose
 - Forms of guarantee
 - Interest only
 - Both principal and interest
 - 1.2.2.4.4 Variable rate (income) bonds
 - Interest paid only if earned
 - Use during reorganizations
 - Long maturities at issuance
 - 1.2.2.4.5 Zero Coupon Bonds
 - Issued at steep discount from par
 - Reinvestment risk
 - Interest rate risk magnified due to no coupon payments
 - Credit risk magnified due to no coupon payments
 - Accreted discount taxable annually, creating a negative cash flow (phantom income) unless bonds are enveloped in a tax-deferred investment vehicle
 - Yields-to-maturity often slightly higher than comparable coupon bearing bonds

1.3 Asset-Backed Securities

1.3.1 Mortgage-Backed Securities

- 1.3.1.1 Securitization of mortgages
- 1.3.1.2 Types and structure of mortgage-backed securities

Federal National Mortgage Association obligations -- (Fannie Mae) comprised of
FHA-insured and some conventional mortgages
Federal Home Loan Mortgage Corporation obligations -- (Freddie Mac)
comprised of qualifying FHLMC conventional residential mortgages
Government National Mortgage Association obligations -- (Ginnie Mae)
comprised of VA-guaranteed or FHA-insured mortgages
Repays interest and principal monthly

1.3.1.3

Structured mortgage products

Collateralized Mortgage Obligations -- usually comprised of private mortgages not
qualified under VA or FHA

Interest only and principal only

REMICs (Real Estate Mortgage Investment Conduits)

May be "multiple class" with fast/slow pay segments

Payments may be allocated disproportionately among junior/senior segments

Segments may take the legal form of debt or shares of beneficial interest

REMICs offer certain tax and accounting benefits to issuers

1.3.2

Real Estate Investment Trusts (REITS)

Real Estate Investment Trust Act

Organizational requirements

Asset composition

Sources of income

Rents from real property

Interest on obligations secured by real property

Gains from sale of real property, including mortgages on real property

Distribution from, and gains on the sale of securities, including other REITS

Limitations on amount of income from various sources

Capital structure

Equity

Debt

Tax requirements of the REIT

Minimum requirement for distribution of income

Distribution of capital gains

Taxability of undistributed income and gains

1.3.3

Other Asset-Backed securities

Auto loan backed obligations

Credit card debt backed securities

1.3.4

General Features

Represent undivided interest in a pool of debt obligations or equities

Underlying asset documents held by a custodian

Interest and dividend collection serviced by the custodian

1.4

Investment Companies

1.4.1 Closed-End Investment Companies

Registered under the Investment Company Act of 1940
Each fund share represents a piece of a securities investment portfolio
Maximum number of fund shares basically fixed at issuance
Fund shares are often exchange listed and trade like equities

1.4.2 Open-End Investment Companies (Mutual Funds)

Registered under the Investment Company Act of 1940
General characteristics
Determining the net asset value (NAV)
Redemption of mutual fund shares

1.4.3 Unit Investment Trusts (UIT)

Fixed portfolio
Redeemability

1.4.4 Money Market Funds

Sold by prospectus
Mutual funds which only invest in very short-term debt securities and money market instruments
Structured such that one share usually equals \$1 NAV
Used often by broker/dealer firms to "sweep" customer credit balances into an "interest bearing" account automatically
Registered under the Investment Company Act of 1940 and subject to the advertising and sales literature restrictions therein
Some funds offer "check" writing features for fund redemption payments to be made to third parties
Funds usually provide periodic statements to account holders independent of the brokers required statements
Fund shares not held by the broker/dealer not covered by SIPC and not insured by FDIC

1.4.5 Securities (funds) Exempt from the Investment Company Act of 1940

Section 3c-7 – Exemption
Hedge funds
Private equity funds

1.5 Securities Exchange Act of 1934 (Issuer registration and reporting requirements)

1.5.1 Section 12 -- Registration requirements for securities

Registration requirements for exchange listed securities and securities of issuers engaged in interstate commerce

1.5.2 Section 13 -- Periodical and other Reports

Disclosure of beneficial ownership of 5% or more in equity security registered with the SEC

1.6 Trust Indenture Act of 1939 -- General Purposes

Necessity of trustee to safeguard the rights of investors in registered debt obligations
Identification of rights and powers of trustee
Full disclosure of information in bond indentures
Participation of trustees in the preparation of indentures

2.0

REGULATION OF THE MARKET FOR REGISTERED AND UNREGISTERED SECURITIES

2.1 Issuing Corporate Securities

2.1.1 Types of Offerings

- Primary
- Secondary
- Private placement
- Rule 144A -- Private resales of securities to institutions
 - Definition of qualified institutional buyer
- Regulation S -- Offers and sales made outside the United States without registration under the Securities Act of 1933

2.1.2 Underwriting Commitments

- 2.1.2.1 Types of commitments
 - Firm commitment
 - Stand-by commitment
 - All or none
 - Best efforts
 - Mini-Max
- 2.1.2.2 Securities Exchange Act of 1934 and SEC Rules Thereunder
 - Section 10 -- Regulation of the use of manipulative and deceptive devices
 - Rule 10b-9 -- Prohibited representations in connection with certain offerings
 - Section 15 -- Registration and regulation of brokers and dealers
 - Rule 15c2-4 -- Transmission or maintenance of payments received in connection with underwritings

2.1.3 Investigation of Financing Proposals

- 2.1.3.1 Feasibility study
- 2.1.3.2 Letter of intent
- 2.1.3.3 Due diligence - process to evaluate
 - Financial data
 - Industry data
 - Operational data of issuer
 - Management and employee relations
 - Research, product development and expansion

2.1.4 Formation of the Selling Group

- 2.1.4.1 Role of dealer manager

- Appointment of selling group
 - Handled by dealer manager
 - Selling group agreement
 - Liabilities of selling group members
- Components of spread
 - Dealer manager fee
 - Selling group commission
 - Compensation in the form of warrants of stock
- 2.1.4.2 Non-NASD member participation – Conduct Rule 2420
 - Need for issuer to contract separately with non-members
 - Prohibition on sharing fees under NASD Rule IM-2420(d)
- 2.1.4.3 Finders
 - Defined as an un-registered introducer
 - Prohibited practices
 - Sales compensation to non-members of a national securities exchange or association registered with the Securities and Exchange Commission
 - Referrals by non-members of individual clients to broker/dealers in exchange for compensation from broker/dealer
- 2.1.4.4 SEC Rule 3a4-1 – Associated persons of an issuer deemed not to be brokers
- 2.1.4.5 NASD Rule 1060(b) – Persons exempt from registration—foreign finders
- 2.1.5 **Pricing of the Issue**
 - Priced according to prevailing:
 - Market conditions
 - Industry conditions
 - Customer demand
 - Issuer needs
- 2.1.6 **Limitations on Marketing and Advertising for Private vs. Public Offerings**
 - 2.1.6.1 Section 2 - Definitions under the Act
 - 2.1.6.1.1 Distribution of information during a publicly-registered underwriting
 - Rule 134 -- Communications not deemed a prospectus
 - Rule 137 -- Definition of "offers", "participates", or "participation" in Section 2(11) in relation to certain publications by persons independent of participants in a distribution
 - Rule 138 -- Definition of "offer for sale" and "offer to sell" in Sections 2(10) and 5(c) in relation to certain publications
 - Rule 139 -- Definition of "offer for sale" and "offer to sell" in Sections 2(10) and 5(c) in relation to certain publications
 - 2.1.6.2 Section 5 -- Prohibitions Relating to Interstate Commerce and the Mails
 - Rule 135 -- Notice of certain proposed offerings

Rule 135A -- Generic advertising

Rule 153A -- Definition of "preceded by a prospectus" as used in Section 5(b)(2) of the Act, in relation to certain transactions requiring approval of security holders

2.1.6.3 Section 12 – Civil Liabilities Arising in Connection with Prospectuses and Communications

2.1.6.4 Special issues dealing with electronic offerings
SEC Release 34-42728—Use of Electronic Media

2.2 Trading Corporate Securities

2.2.1 Overview of Securities Markets (publicly traded securities)

2.2.1.1 Nasdaq Stock Market
National Market securities
SmallCap securities

2.2.1.2 Exchange markets
Auction markets

2.2.1.3 Non-exchange securities in
Non-Nasdaq OTC
Bulletin Board and Pink sheets

2.2.1.4 Third market (including 19c-3 securities)
Trading in exchange listed securities in OTC market

2.2.1.5 Fourth market
Private transactions between institutional investors without the use of a broker/dealer

2.2.2 Rule 5300 -- PORTAL Market Rules

Rule 5310 -- Definitions

Rule 5322 – Qualification requirements for PORTAL securities

Rule 5331 – Limitations on transactions in PORTAL securities

Rule 5333 – PORTAL settlement

2.3 Securities Act of 1933 and SEC Rules Thereunder

2.3.1 Section 3 -- Exempted securities (exempt by class or transaction)

2.3.1.1 Classes of securities
Section 3(a)(3) – Note, draft, banker's acceptance, commercial paper
Section 3(a)(5) - Bank securities, savings and loan securities
Section 3(a)(8) - Insurance products
Rule 147 - "Part of an issue", "person resident" and "doing business within" for

- purposes of Section 3(a)(11)
 - Transactions covered
 - Limitation on resales
 - Precautions against interstate offers and sales

- 2.3.1.2 Types of transactions
 - Section 3(b) -- \$5,000,000 in any 12 month period by SEC Rule
 - Regulation A offerings
 - Purpose
 - Limitation on size of offering
 - Limitation on time period

2.3.2 **Section 4 -- Exempted transactions**

- 2.3.2.1 Statutory exemptions
 - Section 4(2) -- Transactions by an issuer not involving any public offering
 - Section 4(6) -- Transactions involving offers or sales by an issuer solely to one or more accredited investors up to the Section 3(b) maximum
- 2.3.2.2 Regulation D -- Limited offer and sale of securities without SEC registration under the Securities Act of 1933 (Private offerings exemptions from registration)
 - 2.3.2.2.1 Rule 501 -- Definitions and terms used in Regulation D
 - Accredited investor
 - Affiliate
 - Aggregate offering price
 - Number of purchasers
 - Executive officer
 - Issuer
 - Purchaser representative
 - 2.3.2.2.2 Rule 502 -- General conditions to be met
 - Integration--6 month safe harbor rule
 - Information requirements
 - When information must be furnished
 - Type of information to be furnished
 - Limitation on manner of offering
 - Limitations on resale
 - 2.3.2.2.3 Rule 503 -- Filing of notice of sale
 - Filing Form D
 - 2.3.2.2.4 Rule 504 -- Exemption for limited offers and sales of securities not exceeding \$1,000,000
 - Exemption
 - Conditions to be met
 - Limitation on aggregate offering price
 - 2.3.2.2.5 Rule 505 -- Exemption for limited offers and sales of securities not exceeding \$5,000,000

- Exemption
- Conditions to be met
- Limitation on aggregate offering price
- Limitation on number of purchasers
- Disqualification

2.3.2.2.6 Rule 506 -- Exemption for limited offers and sales without regard to dollar amount of offering

- Exemption
- Conditions to be met
- Limitation of number of purchasers
- Nature of purchasers

2.3.2.2.7 RULE 507 -- DISQUALIFYING PROVISION RELATING TO EXEMPTIONS UNDER RULES 504, 505, AND 506

2.3.2.2.8 Rule 508 -- Insignificant deviations from a term, condition or requirement of Regulation D

2.4 Securities Exchange Act of 1934 and SEC Rules Thereunder

2.4.1 Section 3 -- Certain definitions under the Act

- Section 3(a)(4) –Broker
- Section 3(a)(5) – Dealer
- Section 3(a)(10) – Security
- Section 3(a)(11) – Equity security
- Section 3(a)(12) – Exempted security
- Section 3(a)(18) – Person associated with a broker or dealer
- Section 3(a)(35) – Investment discretion
- Section 3(a)(39) -- Statutory disqualification
- Section 3(a)(46) – Financial institution

2.5 Insider Trading Regulations

2.5.1 Insider Trading and Securities Fraud Enforcement Act of 1988

2.5.1.1 Section 3 - Civil penalties of controlling persons for illegal insider trading by controlled persons

2.5.1.1.1 Securities Exchange Act of 1934

- Section 15(f) - Policies and procedures to be developed by broker/dealers to prevent misuse of material, non-public information
- Section 21(d) - Injunctions and prosecution of offenses
- Section 21A - Civil penalties

2.5.1.1.2 Investment Advisers Act of 1940

- Section 204 - Annual and other reports
- Section 204A - Prevention of misuse of non-public information

2.5.1.2 Section 4 - Increases in criminal penalties

- 2.5.1.2.1 Securities Exchange Act of 1934
Section 32(a) - Penalties
- 2.5.1.3 Section 5 - Liability to contemporaneous traders for insider trading
- 2.5.1.3.1 Securities Exchange Act of 1934
Section 20A - Liability to contemporaneous traders for insider trading
- 2.5.2 Securities Exchange Act of 1934 and SEC Rules Thereunder**
- 2.5.2.1 Section 10 - Regulation of the use of manipulative and deceptive devices
- 2.5.2.1.1 Rule 10b-3 -- Employment of Manipulative and Deceptive Devices (by brokers or dealers)
- 2.5.2.1.2 RULE 10B-5 -- EMPLOYMENT OF MANIPULATIVE AND DECEPTIVE DEVICES (BY INDIVIDUALS)**
 - Insider Trading
 - Material information
 - Insiders and non-public information
 - Insiders and tippees
 - The Chinese Wall Doctrine
- 2.5.2.1.3 Rule 10b5-1 – Trading “on the basis of” material nonpublic information in insider trading
- 2.5.2.1.4 Rule 10b5-2 – Duties of trust or confidence in misappropriation insider trading cases
- 2.6 National Association of Securities Dealers - Regulations**
- 2.6.1 Conduct Rules**
- 2.6.1.1 Rule 2110 -- Standards of commercial honor and principles of trade
 - IM-2110-1 -- Free riding and withholding (as recipient)
 - IM-2110-2 -- Trading ahead of customer limit order
 - IM-2110-3 -- Frontrunning policy
 - IM-2110-4 -- Trading ahead of research reports
 - IM-2110-5 -- Anti-intimidation/coordination
- 2.7 Anti-Competitive Trading Practices (21a Report)**
- 2.7.1 Collusion
- 2.7.2 Intimidation
- 2.7.3 Harassment

3.0

ANALYZING CORPORATE SECURITIES

3.1 Securities Analysis

3.1.1 Fundamental Analysis

3.1.1.1 Reading financial statements

3.1.1.1.1 The balance sheet

Assets

Current assets

Fixed assets

Intangible assets

Liabilities

Current liabilities

Long-term debt

Stockholders equity (net worth)

3.1.1.1.2 The income statement

Net sales

Operating expenses

Selling and administrative expenses

Depreciation

Operating income

Non-operating income

Total income (EBIT)

Interest on debt

(Pre-tax) income (EBT)

Taxes

Net income (EAT)

3.1.1.1.3 Importance of footnoted items

Extraordinary items

Non-recurring items

Fully diluted earnings

3.1.1.1.4 Corporate changes affecting financial statements

New issue of securities

Exercise of rights or warrants

Conversion of convertible securities

Stock dividends and splits

Cash dividends

3.1.1.1.5 Sources and uses of funds statement

- 3.1.1.2 Analyzing financial statement
 - 3.1.1.2.1 Working capital
 - 3.1.1.2.2 Profitability ratios
 - Margin of profit
 - Earnings per share/Cash flow per share
 - Price earnings ratio
 - Dividend payout ratio
 - 3.1.1.2.3 Short-term liquidity measures
 - Current ratio
 - Acid test ratio
 - 3.1.1.2.4 Long-term solvency measures
 - Times interest earned ratio
 - Preferred dividend coverage
 - Leverage ratios
 - Stockholder's equity to total capital
 - Total debt to total capital
- 3.1.1.3 Analyzing corporate debt
 - Bond ratings
 - Standard and Poor's Corporation
 - Moody's Investors Service
 - Protective provisions of the issue
 - Call provisions
 - Interest rate risk/yield curve
 - Times interest earned ratio
 - Net tangible assets per bond
 - Yields
 - Coupon rate (nominal yield)
 - Current yield
 - Yield to maturity
 - Yield to call
 - Basis points
 - Special considerations for very low-grade ("junk") bonds
 - Usually rated lower than BB
 - Possess very high speculative elements as to the repayment of principal and interest
 - Often trade more like equities than higher-grade bonds
 - Credit risk
- 3.1.1.4 Analyzing equity corporate securities
 - Book value
 - Stated
 - Tangible
 - Goodwill

Market value

3.1.1.5 Analyzing U.S. government securities

3.1.1.5.1 U.S. Treasury Securities

Bills

Notes

Bonds

Strips

Secondary Market Quotations

Non-marketable Treasury instruments

U.S. Savings Bonds (Series EE and HH)

State and local government series (SLGS)

3.1.1.5.2 Characteristics of Government Securities

Fundamental characteristics

Treasury securities

Benchmark that is the source of credit, marketability and liquidity for other financial markets

Full faith and credit of the United States

Agency securities

Usually offer slightly higher yield than U.S. Treasury issues with similar terms and generally considered to carry the "moral obligation" of the U.S. Government beyond the state agency backing

3.2 Economics

3.2.1 Business Cycles

3.2.1.1 Phases

Expansion

Peak

Recession

Trough

Depression

Inflation/deflation

3.2.1.2 Economic indicators

Gross national product (GNP)

National income

Components of GNP and NI and their relationship to each other

Gross domestic product (GDP)

Producer price index

Consumer price index

3.2.1.3 Market indices

Equity securities

Dow Jones Industrial Average

Standard and Poor's 500 Composite Index

New York Stock Exchange Common Stock Index

- Nasdaq Composite Index
- Debt securities
- LIBOR
- Treasury market
- Cost of funds
- Fed funds

3.2.2 Monetary Policies of the Federal Reserve

- 3.2.2.1 Supply of money and interest rates
 - Relation to level of economic activity
 - Relation to prices of and return on securities investments
 - M1, M2, M3
- 3.2.2.2 Tools of the Federal Reserve Board
 - Open-market operations
 - Changes in the discount rate
 - Changes in bank reserve requirements
 - Margin requirements (Regs T and U)
 - Moral suasion
- 3.2.2.3 Sequence effects generated by a Fed policy designed to contract (expand) the money supply

3.2.3 Fiscal Policies of the Federal Government

- Effects of use of congressional or executive authority to raise/lower federal taxes and/or spending
- Effects of budget deficits/surpluses on the economy as a result of changes in fiscal policy
- Effects of automatic stabilizers in cushioning economic swings (e.g., changes in private savings rates, welfare transfer payments, unemployment compensation, foreign exchange activity, etc.)

3.2.4 International Economic Factors

- 3.2.4.1 Currency valuation
 - Depreciation
 - Appreciation
- 3.2.4.2 Balance of payments
 - Relation between domestic inflation (deflation) and balance of payment deficits (surpluses)

3.3 Customer Investment Planning (Suitability factors)

3.3.1 Investment Objectives of Customers

- 3.3.1.1 Principal accumulation

Amount
Accumulation period

- 3.3.1.2 Income
 - Current needs
 - Amount needed in future
 - Accumulation period
 - Payout period

3.3.2 Other Aspects of Financial Planning

Adequate insurance coverage
Properly drawn will and estate plan
Coordination of investment, insurance and estate planning programs of customers

3.3.3 Financial Status of Customers

Balance sheet
Income and expenses
Participation in benefit plans
Expected changes in financial status

3.3.4 Investment Constraints

Ability to risk loss of principal
Ability to risk loss of investment income
Ability to assume purchasing power risk with regard to principal and income
Ability or willingness to hold investments over relatively long periods
Requirements for marketability of securities held
Tax considerations
Investment temperament and investment experience

3.3.5 Legal/regulatory constraints

- 3.3.5.1 Fiduciary responsibilities
 - Uniform trust code
 - ERISA requirements
- 3.3.5.2 Investment Company of 1940
 - Rule 17a-6 – Exemption of transactions with certain affiliated persons
 - Rule 17a-7 -- Exemption of certain purchase or sale transactions between an investment company and certain affiliated persons thereof
- 3.3.5.3 Investment Advisors Act of 1940
 - Section 206 – Prohibited transactions by investment advisors

3.3.6 Risk and the Construction of Investment Portfolios

- 3.3.6.1 Credit risk and portfolio policies

- 3.3.6.1.1 Definition of credit risk and its effect on future values of income and principal in different types of investments
- 3.3.6.1.2 Appropriate mix of conservative and speculative securities in a portfolio derived from customer's ability to risk loss of principal and income
- 3.3.6.1.3 Concentration of investment in a small number of issues vs. diversification
- 3.3.6.1.4 Concentrated portfolios or portfolios heavily invested in speculative securities require an ability to hold securities during market fluctuations and also require significant investment management talents
- 3.3.6.2 Interest rate risk and portfolio policies
 - 3.3.6.2.1 Definition of interest rate risk and its effect on future values of income and principal in different types of investments
 - 3.3.6.2.2 Appropriate mix of maturity schedules on debt obligations derived from customer's ability to risk loss of principal and income
 - Effect of long maturities
 - Effect of short maturities
 - Averaging effect on yields of various maturity spacing strategies
- 3.3.6.3 Purchasing power risk and portfolio policies
 - 3.3.6.3.1 Definition of purchasing power risk and its effect on the constant dollar value of income and principal in different types of investments
 - 3.3.6.3.2 Need to reconcile investment policies with regard to financial risk with policies designed to minimize loss of purchasing power
 - 3.3.6.3.3 Balanced portfolio of bonds, preferred, common and convertible issues provides downside protection and potential inflation hedge
- 3.3.6.4 Other risk factors and portfolio policies
 - 3.3.6.4.1 Marketability of securities in the portfolio and customer liquidity needs
 - 3.3.6.4.2 Taxability of securities in the portfolio and customer tax bracket
 - 3.3.6.4.3 Callability of securities in the portfolio and the importance of call protection given customer investment objectives
 - 3.3.6.4.4 Convertibility of securities in the portfolio, the value of the conversion feature and the effect of potential forced conversions on customer objectives
 - 3.3.6.4.5 Economic, social and political risks and their potential effects on customer investments

3.3.6.4.6 Currency rate risk

3.4 Tax Consequences of Securities Transactions

3.4.1 Holding Periods of Securities

3.4.1.1 Closing date determines date of acquisition

3.4.1.2 Closing date of securities sold determines end of holding period and must be used by investor to establish year in which gain or loss is claimed

3.4.2 Tax Basis of Securities

3.4.2.1 Purchases

3.4.2.2 Exchange of securities

3.4.2.3 Stock rights

3.4.2.4 Gifts of securities

3.4.2.5 Inheritance of securities

3.4.3 Tax Treatment of Securities Transactions

3.4.3.1 Definition of a capital gain (loss)

3.4.3.2 Computation of net capital gains (losses)

3.4.3.3 Ordinary income tax treatment of realized net capital gains (fully effective 1/1/88)

3.4.3.4 Deduction of net capital losses from ordinary income

3.4.3.5 Limitation on net capital loss deductions

3.4.3.6 Loss carryover provisions

3.4.4 Tax Treatment of Dividend Income From Corporate Stock

3.4.4.1 Cash dividends

3.4.4.2 Stock dividends (ordinary) and effect on cost basis

3.4.4.3 Stock rights-receipt ordinarily not a taxable event

3.4.4.4 Deductibility of a specified percentage of dividend income received by a corporation from stock holdings in other domestic and certain foreign corporations

3.4.5 Tax Treatment of Interest Income on Debt Obligations

3.4.5.1 Corporate obligations -- ordinary income taxable at federal, state and local levels

3.4.6 Special Tax Features of Bonds

3.4.6.1 Amortization of bond premiums (taxable bonds)

Election by investor

Amortized premium equals purchase cost minus value at maturity divided by number of years to maturity (or call)

Subtract amortized premium from each year's taxable income

Basis reduced by amount of amortized premium

Adjustment for bond premiums due to conversion privilege

3.4.6.2 Amortization of bond discounts (taxable bonds)

3.4.6.2.1 Discounted money market obligations

Interest income recognized at redemption or when sold

3.4.6.3 Effect of accrued interest on bond income and cost basis at purchase and sale

3.4.6.4 Accretion of discounts

4.0

HANDLING CUSTOMER ACCOUNTS AND INDUSTRY REGULATIONS

4.1 Account Documentation

4.1.1 New Account Form Information

Identification data

Full name

Address

Social security or tax identification number

Citizenship

Whether of legal age

Occupation, name and address of employer

Signature of representative introducing the account

Signature of supervisor who accepts the account

Whether associated with NASD firm

Name and signature of person(s) with authority to create activity in account

Limited authorization

Full authorization

Discretionary powers to broker/dealer

4.1.2 Supplementary Documentation

Net worth

Income

Joint account agreement form

Uniform Gifts/Transfers to Minors Act

Uniform Transfer on Death Securities Registration Act

Documentation necessary for electronic private placement offerings

Documentation of customer authorization

Limitation of access

QIB certification letter

Determination of QIB or accredited investor status

Representation letter regarding purchaser eligibility standards (representations and warranties letter)

Subscription agreement

Investor questionnaire

Private placement memorandum

4.2 Transactions in Accounts

4.2.1 Types of Transactions

Principal

Agency

Riskless principal

4.2.2 Mechanics of private placements

Retention of subscription agreement
Payment
Contractual settlement for private placement securities

4.3 General Regulation of Brokers and Dealers

4.3.1 Regulatory Purposes and Roles of:

Securities Exchange Commission
Self-Regulatory Organizations (NASD, Exchanges, MSRB)
State securities agencies

4.3.2 National Association of Securities Dealers - Regulations

- 4.3.2.1 By-Laws
 - Article I - Definitions
 - Article III - Qualifications of members and associated persons
 - Section 1 -- Persons eligible to become members and associated persons of members
 - Section 2 -- Authority of Board to adopt qualification requirements
 - Section 3 -- Ineligibility of certain persons for membership or association
 - Section 4 -- Definition of disqualification
 - Article IV - Membership
 - Article V - Registered representatives and associated persons
 - Article XII - Disciplinary proceedings
 - Article XIII - Powers of Board to prescribe sanctions
 - Article XV - Limitation of powers
 - Use of name of NASD by members
- 4.3.2.2 General Provisions
 - Rule 0110 -- Adoption and application of rules
 - Rule 0120 -- Definitions
- 4.3.2.3 Membership and Registration Rules
 - Rules 1000 -- Membership, registration and qualifications requirements
 - IM-1001-1 -- Filing of misleading information as to membership or registration
 - IM-1000-3 -- Failure to register personnel
 - Rule 1020 -- Registration of principals
 - Rule 1030 -- Registration of representatives
 - Rule 1080 - Confidentiality of examinations
 - Rule 1100 -- Foreign Associates
 - Rule 1120 - Continuing education requirements
- 4.3.2.4 Conduct Rules
 - 4.3.2.4.1 Rule 2120 -- Use of manipulative, deceptive or other fraudulent devices
 - 4.3.2.4.2 Rule 2210 -- Communications with the public
 - Definitions

	Advertisement
	Sales literature
4.3.2.4.3	Rule 2211 -- Telemarketing
4.3.2.4.4	Rule 2310 -- Recommendations to customers (suitability)
	IM-2310-2 -- Fair dealing with customers
	Fraudulent activity
	Recommending purchases beyond customer capability
	IM-2310-3 -- Suitability obligations to institutional customers
4.3.2.4.5	Rule 2330 -- Customers' securities or funds
	Improper use
	General provisions
	Authorization to lend
	Segregation and identification of securities
	Prohibition against guarantees
	Sharing in accounts; extent permissible
	IM-2330 -- Segregation of customers' securities
4.3.2.4.6	Rule 2430 -- Charges for services performed
4.3.2.4.7	Rule 2750 - Transactions with related persons
4.3.2.4.8	Rule 3010 -- Supervision
	Supervisory system
	Written procedures
	Internal inspections
	Written approval
	Qualifications investigated
	Applicant's responsibility
	Definitions
	Office of supervisory jurisdiction
	Branch office
4.3.2.4.9	Rule 3030 -- Outside business activities of an associated person
4.3.2.4.10	Rule 3040 -- Private securities transactions of an associated person
	Applicability
	Written notice
	Transactions for compensation
	Transactions not for compensation
	Definitions
	Private securities transaction
	Selling compensation
4.3.2.4.11	Rule 3050 -- Transactions for or by associated persons
4.3.2.4.12	Rule 3060 -- Influencing or rewarding employees of others
4.3.2.4.13	Rule 3120 -- Use of Information obtained in fiduciary capacity
4.3.2.5	Procedural Rules
4.3.2.5.1	Rule 8000 -- Investigations and Sanctions
4.3.2.5.1.1	Rule 8100 -- General provisions
	Rule 8110 -- Availability of Manual to customers
	Rule 8120 -- Definitions
4.3.2.5.1.2	Rule 8200 -- Investigations
	Rule 8210 -- Provision of information and testimony and inspection and

- copying of books
- Rule 8220 -- Suspension of members for failure to provide requested information
- 4.3.2.5.1.3 Rule 8300 -- Sanctions
 - Rule 8310 -- Sanctions for violation of the rules
 - IM-8310-1 -- Effect of a suspension, revocation, cancellation or bar
 - IM-8310-2 -- Release of disciplinary information
 - Rule 8320 -- Payment of fines, other monetary sanctions, or costs; summary action for failure to pay
 - Rule 8330 -- Costs of proceedings
- 4.3.2.5.2 Rule 9000 -- Code of Procedure
 - Rule 9100 -- Application and purpose
 - Rule 9200 -- Disciplinary proceedings
 - Rule 9300 -- Review of disciplinary proceeding by National Adjudicatory Council and NASD Board; application for Commission review
 - Rule 9500 -- Other proceedings
 - Rule 9600 -- Procedures for exemptions
- 4.3.2.5.3 Rule 10000 -- Code of Arbitration Procedure
 - IM-10100 -- Failure to act under provisions of Code of Arbitration Procedure
 - Rule 10101 -- Matters eligible for submission
 - Disputes between or among members
 - Disputes between or among members and customers
 - Disputes between or among members and registered clearing agencies
 - Rule 10400 -- Mediation rules
- 4.3.3 General Administrative Requirements for Broker/Dealers**
- 4.3.3.1 Disclosure requirements
 - 4.3.3.1.1 SEC Rules
 - Rule 10b-10 -- Confirmation of transactions
 - Rule 15c1-2 -- Fraud and misrepresentation
 - Rule 15c1-3 -- Misrepresentation by brokers and dealers as to registration
 - Rule 15c1-5 -- Disclosure of control
 - Rule 15c1-6 -- Disclosure of interest in distributions
 - 4.3.3.1.2 NASD Rules
 - Rule 2230 -- Confirmations
 - IM-2230-1 "Third market" confirmations
 - Rule 2240 -- Disclosure of control relationship with issuer
 - Rule 2250 -- Disclosure of participation or interest in primary or secondary distribution
 - Rule 2270 -- Disclosure of financial condition to customers
 - Requirement to furnish most recent report of the firm's financial condition
- 4.3.3.2 Recordkeeping and reporting requirements

- 4.3.3.2.1 SEC Rules
 - Rule 17a-3 – Records to be made by certain exchange members, brokers and dealers
 - Rule 17a-4 – Records to be preserved by certain exchange members, brokers and dealers
 - Rule 17a-8 --Recordkeeping and reporting of currency and foreign transactions
 - Rule 17f-2 -- Fingerprinting of securities industry personnel
- 4.3.3.2.2 NASD Rules
 - Rule 3070 -- Reporting requirements
 - Rule 3110 -- Books and records
 - Requirements
 - Marking of customer order tickets (subscription agreements)
 - Customer account information
 - Requirements when using predispute arbitration agreements with customers
 - Telemarketing requirements
 - Record of written complaints
 - "Complaint" defined
- 4.4 **Securities Investor Protection Act and SIPC Rules Thereunder**
- 4.4.1 **Purpose**
- 4.4.2 **Responsibility of SIPC appointed trustees**
- 4.4.3 **Customer claims**
 - Definition of "separate customer"
 - Maximum limit on claims for cash and securities
 - Valuation of claims
 - Submission of claims to trustee
 - Eligible and ineligible customers
 - Customers of other firms with open transactions with a firm in SIPC liquidation

SAMPLE QUESTION FORMATS

The questions which follow are similar in format and content to questions on the actual examination. They are not intended, however, to parallel either the level of difficulty or the subject coverage of the examination. Their purpose here is to assist candidates and training personnel in preparing for the types of multiple-choice questions which will appear on the examination.

ANSWERS

1. (B)
2. (B)
3. (C)
4. (C)
5. (A)

1. Which of the following best defines the "book value" of a common stock?
 - (A) The price at which the shares were originally issued
 - (B) The theoretical value per share the stock would have upon corporate liquidation
 - (C) The ratio of price to earnings for stocks
 - (D) An accounting figure used in determining dividend distributions

2. When an underwriter agrees to act on a "firm commitment" basis, which two of the following are true? The underwriting firm
 - I. acts as a dealer
 - II. acts as a broker
 - III. agrees to buy only those securities it can sell
 - IV. agrees to buy the entire issue
 - (A) I and III
 - (B) I and IV
 - (C) II and III
 - (D) II and IV

3. On a corporate balance sheet, all of the following would be listed under "current assets" EXCEPT
 - (A) inventory
 - (B) cash
 - (C) equipment
 - (D) accounts receivable

4. When a stock is held by a broker for a customer in "street name," it means that the stock is
 - (A) registered in the name of the customer
 - (B) in bearer form
 - (C) registered in the name of the broker or its depository
 - (D) accompanied by stock powers

5. Which of the following securities represents an ownership interest in a public corporation?
 - (A) Common stock
 - (B) Common stock warrants
 - (C) Corporate bonds
 - (D) Debentures

File No. SR-NASD-2001-26

EXHIBIT 3

[OMITTED]

The specifications for the Series 82 examination are confidential and are omitted from this filing. The specifications for the Series 82 examination have been separately filed with the Commission pursuant to Rule 24b-2 under the Act.