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January 28, 2004

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-2004-017– Series 86/87 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 rule filing in Microsoft Word 7.0 to facilitate production of the Federal Register release.

If you have any questions, please contact Philip Shaikun, Office of General Counsel, Regulatory Policy and Oversight, NASD, at (202) 728-8451; e-mail: philip.shaikun@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Barbara Z. Sweeney

Enclosures

File No. SR-NASD-2004-017
Consists of 34 Pages
January 28, 2004

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 Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ the National Association of Securities Dealers, Inc. (“NASD”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) the selection specifications and study outline for the Research Analyst Qualification Examination (“Series 86/87”) program.²

The Series 86/87 examination program is proposed in connection with NASD Rule 1050, which requires all persons associated with a member who function as research analysts to register with NASD and to pass a qualification examination for research analysts specified by NASD. NASD is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD.

A description of the Series 86/87 examination is included in the attached study outline. Additional information on the examination is included in the Series 86/87 selection specifications, which NASD has omitted from this filing and has submitted under separate cover with a request for confidential treatment to the Commission’s Secretary pursuant to Rule 24b-2 under the Act.³

(b) Not applicable.

(c) Not applicable.

¹ 15 U.S.C. 78s(b)(1).

² Based upon instruction from the Commission staff, NASD is submitting SR-NASD-2004-017 for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder, and is not filing the question bank for Commission review. See Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000. The question bank is available for Commission review.

³ 17 CFR 240.24b-2.

2. Procedures of the Self-Regulatory Organization

(a) The proposed Series 86/87 examination program was developed jointly by NASD and NYSE staff in consultation with a committee of industry representatives. The proposed rule change to NASD Rule 1050 (including development of a related examination program) was approved by the Board of Directors of NASD Regulation, Inc. at its meeting on September 25, 2002, which authorized the filing of the proposed rule change with the SEC. The NASD Board of Governors had an opportunity to review the proposed rule change at its meeting on September 26, 2002. Further, counsel for The Nasdaq Stock Market, Inc. and NASD Dispute Resolution, Inc. were provided an opportunity to consult with respect to the proposed rule change, pursuant to the Plan of Allocation and Delegation of Functions by NASD to its Subsidiaries. No other action by the NASD is necessary for the filing of the proposed rule change. Section 1(a)(ii) of Article VII of the NASD By-Laws permits the NASD Board of Governors to adopt NASD Rules without recourse to the membership for approval.

As further discussed below, NASD is filing the proposed rule change for immediate effectiveness. NASD proposes to implement the Series 86/87 examination program no later than March 30, 2004.⁴ NASD will announce the proposed rule change and the implementation date in a Notice to Members to be published no later than 60 days after SEC Notice of this filing.

⁴ See File No. SR-NASD-2004-010 (filed with the SEC for immediate effectiveness on January 16, 2004), which establishes “not later than March 30, 2004” as the effective date for Rule 1050 and ensures that the effective date for Rule 1050 will occur no sooner than 30 days after the current proposed rule change and attached study outline have been filed and become effective.

(b) Questions regarding this rule filing may be directed to Philip Shaikun, Associate General Counsel, Office of General Counsel, Regulatory Policy and Oversight, NASD, at (202) 728-8451.

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

(a) Purpose

NASD Rule 1050 requires all persons associated with a member who function as research analysts to register with NASD and to pass a qualification examination for research analysts specified by NASD.⁵ Rule 1050 defines “research analyst” as an associated person who is primarily responsible for the preparation of the substance of a research report or whose name appears on a research report. NASD intends for the term “research report” in Rule 1050 to be defined as it is in Rule 2711(a)(8), which applies only to equity securities. Accordingly, fixed income analysts do not need to be registered as research analysts.

Pursuant to Section 15A(g)(3) of the Act,⁶ NASD is required to prescribe standards of training, experience, and competence for persons associated with NASD members. The proposed Series 86/87 examination program has been developed to ensure that persons associated with NASD members who are seeking to register with NASD as research analysts have attained specified levels of competence and knowledge.

⁵ See Securities Exchange Act Release No. 48252 (July 29, 2003), 68 FR 45875 (August 4, 2003) (order approving File No. SR-NASD-2002-154).

⁶ 15 U.S.C. 78o-3(g)(3).

The proposed Series 86/87 examination program will partially qualify⁷ an associated person of a member to function as a research analyst. The program consists of two parts (Series 86 and Series 87) that collectively test the knowledge, skills, and abilities associated with critical job functions of a research analyst, including a candidate's knowledge of applicable federal and industry rules and regulations.

The Series 86/87 examination (the selection specifications, study outline, and question bank) program was developed by NASD and NYSE staff in consultation with a committee of industry representatives.

The Series 86/87 examination will be a 5½-hour, 150 multiple-choice question examination. Since multiple forms of the examination will be administered, the passing score will fluctuate moderately from examination to examination. Candidates are allotted 4 hours to complete the first part (Series 86) and 1½ hours to complete the second part (Series 87).

The Series 86 is the "Analysis" portion of the examination and consists of 100 multiple-choice questions covering the critical job functions of "Information and Data Collection" (10 questions) and "Analysis, Modeling, and Valuation" (90 questions). The second part, the Series 87, is the "Regulatory Administration and Best Practices" portion of the examination and consists of 50 multiple-choice questions covering the critical job functions of "Preparation of Research Reports" (32 questions) and "Dissemination of Information" (18 questions). This portion of the examination focuses on rules and regulations applicable to the work of a research analyst.

⁷ Each candidate also would have to pass the General Securities Representative (Series 7), the Limited Registered Representative (Series 17), or the Canada Modules of the Series 7 (Series 37 or Series 38) examinations before taking the Series 86/87 examination. NASD will file a separate proposed rule change regarding the prerequisite requirement.

The selection specifications for the Series 86/87 examination, which NASD has omitted from this filing and has submitted under separate cover with a request for confidential treatment to the Commission's Secretary pursuant to Rule 24b-2 under the Act,⁸ describe additional confidential information regarding the examination.

(b) Statutory Basis

NASD believes that the proposed Series 86/87 examination program is consistent with the provisions of Sections 15A(b)(6)⁹ and 15A(g)(3) of the Act,¹⁰ which authorize NASD to prescribe standards of training, experience, and competence for persons associated with NASD members.

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

NASD 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.

⁸ 17 CFR 240.24b-2.

⁹ 15 U.S.C. 78o-3(b)(6).

¹⁰ 15 U.S.C. 78o-3(g)(3).

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A) of the Act¹¹ and Rule 19b-4(f)(6) thereunder,¹² 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 does not become operative for 30 days (or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest) after the date of this filing. NASD requests that the Commission waive the five-day pre-filing notice requirement specified in Rule 19b-4(f)(6)(iii) under the Act.¹³ NASD proposes to implement the Series 86/87 examination program no later than March 30, 2004.

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

The NYSE is expected to file with the Commission, on or around the filing date of this proposed rule change, a similar proposed rule change that includes a description of the examination program, the study outline and, subject to a similar request for confidential treatment, the selection specifications.

9. Exhibits

1. Completed notice of proposed rule change for publication in the Federal Register.
2. Study Outline for the Series 86/87 Examination.

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 17 CFR 240.19b-4(f)(6).

¹³ 17 CFR 240.19b-4(f)(6)(iii).

3. Selection Specifications for the Series 86/87 Examination. NASD has requested confidential treatment for the Series 86/87 selection specifications, and thus the specifications are omitted from this filing. The Series 86/87 selection specifications have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.¹⁴
4. Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000.

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

NASD

BY: _____
Barbara Z. Sweeney, Senior Vice President and
Corporate Secretary

Date: January 28, 2004

¹⁴ 17 CFR 240.24b-2.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASD-2004-017)

January , 2004

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to a New Qualification Examination: Research Analyst Qualification Examination (Series 86/87)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on , the National Association of Securities Dealers, Inc. (“NASD”) 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. NASD has designated the proposed rule change as constituting a “non-controversial” rule change pursuant to Rule 19b-4(f)(6) under the Act,³ which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

NASD is filing with the SEC the selection specifications and study outline for the Research Analyst Qualification Examination (“Series 86/87”) program.⁴ The Series 86/87

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

⁴ Based upon instruction from the Commission staff, NASD is submitting SR-NASD-2004-017 for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder, and is not filing the question bank for Commission review. See Letter

examination program is proposed in connection with NASD Rule 1050, which requires all persons associated with a member who function as research analysts to register with NASD and to pass a qualification examination for research analysts specified by NASD. NASD is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD.

A description of the Series 86/87 examination is included in the attached study outline. Additional information on the examination is included in the Series 86/87 selection specifications, which NASD has omitted from this filing and has submitted under separate cover with a request for confidential treatment to the Commission's Secretary pursuant to Rule 24b-2 under the Act.⁵

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 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. NASD 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

NASD Rule 1050 requires all persons associated with a member who function as research analysts to register with NASD and to pass a qualification examination for research analysts

to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000. The question bank is available for Commission review.

⁵ 17 CFR 240.24b-2.

specified by NASD.⁶ Rule 1050 defines “research analyst” as an associated person who is primarily responsible for the preparation of the substance of a research report or whose name appears on a research report. NASD intends for the term “research report” in Rule 1050 to be defined as it is in Rule 2711(a)(8), which applies only to equity securities. Accordingly, fixed income analysts do not need to be registered as research analysts.

Pursuant to Section 15A(g)(3) of the Act,⁷ NASD is required to prescribe standards of training, experience, and competence for persons associated with NASD members. The proposed Series 86/87 examination program has been developed to ensure that persons associated with NASD members who are seeking to register with NASD as research analysts have attained specified levels of competence and knowledge.

The proposed Series 86/87 examination program will partially qualify⁸ an associated person of a member to function as a research analyst. The program consists of two parts (Series 86 and Series 87) that collectively test the knowledge, skills, and abilities associated with critical job functions of a research analyst, including a candidate’s knowledge of applicable federal and industry rules and regulations.

⁶ See Securities Exchange Act Release No. 48252 (July 29, 2003), 68 FR 45875 (August 4, 2003) (order approving File No. SR-NASD-2002-154).

⁷ 15 U.S.C. 78o-3(g)(3).

⁸ Each candidate also would have to pass the General Securities Representative (Series 7), the Limited Registered Representative (Series 17), or the Canada Modules of the Series 7 (Series 37 or Series 38) examinations before taking the Series 86/87 examination. NASD will file a separate proposed rule change regarding the prerequisite requirement.

The Series 86/87 examination (the selection specifications, study outline, and question bank) program was developed by NASD and NYSE staff in consultation with a committee of industry representatives.

The Series 86/87 examination will be a 5½-hour, 150 multiple-choice question examination. Since multiple forms of the examination will be administered, the passing score will fluctuate moderately from examination to examination. Candidates are allotted 4 hours to complete the first part (Series 86) and 1½ hours to complete the second part (Series 87).

The Series 86 is the “Analysis” portion of the examination and consists of 100 multiple-choice questions covering the critical job functions of “Information and Data Collection” (10 questions) and “Analysis, Modeling, and Valuation” (90 questions). The second part, the Series 87, is the “Regulatory Administration and Best Practices” portion of the examination and consists of 50 multiple-choice questions covering the critical job functions of “Preparation of Research Reports” (32 questions) and “Dissemination of Information” (18 questions). This portion of the examination focuses on rules and regulations applicable to the work of a research analyst.

The selection specifications for the Series 86/87 examination, which NASD has omitted from this filing and has submitted under separate cover with a request for confidential treatment to the Commission’s Secretary pursuant to Rule 24b-2 under the Act,⁹ describe additional confidential information regarding the examination.

⁹ 17 CFR 240.24b-2.

(2) Statutory Basis

NASD believes that the proposed Series 86/87 examination program is consistent with the provisions of Sections 15A(b)(6)¹⁰ and 15A(g)(3) of the Act,¹¹ which authorize NASD to prescribe standards of training, experience, and competence for persons associated with NASD members.

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

NASD 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 NASD as a “non-controversial” rule change pursuant to Section 19(b)(3)(A) of the Act¹² and Rule 19b-4(f)(6) thereunder.¹³ 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 for 30 days after the date of this filing, the proposed rule change has become

¹⁰ 15 U.S.C. 78o-3(b)(6).

¹¹ 15 U.S.C. 78o-3(g)(3).

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f)(6).

effective pursuant to Section 19(b)(3)(A) of the Act¹⁴ and Rule 19b-4(f)(6) thereunder.¹⁵ NASD proposes to implement the Series 86/87 examination program no later than March 30, 2004.¹⁶

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change 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.

In addition, Rule 19b-4(f)(6)(iii) under the Act¹⁷ requires the self-regulatory organization to provide the Commission written notice of its intent to file the proposed rule change at least five business days before doing so (or such shorter time as designated by the Commission). NASD has requested that the Commission waive the five-day pre-filing notice requirement. The Commission has decided, consistent with the protection of investors and the public interest, to waive the five-day pre-filing requirement.

IV. SOLICITATION OF COMMENTS

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange

¹⁴ 15 U.S.C. 78s(b)(3)(A).

¹⁵ 17 CFR 240.19b-4(f)(6).

¹⁶ See File No. SR-NASD-2004-010 (filed with the SEC for immediate effectiveness on January 16, 2004), which establishes “not later than March 30, 2004” as the effective date for Rule 1050 and ensures that the effective date for Rule 1050 will occur no sooner than 30 days after the current proposed rule change and attached study outline have been filed and become effective.

¹⁷ 17 CFR 240.19b-4(f)(6)(iii).

Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Comments also may be submitted electronically at the following e-mail address: rule-comments@sec.gov. All comment letters should refer to File No. SR-NASD-2004-017. This file number should be included on the subject line if e-mail is used. To help us process and review comments more efficiently, comments should be sent in hardcopy or by e-mail but not by both methods. 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 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 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.¹⁸

Margaret H. McFarland
Deputy Secretary

¹⁸

17 CFR 200.30-3(a)(12).



Study Outline for the Research Analyst Qualification Examination (Series 86 / 87)

Introduction

This Study Outline is a guide to the topics covered in the Research Analyst Qualification Examination (Series 86/87). This outline is intended to familiarize examination candidates with the range of subjects covered by the examination. The Research Analyst Qualification Examination (Series 86/87) is intended to ensure that research analysts are competent to perform their jobs. In light of this stated purpose, the Series 86/87 examination is designed to measure the knowledge, skills and abilities associated with the critical job functions of a research analyst.

A job analysis study was conducted to ensure a representative relationship between the contents of the examination and the job performed by research analysts. A group of research analysts and professionals who supervise research analysts identified and described four critical job functions.

The study outline delineates the four critical job functions of the research analyst, the tasks that are associated with the four critical functions, and the knowledge and skills that are necessary to perform the tasks. In addition, the study outline delineates federal and industry rules and regulations that are associated with the work of a research analyst. The study outline serves as a guide to the topics that are covered on the Research Analyst Qualification Examination. It is recommended that candidates review the study outline prior to taking the examination.

Individuals Required to Complete the Examination

As required by NYSE Rule 344 and NASD Rule 1050, research analysts must be registered with, qualified by, and approved by the Exchange and/or NASD. The Series 86/87 will serve as the qualification examination under NYSE Rule 344 and NASD Rule 1050.

As the term is defined in NYSE Rule 344.10, “research analyst” includes a member, allied member, or employee who is primarily responsible for the preparation of the substance of a research report and/or whose name appears on such report. For purposes of NASD Rule 1050, a “research analyst” shall mean an associated person who is primarily responsible for the preparation of the substance of a research report or whose name appears on a research report.

Exam Organization

The qualification exam consists of two parts:

Part I (Series 86) – Analysis: This part of the examination consists of 100 multiple-choice questions addressing primarily fundamental analysis and valuation of equity securities. This part of the exam covers the first two critical job functions in the study outline:

- 1) Information and Data Collection
- 2) Analysis, Modeling, and Valuation

Part II (Series 87) – Regulatory Administration and Best Practices: This part of the examination consists of 50 multiple-choice questions addressing relevant federal and industry rules and

regulations, including NYSE Rules, NASD Rules, the Securities Act of 1933 and the Securities Exchange Act of 1934. This part of the exam covers the last two critical job functions in the study outline:

- 3) Preparation of Research Reports
- 4) Dissemination of Information

Candidates are allotted 240 minutes to complete Part I (Series 86) and 90 minutes to complete Part II (Series 87).

The following indicates the number of test questions that are allocated to each component of the examination.

	Number of Test Questions that Appear on the Exam
PART I: SERIES 86 – ANALYSIS	
1) Information and Data Collection	10
2) Analysis, Modeling, and Valuation	90
PART II: SERIES 87 – REGULATORY ADMINISTRATION AND BEST PRACTICES	
3) Preparation of Research Reports	32
4) Dissemination of Information	18
TOTAL	150

Eligibility Requirements

The Series 7 (General Securities Registered Representative Examination) is a pre-requisite for taking the Series 86/87. The Series 17, 37 or 38, if applicable, also may satisfy the pre-requisite in lieu of the Series 7. The candidate must pass the Series 7, 17, 37 or 38 prior to taking either Part I or Part II of the Series 86/87.

A candidate who has passed both ***Level I and Level II of the Chartered Financial Analyst (CFA) Examination*** may request an exemption from Part I (Series 86), the Analysis section of the Research Analyst Qualification Examination.

The CFA examination is administered by the Association for Investment Management and Research (AIMR). To be eligible for the exemption, an applicant must not only have passed

Levels I and II of the CFA examination, but also must either (1) have functioned continuously as a research analyst since having passed CFA Level II or (2) have passed CFA Level II within two years of application for registration as a research analyst. Applicants who do not meet these criteria may, based upon previous related employment/experience, make written request to NYSE or NASD for a waiver. Applicants who receive an exemption or waiver from Series 86 still must satisfy the Series 7, 17, 37 or 38 prerequisite and pass the Series 87 before becoming qualified as a research analyst.

Research analysts, as defined in NYSE Rule 344.10 and NASD Rule 1050, must be registered with and qualified and approved by the NYSE and/or NASD within 365 days of the implementation date. In addition, persons currently performing the function of a research analyst shall have 1 year from the implementation date to be qualified and approved by the NYSE and/or NASD.

Application Procedures

The member or member organization that employs the candidate must file a Form U4, Uniform Application for Securities Industry Registration or Transfer (Form U4), with the Central Registration Depository. **The Form U4 must be submitted no later than May 31, 2004 for those currently functioning as research analysts who wish to take advantage of the one-year grace period.**

Exam Scheduling and Administration

For operational and delivery purposes, the Series 86/87 will be administered as two separate examinations: **Series 86 for Part I and Series 87 for Part II.**

Candidates should schedule their examinations at a Prometric Testing Center or a Pearson Professional Testing Center. Candidates are reminded that they must first pass the Series 7, 17, 37 or 38 before taking the Series 86 or 87.

Candidates may wish to schedule both examinations for the same day or take them on different days during the enrollment period.

Since multiple forms of the examination will be administered, the passing score will fluctuate moderately from examination to examination.

A candidate who has been functioning as a research analyst prior to the implementation date and fails either part of the examination must wait 30 days before retaking that part of the examination again. The 30-day waiting period will apply no matter how many times an analyst who is subject to the one-year grace period fails. Any other applicant who fails either part of the examination three times must wait 180 days before again taking the examination.

Qualification Designation

A candidate will be registered and qualified as a Research Analyst after passing the Series 7 (or Series 17, 37 or 38), Series 86 **and** Series 87 (or the Series 87 only, if the candidate is exempt from Part I – Series 86).

If the candidate fails, he or she must only retake the part failed. A new Page 1 of the Form U4 must be submitted by the member or member organization to request another test administration.

RESEARCH ANALYST QUALIFICATION EXAMINATION
STUDY OUTLINE

- 1. INFORMATION AND DATA COLLECTION: The research analyst collects information and data from various sources to learn about the economy, the industry sector and the individual companies that he/she covers.**

- 1.1. Gather macroeconomic data which may include any or all of the following:**

- 1.1.1. Economic indicators, market forces, monetary policy, and government statistics (e.g., consumer confidence, disposable income, unemployment rates, inflation and interest rates, and gross domestic product).
 - 1.1.2. Short- and long-term trends in the economy, demographic information, domestic and international issues.

- 1.2. Gather information about the industry sector to identify the industry's market size, cyclical nature, capital intensity, growth rate, product pricing flexibility, products offered, supply curve, potential entry and exit of competing companies and/or products, customer demand, supplier dynamics, and regulatory issues.**

- 1.2.1. Attend industry conferences, seminars and trade shows.
 - 1.2.2. Gather information and data about the industry sector by reading industry/trade literature (trade magazines and journals) and using industry-specific databases.
 - 1.2.3. Develop contacts with individuals within the industry sector (e.g., suppliers, vendors, buyers, industry associates, competitors, industry expert/consultants, and other analysts).
 - 1.2.4. Obtain information about regulatory impacts on the industry sector.
 - 1.2.5. Obtain information about competitors in the industry and/or peripheral industries.
 - 1.2.6. Obtain supplemental information (e.g., by conducting telephone and/or written/web-based surveys of the industry).

- 1.3. Gather information about individual companies to understand the company's financial status, structure, supply chain, costs of production, sources of revenue, sources of economic growth, risk tolerance, quality of management, new product development, business plan, and how the business plan will be implemented.**

- 1.3.1. Compile financial statements published by the subject companies (i.e., 10Ks, 10Qs - income statement, balance sheet, and statement of sources and uses of cash).
- 1.3.2. Meet with various levels of the company's management (e.g., the CEO, CFO, COO, Board of Directors, middle/junior management), as applicable.
- 1.3.3. Meet with the company's investor relations staff and corporate communications.
- 1.3.4. Visit key facilities, and meet operating management, salespeople, production/plant employees, and customers, as applicable.

1.4. Assess the relevance and importance of the information gathered to identify the drivers that influence the performance of the industry and/or the subject company.

2. ANALYSIS, MODELING, AND VALUATION: The research analyst analyzes the industry sector's key drivers as well as the individual companies that he/she covers to develop a forecast of the industry sector, make projections about the subject company, and determine the valuation of the company's stock.

(Research analysts use metrics that are appropriate for their industry sector. The types of measurements used for modeling and valuation differ from sector to sector.)

2.1. Conduct analysis of the data obtained about industry sector, competition within the industry, and supply and demand in the industry sector:

- 2.1.1. Identify key economic drivers that impact the industry. Identification of key drivers may be supplemented and/or confirmed by conducting correlation studies of industry factors (e.g., using statistical techniques such as regression analysis).
- 2.1.2. Identify short- and long-term trends within the industry sector. Monitor industry trends (i.e., secular, overall, and cyclical) and relate those trends to valuation and absolute/relative stock performance.
- 2.1.3. Identify product demand and assess profitability (i.e., what creates demand, what creates competition, product prices, and what affects costs and profits?).
- 2.1.4. Study inter-relationships of companies within the industry sector by conducting comparative analyses between like companies.
- 2.1.5. Study inter-relationships of peripheral companies and sectors that may affect the industry.
- 2.1.6. Study inter-industry and intra-industry competition to determine how companies are positioned competitively in and out of their industry.

- 2.1.7. Evaluate the impact of corporate actions (e.g., divestitures, mergers and acquisitions) on the industry sector.
- 2.1.8. Identify and evaluate the potential impact of government and industry regulation, economic policy, monetary policy, and fiscal policy.
- 2.1.9. Make projections about the direction of the industry sector.

2.2. Conduct analysis of the data obtained about individual companies, including financial statement analysis:

- 2.2.1. Build and maintain/update a historical record of the company's financial performance.
 - 2.2.1.1. Look for short- and long-term trends within the historical record of the company to project future earnings and financial condition.
- 2.2.2. Conduct fundamental analysis based on the company's financial statements and supplemental information, including all footnotes.
 - 2.2.2.1. Understand the company's financial statements (e.g. income statements, cash flow statements, and balance sheets), and the inter-relationships of these statements, including relevant ratios or metrics (*see **Knowledge and Skills** section of this outline for examples).
 - 2.2.2.2. Consider factors that would influence a company's profits or growth prospects (e.g., quality of management, current capacity and capacity for growth, new ideas or strategies, product assessment, strength of business model).
 - 2.2.2.3. Evaluate the impact of corporate actions (e.g., mergers, acquisitions, restructurings, and divestitures) on individual companies.
 - 2.2.2.4. Review the company's accounting practices for methodology variances and/or conservatism versus industry peers (understand Generally Accepted Accounting Principles, and Financial Accounting Standards Board)
 - 2.2.2.5. Review of corporate governance, as detailed in proxy statements or other documents.
 - 2.2.2.6. Consider the impact of industry drivers on companies.

2.2.3. Make projections about the earnings potential of a company, using qualitative and quantitative data.

2.2.3.1. Forecast key financial statements (e.g., income statement, cash flow statement, and balance sheet).

2.2.3.2. Perform due diligence to evaluate assumptions and support the theory based on the data that was analyzed.

2.2.3.3. Update/maintain/adjust financial models and projections on an ongoing basis.

2.3. Valuation of company's stock (i.e., assessing a company's stock price, its price relative to the market, and how it performs/trades relative to other peer companies).

2.3.1. Valuation methods may include any or all of the following ratios, including advantages and limitations of each ratio:

2.3.1.1. Price to earnings (P/E)

2.3.1.2. Discounted cash flow / Dividend discount method

2.3.1.3. Enterprise value (EV) to EBITDA

2.3.1.4. Enterprise value (EV) to sales

2.3.1.5. P/E to growth ratio

2.3.1.6. Price to book value (stated and tangible)

2.3.2. Valuation methods may apply knowledge or calculation of the following:

2.3.2.1. Cost of capital

2.3.2.2. Discounted cash flow

2.3.2.3. Dividend yield

2.3.2.4. Earnings yield

2.3.2.5. Economic profit

2.3.2.6. Free cash flow yield

2.3.2.7. P/E normalized earnings (for cyclical industries – mid-cycle or trend-line)

2.3.2.8. Price to free cash flow

2.3.2.9. Private equity value / Sum of the parts analysis

2.3.3. Draw conclusions about the data (qualitative and quantitative) collected and analyzed to decide if the company's stock is undervalued or overvalued (this is an iterative process).

2.4. Look for key investment criteria that may alter the price of a stock and identify patterns or events (macro, political, or company specific) that make stock prices move.

- 2.4.1. Study the general market direction and characteristics.
- 2.4.2. Assess risk – What factors could impact the perceived risk of an investment?
- 2.4.3. Review supplemental information (e.g., charts/data analyses prepared by technical analysts).

3. PREPARATION OF RESEARCH REPORTS: The research analyst prepares a variety of reports summarizing the research conducted on the industry sector or subject companies. A comprehensive statement or opinion based on the interpretation of the data collected and analyzed is developed. Drafts of the research report or notes are created.

3.1. Research reports adhere to the regulatory requirements and may include:

- 3.1.1. Certifications (e.g., by member firms, by analysts)
- 3.1.2. Disclosures (e.g., compensations, relationships with subject companies)
- 3.1.3. Firm's ownership, and trading capacity, of securities
- 3.1.4. Meanings of all ratings
- 3.1.5. Percentage of ratings issued by the firm
- 3.1.6. Price chart with historical information
- 3.1.7. Risk involved in investing

3.2. The research analyst prepares many types of reports that vary in length and depth. Any or all of the following may constitute research reports:

- 3.2.1. Initiation reports – coverage of companies not previously covered
- 3.2.2. Earnings analysis, earnings preview, and earnings review reports
- 3.2.3. In-depth fundamental “basic” reports
- 3.2.4. Topical reports on relevant issues or theme pieces
- 3.2.5. Reports announcing change of ratings, recommendations, or projected earnings
- 3.2.6. Reports announcing eliminating coverage of companies
- 3.2.7. Short notes and summaries of pertinent news
- 3.2.8. Industry reports

3.3. Reports are written with a conclusion followed by supporting evidence and analysis. Components of the report may include the following:

- 3.3.1. Business model analysis
- 3.3.2. Company overview
- 3.3.3. Competitive position
- 3.3.4. Dividend outlook
- 3.3.5. Financial position
- 3.3.6. Industry overview

- 3.3.7. Industry and company outlook (projection)
- 3.3.8. Investment thesis
- 3.3.9. Quality/quantity of earnings
- 3.3.10. Quality of management
- 3.3.11. Ratings or recommendations
- 3.3.12. Review of recently released financial data
- 3.3.13. Review of recent news
- 3.3.14. Risk of investment
- 3.3.15. Sensitivity of company costs and revenues
- 3.3.16. Valuation of company stock

3.4. Ensure that regulatory and compliance requirements are adhered to:

- 3.4.1. Ensure that proper disclosures (by the analyst and the firm) are included on reports and in oral dissemination of information.
- 3.4.2. Obtain appropriate approvals prior to disseminating reports or information.
 - 3.4.2.1. Review and approval of research by the supervisory analyst (Series 16 registered).
 - 3.4.2.2. Presentation of reports that contain changes of ratings, initiation of coverage, and termination of coverage to an internal review committee.
- 3.4.3. Comply with the restrictions on the issuance of research reports and participation in public appearances.
- 3.4.4. Comply with communications restrictions and disclosures.
- 3.4.5. Comply with compensation restrictions and disclosures.
- 3.4.6. Comply with trading restrictions (that apply to analysts and employees of the firm) associated with publishing research.
- 3.4.7. Comply with record keeping and document retention procedures.
- 3.4.8. Comply with any other rules or regulations defined by the Self Regulatory Organizations.

4. DISSEMINATION OF INFORMATION: The research analyst (Series 7 registered) presents the results of the analysis, orally and in writing, to various parties.

4.1. Present and discuss recommendations with the following individuals and/or groups:

- 4.1.1. Clients and any other buyers (i.e., buy-side analysts, portfolio managers, hedge fund managers, mutual fund managers, pension fund managers, money managers, etc.)
- 4.1.2. Institutional sales force
- 4.1.3. Retail sales force (registered representatives)
- 4.1.4. Trading department
- 4.1.5. Management of companies
- 4.1.6. Press and media

4.2. Meet with clients (e.g., one-on-one, group meetings).

4.3. Disseminates information via various means (e.g., telephone, blast voice mail, facsimile, email, firm's website, internal "squawk box," and external news information sources).

4.4. Respond to inquiries from clients and/or the public.

4.5. Obtain client feedback from the firm's institutional and retail sales force, and trading department. Discuss trends within the market.

KNOWLEDGE AND SKILLS:

1. Accounting, including a basic understanding of any or all of the following:
 - A. Asset turnover
 - B. Cash collection cycle (including receivables turnover, inventory turnover, and payables turnover)
 - C. Current ratio (working capital ratio)
 - D. Debt to capital ratio (total and long-term)
 - E. Debt to equity ratio (total and long-term)
 - F. Dividend payout ratio
 - G. Earnings per share (EPS)
 - H. Earnings Before Interest and Taxes (EBIT) margin
 - I. Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) margin
 - J. Equity turnover
 - K. Gross profit margin
 - L. Interest coverage ratio

- M. Inventory valuation (e.g., LIFO, FIFO)
 - N. Leases
 - O. Net profit margin
 - P. Pension liability accounting
 - Q. Pre-tax margin
 - R. Pro forma vs. GAAP reporting
 - S. Operating profit margin
 - T. Quick ratio (Acid test)
 - U. Return on assets
 - V. Return on equity
 - W. Return on invested capital
 - X. Tax accounting (including tax rate calculation and deferred tax accounting)
-
- 2. Ability to evaluate complex situations and to identify relevant factors for analysis
 - 3. Attention to detail
 - 4. Basic understanding of business (e.g., corporate structures and sources of capital)
 - 5. Communication skills (written and oral)
 - 6. Computer skills (creating spreadsheets, word processing, email)
 - 7. Economics (macro and micro)
 - 8. Ethical behavior
 - 9. Finance (i.e., financial statements, financial analysis, and modeling)
 - 10. Equity valuation methods
 - 11. Industry specific knowledge and experience (specialty area)
 - 12. Quantitative skills, including knowledge of statistics and the ability to apply probability analysis to future outcomes

Knowledge of Rules, Regulations, and Information Memos:

Rules are subject to change

NYSE Rules:

Rule 342(b)(1) – *Offices – Approval, Supervision and Control*

Rule 344 - *Supervisory Analyst*

Interpretation of Rule 344

Rule 345A – *Continuing Education for Registered Persons*

Rule 351(f) – *Reporting Requirements*

Rule 435(5) - *Miscellaneous Prohibitions-Circulation of Rumors*

Rule 472 - *Communications with the Public*

Interpretations of Rule 472

Rule 791 - *Communications to Customers*

(Also, options rules and regulations as set forth in *Guidelines for Options Communications*)

IM 02-24 – *Disclosure and Reporting Requirements*
IM 02-26 – *Disclosure and Reporting Requirements*
IM 02-30 – *Analyst and Member/Member Organization Disclosure and Reporting Requirements*
IM 02-55 – *Rule 472 – Disclosure and Reporting Requirements*
IM 03-12 – *April 1st Reporting Requirement – Rule 351 & 472*
IM 03-30 – *Rule 472 – Gatekeeper Requirements*
IM 03-36 – *Rule 472 – Amendments to Disclosure and Reporting Requirements*

NASD Rules:

Rule 1050 – *Registration of Research Analysts*
Rule 1120 – *Continuing Education Requirements*
Rule 2120 – *Use of Manipulative, Deceptive, or Other Fraudulent Devices*
Rule 2210 – *Communications with the Public*
Rule 2211 – *Institutional Sales Material and Correspondence*
Rule 2240 – *Disclosure of Control Relationship with Issuer*
Rule 2250 – *Disclosure of Participation or Interest in Primary or Secondary Distribution*
Rule 2711 – *Research Analysts and Research Reports*

Rule 2720 – *Distribution of Securities of Members and Affiliates (conflict of interest)*
 2720(c)-*Participation in Distribution of Securities of Members or Affiliate*
Rule 2740 – *Selling Concessions, Discounts and Other Allowances*
 2740(b) – *Definition of “Bona Fide Research”*
Rule 2790 – *Restrictions on the Purchase and Sale of Initial Equity Public Offerings*
Rule 3330 – *Payment Designed To Influence Market Prices Other Than Paid Advertising*
IM – 2740-1 – *Bona Fide Research Exclusion*
IM-2110-4 – *Trading Ahead Of Research Reports*
IM-2210-1 – *Guidelines to Ensure that Communications with the Public are not Misleading*
Notice to Members 03-38 – *Advertising Modernization*
Notice to Members 02-39 – *Rules Governing Research Analyst Conflicts of Interests*
Notice to Members 03-44 – *Research Analysts and Research Reports*

Securities Act of 1933:

Section 5(b)(1)(2) - *Prospectus Requirements*--delivery of prospectus for new issues

Section 11 – *Civil Liabilities on Account of False Registration Statement*

Section 12 – *Civil liabilities arising in connection with prospectuses and communication*

Section 15 – *Liabilities of controlling persons*

Section 17 – *Fraudulent Interstate Transactions*

Rule 134 - *Communications not Deemed a Prospectus*--items of information that may be included in the communication

Rule 134a - *Options Material not Deemed a Prospectus*--information that may be included in the communication

Rule 135 - *Notice of Certain Proposed Offerings*--purpose and permissible contents of tombstone advertisements

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 Section 2(10) and 5(c) in Relation to Certain Publications*

Rule 144 – *Persons Deemed Not to Be Engaged in a Distribution and Therefore Not Underwriter*

Rule 144A - *Private Resales of Securities to Institutions*--purpose and general characteristics of regulation

Rule 174 – *Delivery of Prospectus by Dealers; Exemptions Under Section 4(3) of the Act*

Regulation A - *Conditional Small Issues Exemption*

Regulation S – *Rules governing offers and sales made outside the U.S. without registration under the Act of 1933*

Regulation D - *Rules governing the limited offer and sale of securities without registration under the Securities Act of 1933*

Securities Exchange Act of 1934:

Section 9(a)(5) - *Dissemination of Information for Consideration- Market Manipulation*

Section 15D – *Securities Analysts and Research Reports*

Rule 10b-1 - *Prohibition of Use of Manipulative or Deceptive Devices or Contrivances with Respect to Certain Securities Exempted from Registration*
Rule 10b-3 - *Employment of Manipulative and Deceptive Devices (by brokers or dealers)*
Rule 10b-5 - *Employment of Manipulative and Deceptive Devices (by persons)*
Rule 17a-4 - *Records to Be Preserved by Certain Exchange Members, Brokers and Dealers*

Regulation AC - *Analyst Certification*

Regulation G - *Non-GAAP Disclosures*

Regulation M:

Rule 101(b)(1) - *Activities by Distribution Participant: Research*
Rule 101(c)(1) - *Activities by Distribution Participant: Excepted Securities*

Regulation FD - *Selective Disclosure and Insider Trading (Fair Disclosure)*

EXHIBIT 3

[OMITTED]

NASD has requested confidential treatment for the Series 86/87 selection specifications, and thus the specifications are omitted from this filing. The Series 86/87 selection specifications have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.¹

¹ 17 CFR 240.24b-2.