

OMB APPROVAL

OMB Number: 3235-0045
Expires: June 30, 2007
Estimated average burden
hours per response.....38

Page 1 of 43

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No. SR - 2005 - 015

Amendment No.

Proposed Rule Change by National Association of Securities Dealers

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

Initial ☒	Amendment ☐	Withdrawal ☐	Section 19(b)(2) ☐	Section 19(b)(3)(A) ☒	Section 19(b)(3)(B) ☐
			Rule		
Pilot ☐	Extension of Time Period for Commission Action ☐	Date Expires 	☒ 19b-4(f)(1)	☐ 19b-4(f)(4)	
			☐ 19b-4(f)(2)	☐ 19b-4(f)(5)	
			☐ 19b-4(f)(3)	☐ 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document

**Description**

Provide a brief description of the proposed rule change (limit 250 characters).

Revisions to the Series 55 examination program.

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name Last Name
Title
E-mail
Telephone Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date By
(Name)

(Title)

NOTE: Clicking the button at right will digitally sign and lock
this form. A digital signature is as legally binding as a physical
signature, and once signed, this form cannot be changed.

PATRICE GLINIECKI,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EDFS website.

Form 19b-4 Information

Add

Remove

View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change

Add

Remove

View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

Add

Remove

View

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit Sent As Paper Document

☐

Exhibit 3 - Form, Report, or Questionnaire

Add

Remove

View

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit Sent As Paper Document

☒

Exhibit 4 - Marked Copies

Add

Remove

View

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

Add

Remove

View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

Add

Remove

View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(3) 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”) revisions to the study outline and selection specifications for the Limited Representative – Equity Trader (Series 55) examination program.² The proposed revisions update the material to reflect changes to the laws, rules, and regulations covered by the examination. NASD is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD.

The revised study outline is attached. However, NASD has omitted the Series 55 selection specifications from this filing and has submitted the specifications under separate cover to the Commission with a request for confidential treatment pursuant to Rule 24b-2 under the Act.³

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

¹ 15 U.S.C. 78s(b)(3).

² NASD also is proposing corresponding revisions to the Series 55 question bank, but based upon instruction from the Commission staff, NASD is submitting SR-NASD-2005-015 for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) 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.

The proposed revisions to the Series 55 examination program were developed by an industry committee and NASD staff. At its meeting on January 24, 2001, the Board of Directors of NASD Regulation, Inc. authorized the staff to propose modifications to examination programs, including study outlines, examination specifications, and question banks, and to file the proposed modifications with the Commission, without obtaining further or specific authorization from the Board of Directors of NASD Regulation, Inc. The Board of Governors of NASD had an opportunity to review that action at its meeting on January 25, 2001. Further, counsel for The Nasdaq Stock Market, Inc. (“NASDAQ”) and NASD Dispute Resolution, Inc. were provided an opportunity to consult with respect to that action. No other action by NASD is necessary for the filing of the proposed rule change.

As further discussed below, NASD is filing the proposed rule change for immediate effectiveness. NASD proposes to implement the Series 55 examination program no later than April 29, 2005. 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.

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

(a) Purpose

Pursuant to Section 15A(g)(3) of the Act,⁴ which requires NASD to prescribe standards of training, experience, and competence for persons associated with NASD members, NASD has developed examinations, and administers examinations developed

⁴ 15 U.S.C. 78o-3(g)(3).

by other self-regulatory organizations, that are designed to establish that persons associated with NASD members have attained specified levels of competence and knowledge. NASD periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

The Series 55 examination is required, with certain limited exceptions, for registered representatives who are engaged in proprietary trading, the execution of transactions on an agency basis, or the direct supervision of such activities, with respect to transactions in equity, preferred or convertible debt securities effected otherwise than on a securities exchange. There is an exception from the requirement for the Series 55 examination for any person associated with a member whose trading activities are conducted principally on behalf of an investment company that is registered with the Commission pursuant to the Investment Company Act of 1940 and that controls, is controlled by, or is under common control with the member.

A committee of industry representatives, together with NASD staff, recently undertook a review of the Series 55 examination program. As a result of this review, NASD is proposing revisions to the section on NASDAQ Automated Execution and Trading Systems in the study outline to better reflect the importance of the NASDAQ Market Center – Execution Service (SuperMontage). NASD also is proposing revisions to the study outline to remove certain portions (such as SEC Rules 11Ac1-7⁵ and 17a-4,⁶

⁵ 17 CFR 240.11Ac1-7.

⁶ 17 CFR 240.17a-4.

Overallotments (Greenshoe), Tender Offers, and NASD Rule 11810 (Buying-In)) that relate more to a firm's sales practice or operations department than to the firm's NASDAQ trading desk. As a result of the revisions, the title of Section 2 was changed from "NASDAQ Automated Execution and Trading Systems" to "NASDAQ Display, Execution and Trading Systems." NASD is further proposing revisions to the study outline to reflect the new SEC short sale requirements. In addition, the number of questions on each section of the study outline were modified as follows: NASDAQ and Over-The-Counter Markets, decreased from 45 to 42 questions; NASDAQ Display, Execution, and Trading Systems, increased from 9 to 15 questions; Trade Reporting Requirements, decreased from 18 to 16 questions; and General Industry Standards, decreased from 28 to 27 questions.

NASD is proposing similar changes to the corresponding sections of the Series 55 selection specifications and question bank. The number of questions on the Series 55 examination will remain at 100, and candidates will have 3 hours to complete the exam. Also, each question will continue to count one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

(b) Statutory Basis

NASD believes that the proposed revisions to the Series 55 examination program are consistent with the provisions of Sections 15A(b)(6)⁷ and 15A(g)(3) of the Act,⁸

⁷ 15 U.S.C. 78o-3(b)(6).

⁸ 15 U.S.C. 78o-3(g)(3).

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.

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)(i) of the Act⁹ and Rule 19b-4(f)(1) thereunder,¹⁰ in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of NASD. NASD proposes to implement the Series 55 examination program no later than April 29, 2005. NASD will announce the implementation date in a Notice to Members to be published no later than 60 days after SEC Notice of this filing.

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

⁹ 15 U.S.C. 78s(b)(3)(A)(i).

¹⁰ 17 CFR 240.19b-4(f)(1).

Not applicable.

9. Exhibits

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 3a. Revised Study Outline for the Series 55 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 55 Examination.

NASD has requested confidential treatment for the Series 55 revised selection specifications, and thus the specifications are omitted from this filing. The Series 55 revised selection specifications have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.¹¹

¹¹ 17 CFR 240.24b-2.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-2005-015)
SELF-REGULATORY ORGANIZATIONS

Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to
Revisions to the Series 55 Examination Program

Pursuant to Section 19(b)(3) 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 stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the self-regulatory organization pursuant to Section 19(b)(3)(A)(i) of the Act³ and Rule 19b-4(f)(1) thereunder,⁴ 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

¹ 15 U.S.C. 78s(b)(3).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(i).

⁴ 17 CFR 240.19b-4(f)(1).

NASD is filing revisions to the study outline and selection specifications for the Limited Representative – Equity Trader (Series 55) examination program.⁵ The proposed revisions update the material to reflect changes to the laws, rules, and regulations covered by the examination. NASD is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of NASD.

The revised study outline is attached. However, NASD has omitted the Series 55 selection specifications from this filing and has submitted the specifications under separate cover to the Commission with a request for confidential treatment pursuant to Rule 24b-2 under the Act.⁶

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

⁵ NASD also is proposing corresponding revisions to the Series 55 question bank, but based upon instruction from the Commission staff, NASD is submitting SR-NASD-2005-015 for immediate effectiveness pursuant to Section 19(b)(3)(A)(i) of the Act and Rule 19b-4(f)(1) 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.

⁶ 17 CFR 240.24b-2.

1. Purpose

Pursuant to Section 15A(g)(3) of the Act,⁷ which requires NASD to prescribe standards of training, experience, and competence for persons associated with NASD members, NASD has developed examinations, and administers examinations developed by other self-regulatory organizations, that are designed to establish that persons associated with NASD members have attained specified levels of competence and knowledge. NASD periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

The Series 55 examination is required, with certain limited exceptions, for registered representatives who are engaged in proprietary trading, the execution of transactions on an agency basis, or the direct supervision of such activities, with respect to transactions in equity, preferred or convertible debt securities effected otherwise than on a securities exchange. There is an exception from the requirement for the Series 55 examination for any person associated with a member whose trading activities are conducted principally on behalf of an investment company that is registered with the Commission pursuant to the Investment Company Act of 1940 and that controls, is controlled by, or is under common control with the member.

A committee of industry representatives, together with NASD staff, recently undertook a review of the Series 55 examination program. As a result of this review, NASD is proposing revisions to the section on The Nasdaq Stock Market, Inc. (“NASDAQ”) Automated Execution and Trading Systems in the study outline to better

⁷ 15 USC 78o-3(g)(3).

reflect the importance of the NASDAQ Market Center – Execution Service (SuperMontage). NASD also is proposing revisions to the study outline to remove certain portions (such as SEC Rules 11Ac1-7⁸ and 17a-4,⁹ Overallotments (Greenshoe), Tender Offers, and NASD Rule 11810 (Buying-In)) that relate more to a firm’s sales practice or operations department than to the firms’ NASDAQ trading desk. As a result of the revisions, the title of Section 2 was changed from “NASDAQ Automated Execution and Trading Systems” to “NASDAQ Display, Execution and Trading Systems.” NASD is further proposing revisions to the study outline to reflect the new SEC short sale requirements. In addition, the number of questions on each section of the study outline were modified as follows: NASDAQ and Over-The-Counter Markets, decreased from 45 to 42 questions; NASDAQ Display, Execution and Trading Systems, increased from 9 to 15 questions; Trade Reporting Requirements, decreased from 18 to 16 questions; and General Industry Standards, decreased from 28 to 27 questions.

NASD is proposing similar changes to the corresponding sections of the Series 55 selection specifications and question bank. The number of questions on the Series 55 examination will remain at 100, and candidates will have 3 hours to complete the exam. Also, each question will continue to count one point, and each candidate must correctly answer 70 percent of the questions to receive a passing grade.

2. Statutory Basis

NASD believes that the proposed revisions to the Series 55 examination program

⁸ 17 CFR 240.11Ac1-7.

⁹ 17 CFR 240.17a-4.

are 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 become effective pursuant to Section 19(b)(3)(A)(i) of the Act¹² and Rule 19b-4(f)(1) thereunder,¹³ in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the self-regulatory organization. NASD proposes to implement the Series 55 examination program no later than April 29, 2005. NASD will announce the implementation date in a Notice to Members to be published no later than 60 days after SEC Notice of this filing.

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)(i).

¹³ 17 CFR 240.19b-4(f)(1).

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.

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. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASD-2005-015 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609.

All submissions should refer to File Number SR-NASD-2005-015. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). 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 at the principal office of NASD. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to the File Number SR-NASD-2005-015 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁴

Margaret H. McFarland
Deputy Secretary

¹⁴ 17 CFR 200.30-3(a)(12).

NASD

**LIMITED REPRESENTATIVE—
EQUITY TRADER EXAMINATION
(TEST SERIES 55)**

STUDY OUTLINE

INTRODUCTION

The Equity Trader Qualification Examination (Series 55) is used to qualify individuals seeking registration pursuant to the NASD By-Laws Article III, Section 2 and the Membership and Registration Rules. Registered representatives in this category of registration may trade equity and convertible debt securities on a principal or agency basis. In order to be registered in this registration category, candidates must first be qualified as either Limited Representative Corporate Securities (Series 62) or General Securities Representative (Series 7).

This study outline has been prepared to assist NASD member firms in preparing candidates to sit for the Series 55 Examination. It may be used to structure or prepare training material and develop lecture notes and seminar programs, as well as a training aid for the candidates themselves. This outline and the test are divided into four sections, which are described below along with the number of questions in each section.

SECTION	DESCRIPTION	NUMBER OF QUESTIONS
1	NASDAQ and Over-The-Counter Markets	42
2	NASDAQ Display, Execution, and Trading Systems	15
3	Trade Reporting Requirements	16
4	General Industry Standards	27
TOTAL		100

The Series 55 Examination is comprised of 100 questions, and candidates will be allowed 180 minutes to complete the examination. A candidate must correctly answer 70 percent of the questions to receive a passing grade. The test is administered as a closed book exam. Scratch paper and a basic electronic calculator will be provided by the proctor. At the completion of the test, each candidate will receive an informational breakdown of their performance on each section and their overall score.

Examination questions will be updated to reflect the current interpretations of the rules and regulations. Questions on new rules will be added to the pool of questions for this examination within a reasonable period of their effective dates. Questions on rescinded rules will be promptly deleted from the pool of questions. Candidates will only be asked questions pertaining to the rules that are effective at the time the candidate takes the exam.

At the end of this outline is a list of references that may be used as a source material starting point for course developers in preparing training programs. In addition, nonmember commercial training vendors may 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.

There are also sample Series 55 test questions written in the various formats. They do not mirror the difficulty level of the 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 55 Examination.

Copies of this outline and registration applications may be obtained from the NASD Web Site at www.nasd.com.

1.0 NASDAQ and Over-the-Counter Markets

1.1 Overview of Markets Regulated by NASD

1.1.1 Eligible Securities

1.1.2 Non-NASDAQ OTC

1.1.2.1 Bulletin Board

1.1.2.1.1 Rule 6500 — OTC Bulletin Board Service

Applicability

Operation of the service

OTCBB-eligible securities

Requirements applicable to market makers

Permissible quotation entries (one-sided quotes)

Voluntary termination of registration

More than one trading location

Clearance and settlement

1.1.2.2 Pink Sheets and other Similar Trading Facilities

1.1.2.3 Third Market (including 19c-3 securities)

1.1.2.3.1 Trading in exchange-listed securities in OTC market

1.1.2.3.2 Consolidated tape 90-second reporting requirement

1.2 Quotation and Market Maker Requirements (general knowledge)

1.2.1 Securities Exchange Act of 1934 and SEC Rules Thereunder

1.2.1.1 Rule 11Ac1-1 — Dissemination of quotations

1.2.1.1.1 Definitions

Electronic communications network

OTC market maker

Quotation size

1.2.1.1.2 Obligations of responsible brokers and dealers

1.2.1.2 Rule 15c2-11 — Initiation or resumption of quotations

Form 211

Piggybacking

Due diligence

1.2.2 General Quotation Obligations

1.2.2.1 NASD Rule 3310 — Publication of transactions and quotations
Marking the close/ Marking the opening

1.2.2.2 NASD Rule 3320 — Offers at stated prices
IM-3320 — Firmness of quotations
Backing-away

1.2.3 NASDAQ Market Maker Registration and Quotation Obligations

1.2.3.1 NASD Rule 4611 — Registration as a NASDAQ market maker

1.2.3.2 NASD Rule 4613 — Character of quotations
Two-sided quotations
Firm quotations
Quotations reasonably related to the market
Reasonably competitive quotations
IM-4613 — Autoquote policy
Locked and crossed markets

1.2.3.3 NASD Rule 4617 — Normal business hours

1.2.3.4 NASD Rule 4618 — Clearance and settlement

1.2.3.5 NASD Rule 4619 — Withdrawal of quotations and passive market making

1.2.3.5.1 Excused withdrawal

1.2.3.6 NASD Rule 4620 — Voluntary termination of registration

1.2.3.7 NASD Rule 4621 — Suspension and termination of quotations by Association action

1.2.4 CQS market maker registration and quotation obligations

1.2.4.1 NASD Rule 6300 — Consolidated Quotation Service (CQS)

1.2.4.1.1 CQS Securities
NYSE and AMEX listed securities
Certain securities listed on regional exchanges
Securities registered or admitted to unlisted trading privileges

1.2.4.1.2 NASD Rule 6320 — Registration as a CQS market maker

1.2.4.1.3 NASD Rule 6330 — Obligations of CQS market makers

1.2.4.1.4 NASD Rule 6340 — Normal business hours

1.2.4.1.5 NASD Rule 6350 — Withdrawal of quotations

1.3 Trading Activities

1.3.1 Trading Halts

1.3.1.1 NASD Rule 3340 — Trading halts in NASDAQ securities
Prohibition on transactions

1.3.1.2 NASD Rule 4120 — Trading halts
Authority to initiate trading halts
Procedure for initiating a trading halt
IM-4120-1 — Disclosure of material information
Notification of trading halts
Trading halt codes

1.3.2 Market Halts

Agreement between NASDAQ and NYSE (circuit breakers)
IM-4120-3 — Market closing policy

1.3.3 Pre-Arranged and Third Party Trades

Painting the tape
Cross
Third-party trades
Step Out
WRAP accounts
Give-up (clearing)
Prime Broker

1.4 Anti-Competitive Trading Practices [21(a) Report]

Collusion
Price/size/spread convention
Intimidation
Harassment
NASD Rule IM-2110-5 — Anti-intimidation/coordination

1.5 Transactions in Accounts

1.5.1 Short Sales

1.5.1.1 SEC Regulation SHO

1.5.1.2 SEC Regulation M — Rule 105 — Short sales

1.5.1.3 NASD Rule 3350 — Short sale rule
Execution of short sales
Note difference between exchange listed plus tick
or zero plus tick rule and NASD requirements
Short exempt
Short-against-the-box

1.5.1.4 NASD Rule 3360 — Short interest reporting

1.5.2 NASD Rule 3370 — Purchases

1.5.3 Limit Orders

1.5.3.1 NASD Rule IM-2110-2 — Trading ahead of customer limit orders
(NASD Limit order interpretation Manning)

Acceptance of limit order by the firm

Scope of securities covered

Trading ahead of limit orders/minimum price improvement

Executing promptly upon eligibility

Exemptions

Terms and conditions

Block size limit orders

Institutional accounts

Odd-lot orders

Limit orders marketable upon receipt

Member to member orders

Price protection at stated and actual price

Establishing methodology for executing same-priced limit orders

1.5.3.2 SEC Rule 11Ac1-4 — Limit order display rule

Definitions

Display requirement

Electronic communication network display alternative

1.5.3.3 SEC Rule 11Ac1-5 — Disclosure of order execution

1.5.3.4 SEC Rule 11Ac1-6 — Disclosure of order routing information

2.0 NASDAQ Display, Execution and Trading Systems

2.1 NASDAQ Workstation

2.1.1 Level 1 Service

Generally available through public vendors
Displays highest bid and lowest ask (inside market) for each authorized security

2.1.2 Level 2 Service

Available only to NASD approved subscribers
Displays bid/ask quotations and quotation sizes for all registered market makers entering quotes on each authorized security

2.1.3 Level 3 Service

Available only to NASD approved subscribers
Displays bid/ask quotations and quotation sizes for all registered market makers entering quotes on each authorized security
Enables registered market makers to enter bid/ask quotations (price and size), for only those securities it has been authorized to enter quotes

2.2 NASDAQ Order Entry and Execution Systems

2.2.1 NASDAQ Market Center Execution System (SuperMontage)

2.2.1.1

Order display facility
Attributable and non-attributable orders
Reserve size
Public data feeds and order information

2.2.1.2

Order entry facility
Quote entry and orders
Display quotes
Summary quotes
Quote decrementation
Automatic quote refresh
Access to displayed quotes and orders
Non-directed orders
Preferred orders
Directed orders
Liability orders (d modifier)
Non-liability orders
Order execution algorithm
Price/time
Price/size/time

Price/time with access fee consideration
Internalization and anti-internalization

- 2.2.1.3 Trading in actual shares
 - Round lots
 - Odd lots
 - Mixed lots
- 2.2.1.4 Price governor process
- 2.2.1.5 SelectNet
 - Pre-open and extended hours

2.3 Alternative Display Facility

2.4 Advanced Computerized Execution System (ACES)

2.4.1 Features of ACES

Provides market makers the ability to automatically execute trades for their authorized order entry customers in any securities

2.4.2 Services Provided by ACES

Automatic order delivery system
Maintains traders' order file

2.5 Rule 5200 — NASDAQ Market Center for Listed Securities (Intermarket Trading System/Computer Assisted Execution System) (ITS/CAES)

2.5.1 Rule 5210 — Definitions

2.5.2 Rule 5240 — Pre-Opening Application

2.5.3 Rule 5262 — Trade-Throughs

2.5.4 Rule 5263 — Locked or Crossed Markets

2.5.5 Rule 5264 — Block Transactions

2.5.6 Rule 5265 — Authority to Cancel or Adjust Transactions

2.6 Other market facilities (general understanding)

2.6.1 Alternate Trading Systems (ATS)

2.6.2 Electronic Communication Network (ECN) ECN 5 second rule

2.6.3 UTP Exchanges (Unlisted Trading Privilege)

3.0 Trade Reporting Requirements

3.1 NASD Marketplace Rules (regarding trade reporting obligations)

3.1.1 Rules 4630 and 4640 — Reporting Transactions in NASDAQ Listed Securities

3.1.1.1 Rules 4631 and 4641 — Definitions

3.1.2 Rule 6400 — Reporting Transactions in Listed Securities

3.1.2.1 Rule 6410 — Definitions

3.1.2.2 Rule 6430 — Suspension of trading

3.1.2.3 Rule 6440 — Trading practices

3.1.2.4 Rule 6450 — Eligible securities

3.1.3 Rule 6700 — Reporting Transactions in Non-NASDAQ Securities

3.1.3.1 Rule 6720 — Price and volume reporting

Rule 6740 – Submission of Rule 15c2-11 information on Non-NASDAQ securities

Rule 6750 – Minimum quotation size requirements for OTC equity securities

3.2 Rule 6100 — NASDAQ Market Center Trade Reporting Service Rules (ACT Rules)

3.2.1 Function of Trader Reporting Service (ACT)

Primary vehicle for reporting over-the-counter transactions in equity securities (including OTC trades in listed securities)

Modifiers

.B — Bunched/aggregated trades up to 10,000 shares

.C — Cash trade

.ND — Next day settlement

.O — Price override

.PRP — Prior reference price

.SB — Late bunched trade

.SLD — Late trade — transaction executed during normal market hours

.SNN — Extended settlement

.T — Trades executed pre-opening or extended market hours

.W — Weighted average

3.2.2 Rule 6110 — Definitions

3.2.3 Rule 6120 — Trade Reporting Participation Requirements

Participant obligations in ACT
Access to ACT
Market maker obligations
Order entry firm obligations
Clearing broker obligations

3.2.4 Rule 6140 — Trade Report Processing

Trade by trade match
Trade acceptance
Aggregate volume match
Next day (T+1) trade processing

3.3 Transaction Reporting Rules 4632; IM 4632 and 4642; 6130; 4650; 6420; 6620

3.3.1 When and How Transactions Are Reported

Hours for trade reporting
Electronic Form T

3.3.2 Which Party Reports Transaction

Transactions between two market makers
Transactions between a market maker and an order entry firm
Transactions between two order entry firms
Transactions between a member and a customer

3.3.3 Information To Be Reported

3.3.4 Procedures for Reporting Price and Volume

3.3.5 Transactions Not Required To Be Reported

3.3.6 Aggregation of Transaction Reports

Bunched Trades

3.4 Rule 6950 — Order Audit Trail System (OATS)

Rule 6951 — Definitions
Rule 6952 — Applicability
Rule 6953 — Synchronization of member's business clocks
Rule 6955 — Order data transmission requirements
Rule 6954 — Recording of order information

4.0 General Industry Standards

4.1 Insider Trading Regulations

4.1.1 Insider Trading and Securities Fraud Enforcement Act of 1988

Civil and criminal penalties of controlling persons for illegal insider trading by controlled persons

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

4.2 General industry requirements

4.2.1 Securities Exchange Act of 1934 and SEC Rules Thereunder

4.2.1.1 Section 3 — Certain definitions under the Act

Section 3(a)(38) — Market maker

Rule 3b-8 — Qualified block positioner

Section 3(a)(51) — Penny stock

Rule 3a51-1 — Penny stock

4.2.1.2 Section 10 — Regulation of the Use of Manipulative and Deceptive Devices

4.2.1.2.1 Rule 10b-5 — Employment of manipulative and deceptive devices (by individuals)

Insider Trading

Material information

Insiders and non-public information

Insiders and tippees

Information barriers (Chinese Wall)

4.2.1.2.2 Rule 10b-18 — Purchases of certain equity securities by the issuer and others

Definitions

Limitations

Restrictions

4.2.1.3 Section 15 — Registration and Regulation of Brokers and Dealers

4.2.1.3.1 Rule 15c6-1 — Settlement cycle

4.2.1.4 Penny stock rules

4.2.1.4.1 Rule 15g-1 — Exemptions for certain transactions Confirmations and other disclosures

- 4.2.1.4.2 Rule 15g-3 — Broker or dealer disclosure of quotations and other information relating to the penny stock market
- 4.2.1.4.3 Rule 15g-4 — Disclosure of compensation to brokers or dealers
- 4.2.1.4.4 Rule 15g-5 — Disclosure of compensation to associated persons in connection with penny stock transactions
- 4.2.1.4.5 Rule 15g-6 — Account statements for penny stock customers
- 4.2.1.4.6 Rule 15g-8 — Sales of escrowed securities of blank check companies
- 4.2.1.4.7 Rule 15g-9 — Sales practice requirements for certain low-priced securities

4.2.2 Investment Advisers Act of 1940

- 4.2.2.1 Section 206 — Prohibited transactions by investment advisers
General understanding of obligations of market makers not to trade as principal with managed accounts

4.2.3 NASD Rules

- 4.2.3.1 Rule 2110 — Standards of commercial honor and principles of trade
 - M-2110-3 — Frontrunning policy
 - IM-2110-4 — Trading ahead of research reports
- 4.2.3.2 Rule 2120 — Use of fraudulent devices
- 4.2.3.3 Rule 2310 — Recommendations to customers (suitability)
 - IM-2310-2 — Fair dealing with customers
 - IM-2310-3 — Suitability obligations to institutional customers
- 4.2.3.4 Rule 2460 — Payments for market making
- 4.2.3.5 Rule 2320 — Best execution and interpositioning
- 4.2.3.6 Rule 2440 — Fair prices and commissions
 - NASD 5% mark-up policy
 - Regulatory concerns
 - General mark-up/ mark-down considerations
 - Determination of prevailing market price in:
 - NASDAQ listed securities
 - OTC securities
 - Active competitive markets
 - Dominated and controlled markets
 - Competitive, inactive markets
 - Validation of quotes

Contemporaneous dealer transactions
Additional compliance considerations
Markups/markdowns by a non-market maker

4.2.4 Confirmations

- 4.2.4.1 SEC Rule 10b-10 — Confirmation of transactions
- 4.2.4.2 NASD Rule IM-2110-2 — Trading ahead of customer limit orders
— disclosure of mark-ups/sales concessions
- 4.2.4.3 NASD Rule 4643 — Customer confirmations

4.3 General Standards for Syndicate Activities

4.3.1 Syndicate Activities

- 4.3.1.1 Stabilization
 - Maintained by managing underwriter in aftermarket at or below public offering price
 - Syndicate penalty bid
 - Purpose
 - Stabilizing bids
 - Pre-effective bids
 - Syndicate covering transactions
 - NASD Rule 4614 — Stabilizing bids
 - SEC Regulation M – Rule 104 – Stabilizing transactions
- 4.3.1.2 Securities Act of 1933 and SEC Rules Thereunder
- 4.3.1.2.1 Rule 144 — Persons deemed not to be engaged in a distribution and therefore not underwriters
 - Holding period (applies to restricted securities only)
 - Quantity limitations
 - Manner of sale
 - Solicitation of an order
 - Registration as a market maker in anticipation of a transaction
- 4.3.1.2.2 Rule 145 — Reclassification of securities, mergers, consolidations and acquisitions of assets
- 4.3.1.3 Securities Exchange Act of 1934 and SEC Rules Thereunder
- 4.3.1.3.1 Regulation M
 - Rule 101 — Distribution participant restrictions
 - Rule 103 — Passive market making in Nasdaq Stocks
 - Limitations

Requirements

4.4 Books and Records

4.4.1 SEC Rule 17a-3 — Records to be Made by Certain Exchange Members, Brokers and Dealers

Time stamps

Change of time stamps

4.4.2 NASD Rule 3110 — Books and Records

4.5 Uniform Practice Code

4.5.1 Rule 11130 — When, as and if Issued/Distributed Contracts

4.5.2 Rule 11140 — Transactions in Securities “ex-dividend,” “ex-rights” or “ex-warrants”

4.5.3 Rule 11320 — Delivery Dates

For cash

Regular way

4.5.4 Rule 11890 — Clearly Erroneous Trades

REFERENCES

Appeal Securities Act Handbook

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

Code of Federal Regulations

Title 17 — Commodity and
Securities Exchanges
U.S. Government Printing Office.
Washington, DC 20402

Dictionary of Finance and Investment Terms

Barron's Financial Guides, —ed.
Barron's Educational Series, Inc.
250 Wireless Boulevard
Hauppauge, NY 11788

NASD Manual

NASD MediaSource
P. O. Box 9403
Rockville, MD 20898

Publications available from NASDAQ at www.nasdaqtrader.com

NASDAQ Trader Manual
NASDAQ Marketplace Rules
Head Trader Alerts
SuperMontage User Manual

SAMPLE QUESTIONS

The questions that 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 matter distribution of the test itself. The purpose here is to assist candidates and training personnel in preparing for the types of multiple-choice questions that will appear in the examination.

ANSWERS

1. (B)
2. (D)
3. (D)
4. (B)

1. When must round lot trades in Nasdaq National Market securities be reported?

- (A) Within 30 seconds of execution.
- (B) Within 90 seconds of execution.
- (C) Within 5 minutes of execution.
- (D) Within 20 minutes of execution.

2. Each of the following orders are required to comply with the NASD Limit Order Interpretation EXCEPT:

- (A) 100 shares of a NMS stock entered at 12:23 pm (ET) for a retail customer.
- (B) 500 shares of a SmallCap stock entered at 10:06 am (ET) for a retail customer.
- (C) 1000 shares of a NMS stock entered at 12:23 pm (ET) for a retail customer.
- (D) 99 shares of an OTCBB stock entered at 6:55 am (ET) for an institutional customer.

3. Which two of the following services are provided by ACES?

- I. Automatic executions
- II. Self-preferencing
- III. Maintains a limit order file
- IV. Block transactions

- (A) I and III
- (B) I and IV
- (C) II and III
- (D) II and IV

4. In the absence of other bona fide evidence of the market price of a security, which of the following is the best indicator of the prevailing market price?

- (A) The last trade
- (B) The contemporaneous cost
- (C) The length of time the security has been in inventory
- (D) The price of similar issues