

OMB APPROVAL

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

File No. SR - 2005 - 014

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 11 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

Exhibit Sent As Paper Document

☐

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 3 - Form, Report, or Questionnaire

Add Remove View

Exhibit Sent As Paper Document

☒

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 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 Assistant Representative – Order Processing (Series 11) 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 11 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 11 question bank, but based upon instruction from the Commission staff, NASD is submitting SR-NASD-2005-014 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 11 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 11 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 11 examination qualifies an individual to function as an assistant representative to accept unsolicited securities orders from existing customers of a member firm. A Series 11 assistant representative may not solicit transactions or new accounts on behalf of the member, render investment advice, make recommendations to customers regarding the appropriateness of securities transactions, or effect transactions in securities markets on behalf of the member. Further, a Series 11 assistant representative may not be registered concurrently in any other capacity.

A committee of industry representatives, together with NASD staff, recently undertook a review of the Series 11 examination program. As a result of this review, NASD is proposing revisions to the examination program to reflect changes to the laws, rules, and regulations covered by the examination, to include new securities products, such as exchange-traded funds, and to focus the examination more on the handling of customer accounts and orders. Based on these revisions, the title of Section 2 was changed from “Processing Customer Orders; Providing Price Information; and Order Processing” to “Customer Accounts and Orders.” 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:

Types of Securities, decreased from 11 to 10 questions; Customer Accounts and Orders, increased from 19 to 24 questions; Securities Markets, decreased from 8 to 5 questions; and Securities Industry Regulations, decreased from 12 to 11 questions.

NASD is proposing similar changes to the corresponding sections of the Series 11 selection specifications and question bank. The number of questions on the Series 11 examination will remain at 50, and candidates will have one hour 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 11 examination program are consistent with the provisions of Sections 15A(b)(6)⁵ and 15A(g)(3) of the Act,⁶ 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.

⁵ 15 U.S.C. 78o-3(b)(6).

⁶ 15 U.S.C. 78o-3(g)(3).

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 Act⁷ and Rule 19b-4(f)(1) thereunder,⁸ 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 11 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**

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 11 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 11 Examination.

NASD has requested confidential treatment for the Series 11 revised selection specifications, and thus the specifications are omitted from this filing. The Series

⁷ 15 U.S.C. 78s(b)(3)(A)(i).

⁸ 17 CFR 240.19b-4(f)(1).

11 revised selection specifications have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.⁹

⁹ 17 CFR 240.24b-2.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NASD-2005-014)
SELF-REGULATORY ORGANIZATIONS

Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to
Revisions to the Series 11 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 Assistant Representative – Order Processing (Series 11) 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 11 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 11 question bank, but based upon instruction from the Commission staff, NASD is submitting SR-NASD-2005-014 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 11 examination qualifies an individual to function as an assistant representative to accept unsolicited securities orders from existing customers of a member firm. A Series 11 assistant representative may not solicit transactions or new accounts on behalf of the member, render investment advice, make recommendations to customers regarding the appropriateness of securities transactions, or effect transactions in securities markets on behalf of the member. Further, a Series 11 assistant representative may not be registered concurrently in any other capacity.

A committee of industry representatives, together with NASD staff, recently undertook a review of the Series 11 examination program. As a result of this review, NASD is proposing revisions to the examination program to reflect changes to the laws, rules, and regulations covered by the examination, to include new securities products, such as exchange-traded funds, and to focus the examination more on the handling of customer accounts and orders. Based on these revisions, the title of Section 2 was

⁷ 15 U.S.C. 78o-3(g)(3).

changed from “Processing Customer Orders; Providing Price Information; and Order Processing” to “Customer Accounts and Orders.” 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: Types of Securities, decreased from 11 to 10 questions; Customer Accounts and Orders, increased from 19 to 24 questions; Securities Markets, decreased from 8 to 5 questions; and Securities Industry Regulations, decreased from 12 to 11 questions.

NASD is proposing similar changes to the corresponding sections of the Series 11 selection specifications and question bank. The number of questions on the Series 11 examination will remain at 50, and candidates will have one hour 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 11 examination program are consistent with the provisions of Sections 15A(b)(6)⁸ and 15A(g)(3) of the Act,⁹ 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,

⁸ 15 U.S.C. 78o-3(b)(6).

⁹ 15 U.S.C. 78o-3(g)(3).

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 Act¹⁰ and Rule 19b-4(f)(1) thereunder,¹¹ 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 11 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.

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

¹⁰ 15 U.S.C. 78s(b)(3)(A)(i).

¹¹ 17 CFR 240.19b-4(f)(1).

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-2005-014 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-2005-014. 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-2005-014 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.¹²

Margaret H. McFarland
Deputy Secretary

¹² 17 CFR 200.30-3(a)(12).

NASD

Assistant Representative— Order Processing Qualification Examination (Test Series 11)

Study Outline

Study Outline

Assistant Representative-Order Processing Qualification Examination (Series 11)

The "Assistant Representative-Order Processing" category of registration applies to persons associated with an NASD member firm who accept telephone or other communications from the public for the purposes of **providing current securities quotations and accepting unsolicited customer orders** for submission to the normal order execution operations of the member. Persons performing either of the above tasks for a member and not already registered as a Representative or Principal must register with NASD through their member firm.

An Assistant Representative-Order Processing registrant may conduct the above-mentioned tasks only on the premises of the member, must be under the direct supervision of an appropriately registered principal, and may not receive extra direct or indirect compensation for the number or size of transactions effected. In addition, an Assistant Representative-Order Processing registrant is prohibited from:

- rendering investment advice or opinion;
- making recommendations;
- effecting transactions in securities markets on behalf of the member firm;
- accepting or opening new accounts;
- pre-qualifying potential customers;
- effecting transactions in municipal securities;
- effecting transactions in direct participation programs; and
- *dually* registering as a Representative or Principal.

This study outline lists the topics tested on the Assistant Representative - Order Processing Qualification Examination (Series 11). The outline and the examination cover the four main areas of subject matter listed below, along with the weighing of those subjects in terms of the number of questions per test:

Section and Title	Number of Questions
1.0 Types of Securities	10
2.0 Customer Accounts and Orders	24
3.0 Securities Markets	5
4.0 Securities Industry Regulations	11

The Series 11 Examination is comprised of a total of 50 questions and candidates will be allowed one hour to complete the test. A candidate must correctly answer 70 percent of the

questions to receive a passing score. The results will identify the percentage performance of the candidate in each of the four general areas of the examination.

This is a “closed-book” examination; only test-related materials issued by the testing center personnel may be used during the examination session. Calculators and scratch paper will be provided by the testing center staff to all candidates upon request. All materials, including used and unused scratch paper, must be returned to the center personnel at the end of the test session. Severe penalties will be imposed on candidates who cheat on an NASD examination. These penalties include suspension or bar from registration and a fine-usually in the thousands of dollars. In addition, after the suspension period, candidates will be required to re-qualify to activate their registration status.

Examination questions will be updated to reflect the most current interpretations of the rules and regulations. Questions on new rules are added and questions on rescinded rules are deleted regularly, as needed. 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 are five sample questions written in the various formats used in the examination. These sample questions do not reflect the difficulty level of the test questions or the subject matter distribution of the test itself. Their use is to familiarize the candidate with the types of multiple choice question formats used in the Series 11.

The list of reference materials on this page may be used as a source-material starting point for course developers in preparing training programs. Much of the reference material overlaps topics covered in other references. It is, therefore, not necessary to obtain each reference listed.

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

Reference Materials

Appeal Securities Act Handbook

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

Lawrence G. McMillan
New York Institute of Finance
2 Broadway
New York, NY 10004

Code of Federal Regulations

Title 17 – Commodity and Securities

Exchanges

Superintendent of Documents
U.S. Government Printing Office
Mail Stop SSOP
Washington, DC 20402

The Basics of Stocks, Bonds and Options

William A. Rini
New York Institute of Finance
1330 Avenue of the Americas
New York, NY 10019

NASD Manual

MediaSource
P.O. Box 9403
Gaithersburg, MD 20898-9403

The Nasdaq Handbook

Probus Publishing Company
Chicago, IL 60614

Words of Wall Street

A.H. Pessin and J.A. Ross
Dow Jones-Irwin
Homewood, IL 60430

Options as a Strategic Investment

1.0

Types Of Securities

Basic Definitions

- Understand classes of common stock; market value/current price; fractional shares
- Understand the types of preferred stock and associated concepts—cumulative, convertible, callable; adjustable/variable rate
- Understand the distinction between common and preferred stocks; and debt securities
- Basic understanding of the types of options and basic terminology
- General understanding of American depositary receipts/shares (ADRs and ADSs); real estate investment trusts (REITs); differences in the types of investment company products and exchange traded funds (ETFs)

1.1 Equity Securities

1.1.1 Common stock

Classes of common stock
Market value (current price)
Fractional shares
Rights of common stockholders

1.1.2 Preferred stock

Cumulative
Convertible
Callable
Adjustable/variable rate
Protective provisions regarding preferred stock

1.1.3 Listed (standardized) options

Call
Put
Strike price/Exercise price
Expiration date
Exercise
Premium (price)
Contract size
In and out of the money
Covered vs. uncovered
Opening/closing transactions
Long/short
Account approval

1.1.4 American depositary receipts/American depositary shares (ordinary shares; sponsored and unsponsored) [Global depositary receipts/ Global depositary shares]

1.1.5 Real estate investment trusts (REITs)

1.1.6 Exchange traded funds (ETFs)

1.2 Investment Companies

1.2.1 Closed-end funds

1.2.2 Open-end funds (mutual funds)

1.2.3 Money market funds

1.2.4 Unit investment trusts

1.3 Fixed Income Securities

1.3.1 Corporate debt

1.3.2 Asset backed securities

1.3.3 U.S. Government securities

1.3.4 U.S. agency securities

2.0

Customer Accounts and Orders
General Understanding

- Understand the types of accounts and the transactions that may be effected in each

2.1 Account Type

2.1.1 Cash

2.1.2 Margin

2.2 Order Processing

- Understand procedures for accepting customer orders and requirements for transmitting the order for execution
- General understanding of the types of transactions and types of orders and the situations in which they are used
- Knowledge of information to be recorded on the customer order ticket
- Determine the customer's ability to deliver the securities to be sold (affirmative determination)
- General understanding of settlement requirements

2.2.1 Entering an order

Client identifier
Registered Representative identifier
Assistant Representative identifier
Originating office identifier (if applicable)
Time
Entry
Receipt
Execution
Location of securities
Security description (symbol)
Number of shares, bonds, or options
Where trading (NYSE, Amex, NASDAQ, etc.)
Buy
Sell
Long
Short
When issued
Special considerations for short sale
Definition of "short sale" (ability to borrow securities)
Short-against-the-box
Execution of short sales
Margin accounts only
SEC Regulation SHO—Short sales
NASD Rule IM-3110—Customer account information
NASD Rule 3370 – Purchases

2.2.2 Types of orders

- Market
- Limit
- Stop
- Stop limit
- At-the-opening
- Stipulations
 - Day
 - Good-till-cancelled (open)
 - Immediate or cancel
 - Market not held
 - All-or-none (AON)
 - Fill-or-kill (FOK)
 - Market-on-the-close

2.2.3 Settlement instructions if not established when account was opened

- Regular way
- Cash

2.2.4 Review report of execution against order ticket

- Report execution to customer
- Report errors immediately through appropriate firm channels
- Partial execution

2.2.5 Customer delivery/payment

- Checks should normally be made payable to the broker/dealer or clearing broker
- Checks paid to customers will be payable to the registration on the securities certificate or the name on the account, or in the case of bearer securities, to the name of the customer's account as it is carried in the records of the broker/dealer
- Stock powers

3.0
Securities Markets
General Definitions

- **General understanding of the markets and the differences and similarities between the listed (auction) and dealer markets**
- **Understand the terminology associated with transactions effected on each market**
- **General understanding of the requirements in effect during trading halts**

3.1 Auction Markets (AMEX, NYSE, PSE, PHLX)

3.1.1 Auction market vs. dealer markets

Principal
Agency
Specialist

3.2 Dealer Markets (NASDAQ, OTC, OTC Bulletin Board)

3.2.1 Market Maker

3.3 Terminology

Bid
Ask
Offer
Last sale
Quote
Size
Spread

3.4 Trading Halts

NASD Rule 4120 – Trading halts

4.0
Securities Industry Regulations
(General Understanding)

4.1 Regulatory Purposes and Roles of

4.1.1 The Securities and Exchange Commission (SEC)

4.1.2 The Federal Reserve Board (FRB)

4.1.3 Self-regulatory organizations

National Association of Securities Dealers
Exchanges

4.2 Securities Exchange Act of 1934 (General Awareness of the Rules)

4.2.3 Section 15–Registration and regulation of brokers and dealers

Section 15(c)(1)–Manipulative, deceptive or fraudulent devices or
contrivances

Rule 15c1-2–Fraud and misrepresentation

4.3 Insider Trading

- **Understand the concept of material, non-public information**

4.3.1 Insider Trading and Securities Fraud Enforcement Act of 1988

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

Section 4–Increases in criminal penalties

Securities Exchange Act of 1934

Section 32(a)–Penalties

Section 5–Liability to contemporaneous traders for insider trading

4.3.2 Securities Exchange Act of 1934 and SEC Rules Thereunder

Section 10(b)–Use or employment of manipulative and deceptive devices

Rule 10b-5–Employment of manipulative and deceptive devices

Insider trading

Material information

Non-public information

Insiders and tippees

The Chinese Wall doctrine

4.4 NASD Rules

- **Understand the registration, qualification and continuing education requirements**
- **Understand responsibility to maintain current registration information**
- **Understand and adhere to the firm’s supervisory and compliance procedures**

4.4.1 Membership and Registration Rules

- 4.4.1.1 Rule 1040—Assistant representative-order processing
Limitations
- 4.4.1.2 Rule 1080—Confidentiality of examinations
- 4.4.1.3 Rule 1120—Continuing education requirements

4.4.2 Conduct Rules

- 4.4.2.1 Rule 2110—Standards of commercial honor and principles of trade
- 4.4.2.2 Rule 2120—Use of manipulative, deceptive or other fraudulent devices
Pre-arranged trades
- 4.4.2.3 Rule 2330—Customers' securities or funds
Improper use
- 4.4.2.4 Rule 2370—Borrowing from or lending to customers
- 4.4.2.5 Rule 2790—Restrictions on the purchase and sale of initial equity public offerings
- 4.4.2.6 Rule 3010—Supervision
- 4.4.2.7 Rule 3011 – Anti money laundering compliance program
List of suspicious transactions
- 4.4.2.8 Rule 3030—Outside business activities of an associated person
- 4.4.2.9 Rule 3040—Private securities transactions of an associated person
Definitions
Private securities transaction
Selling compensation
- 4.4.2.10 Rule 3050—Transactions for or by associated persons

Sample Questions

The questions that follow are similar in format and content to questions on the examination. These sample questions, however, are not intended to exactly parallel either the level of difficulty or the subject coverage of the actual examination. Their purpose is to acquaint candidates and training personnel with the types of multiple-choice questions that will appear on the examination.

1. For a short put position to be a covered put in a margin account, the writer is required to have which of the following additional positions?

- (A) Long position in the underlying stock
- (B) Short call position
- (C) Long put of the same class with equal or greater exercise price
- (D) Long put of the same class with equal or lower exercise price

2. Securities gifted under the Uniform Gifts (Transfer) to Minors Act must be registered in the name of the

- (A) donor for the benefit of the minor
- (B) custodian only
- (C) minor only
- (D) custodian for the benefit of the minor

3. Which of the following should an investor contact to dispose of shares of a closed-end investment company?

- (A) The fund custodian
- (B) A broker/dealer
- (C) The investment company itself
- (D) The fund's transfer agent

4. A call feature on a bond or preferred stock is:

- (A) beneficial to the purchaser.
- (B) beneficial to the issuer.
- (C) required by law.
- (D) not a significant feature.

5. Each of the following is a characteristic of a common stock EXCEPT:

- (A) joint and several liability.
- (B) ready transferability of shares.
- (C) residual claim on assets.
- (D) dividends when declared by directors.

Answers to Sample Questions

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