

OMB APPROVAL

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

File No. SR - 2007 - 027

Amendment No.

Proposed Rule Change by Financial Industry Regulatory Authority
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 23 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 officer.

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.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information

Add

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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

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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

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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

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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)(1) of the Securities Exchange Act of 1934 (“Act”),¹ Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a 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 General Securities Principal Sales Supervisor Module (Series 23) examination program.² The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and responsibilities of individuals taking the examination. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of FINRA.

The revised study outline is attached. The Series 23 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to Rule 24b-2 under the Act.³

(b) Not applicable.

(c) Not applicable.

¹ 15 U.S.C. 78s(b)(1).

² FINRA also is proposing corresponding revisions to the Series 23 question bank, but based upon instruction from the Commission staff, FINRA is submitting SR-FINRA-2007-027 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.

2. **Procedures of the Self-Regulatory Organization**

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 FINRA (then known as NASD) had an opportunity to review that action at its meeting on January 25, 2001. No other action by FINRA is necessary for the filing of the proposed rule change.

As further discussed below, FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the revised Series 23 examination program on February 12, 2008. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice (“Notice”) to be published on the same date as this filing.

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

(a) Purpose

Section 15A(g)(3) of the Act⁴ requires FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with that provision, FINRA has developed examinations, and administers examinations developed by other self-regulatory organizations, that are designed to establish that persons associated with FINRA members have attained specified levels of competence

⁴ 15 U.S.C. 78o-3(g)(3).

and knowledge. FINRA periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

The Series 23 is a limited qualification examination that tests a candidate's knowledge of securities industry rules and regulations pertaining to the supervision of investment banking, securities markets and trading as well as financial responsibility requirements. The Series 23 examination, in combination with the General Securities Sales Supervisor (Series 9/10) examination, is an acceptable qualification alternative to the General Securities Principal (Series 24) examination for associated persons who are required to register and qualify as a General Securities Principal with FINRA. The Series 23 examination covers material from the Series 24 examination not otherwise covered under the Series 9/10 examination.

A committee of industry representatives, together with FINRA staff, recently undertook a review of the Series 23 examination program. As a result of this review, FINRA is proposing to make revisions to the study outline to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and responsibilities of individuals taking the examination.

Among other revisions, FINRA is proposing to revise the references to the FINRA and NASDAQ Stock Market LLC (NASDAQ) rules in the study outline to reflect NASDAQ's separation from FINRA (then known as NASD). In addition, FINRA is proposing to add sections on SEC Regulation M-A (Mergers and Acquisitions), SEC Regulation S-K, SEC Regulation S-X, SEC Regulation NMS, SEC Regulation SHO, the

Sarbanes-Oxley Act, SEC Rule 3a4-1 (Associated Persons of an Issuer Deemed Not to Be Brokers), SEC Rule 405 (Definitions of Terms), the NASDAQ Initial Public Offering Process (NASDAQ Head Trader Alert 2005-096) and NYSE Rule 392 (Notification Requirements for Offerings of Listed Securities). FINRA also is proposing to add sections on NASD IM-2110-7 (Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes) and IM-2210-6 (Requirements for the Use of Investment Analysis Tools), as well as on NASD Rules 2111 (Trading Ahead of Customer Market Orders), 2290 (Fairness Opinions), 2370 (Borrowing From or Lending to Customers), 2441 (Net Transactions with Customers) and 5110 (Transactions Related to Initial Public Offerings).

FINRA is proposing to change the title of Section 1 of the study outline from “Supervision of Investment Banking Activities” to “Supervision of Investment Banking, Underwriting Activities and Research” and the title of Section 4 from “Sales Supervision; General Supervision of Employees; Regulatory Framework of NASD” to “Sales Supervision and General Supervision of Employees.” Further, as a result of the revisions discussed above, the number of questions on each section of the study outline were modified as follows: Supervision of Investment Banking, Underwriting Activities and Research, increased from 25 to 30 questions; Supervision of Trading and Market Making Activities, decreased from 29 to 24 questions; Supervision of Brokerage Office Operations, decreased from 16 to 12 questions; Sales Supervision and General Supervision of Employees, increased from 19 to 23 questions; and Compliance with Financial Responsibility Rules, no changes to the number of questions (remains at 11 questions).

FINRA is proposing similar changes to the Series 23 selection specifications and question bank. The number of questions on the Series 23 examination will remain at 100, and candidates will continue to have 2½ 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

FINRA believes that the proposed revisions to the Series 23 examination program are consistent with the provisions of Sections 15A(b)(6)⁵ and 15A(g)(3) of the Act,⁶ which authorize FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members.

4. **Self-Regulatory Organization’s Statement on Burden on Competition**

FINRA 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.

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)**

⁵ 15 U.S.C. 78o-3(b)(6).

⁶ 15 U.S.C. 78o-3(g)(3).

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 FINRA. FINRA proposes to implement the revised Series 23 examination program on February 12, 2008. FINRA will announce the implementation date in a Notice to be published on the same date as 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 23 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 23 Examination.

FINRA has requested confidential treatment for the Series 23 revised selection specifications, and thus the specifications are omitted from this filing. The Series 23 revised selection specifications have been filed separately with the Commission pursuant to Rule 24b-2 under the Act.⁹

Exhibit 3c. Letter to Alden S. Adkins, Senior Vice President and General

⁷ 15 U.S.C. 78s(b)(3)(A)(i).

⁸ 17 CFR 240.19b-4(f)(1).

⁹ 17 CFR 240.24b-2.

Counsel, NASD Regulation, Inc. from Belinda Blaine, Associate Director, Division of
Market Regulation, SEC, dated July 24, 2000.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-FINRA-2007-027)

Self-Regulatory Organizations: Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Revisions to the Series 23 Examination Program

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 , Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a 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 FINRA. FINRA 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)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(i).

⁴ 17 CFR 240.19b-4(f)(1).

FINRA is filing revisions to the study outline and selection specifications for the General Securities Principal Sales Supervisor Module (Series 23) examination program.⁵ The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and responsibilities of individuals taking the examination. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of FINRA.

The revised study outline is attached. The Series 23 selection specifications have been submitted to the Commission under separate cover 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, FINRA 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. FINRA 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

⁵ FINRA also is proposing corresponding revisions to the Series 23 question bank, but based upon instruction from the Commission staff, FINRA is submitting SR-FINRA-2007-027 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.

Section 15A(g)(3) of the Act⁷ requires FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with that provision, FINRA has developed examinations, and administers examinations developed by other self-regulatory organizations, that are designed to establish that persons associated with FINRA members have attained specified levels of competence and knowledge. FINRA periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

The Series 23 is a limited qualification examination that tests a candidate's knowledge of securities industry rules and regulations pertaining to the supervision of investment banking, securities markets and trading as well as financial responsibility requirements. The Series 23 examination, in combination with the General Securities Sales Supervisor (Series 9/10) examination, is an acceptable qualification alternative to the General Securities Principal (Series 24) examination for associated persons who are required to register and qualify as a General Securities Principal with FINRA. The Series 23 examination covers material from the Series 24 examination not otherwise covered under the Series 9/10 examination.

A committee of industry representatives, together with FINRA staff, recently undertook a review of the Series 23 examination program. As a result of this review, FINRA is proposing to make revisions to the study outline to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the duties and

⁶ 17 CFR 240.24b-2.

⁷ 15 U.S.C. 78o-3(g)(3).

responsibilities of individuals taking the examination.

Among other revisions, FINRA is proposing to revise the references to the FINRA and NASDAQ Stock Market LLC (NASDAQ) rules in the study outline to reflect NASDAQ's separation from FINRA (then known as NASD). In addition, FINRA is proposing to add sections on SEC Regulation M-A (Mergers and Acquisitions), SEC Regulation S-K, SEC Regulation S-X, SEC Regulation NMS, SEC Regulation SHO, the Sarbanes-Oxley Act, SEC Rule 3a4-1 (Associated Persons of an Issuer Deemed Not to Be Brokers), SEC Rule 405 (Definitions of Terms), the NASDAQ Initial Public Offering Process (NASDAQ Head Trader Alert 2005-096) and NYSE Rule 392 (Notification Requirements for Offerings of Listed Securities). FINRA also is proposing to add sections on NASD IM-2110-7 (Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes) and IM-2210-6 (Requirements for the Use of Investment Analysis Tools), as well as on NASD Rules 2111 (Trading Ahead of Customer Market Orders), 2290 (Fairness Opinions), 2370 (Borrowing From or Lending to Customers), 2441 (Net Transactions with Customers) and 5110 (Transactions Related to Initial Public Offerings).

FINRA is proposing to change the title of Section 1 of the study outline from "Supervision of Investment Banking Activities" to "Supervision of Investment Banking, Underwriting Activities and Research" and the title of Section 4 from "Sales Supervision; General Supervision of Employees; Regulatory Framework of NASD" to "Sales Supervision and General Supervision of Employees." Further, as a result of the revisions discussed above, the number of questions on each section of the study outline were modified as follows: Supervision of Investment Banking, Underwriting Activities and

Research, increased from 25 to 30 questions; Supervision of Trading and Market Making Activities, decreased from 29 to 24 questions; Supervision of Brokerage Office Operations, decreased from 16 to 12 questions; Sales Supervision and General Supervision of Employees, increased from 19 to 23 questions; and Compliance with Financial Responsibility Rules, no changes to the number of questions (remains at 11 questions).

FINRA is proposing similar changes to the Series 23 selection specifications and question bank. The number of questions on the Series 23 examination will remain at 100, and candidates will continue to have 2½ 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

FINRA believes that the proposed revisions to the Series 23 examination program are consistent with the provisions of Sections 15A(b)(6)⁸ and 15A(g)(3) of the Act,⁹ which authorize FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members.

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

FINRA 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.

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

⁸ 15 U.S.C. 78o-3(b)(6).

⁹ 15 U.S.C. 78o-3(g)(3).

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 the self-regulatory organization. FINRA proposes to implement the revised Series 23 examination program on February 12, 2008. FINRA will announce the implementation date in a Regulatory Notice to be published on the same date as 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 the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form

¹⁰ 15 U.S.C. 78s(b)(3)(A)(i).

¹¹ 17 CFR 240.19b-4(f)(1).

(<http://www.sec.gov/rules/sro.shtml>); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2007-027 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary,
Securities and Exchange Commission, 100 F Street, NE, Washington, DC
20549-1090.

All submissions should refer to File Number SR-FINRA-2007-027. 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 in the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal office of FINRA.

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 File Number SR-FINRA-2007-027 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

Nancy M. Morris

Secretary

¹² 17 CFR 200.30-3(a)(12).



General Securities Principal Qualification Examination Sales Supervisor Module (Test Series 23)

Study Outline

Introduction

The FINRA General Securities Principal Qualification Examination Sales Supervisor Module (Series 23) is designed to test a candidate's knowledge of the rules and statutory provisions applicable to the management of a general securities broker-dealer. This study outline has been prepared to assist member firms in preparing candidates to sit for the examination. The outline is designed for use by course developers in the preparation of training material, for training directors in the development of lecture notes and seminar programs, and for use by candidates, both to structure their study and as a final review checklist prior to taking the examination. The General Securities Principal Qualification Examination Sales Supervisor Module and this study outline are composed of five general areas of supervision, which are listed below with the number of questions in each section.

Section	Description	Number Of Questions
1	Supervision of Investment Banking, Underwriting Activities and Research	30
2	Supervision of Trading and Market Making Activities	24
3	Supervision of Brokerage Office Operations	12
4	Sales Supervision and General Supervision of Employees	23
5	Compliance with Financial Responsibility Rules	11
Total		100

Detail on the content of each of these general areas of supervision is included in the text of the study outline that follows.

Structure of the Examination and Grading Procedures

The General Securities Principal Qualification Examination Sales Supervisor Module is composed of 100 multiple choice questions covering all of the material in the following outline in accordance with the subject-matter distribution shown above. A maximum of 2 1/2 hours testing time is allowed for candidates to complete the examination. The examination is graded on a 100-point system. Each multiple choice question is worth one point. No credit is given for incorrect answers to these questions. The passing grade is equal to 70% of the total number of questions on the examination. Candidates will be required, therefore, to answer correctly 70 of the 100 questions on the General Securities Principal Qualification Examination Sales Supervisor Module in order to receive a passing grade. The results will identify the percentage performance of the candidate in each of the five general areas of the examination.

The examination is a closed-book test and candidates will not be permitted to use any reference material during their testing session. Severe penalties are imposed on candidates who cheat on FINRA-administered examinations. Scratch paper and basic electronic calculators will be provided to a candidate by the test administrator, but must be returned to the administrator at the end of the testing session.

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

The following page lists reference materials that may be used as a 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. In addition, nonmember commercial training vendors offer packaged study courses specifically designed for this registration category. These vendors are often listed in local Yellow Page directories and advertise in securities industry periodicals.

This outline is available on the FINRA Web Site at www.finra.org.

At the end of this outline there are five sample questions written in the various formats used in the Series 23 test questions. These samples do not reflect the difficulty level of the test questions or the subject-matter distribution of the test itself. Their use is to familiarize candidates with the types of multiple-choice question formats used in the Series 23.

References

Securities Act Handbook

Aspen Publishers
111 Eighth Avenue
New York, NY 10011

Code of Federal Regulations**Title 17 — Commodity and Securities
Exchanges**

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

Federal Securities Law Reporter**Volumes 2 and 3**

Commerce Clearing House, Inc.
4025 W. Peterson Avenue
Chicago, IL 60646

Handbook of Stock Brokerage**Accounting**

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

Modern Securities Transfers

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

NASD Manual

Commerce Clearing House, Inc.
4025 W. Peterson Avenue
Chicago, IL 60646

New York Stock Exchange, Inc.

Constitution and Rules
Commerce Clearing House, Inc.
4025 W. Peterson Avenue
Chicago, IL 60646

**Regulation of Brokers, Dealers and
Securities Markets**

N. Wolfson, R.M. Phillips, and T.A. Russo
Warren Gorham & Lamont Inc.
31 St. James Avenue
Boston, MA 02116

Resales of Restricted Securities

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

Securities Law Handbook

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

Securities Regulation

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

The Stock Market

7th Edition
R.J. Teweles and E.S. Bradley
John Wiley & Sons, Inc.
605 Third Avenue
New York, NY 10158

Other Publications Available through

www.finra.org or www.nasdaqtrader.com

NASD Guide to Rule Interpretations***NASD Sanctions Guidelines******Notices to Members******Head Trader Alert******Trader Manual***

1.0

Supervision of Investment Banking, Underwriting Activities and Research

1.1 New Issue Market— Underwriting Corporate Securities (negotiated)

1.1.1 Issuer Requirements

- 1.1.1.1 SEC Rule 405—Definitions of terms
 - Ineligible issuer
 - Unseasoned reporting issuer (not primary S-3 eligible)
 - Seasoned issuer (primary S-3 eligible)
 - Well-known seasoned issuer
- 1.1.1.2 Issuer organizations
 - C Corporations
 - S Corporations
 - Limited Liability Companies
 - Limited Partnerships
 - Trusts
 - Master Limited Partnerships
 - REITs
- 1.1.1.3 Issuer-related on-going reporting obligations
 - 1.1.1.3.1 Registration of issuer's securities under the Securities Exchange Act of 1934
 - Section 12(a) — Exchange-listed securities
 - Section 12(g) — Registration of issuers engaged in interstate commerce
 - Section 12(j) — Suspension or revocation of registration
 - Section 12(k) — Trading Suspension
 - 1.1.1.3.2 Regulation FD — Fair Disclosure
 - Purpose
 - Requirements
 - Issuer obligations
- 1.1.1.4 Disclosure of control relationships
 - 1.1.1.4.1 Securities Exchange Act of 1934
 - Rule 15c1-5 — Disclosure of control
 - Rule 15c1-6 — Disclosure of interest in distributions
 - 1.1.1.4.2 NASD Rules
 - Rule 2240 — Disclosure of control relationship with issuer
 - Rule 2250 — Disclosure of participation or interest in primary or secondary distribution

1.1.2 Public Offerings

- 1.1.2.1 NASDAQ initial public offering (IPO) process (*See Head Trader Alert 2005-096*)

Obligation of lead underwriter to notify NASDAQ IPO has been released by SEC

NASD Rule 5110—Transactions related to initial public offerings

1.1.2.2 NYSE Rule 392(a)—Notification requirements for offerings of listed securities

1.1.2.3 New issues and overallotment
Limitations on overselling
Pro-rata distribution of managing underwriter's short position losses among co-underwriters

1.1.2.4 Primary

1.1.2.5 Secondary

1.1.2.6 NASD Rule 2790 — Restrictions on purchase and sale of initial equity public offerings
General prohibitions
Preconditions for sale
General exemptions
Issuer-directed securities
Anti-dilution provisions
Stand-by purchasers
Undersubscribed offerings
Definitions

1.1.3 Transactions Exempt from the Registration Requirements of the Securities Act of 1933

1.1.3.1 Private Placements
Private investments in public equities (PIPEs)
Primary
Secondary

1.1.3.2 Distribution of private placement offerings
Section 4(2) Transactions by an issuer not involving any public offering
Section 4(6) Transactions involving offers or sales by an issuer solely to one or more accredited investors up to the Section 3(b) maximum
Regulation D — Rules governing the limited offer and sale of securities without registration under the Securities Act of 1933
Rule 501 — Definitions and terms used in Regulation D
Accredited investor
Affiliate
Aggregate offering price
Business combination
Calculation of number of purchasers
Executive officer
Issuer
Purchaser representative

Rule 502 — General conditions to be met

- Integration
- Information requirements
- Limitation on manner of offering
- Limitations on resale

- Rule 503 — Filing of notice of sales
 - Filing Form D

- Rule 504 — Exemption for limited offerings and sales of securities not exceeding \$1,000,000
 - Exemption
 - Conditions to be met
 - Limitation on aggregate offering price

- Rule 505 — Exemption for limited offers and sales of securities not exceeding \$5,000,000
 - Exemption
 - Conditions to be met
 - General conditions
 - Specific conditions
 - Limitation on aggregate offering price
 - Limitation on number of purchasers
 - Disqualifications

- Rule 506 — Exemption for limited offers and sales without regard to dollar amount of offering
 - Exemption
 - Conditions to be met
 - General conditions
 - Specific conditions
 - Limitation on number of purchasers
 - Nature of purchasers

- 1.1.3.3 Rule 144A — Private resales of securities to institutions

- 1.1.3.4 Regulation S — Rules governing offers and sales made outside the U.S. without registration under the Securities Act of 1933
 - Rule 901 — General statement
 - Rule 902 — Definitions
 - Rule 903 — Offers or sales of securities by the issuer, a distributor, and of their respective affiliates, conditions relating to specific securities
 - Rule 904 — Resales

- 1.1.3.5 Rule 144 — Persons deemed not to be engaged in a distribution and therefore not underwriters
 - Definitions
 - Conditions to be met
 - Current public information
 - Holding period for restricted securities
 - Limitation on amount of securities sold
 - Manner of sale

- Brokers' transactions
- Notice of proposed sale
- Bona fide intention to sell
- Non-exclusive rule
- Termination of certain restrictions on sale of restricted securities by persons other than affiliates

1.1.3.6 Section 4(1) Transactions by any person other than an issuer, underwriter or dealer

1.1.3.7 Section 4(3) Transactions by a dealer

1.1.3.8 Section 4(4) Broker's transactions

1.1.4 Securities Exempt from the Registration Requirements of the Securities Act of 1933

1.1.4.1 Rule 147 — "Part of an issue," "person resident" and "doing business within," for purposes of Section 3(a)(11)

- Transactions covered
- Part of an issue
- Nature of the issuer
- Offerees and purchasers, person resident
- Limitation of resales
- Precautions against interstate offers and sales

1.1.4.2 Regulation A — General exemptions

- Rule 251 — Definition of terms
- Rule 254 — Amount of securities exempted
- Rule 256 — Filing and use of the offering circular
- Rule 258 — Sales material to be filed

1.1.5 Shelf Distributions

1.1.5.1 SEC Rule 415 — Delayed or continuous offering and sale of securities (shelf registration)

- Form S-1 filing requirement
- Allows issuers and investment bankers the flexibility of matching financing needs to market conditions
- Prospectus requirements
 - Base prospectus
 - Prospectus supplement
 - Refreshing requirements
 - Effective date of prospectus

1.1.5.2 SEC Rule 405—Definition of terms

- Automatic shelf registration statement

1.1.6 Mergers and Acquisitions

1.1.6.1 Leveraged buy-outs

Private equity

- 1.1.6.2 SEC Rule 145 — Reclassification of securities, mergers, consolidations, and acquisitions of assets
 - Transactions within the rule
 - Communications not deemed a “prospectus” or “offer to sell”
 - Persons and parties deemed to be underwriters
 - Resale provisions for persons and parties deemed to be underwriters
 - Definition of “person”
 - Form S-4 requirement
- 1.1.6.3 SEC Regulation M-A—Mergers and acquisitions
- 1.1.6.4 NASD Rule 2290—Fairness opinions

1.2 Securities Distribution

1.2.1 Due Diligence and Financing Proposals

- Preliminary study
- Letter of intent
- General examination
 - Industry data
 - Operational data
 - Management and employee relations
 - Financial data
 - Research, product development and expansion
- Legal examination
- Commitment committee
- Types of covenants
 - Bond
 - Indenture
 - Financial
 - Default
 - Impact of default covenant
 - Covenant analysis

1.2.2 Types of Underwriting Commitments

- 1.2.2.1 Firm commitment
 - Competitive bid or negotiated
- 1.2.2.2 Stand-by commitment
 - All or none
 - Best efforts
 - Mini-Max
 - Market-out clauses
- 1.2.2.3 Securities Exchange Act of 1934 and SEC Rules Thereunder
 - Rule 10b-9—Prohibited representations in connection with certain offerings
 - Rule 15c2-4—Transmission or maintenance of payments received in connection with underwritings

1.2.3 Underwriting Syndicate

- Role of syndicate manager
- Agreement among underwriters
- Due diligence meeting
- Blue skying the issue

1.2.4 Underwriter's Compensation

- Components of underwriter's spread
- Forms of compensation
- Stand-by commitments
- NASD Rule 2710 — Corporate financing rule — underwriting terms and arrangements
 - Underwriting compensation and arrangements
 - Determination of whether items of value are included in underwriting compensation
 - Valuation of non-cash compensation
 - Non-cash compensation

1.2.5 Mechanics of Distributions

- 1.2.5.1 Formation of the Selling Group
 - Handled by managing underwriter
 - Selling group agreement
 - Rule 2770 — Disclosure of price in selling agreements
 - Retention
 - Designations
 - Liabilities of selling group members vs. underwriters' liabilities
- 1.2.5.2 Role of the placement agent
 - Contractual obligation to issuer
 - Identification of potential investors
 - Liabilities of the placement agent
 - Distribution of proceeds
- 1.2.5.3 Finders
- 1.2.5.4 SEC Rule 3a4-1—Associated persons of an issuer deemed not to be brokers

1.2.6 Pricing of the Issue

- Determined on effective date of registration
- Indication of interest
- Factors affecting price of issue
- Opening and closing the books

1.2.7 Stabilization

- 1.2.7.1 SEC Rules
 - 1.2.7.1.1 Regulation M — Antimanipulation rules concerning securities offerings
 - Rule 100—Definition of 'stabilization' and "stabilizing"

Rule 104 — Stabilizing and other activities in connection with an offering

1.2.7.1.2 SEC Rule 17a-2 — Recordkeeping requirements relating to stabilizing activities

Scope of rule

Definitions

Records required to be maintained by manager

Notification of manager

1.2.7.2 NASDAQ Rules

Rule 4200(b)(36)—Stabilizing bid

Rule 4614 — Stabilizing bids

Rule 4624 — Penalty bids and syndicate covering transactions

1.2.7.3 NYSE Rule 392(b)—Notification requirements for offerings of listed securities

1.2.8 Tender Offers

SEC Rule 13e-3— Going private transactions by certain issuers or their affiliates

Schedule 13E-3 filing requirement

SEC Rule 13e-4 — Tender offers by issuers

Schedule 13E-4 filing requirement

SEC Rule 14d-10—Equal treatment of security holders

SEC Rule 14e-1 — Unlawful tender offer practices

SEC Rule 14e-2—Position of subject company with respect to a tender offer

SEC Rule 14e-3 — Transactions in securities on the basis of material, non-public information in the context of tender offers

SEC Rule 14e-4 — Prohibited transactions in connection with partial tender offers

SEC Rule 14e-5—Prohibiting purchases outside of a tender offer

1.2.9 Distribution-Related NASD Rules

1.2.9.1 Rule 2710 — Corporate financing rule — underwriting terms and arrangements

Definitions

Filing requirements

Unreasonable terms and arrangements

Lock-up restrictions on securities

1.2.9.2 Rule 2810 — Direct participation programs

Definitions

Requirements

Application

Suitability

Disclosure

Organization and offering expenses

Participation in rollups

1.2.9.3 Rule 2720 — Distribution of securities of members and affiliates — conflicts of interest

Definitions

- Participation in distribution of securities of member or affiliate
- Disclosure
- Escrow of proceeds; net capital computation
- Offerings resulting in affiliation or public ownership of member
- Suitability
- Discretionary accounts
- Sales to employees
- Filing requirements; coordination with Rule 2710

- 1.2.9.4 Rule 2750 — Transactions with related persons
- 1.2.9.5 Rule 2780 — Solicitation of purchases on an exchange to facilitate a distribution of securities
- 1.2.9.6 Rule 11880 — Settlement of syndicate accounts
 - Definitions
 - Final settlement
 - Settlement of underwritten public offerings

1.2.10 Marketing Restrictions under Industry Regulations

- SEC Rule 15c1-8/NASD Rule 2760 — Sales at the market
- NASD Rule 3120 — Use of information obtained in a fiduciary capacity

1.2.11 Securities Allotments and Designations

- 1.2.11.1 NASD Rule 2730 — Securities taken in trade
 - Definitions
 - IM-2730 — Safe harbor and presumption of compliance
- 1.2.11.2 NASD Rule 2740 — Selling concessions, discounts, and other allowances
 - Discounts or allowances must be paid only to broker/dealer for services rendered in distribution
 - Definition of “bona fide research”
 - Required written agreements
 - Quarterly reports to be filed
 - Maintenance of records for 24 months
 - IM-2740 — Services in distribution

1.3 Communications and Liability-Related to the New Issue

1.3.1 Regulatory Requirements Pertaining to a Prospectus

- 1.3.1.1 Rule 405—Definition of terms
 - Free writing prospectus
 - Graphic communication
 - Written communication
 - Rule 164—Post-filing free writing prospectuses in connection with certain registered offerings
 - Rule 433 – Conditions to permissible post-filing free writing prospectuses
 - Well-known seasoned issuers

Non-reporting and unseasoned issuers

Graphic communication

Written communication

Electronic road shows

- 1.3.1.2 Content and filing requirements of prospectus
 - Section 10 — Information Required in Prospectus
 - Rule 424—Filing of prospectuses, number of copies
 - Rule 427 — Contents of prospectuses used after nine months
 - Rule 430 — Prospectus for use prior to effective date
 - Rule 430A — Prospectus for use prior to effective date
 - Rule 430B – Prospectus in a registration statement at the time of effectiveness
- 1.3.1.3 Exemptions/Safe Harbors
 - 1.3.1.3.1 Public notices excluded from the definition of prospectus
 - Rule 134 — Communications not deemed a prospectus
 - Distribution of information during an underwriting
 - Rule 135 — Notice of certain proposed offerings
 - Rule 135a — Generic advertising
 - Rule 163—Exemption from Section 5(c) of the Act for certain communications by or on behalf of well-known seasoned issuers
 - Rule 163A—Exemption from Section 5(c) of the Act for certain communications made by or on behalf of issuers more than 30 days before a registration statement is filed
 - Rule 168—Exemptions from Sections 2(a)(10) and 5(c) of the Act for certain communications of regularly released factual business information and forward-looking information
 - Rule 169—Exemptions from Sections 2(a)(10) and 5(c) of the Act for certain communications of regularly released factual business information
 - 1.3.1.3.2 Research reports and free writing prospectuses
 - Rule 137 — Definition of “offers,” “participates,” or “participation” in Section 2(11) in relation to certain publications by persons independent of participants in a distribution
 - Rule 138 — Definition of “offer for sale” and “offer to sell” in Sections 2(10) and 5(c) in relation to certain publications
 - Rule 139 — Definition of “offer for sale” and “offer to sell” in Sections 2(10) and 5(c) in relation to certain publications
- 1.3.1.4 Distribution of the preliminary and final prospectuses
 - Securities Act of 1933
 - Rule 153A — Definition of “preceded by a prospectus” as used in Section 5(b)(2) of the Act, in relation to certain transactions requiring approval of security holders
 - Rule 172—Delivery of prospectus
 - Rule 174 — Delivery of prospectus by dealers; exemptions under Section 4(3) of the Act
 - Rule 460 — Distribution of preliminary prospectus
 - Prospectus used more than nine months
 - Summary prospectus

Securities Exchange Act of 1934

Rule 15c2-8 — Delivery of prospectus

Preliminary prospectus

Final prospectus

Delivery to associated persons

Delivery to other broker/dealers by managing underwriter

- 1.3.1.5 Special issues dealing with electronic offerings
SEC Release 34-42728—Use of electronic media

1.3.2 Regulatory Requirements Pertaining to Filing of Registration Statements

- 1.3.2.1 Section 7 — Information Required in Registration Statement
 - Regulation S-K—Content of non-financial statements portions of registration statements under the Securities Act of 1933 and other documents required under the Securities Exchange Act of 1934
 - Regulation S-X—Financial statements required to be filed as part of registration under Sections 12, 13 and 14 of the Securities Act of 1933
- 1.3.2.2 Section 8 — Taking Effect of Registration Statements
 - Amendments to registration statements prior to and after effective date
 - Stop orders
 - Form SB-1/SB-2 filing requirement

1.3.3 Communications-Related Liability

- 1.3.3.1 Section 11 — Civil Liabilities on account of false registration statement
- 1.3.3.2 Section 12 — Civil liabilities arising in connection with prospectuses and communications
 - Rule 159—Information available to purchaser at time of contract of sale
 - Rule 412—Modified or superseded documents
- 1.3.3.3 Section 15 — Liability of controlling persons
- 1.3.3.4 Section 17 — Fraudulent interstate transactions
- 1.3.3.5 Section 23 — Unlawful representations
- 1.3.3.6 Rule 175 – Liability for certain statements by issuers
- 1.3.3.7 Rule 3b-6 – Liability for certain statements by issuers

1.3.4 Research Analysts and Research Reports

- 1.3.4.1 Securities Exchange Act of 1934 and SEC Rules Thereunder
 - SEC Regulation AC—Analyst certification
- 1.3.4.2 NASD Rule 2711/ NYSE Rule 472 — Research analysts and research reports
 - Definitions
 - Restrictions on relationship with research department

- Restrictions on communications with the subject company
 - Prohibition on participation in road shows
- Restrictions on research analyst compensation
- Prohibition of promise of favorable research
- Restrictions on publishing research reports and public appearances; termination of coverage
- Restrictions on personal trading by research analysts
 - Quiet periods relating to public offerings
- Disclosure requirements
- Supervisory procedures
 - Annual attestation of research supervisory procedures
- Prohibition of retaliation against research analysts

1.4 Securities Exchange Act of 1934 and SEC Rules Thereunder

1.4.1 Regulation M — Antimanipulation Rules Concerning Securities Offerings

- 1.4.1.1 Rule 100 — Definitions
- 1.4.1.2 Rule 101 — Activities by distribution participants
- 1.4.1.3 Rule 102 — Activities by issuers and selling security holders during a distribution

1.4.2 Schedules, Statements, Forms and Other Reports to Be Filed

- 1.4.2.1 Rule 13a-11/Rule 15d-11 — Current reports on Form 8-K
- 1.4.2.2 Rule 13a-13/Rule 15d-13 — Annual reports on form 10-K
- 1.4.2.3 Rule 13a-13/Rule 15d-13 — Quarterly reports on Form 10-Q
- 1.4.2.4 Rule 13d-1 — Beneficial ownership reports on Schedules 13D and 13G
- 1.4.2.5 Rule 13e-3 — Going private transactions by certain issuers or their affiliates
 - Schedule 13E-3 filing requirement
- 1.4.2.6 Rule 13f-1 — Reporting by institutional investment managers of information with respect to accounts over which they exercise investment discretion (Schedule 13F)
- 1.4.2.7 Rule 14a-6 — Proxy statements on Form 14A
- 1.4.2.8 Rule 16a-1 — Beneficial ownership reports of directors, officers and principal stockholders
 - Form 3 — Initial statement of beneficial ownership of securities
 - Form 4 — Statement of changes in beneficial ownership of securities

1.5 Investment Company Act of 1940 and SEC Rules Thereunder

1.5.1 Section 2 — Definitions

- 1.5.2 Section 3 — Definition of Investment Company**
- 1.5.3 Section 4 — Classification of Investment Company**
- 1.5.4 Section 5 — Sub-classification of Management Companies**
- 1.5.5 Section 8 — Registration of Investment Companies**
 - 1.5.5.1 Section 8(b) — Filing requirements for investment companies
 - Form N-1A — Registration statement of open-end management investment companies
- 1.5.6 Section 11 — Offers of Exchange**
- 1.5.7 Section 12 — Functions and Activities of Investment Companies**
 - 1.5.7.1 Prohibitions
 - Purchases on margin
 - Participation in joint trading accounts
 - Short sales
 - 1.5.7.2 Rule 12b-1 — Distribution of shares by registered open-end management investment company
 - Disclosure of payment for distribution of funds from assets
 - Statement of additional information
- 1.5.8 Section 13 — Changes in Investment Policy**
- 1.5.9 Section 19 — Dividends**
 - 1.5.9.1 Accumulated undistributed net income
 - 1.5.9.2 Current net income
 - 1.5.9.3 Statement disclosing source of payment
 - Rule 19a-1 — Written statement to accompany dividend payments by management companies
 - 1.5.9.4 Distribution of long-term capital gains
 - Rule 19b-1 — Frequency of distribution of capital gains
- 1.5.10 Section 35 — Unlawful Representations and Names**
- 1.5.11 Section 37 — Larceny and Embezzlement**
- 1.6 Trust Indenture Act of 1939**
 - 1.6.1 Purpose and Basic Provisions**

- 1.6.2 Necessity of Trustee to Safeguard the Rights of Investors in Registered Debt Obligations**
- 1.6.3 Identification of Rights and Powers of Trustee**
- 1.6.4 Full Disclosure of Information in Bond Indentures**
- 1.6.5 Participation of Trustees in the Preparation of Indentures**
- 1.7 Anti-Trust Regulations**
 - 1.7.1 Hart-Scott-Rodino Act**
 - Filing Requirements
 - Cooling-off period
 - Notification Thresholds

2.0

Supervision of Trading and Market Making Activities

2.1 Overview of Markets Regulated by NASD

2.1.1 NASDAQ Securities

- 2.1.1.1 NASDAQ Tier securities
 - NASDAQ Capital markets securities (SmallCap)
 - NASDAQ Global market securities (NNM)
 - NASDAQ Global Select market securities

- 2.1.1.2 Preferred securities

- 2.1.1.3 Convertible debt

- 2.1.1.4 ADRs and International Securities

2.1.2 Over-the-Counter Securities

- Pink Sheets and other similar trading facilities (www.pinksheets.com)

- Third market

- Trading in exchange listed securities in OTC market

- Consolidated tape reporting requirement

- Fourth market

- Private transactions between institutional investors without the use of a broker/dealer

2.1.3 OTC Bulletin Board

- 2.1.3.1 Allows participants to enter, update, retrieve quotation information on non-NASDAQ OTC stocks on real-time basis
 - Displays firm quotations
 - Displays unpriced indications of interest

- 2.1.3.2 Rule 6500 — OTC Bulletin Board Service
 - Rule 6510 — Applicability
 - Rule 6520 — Operation of the service
 - Rule 6530 — OTCBB-eligible securities

2.1.4 NASDAQ Market Center Requirements

- 2.1.4.1 Listing requirements (General factors; numerical values not tested)
 - Rule 4300 Series—Listing requirements for Nasdaq securities
 - Rule 4400 Series—NASDAQ Global market
 - Rule 4800 Series—Procedures for review of Nasdaq listing determinations
- 2.1.4.2 Execution Services
 - Rule 4751—Definitions
 - Rule 4755—Order entry parameters

Rule 4756—Entry and display of quotes and orders
Rule 4757—Book processing
Rule 4758—Order routing
Rule 4761—Adjustment of open quotes and/or orders

- 2.1.4.3 Alternative Trading Systems
 - SEC Regulation ATS
 - Electronic Communications Networks (ECNs)

2.1.5 NASD Marketplace Rules Regarding Display, Transaction Reporting and Order Tracking Obligations

- 2.1.5.1 NASD Alternative Display Facility
 - Rule 4110A—Use of NASD Alternative Display Facility Data Systems
 - Rule 4130A—Prohibition from locking or crossing quotations in NMS stocks
 - Rule 4200A—Definitions
- 2.1.5.2 Trade Reporting Facility (TRF)
 - 2.1.5.2.1 Function of the Trade Reporting Facility
 - Primary vehicle for reporting over-the-counter transactions in equity securities (including OTC trades in listed securities)
 - 2.1.5.2.2 NASD Rules
 - Rule 4000—The NASD/NASDAQ Trade Reporting Facility
 - Rule 4200 —Definitions
 - Rule 4630A—Reporting transactions in ADF-eligible securities
 - Rule 4630 – Reporting transactions in designated securities
 - Rule 4631 – Definitions
 - Rule 4632—Transaction reporting
- 2.1.5.3 Other NASD transaction reporting obligations rules
 - Rule 6550—Transaction reporting in OTC Bulletin Board Service
 - Rule 6620—Transaction reporting in over-the-counter equity securities
 - Rule 6920—Transaction reporting in direct participation programs
- 2.1.5.4 Trade Reporting and Compliance Engine Rules (TRACE Rules)
 - 2.1.5.4.1 Rule 6210 — Definitions
 - 2.1.5.4.2 Rule 6220 — Participating in TRACE
 - 2.1.5.4.3 Rule 6230 — Transaction reporting
 - 2.1.5.4.4 Rule 6240 — Termination of TRACE service
 - 2.1.5.4.5 Rule 6250 — Dissemination of transaction information
 - 2.1.5.4.6 Rule 6260 — Managing underwriter or group of underwriters obligation to obtain CUSIP and provided notice
- 2.1.5.5 Trade Comparison Service (TRACS)
 - Rule 6110A—Definitions
 - Rule 6120A—Participation in TRACS trade comparison feature by participants in the alternative display facility
 - Rule 6130A—Trade report input
 - Rule 6190A—Termination of TRACS service
- 2.1.5.6 NASD Rule 6100 — Clearing and Comparison

- Rule 6110 — Definitions
- Rule 6120 — Trade reporting participation requirements
 - Mandatory participation for clearing agency members
 - Participant obligations
 - Access
 - System participant obligations
 - Clearing broker obligations
- Rule 6130 — Trade report input
- Rule 6140 — Trade report processing
- Rule 6180 — Violation of reporting rules
- 2.1.5.7 Order Audit Trail and Tracking systems
- 2.1.5.7.1 NASD Rules
 - Rule 6951—Definitions
 - Rule 6952—Applicability
 - Rule 6953—Synchronization of member business clocks
 - Rule 6954—Recording of order information
 - Rule 6955—Order data transmission requirements
- 2.1.5.7.2 NYSE Rules
 - Rule 132A—Synchronization of member business clocks
 - Rule 132B—Order tracking system
 - Rule 410A—Automated submission of trading data
 - Rule 410B—Reports of listed securities transactions effected off the Exchange
- 2.1.6 Requirements for NASDAQ Market Makers and Other MarketCenter Participants**
- 2.1.6.1 NASD Rules
 - Rule 2460—Payments for market making
 - Rule 4300A—Quote and order access requirements
 - Rule 4611A—Registration as an ADF market maker or an ADF ECN
 - Rule 4619A—Withdrawal of quotations
 - Rule 5120—Other trading practices
 - Rule 6540 — Requirements applicable to market makers
 - Permissible quotation entries (one-sided quotes)
 - Impermissible quotation entries
 - Voluntary termination of registration
 - More than one trading location
 - Clearance and settlement
- 2.1.6.2 NASDAQ Rules
 - Rule 4611—NASDAQ Market Center participant registration
 - Rule 4612 — Registration as a NASDAQ market maker
 - NASD member
 - Minimum net capital requirements
 - Rule 4619—Withdrawal of quotations and passive market making
- 2.1.6.3 NASD/NASDAQ Rules
 - Rules 4617A/4617 — Normal business hours
 - Extended hours trading (including pre-market hours)

2.1.6.4 SEC Regulation M — Anti-manipulation rules concerning securities offerings
Rule 103 — Passive market making in NASDAQ stocks

2.1.6.5 Determination of spread
Financial condition of issuer
Size of issue
Activity in issue
Market conditions

2.1.6.6 Types of customer business
Retail
Institutional

2.1.7 Quotation and Execution Requirements (general knowledge)

2.1.7.1 NASD Rules
Rule 2320 — Best execution and interpositioning
IM-2320-1—Interpretative guidance with respect to best execution requirements
Rule 3310 — Publication of transactions and quotations
IM-3310 — Manipulative and deceptive quotations
Marking the close/Marking the opening
Rule 3320 — Offers at stated prices
IM-3320 — Firmness of quotations
Backing-away
Rule 3380—Order entry and execution practices
Rule 6630—Recording of quotation information
Rule 6640—Submission of Rule 15c2-11 information on non-exchange-listed securities
Rule 6650—Minimum quotation size requirements for OTC equity securities

2.1.7.2 NASD/NASDAQ Rules
Rule 4613A/ Rule 4613—Character of quotations
Quotation requirements and obligations

2.1.7.3 SEC Rules
Rule 15c2-7 — Identification of quotations
Rule 15c2-11 — Initiation or resumption of quotations with specified information

2.1.8 Trading and Market Halts

2.1.8.1 Trading halts

2.1.8.1.1 NASD Rules
Rule 3340 — Prohibition on transactions during trading halts
Rule 4120 — Trading halts
Authority to initiate trading halts
Procedure for initiating a trading halt
IM-4120-1 — Disclosure of material information

Rule 4633—Trading halts
Rule 6545—Trading and quotation halt in OTCBB-eligible securities
Rule 6660—Trading and quotation halt in OTC equity securities
IM-6660-1—Factors to be considered when initiating a trading and quotation halt

2.1.8.1.2 NYSE Rules
Rule 80B — Trading halts due to extraordinary market volatility
Rule 123D—Openings and halts in trading
Rule 906—Impact of trading halts on off-hours trading

2.1.8.2 Market halts

2.1.8.2.1 Agreement between NASDAQ and NYSE (circuit breakers)
NASDAQ Rule 4121 — Market closing

2.1.9 Anti-Competitive Trading Practices (21A Report)
Collusion
Price/size/spread convention
Intimidation
Harassment
NASD Rule IM-2110-5 —Anti-intimidation/coordination

2.2 Auction Markets

2.2.1 Listing Criteria (general understanding, numerical values not tested)

2.2.1.1 Minimum listing standards

2.2.1.2 NYSE-Listed Company Manual

2.2.2 Trading

2.2.2.1 Trading post

2.2.2.2 NYSE Rule 54—Floor broker (member)

2.2.2.3 Role of the specialist
Maintains the limit order book
NYSE Rule 104A—Specialists—general
NYSE Rule 115A — Arranges buy and sell orders at the opening of daily trading to orchestrate a balanced price
NYSE Rule 116 — “Stops” stock
Agent vs. principal functions of specialist

2.2.2.4 Automated trading systems (DOT, PACE, AUTO, AMOS, SCOREX)

2.2.2.5 NYSE Rule 13—Types of orders

2.2.2.6 NYSE Rule 127—Block trading

2.2.3 New York Stock Exchange Regulations

- 2.2.3.1 Rule 61 — Recognized quotations
- 2.2.3.2 Rule 76 — “Crossing” orders
- 2.2.3.3 Rule 77 — Prohibited dealings and activities
- 2.2.3.4 Rule 78 — Sell and buy orders coupled at same price
- 2.2.3.5 Rule 91—Taking or supplying securities named in order
- 2.2.3.6 Rule 92 — Limitations on member trading because of customer’s orders
- 2.2.3.7 Rule 97 — Limitations on members’ trading because of block positioning
- 2.2.3.8 Rule 123B — Exchange automated order routing system
- 2.2.3.9 Rule 123C — Market on-the-close policy and expiration procedures
- 2.2.3.10 Rule 435 — Miscellaneous prohibitions
 - Excessive trading by members
 - Successive transactions by members
 - Manipulative operations
 - Circulation of rumors
 - Reopening a contract
 - Loans for account of nonmembers

2.2.4 Consolidated Tape Network

- 2.2.4.1 Reports all executions of exchange-listed securities, regardless of where the transactions occurred
- 2.2.4.2 Use of the tape for price information
- 2.2.4.3 Reports of third market activity

2.3 Securities Exchange Act of 1934 and SEC Rules Thereunder

2.3.1 Section 3 — Certain Definitions Under the Act

- 2.3.1.1 Section 3(a)(5) — Dealer
- 2.3.1.2 Section 3(a)(23)(A) — Clearing agency
- 2.3.1.3 Section 3(a)(38) — Market maker
- 2.3.1.4 Section 3(b) — Other definitions under the Act
 - Rule 3b-1 — Listed
 - Rule 3b-8 — Qualified OTC market maker, qualified third market maker, and qualified block positioner

2.3.2 Section 11 — Trading by Members of Exchanges Brokers and Dealers

- 2.3.2.1 Rule 11a-1 — Regulation of floor trading
- 2.3.2.2 Rule 11a1-1(T) — Transactions yielding priority, parity and precedence
- 2.3.2.3 Rule 11a1-2 — Transactions for certain accounts of associated persons of members
- 2.3.2.4 Rule 11a1-3(T) — Bona fide hedge transactions in certain securities
- 2.3.2.5 Rule 11a1-4(T) — Bond transactions on national securities exchanges
- 2.3.2.6 Rule 11a1-5 — Transactions by registered competitive market makers and registered equity market makers
- 2.3.2.7 Rule 11a2-2(T) — Transactions effected by exchange members through other members

2.3.3 Regulation NMS — National Market System for Securities

- 2.3.3.1 Rule 600 — NMS security-designation and definitions
 - Block size
 - Electronic communications network
 - Exchange market maker
 - Exchange-traded security
 - NMS security/stock
 - OTC market maker
 - Quotation size
- 2.3.3.2 Rule 602/ NYSE Rule 60 — Dissemination of quotations in NMS securities
 - Obligations of responsible brokers and dealers
- 2.3.3.3 Rule 604— Display customer limit orders
 - Specialists and OTC market makers
- 2.3.3.4 Rule 605– Disclosure of order execution information
- 2.3.3.5 Rule 606– Disclosure of order routing information
- 2.3.3.6 Rule 607 — Customer account statements
- 2.3.3.7 Rule 611 – Order Protection Rule (trade-throughs)
- 2.3.3.8 Rule 612—Minimum pricing increments

2.3.4 Penny Stock Rules

- Rule 3a51-1 — Penny stock
- Rule 15g-1 — Exemptions for certain transactions
- Rule 15g-2 — Risk disclosure document relating to the penny stock market

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

2.4 NASD — Regulations

2.4.1 Conduct Rules

- 2.4.1.1 Rule 2110 — Standards of commercial honor and principles of trade
 - IM-2110-2 — Trading ahead of customer limit orders (Manning)
 - IM-2110-3 — Front running policy
 - IM-2110-4 — Trading ahead of research reports
- 2.4.1.2 Rule 2111 — Trading ahead of customer market orders
- 2.4.1.3 Rule 2441—Net prices with customers
- 2.4.1.4 Day-trading accounts
 - Rule 2360/ NYSE Rule 431(b)(4) — Approval procedures for day-trading accounts
 - Rule 2361 — Day-trading risk disclosure statement
 - Rule 2520(f)(8)(B)/ NYSE Rule 431(8)(B) — Day trading
 - Definition of pattern day trader
 - Definition of day trading buying power
 - Special requirements for pattern day traders

3.0

Supervision of Brokerage Office Operations

3.1 Extensions of Credit in the Securities Industry

3.1.1 Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks — Regulation U of the Federal Reserve Board

- Purpose credit secured by stock
- Exceptions from general rule for broker/dealers
- OTC market maker exemption

3.1.2 General Purpose of Other FED Credit Regulations

- Regulation X — Rules governing borrowers who obtain securities credit

3.1.3 Securities Exchange Act of 1934 and SEC Rules Thereunder

- 3.1.3.1 Regulation SP — Privacy of consumer financial information
 - Treatment of nonpublic personal information about consumers by financial institutions
- 3.1.3.2 Rule 3a12-9 — Exemption of certain direct participation program securities from the restrictions regarding the extending or arranging of credit under Sections 7(c) and 11(d)(1)
- 3.1.3.3 Rule 10b-16 — Disclosure of credit terms in margin transactions
- 3.1.3.4 Section 11(d)(1) — Extension of credit
 - Rule 11d1-1 — Exemption of certain securities from Section 11(d)(1)
 - Rule 11d1-2 — Exemption from Section 11(d)(1) for certain investment company securities held by broker/dealers as collateral in margin accounts
- 3.1.3.5 Rule 15c2-5 — Disclosure and other requirements when extending or arranging credit in certain transactions

3.1.4 NASD Rules

- 3.1.4.1 Rule 2341—Margin disclosure statement
- 3.1.4.2 Rule 2520(g)—Portfolio margin
- 3.1.4.3 Rule 3160—Extension of time under Reg T and SEC Rule 15c3-3

3.1.5 Short Sale Rules

- 3.1.5.1 SEC Rules
 - Regulation SHO
 - Rule 200—Definition of “short sale”
 - Rule 203—Borrowing and delivery requirements
 - List of available securities must be no older than 24 hours old
 - Regulation M — Antimanipulation Rules Concerning Securities Offerings
 - Rule 105—Short selling in connection with a public offering

3.1.5.2 NASD Rule 3210 — Short Sale Delivery Requirements

3.2 Broker-to-Broker Clearing Procedures

3.2.1 Settlement Procedures

- Contract sheet
- Netted trades
- Continuous net settlement
- Money settlement
- OTC trade comparisons on locked-in trades
- Comparison sheet or ticket
- Regular way and when issued contract sheets
- SEC Rule 15c6-1 — Settlement cycle
- NASD Rule 4816—Clearance and settlement

3.2.2 Firm must be Member of One of the Following Clearing Corporations

- National Securities Clearing Corporation
- Midwest Clearing Corporation
- Philadelphia Clearing Corporation
- Pacific Clearing Corporation

3.2.3 Depository Trust and Clearing Corporation

- Securities certificate safekeeping
- Exchange effected by computerized bookkeeping entries

3.2.4 Clearing Funds

- Participant contribution based on processing activity
- Interest earned is transferred to participant

3.3 Customer Confirmations

3.3.1 SEC Rule 10b-10 — Confirmation of Transactions

3.3.2 NASD IM-2110-6 — Confirmation of Callable Common Stock

3.3.3 NASD Rule 2230/ NYSE Rule 409(f) — Confirmations
IM-2230 “Third market” confirmations

3.4 NASD — Regulations

3.4.1 Conduct Rules

3.4.1.1 Rule 2340/ NYSE Rule 409 — Customer account statements

3.4.1.2 Rule 3110/ NYSE Rules 401A, 406, 410, 440 and 636 — Books and records

- Requirements
- Marking of customer order tickets
- Customer account information
- IM-3110 — Customer account information
- Record of written complaints

“Complaint” defined

Requirements when using predispute arbitration agreements with customers

Negotiable instruments drawn from a customer’s account

Holding of customer mail

Changes in account name or designation

3.4.1.3 Rule 3150—Reporting requirements for clearing firms

3.4.1.4 Rule 3230 — Clearing agreements

3.4.1.5 Rule 3220 — Adjustment of open orders

3.4.1.6 Rule 3360/ NYSE Rule 421 — Short-interest reporting

3.4.2 Uniform Practice Code

3.4.2.1 Rule 11100 — Scope of Uniform Practice Code

3.4.2.2 Rule 11120 — Definitions

3.4.2.3 Rule 11130/ NYSE Rule 63 — When, as and if issued/distributed contracts

3.4.2.4 Rule 11150 — Transactions “ex-interest” in bonds which are dealt in “flat”

3.4.2.5 Rule 11160 — “Ex” liquidating payments

3.4.2.6 Rule 11170/ NYSE Rule 193 — Transactions in “part-redeemed” bonds

3.5.2.7 Rule 11190 — Reconfirmation and pricing service participants

3.4.2.8 Rule 11200/ NYSE Rules 133 and 134(a) — Comparisons or confirmations and “Don’t Know Notices”

3.4.2.9 Rule 11220 — Description of securities

3.4.2.10 Rule 11300 — Delivery of Securities

3.4.2.11 Rule 11361/ NYSE Rule 185 — Units of delivery — stocks

3.4.2.12 Rule 11362/ NYSE Rule 186 — Units of delivery — bonds

3.4.2.13 Rule 11363 — Units of delivery — unit investment trust securities

3.4.2.14 Rule 11364/NYSE Rule 187— Units of delivery — certificates of deposit for bonds

IM-11364 — Trading securities as “units” or bonds “with stock”

3.4.2.15 Rule 11410 — Delivery of securities with draft attached —time of presentation
Prior to settlement date
With irregularities

- 3.4.2.16 Rule 11620/ NYSE Rule 243 — Computation of interest
- 3.4.2.17 Rule 11630/ NYSE Rule 255— Due-bills and due-bill checks
- 3.4.2.18 Rule 11640 — Claims for dividends, rights, interest, etc.
- 3.4.2.19 Rule 11650/ NYSE Rule 182 — Transfer fees
- 3.4.2.20 Rule 11700 — Reclamations and rejections
 - Definitions
 - Time for delivery of reclamation and manner of settlement
- 3.4.2.21 Rule 11720 — Irregular delivery; transfer refused; lost or stolen securities
- 3.4.2.22 Rule 11740/ NYSE Rules 165, 166, 168 — Marking to the market
- 3.4.2.23 Rule 11810/ NYSE Rule 282, 284, 289, 290 — “Buying-in”
- 3.4.2.24 Rule 11820/ NYSE Rule 283 — “Selling-out”
- 3.4.2.25 Rule 11840 — Rights and warrants
- 3.4.2.26 Rule 11900 — Clearance of corporate debt securities
- 3.4.2.27 Rule 11890/ NYSE Rule 411 — Erroneous transactions
 - Authority to review transactions
 - Procedures for reviewing transaction
 - Procedures for reviewing transactions executed during system disruptions or malfunctions
 - Review by the Market Operations Review Committee
- 3.4.3 Customer Account Transfers**
 - 3.4.3.1 IM-2110-7. Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes
 - 3.4.3.2 Rule 11870/ NYSE Rule 412 — Customer account transfer contracts

4.0

Sales Supervision and General Supervision of Employees

4.1 Securities Exchange Act of 1934 and SEC Rules Thereunder

4.1.1 Section 3 — Certain Definitions under the Act

4.1.1.1 Section 3(a)(39) — Statutory Disqualification

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

4.1.2.1 Rule 10b-17 — Untimely announcements of record dates

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

4.1.3 Section 15 — Registration and Regulation of Brokers and Dealers

4.1.3.1 Section 15(a)(1) — Prohibitions relating to unregistered broker/dealers

4.1.3.1.1 Rule 15a-6 — Exemption of certain foreign brokers or dealers

4.1.3.2 Section 15(b)(4) — Sanctions against brokers or dealers

4.1.3.3 Section 15(b)(6) — Sanctions for person associated with broker or dealer

4.1.4 Soft Dollar Arrangements

Section 3(a)(35)—Definition of “investment discretion”

Section 28(e)—Research services in exchange for brokerage

4.2 Investment Company Act of 1940 and SEC Rules Thereunder

4.2.1 Section 22 — Distribution, Redemption, and Re-Purchase of Redeemable Securities

4.2.1.1 Section 22(c) — Regulation of underwriters and dealers by Commission
Rule 22c-1 — Pricing of redeemable securities for distribution, redemption and re-purchase

4.2.1.2 Section 22(d) — Persons to and through whom redeemable securities may be sold (offer securities at a price based on NAV)
Rule 22d-1 — Exemption from Section 22(d) to permit sales of redeemable securities at prices which reflect sales loads set pursuant to a schedule
Rule 22d-2 — Exemption from Section 22(d) for certain registered separate accounts

4.2.1.3 Section 22(e) — Suspension of rights of redemption
Rule 22e-1 — Exemption from Section 22(e) during annuity payment period of variable annuity contracts participation in certain registered separate accounts

4.3 Investment Advisers Act of 1940 and SEC Rules Thereunder

4.3.1 Section 202(a)(11) — Definition of Investment Adviser

4.3.2 Section 203 — Registration of Investment Advisers

4.3.3 Section 205 — Investment Advisory Contracts

4.3.4 Section 206 — Prohibited Transactions by Investment Advisers

4.4 Compliance and Ethics

4.4.1 Sarbanes-Oxley Act

4.4.1.1 Section 302—Corporate responsibility for financial reports
Development, implementation and assessment of an ethics course

4.4.1.2 Section 401—Disclosures in periodic reports

4.4.1.3 Section 402—Enhanced conflict of interest provisions

4.4.1.4 Section 403—Disclosures of transactions involving management and principal stockholders
Required documentation
Annual tests of the control environment by management
Assessment of the company's internal controls over financial reporting
External auditors must conduct separate tests and issue opinions on management's assessment and on the effectiveness of the company's internal controls over financial reporting
"Material weaknesses" found by the auditors or management must be reported in the annual report

4.4.1.5 Section 404—Management assessment of internal controls
Execution of mergers and acquisitions; timing of deals
Extensive documentation
Testing of "control environment by management"
Testing and issuance of opinions by external auditors
Certification and reporting requirements apply to the entire company--including acquisitions

4.4.2 Securities Exchange Act of 1934 and SEC Rules Thereunder

4.4.2.1 Rule 15c1-1 — Definitions

4.4.2.2 Rule 15c1-2 — Fraud and misrepresentation

4.4.2.3 Rule 15c1-3 — Misrepresentation by brokers and dealers as to registration

4.4.2.4 Rule 15c1-9 — Use of pro forma balance sheets

4.4.3 NASD Business Conduct Rules

- 4.4.3.1 Rule 3010/ NYSE Rules 342 and 405 — Supervision
 - Supervisory system
 - Written procedures
 - Internal inspections
 - Review of transactions and correspondence
 - Supervision of registered representatives
 - Review of correspondence
 - Retention of correspondence
 - Qualifications investigated
 - Applicant's responsibility
 - Definitions
 - Office of supervisory jurisdiction
 - Branch office
 - IM-3010-1—Standards for reasonable review
- 4.4.3.2 Rule 3011/ NYSE Rule 445 — Anti-money laundering compliance program
 - IM-3011-1 — Independent testing requirements
 - IM-3011-2 — Review of anti-money laundering compliance person information
- 4.4.3.3 Rule 3012/NYSE Rule 342.23—Supervisory control system
- 4.4.3.4 Rule 3013/NYSE Rule 342.30—Annual certification of compliance and supervisory processes
 - IM 3013—Annual compliance and supervision certification
- 4.4.3.5 Rule 3510/ NYSE Rule 446—Business continuity plan
- 4.5 Communications with the Public**
 - 4.5.1 SEC Rule 156 — Investment company sales literature**
 - 4.5.2 NASD Rule 2210/ NYSE Rule 472 — Communications with the public**
 - Definitions
 - Advertisement
 - Sales literature
 - Public appearance
 - Independently prepared reprint
 - Approval and recordkeeping
 - Filing requirements and review procedures
 - Content standards
 - Standards applicable to all communications with the public
 - Standards applicable to advertisements and sales literature
 - IM-2210-1 — Guidelines to ensure that communications with the public are not misleading
 - IM-2210-2 — Communications with the public about variable life insurance and variable annuities
 - IM-2210-3 — Use of rankings in investment companies advertisements and sales literature
 - IM-2210-4 — Limitations on use of FINRA's name

IM-2210-5 — Requirements for the use of bond mutual fund volatility ratings
IM-2210-6 — Requirements for the use of investment analysis tools
IM-2210-8 — Communications with the public about collateralized mortgage obligations (CMOs)

4.5.3 Rule 2211 — Institutional sales material and correspondence

Definitions

Correspondence

Institutional sales material

Institutional investor

Existing retail customer

Approval and recordkeeping

Spot-check procedures

Content standards applicable to institutional sales material and correspondence

4.6 NASD — Regulations

4.6.1 By-Laws

4.6.1.1 Article I/ NYSE Article I — Definitions

4.6.1.2 Article III — Qualifications of members and associated persons
Section 1 — Persons eligible to become members and associated persons of members
Section 4/ NYSE Rule 351 — Definition of disqualification

4.6.2 Membership and Registration

4.6.2.1 Rule 1000/ NYSE Rule 311 — Membership, registration, and qualification requirements
IM-1000-1 — Filing of misleading information as to membership or registration
IM-1000-3 — Failure to register personnel
IM-1000-4/ NYSE Rule 342 — Branch offices and offices of supervisory jurisdiction

4.6.2.2 Rule 1010 — Membership proceedings
Definitions
General provisions
New member application and interview
Department decision
Review by the National Adjudicatory Council
Discretionary review by NASD Board
Application for approval of change in ownership, control or business operations
Application to Commission for review

4.6.2.3 Rule 1020/ NYSE Rule 342.13 — Registration of principals
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Categories of principal registration
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Limited principals

- 4.6.2.4 Assistant representatives
 - Rule 1041 — Registration requirements for assistant representatives
 - Rule 1042—Restrictions for assistant representatives
- 4.6.2.5 Rule 1050/NYSE Rule 344—Registration of research analysts
- 4.6.2.6 Rule 1060 — Persons exempt from registration
- 4.6.2.7 Rule 1070 — Qualification examinations and waiver of requirements
- 4.6.2.8 Rule 1080 — Confidentiality of examinations
- 4.6.2.9 Rule 1090 — Foreign members
- 4.6.2.10 Rule 1100 — Foreign associates
- 4.6.2.11 Rule 1140 — Electronic filing rules
- 4.6.2.12 Rule 1150—Executive representative
- 4.6.3 Conduct Rules**
 - 4.6.3.1 Rule 2310/ NYSE Rules 405 and 435(1)—Recommendations to customers [suitability]
 - IM-2310-2 — Fair dealing with customers
 - On-line suitability
 - IM-2310-3 — Suitability obligations to institutional customers
 - 4.6.3.2 Rule 2315 – Recommendations to customers in OTC equity securities
 - 4.6.3.3 Rule 2350 — Broker/dealer conduct on the premises of financial institutions
 - Applicability
 - Definitions
 - Standards for member conduct
 - Setting
 - Networking and brokerage affiliate agreements
 - Customer disclosure and written acknowledgment
 - Communications with the public
 - Notifications of terminations
 - 4.6.3.4 Rule 2330/ NYSE Rule 352 — Customers’ securities or funds
 - Improper use
 - Prohibition against guarantees
 - Sharing in accounts; extent permissible
 - 4.6.3.5 Rule 2370/NYSE Rule 352—Borrowing from or lending to customers

- 4.6.3.6 Rule 2410—Net prices to persons not in investment banking or securities business
- 4.6.3.7 Rule 2420 — Dealing with nonmembers
 - Transactions with nonmembers
 - Transactions with foreign nonmembers
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 - IM-2420-1 — Transactions between members and nonmembers
 - IM-2420-2 — Continuing commission policy
- 4.6.3.8 Rule 2830—Investment company securities
 - IM-2830-1—“Breakpoint” sales
 - IM2830-2—Maintaining the public offering price
- 4.6.3.9 Rule 3050/NYSE Rule 407 — Transactions for or by associated persons
- 4.6.3.10 Rule 3060/NYSE Rules 350 and 353 — Influencing or rewarding employees of others
- 4.6.3.11 Rule 3070/ NYSE Rule 351d — Reporting requirements
- 4.6.3.12 Rule 3080 – Disclosure to associated persons when signing Form U-4
- 4.6.3.13 Rule 2260/ NYSE Rule 451 — Forwarding of proxy and other materials
 - IM-2260 — Suggested rates of reimbursement
- 4.6.3.14 Rule 2280 — Investor education and protection

4.6.4 Procedural Rules

- 4.6.4.1 Rule 9000 — Code of Procedure
- 4.6.4.1.1 Rule 9100 — Application and purpose
 - Rule 9110 — Application
 - Rule 9120 — Definitions
 - Rule 9130 — Service; filing of papers
 - Rule 9140 — Proceedings
- 4.6.4.1.2 Rule 9200 — Disciplinary proceedings
 - Rule 9210 — Complaint and answer
 - Rule 9220 — Request for hearing; extensions of time, postponements, adjournments
 - Rule 9230 — Appointment of hearing panel, extended hearing panel
 - Rule 9240 — Pre-hearing conference and submission
 - Rule 9250 — Discovery
 - Rule 9260 — Hearing and decision
 - Rule 9270 — Settlement procedure
 - Rule 9280 — Contemptuous conduct
- 4.6.4.1.3 Rule 9300 — Review of disciplinary proceeding by National Adjudicatory Council and NASD Regulation and NASD Board; application for Commission review

Rule 9310 — Appeal to or review by National Adjudicatory Council
Rule 9340 — Proceedings
Rule 9350 — Discretionary review by NASD Board
Rule 9360 — Effectiveness of sanctions
Rule 9370 — Application to Commission for review

4.6.4.1.4 Rule 9500 —Other proceedings

4.6.4.1.5 Rule 9800—Temporary cease and desist orders
Rule 9810—Initiation of proceeding
Rule 9830—Hearing
Rule 9840—Issuance of temporary cease and desist order by hearing panel
Rule 9870—Application to Commission for review

4.6.4.1.6 Rule 14000/ Rule 638 — Mediation rules
Rule 10404 — Mediation under the Code
Rule 10405 — Effect of mediation on arbitration proceedings
Rule 10408 — Mediation ground rules

4.7 MSRB Rules

4.7.1 Rule G-37 — Political Contributions and Prohibitions on Municipal Securities Business

5.0

Compliance with Financial Responsibility Rules

5.1 Securities Act of 1934 and SEC Rules Thereunder

5.1.1 Section 15 — Registration and Regulation of Brokers and Dealers

5.1.1.1 Rule 15c3-1/ NYSE Rules 325 and 326 — Net capital requirements for brokers and dealers

5.1.1.1.1 Minimum net capital requirements

Broker/dealers that carry customer accounts

Prime brokers

Broker/dealers that carry accounts but do **not** hold customer funds or securities and operate under Paragraph (k)(2)(i) exemption of Rule 15c3-3

Introducing broker/dealers

Firms that introduce accounts on a fully disclosed basis to another broker or dealer and do **not** receive funds or securities

Firms that introduce accounts on a fully disclosed basis to another broker or dealer **and receive, but do not hold,** customer or other broker/dealer securities **and do not receive funds**

Dealers

Mutual fund brokers or dealers transacting a business in redeemable shares of registered investment companies and certain other share

Accounts

Wire order basis

Subscription basis (**do not otherwise receive or hold funds or securities**)

Market makers

Brokers or dealers transacting a business only in direct participation programs

Brokers or dealers engaged exclusively in mergers and acquisition

5.1.1.1.2 Definitions and general understanding of the following terms

Aggregate indebtedness

Net capital including adjustments to net worth for illiquid assets

Securities differences —treatment when computing net capital

Haircuts — effect on capital of proprietary positions

Additional haircuts on securities with a limited market, unduly concentrated positions and non-marketable securities

Open contractual commitments

Treatment of aged fails to deliver

5.1.1.1.3 Debt—Equity requirements

5.1.1.1.4 Withdrawal of equity capital

5.1.1.1.5 Alternative net capital requirement

- 5.1.1.1.6 Appendix D — Satisfactory subordination agreements
 - Definitions
 - Subordinated loan agreement
 - Collateral Value
 - Secured demand note agreement
 - Minimum requirements of subordination agreements
 - Temporary and revolving subordination agreements
 - Filing requirements (general)
- 5.1.1.2 Rule 15c3-2/ NYSE Rule 409 — Use of customer free credit balances
- 5.1.1.3 Rule 15c3-3/ NYSE Rule 402 — Customer protection — reserves and custody of securities
 - Definitions
 - Physical possession or control of securities
 - Requirement to reduce securities to possession or control —timeliness
 - Special reserve bank account for the exclusive benefit of customers
 - Notification of banks
 - Withdrawals from the reserve bank account
 - Buy-in of short security differences
 - Exemptions under subsection (k)
 - Delivery of fully paid and excess margin securities
 - Completion of sell orders on behalf of customers — mandatory buy-in
 - Extensions of time
- 5.1.2 **Section 17 — Accounts and Records, Reports, Examinations of Exchanges, Members and Others**
- 5.1.2.1 Rule 17a-3/ NYSE Rule 421 — Records to be made by certain exchange members, brokers and dealers (general understanding of major provisions)
 - Blotters or other records of original entry
 - Ledgers or other records reflecting all assets and liabilities
 - Securities position records
 - Memorandum of each brokerage order given or received for the purchase or sale of securities (for customer and firm accounts)
 - Memorandum of each purchase and sale for the account of the firm
 - Copies of customer confirmations and copies of notices of all other debits and credits for accounts of customers
 - Identification data on beneficial owners of all accounts
 - Subsidiary ledgers and proofs of money balances in all accounts (trial balance)
 - Questionnaire or application for employment executed by each “associated person”
 - Fingerprint records required by Rule 17f-2
- 5.1.2.2 Rule 17a-4 — Records to be preserved by certain exchange members, brokers and dealers
 - Requirement for ready accessibility of all records for two years
 - General type of record to be maintained for six years
 - Maintenance of records with respect to associated persons

Preservation of required records
Outside service bureaus

- 5.1.2.3 Rule 17a-5/ NYSE Rule 418— Reports to be made by certain brokers and dealers
 - Filing of monthly and quarterly reports
 - Report filed upon termination of membership interest
 - Customer statements
 - Who must furnish the statements
 - Unaudited statements to be furnished
 - Definition of customer
 - Annual filing of audited financial statements
 - Qualification of accountants
 - Audit objectives
 - Accountant's reports — general provisions
 - Accountant's report on material inadequacies
 - Extensions and exemptions
 - Notification of changes of fiscal year
 - Filing requirements
- 5.1.2.4 Rule 17a-11 — Notification provisions for brokers and dealers
- 5.1.2.5 Rule 17a-13 — Quarterly security counts to be made by certain exchange members, brokers and dealers (general requirement)
 - Requirements for each calendar quarter year
 - Persons to perform or supervise required securities counts

5.2 NASD — Conduct Rules

- 5.2.1 **Rule 2270 — Disclosure of financial condition to customers**
 - Requirement of members to furnish recent financial statement to other members
- 5.2.2 **Rule 2330 — Customers' securities or funds**
 - Authorization to lend
 - Segregation and identification of securities
 - IM-2330 — Segregation of customers' securities
- 5.2.3 **Rule 2910 — Disclosure of financial condition to other members**
- 5.2.4 **Rule 3020/ NYSE Rule 319 — Fidelity bonds**
 - Coverage required
 - Deductible provision
 - Annual review of coverage
 - Notification of change
 - Definitions
- 5.2.5 **Rule 3130 — Regulation of activities of members experiencing financial and/or operational difficulties**
 - IM-3130 — Restrictions on a member's activity
- 5.2.6 **Rule 3140 — Approval of change in exempt status under SEC Rule 15c3-3**

Loss of 15c3-3(k) exemption when member conducts business that will disqualify it from the exemption without the prior written approval of the NASD

Sample Question Formats

The questions and answers that appear below 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 here is to assist candidates and training personnel in preparing for the types of multiple-choice questions that will appear on the examination.

Answers

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

1. A customer wishes to purchase securities in a margin account. In order for the broker/dealer to borrow money with the margined securities, the customer must sign which of the following?

- (A) Power of attorney
- (B) Hypothecation agreement
- (C) Discretionary account agreement
- (D) Maintenance agreement

2. Under what conditions may an NASD member firm sell "hot issue" securities to one of its non-registered employees?

- (A) The amount of the purchase is small and not disproportionate to the size of the issue.
- (B) The employee promises in writing to hold the securities for two years.
- (C) The transaction is consistent with the employee's normal investment practice.
- (D) Under no circumstances.

3. While engaged in a distribution, a managing underwriter may do each of the following EXCEPT

- (A) solicit purchases through an updated research report
- (B) accept unsolicited buy orders
- (C) effect stabilizing transactions
- (D) solicit purchase through use of a prospectus

4. Broker/dealer report on lost or stolen U.S. Government and agency securities are to be filed with the

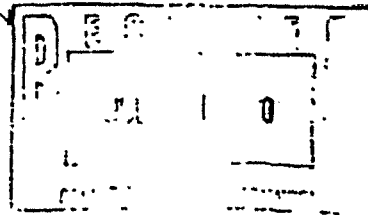
- (A) NASD
- (B) Designated Examining Authority
- (C) Securities Information Center
- (D) Uniform Practice Committee

Exhibit 3c
SR-FINRA-2007-027



DIVISION OF
MARKET REGULATION

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549



July 24, 2000

Mr. Alden S. Adkins
Senior Vice President & General Counsel
NASD Regulation, Inc.
1735 K Street, N. W.
Washington, D.C. 20006-1500

Re: Procedure for Filings Relating to Qualification Examinations

Dear Mr. Adkins: *Alain*

I am writing to inform you of a change in the filing requirements for proposed rule changes involving qualification examinations for associated persons. In the past, the Division required the SROs to file question banks for new examinations for Commission approval pursuant to Section 19(b)(2) of the Exchange Act. The Division also required SROs to file questions being added to the question bank for Commission approval.

The Division has decided that it is no longer necessary for SROs to file new exam question banks for Commission approval under Section 19(b)(2). In the future, any new examinations should be filed as non-controversial rule changes for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange Act and Rule 19b-4(f)(6) thereunder. As you know, Rule 19b-4(f)(6) requires the SRO to give notice to the Commission of its intent to file a proposed rule change five days before doing so. During the five days prior to filing, the Division will determine if the proposed rule change is appropriately filed as non-controversial. To assist us in our analysis, please include a complete description of the examination in your rule filing. For example, the proposed rule change should address who will be required to take the exam, what information the exam will cover, the time allotted for each section, the weight assigned to each topic, the effective date of the exam requirement, and any other information that would be helpful to us in determining whether the proposal should become effective on filing. Also, pursuant to Rule 19b-4(f)(6), the rule change should be designated as effecting a change that does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition and, by its terms, does not become operative for 30 days after the date of the filing.

Alden S. Adkins
Page 2

Filings to modify an existing examination should be submitted as "constituting a stated policy, practice, or interpretation with respect to the meaning, administration or enforcement of an existing rule..." pursuant to Section 19(b)(3)(A) of the Exchange Act.

Our goal in changing these procedures is to expedite the effectiveness of proposed rule changes involving examination requirements for persons associated with SRO members. Please contact Kathy England, Assistant Director, at 202-942-0154, or Karl Varner, Special Counsel, at 202-942-7125, if you have any questions.

Sincerely,



Belinda Blaine
Associate Director