

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="44"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2013"/> - * <input type="text" value="032"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by Financial Industry Regulatory Authority  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input checked="" type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) <input type="checkbox"/> Section 806(e)(2) <input type="checkbox"/>	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) <input type="checkbox"/>
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Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>
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**Description**  
Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Proposed Rule Change to Revise the Series 16 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 action.

First Name * <input type="text" value="Philip"/>	Last Name * <input type="text" value="Shaikun"/>
Title * <input type="text" value="Associate Vice President and Associate General Counsel"/>	
E-mail * <input type="text" value="philip.shaikun@finra.org"/>	
Telephone * <input type="text" value="(202) 728-8451"/>	Fax <input type="text" value="(202) 728-8264"/>

**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.

(Title \*)

Date <input type="text" value="08/20/2013"/>	Senior Vice President and Director of Capital Markets Policy
By <input type="text" value="Stephanie M. Dumont"/>	Stephanie Dumont,

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 \***

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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 Remove View

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

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies**

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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, security-based swap submission, or advance notice 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**

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

**Partial Amendment**

Add Remove View

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

**1. Text of the Proposed Rule Change**

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “SEA”),<sup>1</sup> Financial Industry Regulatory Authority, Inc. (“FINRA”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) revisions to the content outline and selection specifications for the Supervisory Analyst (Series 16) examination program.<sup>2</sup> The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a Supervisory Analyst. In addition, FINRA is proposing to make changes to the format of the content outline. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws or Rules of FINRA.

The revised content outline is attached. The Series 16 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to SEA Rule 24b-2.<sup>3</sup>

(b) Not applicable.

(c) Not applicable.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> FINRA also is proposing corresponding revisions to the Series 16 question bank. Based on instruction from SEC staff, FINRA is submitting this filing 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 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 SEC review.

<sup>3</sup> 17 CFR 240.24b-2.

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

The proposed rule change was approved by the Board of Directors of FINRA Regulation, Inc. (f/k/a NASD Regulation, Inc.) at its meeting on January 24, 2001, which authorized the staff to propose modifications to examination programs, including content outlines, selection specifications and question banks, and to file the proposed modifications with the SEC, without obtaining further or specific authorization from the Board of Directors of FINRA Regulation, Inc. The Board of Governors of FINRA (f/k/a 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 16 examination program on October 28, 2013. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice.

**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 Act<sup>4</sup> authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with that provision, FINRA has developed examinations that are designed to establish that persons associated with FINRA members have attained specified levels of competence and knowledge, consistent with applicable registration requirements under FINRA rules. FINRA periodically reviews the content of the examinations to determine

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<sup>4</sup> 15 U.S.C. 78q-3(g)(3).

whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

Incorporated NYSE Rules 344, 344.11 and 472(a)(2)<sup>5</sup> and NYSE Rule Interpretations 344/03 and /04 require an individual who is responsible for approving research reports at a Dual Member to be registered and qualified as a Supervisory Analyst.<sup>6</sup> Such person is required to present evidence of appropriate experience (which is having at least three years prior experience within the immediately preceding six years involving securities or financial analysis) and pass the Supervisory Analyst (Series 16) qualification examination. Rather than passing the entire Supervisory Analyst qualification examination, such person may obtain a waiver from Part II of the Supervisory Analyst qualification examination upon verification that the person has

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<sup>5</sup> The current FINRA rulebook consists of (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from NYSE (“Incorporated NYSE Rules”) (together, the NASD Rules and Incorporated NYSE Rules are referred to as the “Transitional Rulebook”). While the NASD Rules generally apply to all FINRA members, the Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE (“Dual Members”). The FINRA Rules apply to all FINRA members, unless such rules have a more limited application by their terms. For more information about the rulebook consolidation process, see Information Notice, March 12, 2008 (Rulebook Consolidation Process). For convenience, the Incorporated NYSE Rules are hereinafter referred to as the NYSE Rules.

<sup>6</sup> In addition, pursuant to FINRA Rules and NASD Rules, a Supervisory Analyst may approve: (1) research reports on debt and equity securities; (2) retail communications that are excepted from the definition of “research report” under NASD Rule 2711(a)(9)(A); (3) other research that does not meet that definition of “research report” under NASD Rule 2711(a)(9), provided that the Supervisory Analyst has technical expertise in the particular product area and any other required registrations; (4) third-party research reports; and (5) globally branded research reports prepared by foreign research analysts, as a condition for an exemption from the research analyst registration requirements. See NASD Rule 1050(f)(3)(A); FINRA Rule 2210(b)(1)(B) and NASD Rule 2711(h)(13)(C). Accordingly, in addition to testing knowledge of applicable NYSE Rules, the Series 16 examination program tests knowledge of applicable FINRA Rules and NASD Rules.

passed Level I of the Chartered Financial Analyst (“CFA”) examination. NYSE Rule 472(a)(2) further provides that where a Supervisory Analyst lacks technical expertise in a particular product area that is the subject of a research report, the content in the report may be co-approved by a product specialist; if no such expertise resides within the member, the rule requires the member to arrange approval by a qualified outside Supervisory Analyst.

In consultation with a committee of industry representatives, FINRA recently undertook a review of the Series 16 examination program. As a result of this review, FINRA is proposing to make revisions to the content outline to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a Supervisory Analyst. FINRA also is proposing to make changes to the format of the content outline.

### **Current Outline**

The current content outline is divided into two critical parts, each of which has 50 questions:

Part I: Regulatory Administration; and

Part II: Securities Analysis.

Part I includes the respective applicable laws, rules and regulations, and Part II includes technical and analytical knowledge. The current outline also includes a preface (addressing, among other things, the purpose, administration and scoring of the examination), sample questions and reference material.

## **Proposed Revisions**

FINRA is proposing to rename Part I and Part II of the outline and include two major job functions under each part. The following are the renamed parts and major job functions, with the associated number of questions:

### **Part I. Regulations:**

Function 1: Review and approve research analysts' communications to ensure compliance with applicable SEC and FINRA rules and regulations, and firm policies and procedures (34 questions); and

Function 2: Serve as liaison between the Research Department and other internal and external parties (16 questions).

### **Part II. Valuation of Securities:**

Function 1: Review the content of the report to assess the accuracy, consistency and sources of data and calculations included in the report (16 questions); and

Function 2: Review the content of the report to ensure a reasonable basis exists for the analyst's conclusions (e.g., price targets, recommendations, ratings, estimates, and valuation parameters) (34 questions).

Each function also includes specific tasks describing activities associated with performing that function. There are five tasks (T1 through T5) associated with Part I, Function 1; four tasks (T6 through T9) associated with Part I, Function 2; three tasks (T1 through T3) associated with Part II, Function 1; and six tasks (T4 through T9) associated with Part II, Function 2.<sup>7</sup> By way of example, one such task (T5, Part I, Function 1) is to verify that a research report includes all applicable required disclosures.<sup>8</sup> In addition, the outline lists with respect to Part I the laws, rules and regulations a candidate is expected

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<sup>7</sup> See Exhibit 3a, Outline Pages 7 and 10.

<sup>8</sup> See Exhibit 3a, Outline Page 7.

to know to perform the functions and associated tasks outlined in that part. These include the applicable FINRA Rules (e.g., FINRA Rule 2210), NASD Rules (e.g., NASD Rule 2711), NYSE Rules (e.g., NYSE Rule 344) and SEC rules (e.g., Securities Act Rule 137).<sup>9</sup> Further, the outline lists with respect to Part II the technical and analytical knowledge (e.g., analysis of packaged securities) required to perform the functions and associated tasks outlined in that part.<sup>10</sup> FINRA conducted a job analysis study of Supervisory Analysts, which included the use of a survey, in developing the functions and tasks and updating the required knowledge set forth in the revised outline. The functions and tasks, which appear in the revised outline for the first time, reflect the day-to-day activities of a Supervisory Analyst.

As noted above, FINRA also is proposing to revise the content outline to reflect changes to the laws, rules and regulations covered by the examination. Among other revisions, FINRA is proposing to revise the content outline to reflect the adoption of rules in the consolidated FINRA rulebook (e.g., NASD IM-2110-4 (Trading Ahead of Research Reports) was consolidated as FINRA Rule 5280 (Trading Ahead of Research Reports)).<sup>11</sup>

FINRA is proposing similar changes to the Series 16 selection specifications and question bank.

Finally, FINRA is proposing to make changes to the format of the content outline, including the preface, sample questions and reference material. Among other changes,

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<sup>9</sup> See Exhibit 3a, Outline Pages 7-9.

<sup>10</sup> See Exhibit 3a, Outline Pages 10-13.

<sup>11</sup> See also Rule Conversion Chart, available at <http://www.finra.org/Industry/Regulation/FINRARules/p085560>.

FINRA is proposing to: (1) add a table of contents;<sup>12</sup> (2) provide more details regarding the purpose of the examination and a list of the types of communications that can be approved by a Supervisory Analyst;<sup>13</sup> (3) provide more details on the required experience to be eligible to register as a Supervisory Analyst and a list of examples of appropriate experience;<sup>14</sup> (4) explain that the passing scores are established by FINRA staff, in consultation with a committee of industry representatives, using a standard setting procedure and that the scores are an absolute standard independent of the performance of candidates taking the examination;<sup>15</sup> (5) note the required waiting periods for retaking failed examinations;<sup>16</sup> (6) note that each candidate will receive a score report at the end of the test session, which will indicate a pass or fail status and include a score profile listing the candidate's performance on each major content area covered on the examination;<sup>17</sup> and (7) delete Appendix 1, Financial Ratios and Formulas Reference, which provided a sampling of the types of ratios and formulas that relate to Part II of the outline.

The number of questions on the Series 16 examination will remain at 100 multiple-choice questions (50 multiple-choice questions for each part), and candidates will continue to have one and one-half hours to complete Part I of the examination and two hours to complete Part II. Currently, a score of 72 percent is required to pass Part I

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<sup>12</sup> See Exhibit 3a, Outline Page 2.

<sup>13</sup> See Exhibit 3a, Outline Page 3.

<sup>14</sup> See Exhibit 3a, Outline Page 3.

<sup>15</sup> See Exhibit 3a, Outline Page 5.

<sup>16</sup> See Exhibit 3a, Outline Page 6.

<sup>17</sup> See Exhibit 3a, Outline Page 6.

of the examination, and a score of 74 percent is required to pass Part II. The passing scores will remain the same.

### **Availability of Content Outlines**

The current Series 16 content outline is available on FINRA's website, at [www.finra.org/brokerqualifications/exams](http://www.finra.org/brokerqualifications/exams). The revised Series 16 content outline will replace the current content outline on FINRA's website.

FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the revised Series 16 examination program on October 28, 2013. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice.

#### (b) Statutory Basis

FINRA believes that the proposed revisions to the Series 16 examination program are consistent with the provisions of Section 15A(b)(6) of the Act,<sup>18</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 15A(g)(3) of the Act,<sup>19</sup> which authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. FINRA believes that the proposed revisions will further these purposes by updating the examination program to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a Supervisory Analyst.

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<sup>18</sup> 15 U.S.C. 78o-3(b)(6).

<sup>19</sup> 15 U.S.C. 78o-3(g)(3).

**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. The updated examination aligns with the functions and associated tasks currently performed by Supervisory Analysts and tests knowledge of the most current laws, rules, regulations and skills relevant to those functions and tasks. As such, the proposed revisions would make the examination more efficient and effective.

**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) or Section 19(b)(7)(D)**

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A)(i) of the Act<sup>20</sup> and Rule 19b-4(f)(1) thereunder,<sup>21</sup> 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 16 examination program on October 28, 2013. FINRA will announce the implementation date in a Regulatory Notice.

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<sup>20</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>21</sup> 17 CFR 240.19b-4(f)(1).

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

Not applicable.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**11. Exhibits**

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

Exhibit 3a. Revised Content Outline for the Series 16 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 16 Examination.

FINRA has requested confidential treatment for the Series 16 revised selection specifications, and thus the specifications are omitted from this filing. The Series 16 revised selection specifications have been filed separately with the Commission pursuant to SEA Rule 24b-2.<sup>22</sup>

Exhibit 3c. Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, Inc. from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000.

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<sup>22</sup> 17 CFR 240.24b-2.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-FINRA-2013-032)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Revise the Series 16 Examination Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “SEA”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on , Financial Industry Regulatory Authority, Inc. (“FINRA”) 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” under Section 19(b)(3)(A)(i) of the Act<sup>3</sup> and Rule 19b-4(f)(1) thereunder,<sup>4</sup> 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

FINRA is filing revisions to the content outline and selection specifications for

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>4</sup> 17 CFR 240.19b-4(f)(1).

the Supervisory Analyst (Series 16) examination program.<sup>5</sup> The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a Supervisory Analyst. In addition, FINRA is proposing to make changes to the format of the content outline. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws or Rules of FINRA.

The revised content outline is attached. The Series 16 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to SEA Rule 24b-2.<sup>6</sup>

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

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.

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<sup>5</sup> FINRA also is proposing corresponding revisions to the Series 16 question bank. Based on instruction from SEC staff, FINRA is submitting this filing 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 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 SEC review.

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

1. Purpose

Section 15A(g)(3) of the Act<sup>7</sup> authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with that provision, FINRA has developed examinations that are designed to establish that persons associated with FINRA members have attained specified levels of competence and knowledge, consistent with applicable registration requirements under FINRA rules. 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.

Incorporated NYSE Rules 344, 344.11 and 472(a)(2)<sup>8</sup> and NYSE Rule Interpretations 344/03 and /04 require an individual who is responsible for approving research reports at a Dual Member to be registered and qualified as a Supervisory

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<sup>8</sup> The current FINRA rulebook consists of (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from NYSE ("Incorporated NYSE Rules") (together, the NASD Rules and Incorporated NYSE Rules are referred to as the "Transitional Rulebook"). While the NASD Rules generally apply to all FINRA members, the Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE ("Dual Members"). The FINRA Rules apply to all FINRA members, unless such rules have a more limited application by their terms. For more information about the rulebook consolidation process, see Information Notice, March 12, 2008 (Rulebook Consolidation Process). For convenience, the Incorporated NYSE Rules are hereinafter referred to as the NYSE Rules.

Analyst.<sup>9</sup> Such person is required to present evidence of appropriate experience (which is having at least three years prior experience within the immediately preceding six years involving securities or financial analysis) and pass the Supervisory Analyst (Series 16) qualification examination. Rather than passing the entire Supervisory Analyst qualification examination, such person may obtain a waiver from Part II of the Supervisory Analyst qualification examination upon verification that the person has passed Level I of the Chartered Financial Analyst (“CFA”) examination. NYSE Rule 472(a)(2) further provides that where a Supervisory Analyst lacks technical expertise in a particular product area that is the subject of a research report, the content in the report may be co-approved by a product specialist; if no such expertise resides within the member, the rule requires the member to arrange approval by a qualified outside Supervisory Analyst.

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<sup>9</sup> In addition, pursuant to FINRA Rules and NASD Rules, a Supervisory Analyst may approve: (1) research reports on debt and equity securities; (2) retail communications that are excepted from the definition of “research report” under NASD Rule 2711(a)(9)(A); (3) other research that does not meet that definition of “research report” under NASD Rule 2711(a)(9), provided that the Supervisory Analyst has technical expertise in the particular product area and any other required registrations; (4) third-party research reports; and (5) globally branded research reports prepared by foreign research analysts, as a condition for an exemption from the research analyst registration requirements. See NASD Rule 1050(f)(3)(A); FINRA Rule 2210(b)(1)(B) and NASD Rule 2711(h)(13)(C). Accordingly, in addition to testing knowledge of applicable NYSE Rules, the Series 16 examination program tests knowledge of applicable FINRA Rules and NASD Rules.

and associated tasks currently performed by a Supervisory Analyst. FINRA also is proposing to make changes to the format of the content outline.

#### Current Outline

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Part I: Regulatory Administration; and

Part II: Securities Analysis.

Part I includes the respective applicable laws, rules and regulations, and Part II includes technical and analytical knowledge. The current outline also includes a preface (addressing, among other things, the purpose, administration and scoring of the examination), sample questions and reference material.

#### Proposed Revisions

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Part I. Regulations:

Function 1: Review and approve research analysts' communications to ensure compliance with applicable SEC and FINRA rules and regulations, and firm policies and procedures (34 questions); and

Function 2: Serve as liaison between the Research Department and other internal and external parties (16 questions).

Part II. Valuation of Securities:

Function 1: Review the content of the report to assess the accuracy, consistency and sources of data and calculations included in the report (16 questions); and

Function 2: Review the content of the report to ensure a reasonable basis exists for the analyst's conclusions (e.g., price targets, recommendations, ratings, estimates, and valuation parameters) (34 questions).

Each function also includes specific tasks describing activities associated with performing that function. There are five tasks (T1 through T5) associated with Part I, Function 1; four tasks (T6 through T9) associated with Part I, Function 2; three tasks (T1 through T3) associated with Part II, Function 1; and six tasks (T4 through T9) associated with Part II, Function 2.<sup>10</sup> By way of example, one such task (T5, Part I, Function 1) is to verify that a research report includes all applicable required disclosures.<sup>11</sup> In addition, the outline lists with respect to Part I the laws, rules and regulations a candidate is expected to know to perform the functions and associated tasks outlined in that part. These include the applicable FINRA Rules (e.g., FINRA Rule 2210), NASD Rules (e.g., NASD Rule 2711), NYSE Rules (e.g., NYSE Rule 344) and SEC rules (e.g., Securities Act Rule 137).<sup>12</sup> Further, the outline lists with respect to Part II the technical and analytical knowledge (e.g., analysis of packaged securities) required to perform the functions and associated tasks outlined in that part.<sup>13</sup>

FINRA conducted a job analysis study of Supervisory Analysts, which included the use of a survey, in developing the functions and tasks and updating the required knowledge set forth in the revised outline. The functions and tasks, which appear in the

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<sup>10</sup> See Exhibit 3a, Outline Pages 7 and 10.

<sup>11</sup> See Exhibit 3a, Outline Page 7.

<sup>12</sup> See Exhibit 3a, Outline Pages 7-9.

<sup>13</sup> See Exhibit 3a, Outline Pages 10-13.

revised outline for the first time, reflect the day-to-day activities of a Supervisory Analyst.

As noted above, FINRA also is proposing to revise the content outline to reflect changes to the laws, rules and regulations covered by the examination. Among other revisions, FINRA is proposing to revise the content outline to reflect the adoption of rules in the consolidated FINRA rulebook (e.g., NASD IM-2110-4 (Trading Ahead of Research Reports) was consolidated as FINRA Rule 5280 (Trading Ahead of Research Reports)).<sup>14</sup>

FINRA is proposing similar changes to the Series 16 selection specifications and question bank.

Finally, FINRA is proposing to make changes to the format of the content outline, including the preface, sample questions and reference material. Among other changes, FINRA is proposing to: (1) add a table of contents;<sup>15</sup> (2) provide more details regarding the purpose of the examination and a list of the types of communications that can be approved by a Supervisory Analyst;<sup>16</sup> (3) provide more details on the required experience to be eligible to register as a Supervisory Analyst and a list of examples of appropriate experience;<sup>17</sup> (4) explain that the passing scores are established by FINRA staff, in consultation with a committee of industry representatives, using a standard setting procedure and that the scores are an absolute standard independent of the performance of

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<sup>14</sup> See also Rule Conversion Chart, available at <http://www.finra.org/Industry/Regulation/FINRARules/p085560>.

<sup>15</sup> See Exhibit 3a, Outline Page 2.

<sup>16</sup> See Exhibit 3a, Outline Page 3.

<sup>17</sup> See Exhibit 3a, Outline Page 3.

candidates taking the examination;<sup>18</sup> (5) note the required waiting periods for retaking failed examinations;<sup>19</sup> (6) note that each candidate will receive a score report at the end of the test session, which will indicate a pass or fail status and include a score profile listing the candidate's performance on each major content area covered on the examination;<sup>20</sup> and (7) delete Appendix 1, Financial Ratios and Formulas Reference, which provided a sampling of the types of ratios and formulas that relate to Part II of the outline.

The number of questions on the Series 16 examination will remain at 100 multiple-choice questions (50 multiple-choice questions for each part), and candidates will continue to have one and one-half hours to complete Part I of the examination and two hours to complete Part II. Currently, a score of 72 percent is required to pass Part I of the examination, and a score of 74 percent is required to pass Part II. The passing scores will remain the same.

#### Availability of Content Outlines

The current Series 16 content outline is available on FINRA's website, at [www.finra.org/brokerqualifications/exams](http://www.finra.org/brokerqualifications/exams). The revised Series 16 content outline will replace the current content outline on FINRA's website.

FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the revised Series 16 examination program on October 28, 2013. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice.

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<sup>18</sup> See Exhibit 3a, Outline Page 5.

<sup>19</sup> See Exhibit 3a, Outline Page 6.

<sup>20</sup> See Exhibit 3a, Outline Page 6.

2. Statutory Basis

FINRA believes that the proposed revisions to the Series 16 examination program are consistent with the provisions of Section 15A(b)(6) of the Act,<sup>21</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 15A(g)(3) of the Act,<sup>22</sup> which authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. FINRA believes that the proposed revisions will further these purposes by updating the examination program to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a Supervisory Analyst.

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. The updated examination aligns with the functions and associated tasks currently performed by Supervisory Analysts and tests knowledge of the most current laws, rules, regulations and skills relevant to those functions and tasks. As such, the proposed revisions would make the examination more efficient and effective.

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

Written comments were neither solicited nor received.

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<sup>21</sup> 15 U.S.C. 78o-3(b)(6).

<sup>22</sup> 15 U.S.C. 78o-3(g)(3).

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>23</sup> and paragraph (f)(1) of Rule 19b-4 thereunder.<sup>24</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend 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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2013-032 on the subject line.

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<sup>23</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>24</sup> 17 CFR 240.19b-4(f)(1).

Paper Comments:

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

All submissions should refer to File Number SR-FINRA-2013-032. 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 website (<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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. 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-2013-032 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>25</sup>

Elizabeth M. Murphy

Secretary

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<sup>25</sup> 17 CFR 200.30-3(a)(12).



# Supervisory Analyst Qualification Examination

## (Series 16)

### Content Outline

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## INTRODUCTION

The content outline serves as a guide to the topics that are covered on the Supervisory Analyst Qualification Examination. It is recommended that candidates review the content outline prior to taking the examination.

## THE PURPOSE OF THE EXAMINATION

The Series 16 Examination is designed to assess the competency of entry-level Supervisory Analysts. It is intended to safeguard the investing public by helping to ensure that Supervisory Analysts are competent to perform their jobs. Given this purpose, the Series 16 Examination seeks to measure the degree to which each candidate possesses the knowledge, skills and abilities needed to perform the critical functions of a Supervisory Analyst.

This exam qualifies individuals to approve the following communications with the public:

- research reports on debt and equity securities;
- discussions of broad-based indices;
- commentaries on economic political or market conditions;
- technical analysis concerning the demand and supply for a sector, index or industry based on trading volume and price;
- statistical summaries of multiple companies' financial data, including listings of current ratings;
- recommendations regarding increasing or decreasing holdings in particular industries or sectors;
- notices of ratings or price target changes, provided certain conditions are met; and
- other research that does not meet the definition of "research report" under NASD Rule 2711(a)(9), provided that the Supervisory Analyst has technical expertise in the particular product area and any additional product-specific registrations that may be required.

## ELIGIBILITY REQUIREMENTS

The candidate must be associated with and sponsored by a FINRA member firm to be eligible to take the Series 16 Examination.

**Experience:** Incorporated NYSE Rule 344 and its interpretation require candidates to present evidence of three years of appropriate experience. A candidate's member firm must submit, on behalf of the applicant, evidence of that candidate's experience, as deemed acceptable by FINRA.

Appropriate experience for a candidate means at least three years prior experience within the immediately preceding six years involving securities or financial analysis. Examples of appropriate experience may include the following:

- Equity or Fixed Income Research Analyst;
- Credit Analyst for a securities rating agency;
- Supervising preparation of materials prepared by financial/securities analysts;
- Financial analytical experience gained at banks, insurance companies or other financial institutions;
- Academic experience relating to the financial/securities markets/industry.

**Exemption:** If an individual possesses the appropriate experience, and has passed the Chartered Financial Analyst Level I examination, he or she is exempt from Part II of the Series 16 Examination (Series 162). An applicant requesting an exemption from Part II must include evidence of having passed the CFA Level I Examination.

## APPLICATION PROCEDURES

The FINRA member firm that sponsors the applicant must file a Uniform Application for Securities Industry Registration or Transfer (Form U4) in the Central Registration Depository (CRD<sup>®</sup>) and request the Supervisory

Analyst (SA) position on the Form U4. If the candidate has no U4 (registration application) on file, the member firm must file one with FINRA and request the Series 16 examination on the form.

If the candidate is currently registered in any capacity, the firm must file a letter with FINRA on behalf of the candidate requesting an administration of the exam. The letter must also provide an explanation of the candidate's appropriate experience, and an updated *Page One only* of the U4 application.

## EXPERIENCE ACCEPTABILITY & EXAMINATION WAIVER REQUESTS

Member firms must submit all qualification examination waiver requests and Series 16 {experience acceptability} requests electronically through the FINRA Firm Gateway. Member firms' Web CRD Primary Account Administrators will receive (or may apply for) entitlement privileges to give the firm's registration or compliance personnel the ability to file requests for qualification examination waivers and Series 16 experience acceptability through the Firm Gateway.

The following link contains more information on waivers and experience acceptability requests:

<http://www.finra.org/Industry/Compliance/Registration/QualificationsExams/RegisteredReps/Qualifications/p010600>

## STRUCTURE OF THE EXAMINATION

The examination consists of two parts: *Regulations*, and *Valuation of Securities*.

**Part I: Regulations** - This section (*Series 161*) contains 50 questions regarding relevant FINRA rules, as well as the applicable provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. Candidates are allotted 90 minutes to complete Part I.

Part I focuses on government and self-regulatory organization (SRO) rules and regulations. Of particular importance to Supervisory Analysts are **FINRA Rule 2210** (*Communications with the Public*), **NASD Rule 2711** (*Research Analysts and Research Reports*), and **NYSE Rule 472** (*Communications with the Public*). Candidates are encouraged to have a thorough understanding of these rules and regulations, including applicable information found in Regulatory Notices and FAQs.

Part I delineates two critical job functions:

**Function 1:** Review and approve research analysts' communications to ensure compliance with applicable SEC and FINRA rules and regulations, and firm policies and procedures (34 questions); and

**Function 2:** Serve as liaison between the Research Department and other internal and external parties (16 questions).

**Part II: Valuation of Securities** - This section (*Series 162*) contains 50 questions regarding various topics pertaining to securities' analysis, including accounting, economics, and technical analysis, among others. Candidates are allotted 120 minutes to complete Part II.

Part II delineates two critical job functions:

**Function 1:** Review the content of the report to assess the accuracy, consistency, and sources of data and calculations included in the report (16 questions); and

**Function 2:** Review the content of the report to ensure a reasonable basis exists for the analyst's conclusions (e.g., price targets, recommendations, ratings, estimates, and valuation parameters) (34 questions).

## DEVELOPMENT AND MAINTENANCE OF THE CONTENT OUTLINE AND EXAMINATION

The Series 16 Content Outline was developed based on the results of a job analysis study of Supervisory Analysts. The job analysis process included collecting data about the job functions, tasks and required knowledge of Supervisory Analysts from a wide variety of firms using numerous data collection techniques, including a survey.

To ensure and sustain the job relevance of the examination, under the guidance of FINRA staff, a committee of industry representatives ("the Committee") writes, reviews and validates all test questions. Test questions are subjected to multiple reviews prior to inclusion on the examination and each question is linked directly to a component of the content outline. Test questions vary in difficulty and complexity. Each question will have only one correct or best answer.

The bank of test questions changes constantly as a result of amendments to, or the introduction of, government and SRO rules and regulations, changes in industry practice and the introduction of new products. It is the candidate's responsibility to keep abreast of such changes when preparing to take the examination. Examination questions and their statistical performance are analyzed routinely by FINRA staff and the Committee to ensure that test questions continue to be relevant to the functions of Supervisory Analysts. Examination questions are updated when necessary to reflect current industry practices and government and SRO rules and regulations. **Please Note: Candidates are responsible for keeping abreast of changes made to the applicable rules and regulations, as the examination is updated when new rules are introduced and when the rules are amended.**

## THE ADMINISTRATION OF THE EXAMINATION

For operational and delivery purposes only, the Series 16 is administered as two separate examinations: *Series 161* (for Part I) and *Series 162* (for Part II). When making an appointment, the candidate should refer to the Series 16, keeping in mind that reference may also be made to the S161 or the S162.

The examinations are administered via computer. A tutorial on how to take the examination via computer is provided prior to taking the examination.

Scratch paper and basic electronic calculators will be provided to candidates by the test administrator, and must be returned to the test center administrator at the end of the testing session. Some test questions involve calculations. Only calculators provided by the test center administrators are allowed for use during the examination. Candidates will not be permitted to bring any reference material to their testing session. Severe penalties are imposed on candidates who cheat or attempt to cheat on FINRA-administered examinations.

## HOW THE EXAMINATION IS SCORED

The passing score for the examination is the minimum number of test questions that a candidate has to answer correctly in order to pass the examination. FINRA staff, in consultation with the Committee, using a standard setting procedure, establishes the passing score for the examination. The passing score is an absolute standard and it is independent of the performance of candidates taking the examination. The passing score for Part I (Regulations) of the examination is 72%. The passing score for Part II (Valuation of Securities) of the examination is 74%.

## **CANDIDATES' TEST RESULTS**

On the day of the test, candidates will receive a report of their test results both on screen and in paper format at the end of their test session. The score report will indicate pass/fail status and a score profile indicating performance based on each major content area covered on the examination. It is recommended that candidates who fail the examination review the information provided on the score report, as they may want to focus on the areas that they performed poorly on when preparing to retake the examination. For security reasons, the examination and individual test questions are not available for review after taking the examination.

The candidate will be registered as an SA after passing both the S161 and S162 (or the Series 161 only if the candidate is exempt from the Series 162 as noted earlier). In the event of a failing score on one part of the exam (or both parts), the candidate must retake whichever part(s) that he failed.

If a candidate fails the examination, he may take the examination again 30 days after the date of the prior examination. If a candidate fails an examination three or more times in succession, he or she must wait until 180 calendar days have elapsed from the date of the last attempt to pass the examination. Within a few days of passing the examination, approval of the candidate's status as an SA will be recorded in the Central Registration Depository (CRD). The individual's registration is effective as of the date of the SA approval in the CRD system, not the date of passing the examination.

## THE SERIES 16 CONTENT OUTLINE

### Part I. Regulations

**Function 1: Review and approve research analysts' communications to ensure compliance with applicable SEC and FINRA rules and regulations, and firm policies and procedures.**

#### Tasks:

- T1. Determine whether communication is a research report and determine the necessary approvals (e.g., SA, appropriately qualified principal, legal and compliance) or additional review by product specialists.
- T2. Verify whether publishing of the communication is permissible (e.g., restricted list, watch list, quiet period, black-out period).
- T3. Review the content of the communication to ensure that any price target or recommendation has a reasonable basis and includes the required discussion of risks.
- T4. Ensure the report or other communication distinguishes fact from opinion or rumor, and does not include exaggerated or promissory language or any other language that will make the report unfair or unbalanced.
- T5. Verify that a research report includes all applicable required disclosures.

**Function 2: Serve as liaison between the Research Department and other internal and external parties.**

#### Tasks:

- T6. Comply with regulations and firms' policies and procedures when trading in personal and related accounts and maintain appropriate record keeping.
- T7. Ensure that appropriate disclosures are provided and documented when a research analyst makes a public appearance (e.g., media, seminars, webinars, sales presentations, non-deal road shows).
- T8. Coordinate with the legal/compliance department to obtain any necessary approvals for communications between analysts and other parties (e.g., the subject company, investment banking, sales or trading).
- T9. Ensure that systems are in place for appropriate dissemination of communications (e.g., selective dissemination standards).

#### Knowledge of Rules and Regulations:

##### FINRA Rules:

Rule 2010 - *Standards of Commercial Honor and Principles of Trade*

Rule 2020 - *Use of Manipulative, Deceptive, or Other Fraudulent Devices*

Rule 2210 - *Communications with the Public*

Rule 5280 - *Trading Ahead of Research Reports*

##### NASD Rules:

Rule 1022 - *Categories of Principal Registration*

Rule 1050 - *Registration of Research Analysts*

Rule 2711 - *Research Analysts and Research Reports*

**NYSE Rules:**

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

Rule 344 - *Research Analysts and Supervisory Analysts*

Rule 345A - *Continuing Education for Registered Persons*

Rule 351(f) – *Reporting Requirements*

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

Rule 472 - *Communications with the Public*

**Securities Act of 1933:**

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

Section 12 – *Civil liabilities Arising in Connection with Prospectuses and Communications*

Rule 134 - *Communications not Deemed a Prospectus*

Rule 135 - *Notice of Proposed Registered Offerings*

Rule 135a – *Generic Advertising*

Rule 137 - *Publications or Distributions of Research Reports by Brokers or Dealers That Are Not Participating In an Issuer's Registered Distribution of Securities*

Rule 138 - *Publications or Distributions of Research Reports By Brokers or Dealers About Securities Other Than Those They are Distributing*

Rule 139 - *Publications or Distributions of Research Reports By Brokers or Dealers Distributing Securities*

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

Rule 144A - *Private Resales of Securities to Institutions*

**Securities Exchange Act of 1934:**

Section 9 – *Manipulation of Security Prices*

Section 15D – *Securities Analysts and Research Reports*

Rule 10b-1 - *Prohibition of Use of Manipulative or Deceptive Devices or*

*Contrivances with Respect to Certain Securities Exempted from Registration*

Rule 10b-3 - *Employment of Manipulative and Deceptive Devices (by brokers or dealers)*

Rule 10b-5 - *Employment of Manipulative and Deceptive Devices (by persons)*

Rule 17a-4 - *Records to Be Preserved by Certain Exchange Members, Brokers and Dealers*

Regulation AC - *Analyst Certification*

Regulation G - *Non-GAAP Disclosures*

Regulation M:

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

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

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

### **SUGGESTED REFERENCES**

FINRA Rules and Regulations can be found on FINRA's website

<http://www.finra.org/Industry/Regulation/>

The Securities Act of 1933 and the Securities Exchange Act of 1934 can be found on the SEC's website

<http://sec.gov/about/laws.shtml>

## Part II. Valuation of Securities

**Function 1: Review the content of the report to assess the accuracy, consistency and sources of data and calculations included in the report.**

### Tasks:

- T1. Verify that data and estimates included in the report are labeled and sourced properly and that the analyst has permission to use the data sourced
- T2. Confirm calculations presented in the report are relevant, reasonable, reconcile with financial statements and are consistent throughout
- T3. Verify the subject company's market data (dividends, yield, market cap, price, trading volume, 52-week high-low stock prices), and accuracy and credibility of data sources provided throughout the report

**Function 2: Review the content of the report to ensure a reasonable basis exists for the analyst's conclusions (e.g., price targets, recommendations, ratings, estimates, and valuation parameters)**

### Tasks:

- T4. Review financial models to confirm accuracy and consistency of use throughout the report
- T5. Validate that projections are reasonable and there is a reasonable explanation for estimate changes
- T6. Verify that valuation methods and rationale for ratings are reasonable and that the data/estimates support the ratings or outlook
- T7. Verify that recommendation is aligned with the price target and that price target parameters are accurate and relevant
- T8. Validate that valuation thesis supports recommendation
- T9. Ensure that recommendations and the content of the report are consistent

### Knowledge:

#### Financial Accounting

##### Principles and Construction of Accounting Statements

- Income statements
- Balance sheets
- Statement of Cash Flows
- Auditor's report; importance of footnotes
- Management's discussion and analysis of operating results and financial condition

##### Financial Analysis of Accounting Statements

- Adjustments for comparability (operating income, balance sheet adjustments and sustainable cash flow adjustments)
- Calculations of key ratios
- Adjustments for subsidiaries, affiliates and foreign operations
- Stock splits and dividends

### Accounting Principles and Practices

- Inventories
- Depreciation
- Income taxes
- Intangibles
- Consolidation
- Acquisitions and mergers
- Deferred assets and liabilities
- Pension plans
- Options

### Economics

#### Microeconomic

- Concepts of demand, supply and elasticity
- Basic principles of market structures: monopolies, oligopolies, pure competition

#### Macroeconomics: Aggregate Analysis

- Fiscal policy--effects on aggregate demand and supply
- Relationships among budget deficits, inflation, and interest rates
- Components of the business cycle

#### Monetary Policy and International Economics

- Monetary policy effects on interest rates, output, and employment
- Monetary theory--velocity of money
- Relationships among balance of payments, exchange rates and interest rates; the effects of monetary and fiscal policies on the exchange-rate value for a given currency

#### Money and the Banking System

- Functions of Role of the Federal Reserve Board--Federal Open Market Committee (FOMC)
- Definition of money and money supply

### Analysis of Fixed Income Securities

#### Bond Instruments and Analysis

- Fixed-income instruments
- Taxable, tax exempt
- U.S. Treasuries; government agencies' securities
- International fixed-income
- Conventional, mortgage-backed, convertible security, debenture, high-yield junk bonds, mortgage-related securities, deep discount bond, commercial paper, collateralized mortgage obligations, asset-backed securities
- Fixed-coupon, floating-coupon, zero-coupon, call protection
- Sinking fund, put, extendable, retractable, fixed maturity

- Average life, half-life of amortizing, mortgage-backed bonds
- Yield and duration
- Types of bond swaps
- Credit quality--bond ratings, earning power tests, asset tests

#### Credit Markets

- Yield curve, yield spread, investor expectations, relative value, interest rate forecasting
- Credit Default Swaps

#### Analysis of Equity Securities

Sources of Information (news information, pricing information, financial information)

#### Types of Equity Securities

- Stocks (common and preferred), American Depositary Receipts (ADRs), warrants, rights, ETFs, closed-end funds, etc.

#### Industry Appraisal and Evaluation

- Inter-industry competition, supply-demand, product prices, costs and profits

#### Company Valuation

- Sales volume, product prices, product research, intra-industry competition Ratio analysis--balance sheet and income statement and analysis of corporate profitability, liquidity, solvency, operating and financial leverage
- Management appraisal
- Earnings quality and dividend security; near- and long-term; growth rate determination
- Valuation analysis and techniques--long- and short-term discounted cash flow earnings multiples, absolute and relative valuation models, growth stock valuation, security market valuation and target price
- Forecasting
- Risk analysis--quantitative and qualitative, alpha and beta considerations

#### Analysis of preferred stocks

#### Analysis of packaged securities

#### Technical analysis

#### Analysis of the equities markets

- Market sentiment, advance/decline index, market momentum, available funds, trading volume

#### Basic chart patterns, trend lines, and key terms

- Breakouts, resistance levels, support levels, moving averages, consolidation, stabilization, overbought, oversold

In addition, a basic understanding and application of the following is required:

- A. Asset turnover
- B. Cash collection cycle (including receivables turnover, inventory turnover, and payables turnover)
- C. Current ratio (working capital ratio)
- D. Debt to capital ratio (total and long-term)
- E. Debt to equity ratio (total and long-term)
- F. Dividend payout ratio
- G. Earnings Per Share (EPS)
- H. Earnings Before Interest and Taxes (EBIT) margin
- I. Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) margin
- J. Equity turnover
- K. Gross profit margin
- L. Interest coverage ratio
- M. Inventory valuation (e.g., LIFO, FIFO)
- N. Leases
- O. Net profit margin
- P. Pension liability accounting
- Q. Pre-tax margin
- R. Pro forma vs. GAAP reporting
- S. Operating profit margin
- T. Quick ratio (Acid test)
- U. Return on assets
- V. Return on equity
- W. Return on invested capital
- X. Leverage, including degree of operating, financial and total leverage.
- Y. Tax accounting (including tax rate calculation and deferred tax accounting)

## SAMPLE QUESTIONS

The following sample questions are included to provide an introduction to the basic formats of multiple-choice questions used on the examination. The sample questions do not reflect the difficulty level of actual test questions. Candidates who familiarize themselves with these formats may be able to improve their test-taking skills so that their performance on the examination will better reflect their knowledge of the areas tested.

**Closed-Stem:** The stem (the part that poses the question) is a complete sentence, and thus concludes with a question mark. The options (answer choices) may be complete or incomplete sentences.

**Example:** Which of the following formulas would a research analyst use to calculate a P/E Ratio?

- (A) Market value per share / earnings per share\*
- (B) Total liabilities / total stockholders' equity
- (C) Net income available to shareholders / number of shares outstanding
- (D) Dividend / earnings

**Open-Stem (Sentence Completion):** The stem is an incomplete statement, and the options represent conclusions to the sentence.

**Example:** If a perfume manufacturer raises the price of its product and, as a result, revenues fall sharply, the demand for the company's perfume can be described as:

- (A) Inelastic
- (B) Elastic
- (C) Nondiscretionary
- (D) Discretionary

**Except or Not:** The "EXCEPT" case is used when the task is to select the response option that is an exception to the principle or rule stated in the stem. If it is clearly more straightforward or less awkward to use "not," rather than "except," this is done. In either case, the stem may be open or closed.

**Example:** "When we first recommended XYZ, the stock was selling at 15.50. A year later, the price for the shares had almost doubled. The stock has continued to advance since then and has been the only one in its industry group to post a new high since the beginning of this year." For a Supervisory Analyst to find the preceding statement acceptable in a research report, the report MUST contain all the following EXCEPT

- (A) The past 12 months' performance data for all stocks in a related universe
- (B) An indication of the general market conditions during the period covered
- (C) The comment that past performance does not guarantee future results
- (D) Two years' price history for the stock\*

## REFERENCES

Listed below are government and SROs' websites that provide information about rules and other information that may be useful in preparing for the examination. In addition to information about rules, the SROs may publish glossaries of terms, explanations of securities products, and compliance procedures. Candidates are encouraged to refer to the SROs' websites for information memos or Regulatory Notices concerning amendments to rules and the announcement of new rules that may be pertinent to the examination. Copies of federal securities laws and SEC rules may be purchased through the network of federal government printing offices. However, some of this information may be available on the SROs' and pertinent federal government's (e.g., the SEC) websites. It is recommended that candidates refer to the content outline as part of their preparation to take the examination. Candidates are responsible for planning their course of study in preparation for the examination. FINRA produces only the content outline and is not involved or endorses any particular course of study.

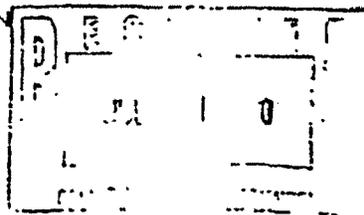
**Financial Industry Regulatory Authority (FINRA)**  
1735 K Street  
Washington DC, 20006  
[www.finra.org](http://www.finra.org)

**Securities and Exchange Commission**  
**Office of Investor Education and Advocacy**  
1-800-SEC-0330  
[www.sec.gov](http://www.sec.gov)

**Securities Industry/Regulatory Council**  
**On Continuing Education**  
[www.cecouncil.com](http://www.cecouncil.com)



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: <sup>Alden</sup>

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.

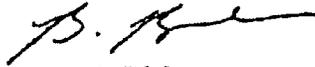
Alden S. Adkins

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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