

Module A: Communications with the Public

A.1 Types of Communications

A.1.1 Written and Electronic Communications

- Definitions, use, approval, and retention requirements for written communications, including, but not limited to:
 - ❖ Correspondence
 - ❖ Advertising
 - ❖ Sales literature, such as research reports
 - ❖ Electronic communications including e-mail, websites, text and instant messaging, weblogs (blogs), podcasts, online bulletin boards or other postings, and social networking websites.

A.1.2 Oral and Other Communications

- Approval and retention requirements for seminars, public speaking engagements, testimonials, and communications in and with the press.
- Telemarketing restrictions, cold calling, various Do-Not-Call lists, Federal regulations applicable to broker-dealers when contacting prospective clients.
 - ❖ Requirements and industry best practices pertaining to the use of scripts.

A.2 Content Standards, Review, and Approval Requirements

- Guidelines for ensuring that all communications are fair and balanced and do not contain misleading, exaggerated or unwarranted statements, or omit material facts.
- Prohibited distribution of confidential material including internal-use-only and broker-dealer-use only materials.
- Prohibited communications, including predictions and projections, guaranteeing performance, and blanket recommendations.
- Requirements for maintaining records of communications distributed to the public and complying with firm policies to support the requirement.
- Use of professional designations

- Required disclosures and restrictions when communicating with the public, such as:
 - ❖ Use of testimonials
 - ❖ Use of copyrighted material
 - ❖ Making written investment recommendations.
- Institutional communications:
 - ❖ Content standards of sales material and correspondence
 - ❖ Approval, recordkeeping, and spot-check procedures.

Module B: Suitability

B.1 Client Information

- Requirements for determining suitability of investments before making recommendations.
- Responsibilities for obtaining information including, but not limited to a client's:
 - ❖ Financial data such as net-worth, annual income and tax status.
 - ❖ Life profile information such as employment, marital status, and number of dependents.
 - ❖ Account profile information such as investment objectives, risk tolerance, and time horizon.
- Confirming client information within 30 days of account opening, upon update of account information, or at least every 36 months.

B.2 Concepts and Implications Related to Risk

- Understanding the characteristics and risks associated with products offered and investments recommended.
- Risks, features, and required disclosures for various investment accounts including retirement plans and education savings accounts.
- Disclosure and explanation of risks associated with recommendations.

- Types, potential implications, and examples of risk including, but are not limited to, call risk, concentration risk, credit risk, emerging market risk, interest rate risk, legislative risk, liquidity risk, market risk, purchasing power risk (inflation risk), reinvestment risk, principal risk, currency risk, political risk, sector risk, sovereign risk.
- Characteristics and risks of investment products, including, but not limited to:
 - ❖ Mutual funds
 - ❖ Exchange Traded Funds (ETFs)
 - ❖ Real Estate Investment Trusts (REITs)
 - ❖ Unit Investment Trusts (UITs)
 - ❖ Limited partnerships
 - ❖ Private placements
 - ❖ Variable contracts.

B.3 Monitor Clients' Information and Accounts

- Responsibilities for monitoring and periodically confirming information including, but not limited to a client's:
 - ❖ Financial data such as net-worth, annual income and tax status.
 - ❖ Life profile information such as employment, marital status and number of dependents.
 - ❖ Account profile such as investment objectives, risk tolerance, and time horizon.
 - ❖ Changes in circumstances, holdings, and other applicable information.
- Support the firm's requirement to record and confirm changes with the client by promptly recording and reporting changes for client account information.
- Understanding and applying principles of diversification.
- Solicited (recommended) versus unsolicited (not recommended) transactions.

- Sales practices used when servicing senior investors.
 - ❖ Account transactions
 - ❖ Suitability of products
 - ❖ Public appearances (seminars and speaking engagements)
 - ❖ Diminished capacity
 - ❖ Use of professional designations claiming expertise in senior issues.

Module C: Handling Customer Accounts, Trade and Settlement Practices

C.1 Account Opening and Client Information

- Procedures for opening and maintenance of client accounts, including required approvals and recordkeeping requirements.
- Customer Identification Program (CIP)
- Client address issues, such as P.O. boxes and temporary addresses
- Deceased accounts
- Procedures and requirements for account transfers/ACATS
- Delivery of account documentation including, but not limited to prospectuses and insurance contracts.
- Confirmations & statements
- Safeguarding firm and client information:
 - ❖ Privacy rules (Regulation SP)
 - ❖ IT security
 - ❖ Document security and destruction.
- Securities Investor Protection Corporation (SIPC): Purpose of SIPC, coverage limits and amounts, disclosures to clients.
- Bank sweep programs: Disclosures regarding protection features, methods of determining interest rates, and compensation.

- Federal Deposit Insurance Corporation (FDIC): An agency of the Federal Government established to insure the deposits of account holders at FDIC member institutions.

C.2 Anti-Money Laundering

- Recognizing the three stages of money laundering:
 - ❖ Placement
 - ❖ Layering
 - ❖ Integration.
- Anti-Money Laundering Rules, USA PATRIOT Act, and the Bank Secrecy Act
- Customer Identification Program (CIP)
- Potential indicators (“red flags”) to detect money laundering
- Cash/Equivalents/Deposits & Reporting Requirements
 - ❖ Currency Transaction Reports (CTRs)
 - ❖ Suspicious Activity Reports (SARs).
- Office of Foreign Assets Control (OFAC)
 - ❖ Specially Designated Nationals (SDN) List
- Financial Crimes Enforcement Network (FinCEN)

C.3 Trade Approval / Account Activity

- Requirements for order entry and price reporting.
- Order ticket requirements, such as recording transactions as solicited or unsolicited.
- Requirements for trade errors and account changes.
- Requirements for conducting third-party transfers or disbursement of funds.
- General requirements for payment and trade settlement
 - ❖ Consequences of nonpayment/nondelivery

- Restrictions, approvals, and disclosure requirements when accepting or paying referral fees.
- Requirements for conducting third-party transfers or disbursement of funds.
- Procedures following the death of a client.

C.4 Trading Authorization

- Orders from someone other than the account owner
 - ❖ Required instructions, requirements for third-party checks and wire transfers.
 - ❖ Requirements for written authorization for orders.
- Understanding various Powers of Attorney (POA)
 - ❖ Differences between limited and full trading authorization.
 - ❖ Obligations of and limits on fiduciaries, limits on the use of powers of attorney.
- Discretionary Trading/Discretionary Accounts
 - ❖ Required approvals and procedures when using discretion.
- Time & Price Discretion

C.5 Client Complaints and Inquiries

- Identifying client complaints.
- Requirements for investigating and reporting client complaints.
- Broker-dealer and RR reporting requirements.
- Responding to requests for information.
- Information disclosed in disciplinary records and/or Forms U4 and U5.
- Arbitration procedures and awards and required regulatory reporting.
- Mediation and negotiated settlements.

C.6 Prohibited/Fraudulent Practices

- Definitions and examples of detecting prohibited and improper activities such as:
 - ❖ Insider trading
 - ❖ Circulation of rumors
 - ❖ Entering false orders
 - ❖ Misappropriation of funds
 - ❖ Forgery
 - ❖ Unauthorized trading
 - ❖ Guarantees to clients
 - ❖ Selling away
 - ❖ Piggybacking/shadowing
 - ❖ Selling dividends
 - ❖ Commingling funds
 - ❖ Selling to breakpoints
 - ❖ Churning
 - ❖ Switching
 - ❖ Market manipulation
 - ❖ Unfair/excessive pricing
 - ❖ Front-running
 - ❖ Free-riding
 - ❖ Parking
 - ❖ Trading at the close/marketing the close.

C.7 Client Account Registrations

- Understanding the purpose and characteristics of account types, including:
 - ❖ Individual
 - ❖ Corporate
 - ❖ Joint Accounts:
 - Joint Tenants with Right of Survivorship (JTWROS)
 - Tenants in Common (TIC)
 - Community Property (CPWROS).
 - ❖ Transfer on Death (TOD)
 - ❖ Custodial Account (UGMA/UTMA)
 - ❖ Trust Accounts (e.g., Revocable, Irrevocable, etc.)
 - ❖ Charitable and foundation accounts
 - ❖ Retirement accounts
 - ❖ Educational funding accounts (e.g., 529 College Savings Plans and Coverdell Education Savings accounts).

C.8 Account Administration

- Understanding and utilizing cost basis
- Distribution of funds
- Alternatives for non-invested cash (e.g., free credit balances, sweep accounts)

C.9 Retirement Plans

- Characteristics including eligibility, employee coverage, types of contributions, maximum contribution limits, taxation of investments within a plan, distribution options and allowable exceptions, taxation of distributions, minimum distribution requirements, penalties for premature distributions, rollovers, excess contributions.

- Characteristics of various Individual Retirement Accounts (IRAs) including, but not limited to:
 - ❖ Traditional
 - ❖ Rollover
 - ❖ Roth
 - ❖ Spousal
 - ❖ Inherited/Beneficiary.
- Characteristics of various Employer sponsored plans, including, but not limited to:
 - ❖ Defined contribution and defined benefit plans
 - ❖ Profit sharing and money purchase plans
 - ❖ SEP (Simplified Employee Pension) plans
 - ❖ 401(k) plans
 - ❖ 403(b) tax-deferred annuity plans/custodial accounts
 - ❖ SIMPLE IRA/401(k) plans.

Module D: Product Knowledge

D.1 Investment Companies

- General characteristics, and the similarities and differences among open and closed-end investment companies, real estate investment trusts, and exchange-traded funds.

D.1.1. Mutual Funds

- Types of mutual funds, including but not limited to, equity funds, fixed-income funds, hybrid funds (balanced), money market funds, sector funds, sector diversified funds, specialty funds.
- Structure, Operation, and Costs:
 - ❖ Systematic investing/withdrawals
 - ❖ Dollar-cost averaging

- ❖ Net Asset Value (NAV)
- ❖ Share classes.
- Sales charges
 - ❖ Computation and types, such as front end load, level load, contingent deferred sales charge (CDSC), and no load.
 - ❖ Qualification for reduction using breakpoint discounts.
 - ❖ Letters of Intent and Rights of Accumulation
 - ❖ Expenses and 12b-1 fees
- Activities, services and requirements:
 - ❖ Statutory and Summary Prospectus delivery requirements
 - ❖ Availability of statement of additional information (SAI)
 - ❖ Exchange privileges/conversions/redemptions
 - ❖ Rights of Reinstatement
 - ❖ Mutual fund switching
 - ❖ Inappropriate sales activities (e.g., late trading, market timing, selling to breakpoints, selling dividends).
 - ❖ Tax consequences from trading activities by the Investment Company and the investor.
- Types of distributions:
 - ❖ Net investment income
 - ❖ Capital gains
 - ❖ Return of capital.

D.1.2 Real Estate Investment Trusts (REITs)

- ❖ Definition, characteristics, and operation
- ❖ Investment considerations (i.e., risks and benefits) including suitability

D.1.3 Exchange-Traded Funds (ETFs)

- ❖ Characteristics, including how they are structured, traded and priced.
- ❖ Investment considerations (i.e., risks and benefits) and suitability.

D.2 Variable Annuities & Variable Life Contracts

- Characteristics of variable annuities and comparison to fixed annuities.
- Types of variable products such as bonus, deferred, and immediate variable annuities.
- Sales charges, surrender charges, fees and related expenses (e.g., mortality and expense charges, administrative fees and underlying fund expense charges).
- Insurance company ratings (stability of the issuer)
- Valuation of a variable annuity contract
- Separate account
 - ❖ Subaccounts account investments
- Tax treatment of individual, tax-deferred variable annuities.
- Free-look provisions.
- Optional enhanced death benefit and living benefit riders.
- Living benefit riders:
 - ❖ Guaranteed Minimum Income Benefit (GMIB)
 - ❖ Guaranteed Minimum Withdrawal Benefit (GMWB)
 - ❖ Guaranteed Minimum Accumulation Benefit (GMAB).
- Supervisory review requirements for sales of deferred variable annuities.
 - ❖ Suitability and disclosure obligations for recommended transactions.
 - ❖ Review and approval requirements, including the timing of principal approval.
- Prospectus delivery requirements for variable annuities and variable life contracts.
- Required disclosures, costs and features of bonus annuities.

- Characteristics of variable universal and variable life insurance (fixed and flexible premium types).

D.3 Other Product Related Issues

- Tax consequences for various types of products and accounts.
- Dividends and ex-dividends
- Reorganization events (e.g., mergers and acquisitions, odd-lot tender, etc.)
- Requirements for disclosing pricing and/or fees relating to commissions, and account service fees.
- On-line trading
- Investment Adviser activities by RRs

E: Common Topics

Topics identified in this section of the outline will be integrated into cases presented for each of the four modules noted and outlined above.

E.1 Ethics and Business Conduct

- Observe high standards of commercial honor, conduct activities in accordance with good business practices, and honor just and equitable principles of trade.
- Restrictions, required approvals, and legal risks associated with private securities transactions.
- Permitted and prohibited outside business activities including issues associated with dual licensing, part-time employment, and conflicts of interest.
- Required notifications and approvals for outside business activities/accounts/investments.
- Rules, regulations and standards governing sharing commissions or compensation.
- Prohibition on compensating unregistered persons and/or non-brokers and/or dealers.
- Restrictions, approval and disclosure requirements for payment of referral fees to nonaffiliated persons.
- Restrictions on loans to or from clients.

- Prohibitions against as well as understanding and recognizing conflicts of interest and potentially illegal situations.
- Restrictions on giving and receiving gifts and gratuities including supervisory or approval requirements.
- Non-cash compensation and sales contests.
- “Prudent Man” Rule.

E.2 Registration and Licensing Requirements

E.2.1. Registration and licensing related issues and requirements for individuals and the broker-dealer

- Requirements of the self-regulatory organizations (SROs).
- State authority and jurisdiction.
- State registration and licensing requirements for registered persons and broker-dealers.
- Conditions, restrictions and requirements for amending Form U4.
- Restrictions on the activities of RRs.
- Differences between insurance appointments and securities licensing.
- Selling agreements.
- Insurance licensing for variable annuities.
- General requirements and limitations on activities as well as registration and licensing for investment advisers.
- Restrictions on activities of unregistered persons.
- Consequences of violating registration or licensing requirements.
- Understanding Continuing Education requirements including the Regulatory Element and Firm Element.

E.2.2. Blue-Sky Laws and Registration of Securities

- Requirements for securities to be registered or exempt in states in which they are being sold.
- Distinction between exempt/nonexempt securities.
- General exemptions from registration.

E.3 Reporting and Other Requirements

E.3.1 Securities and Exchange Commission (SEC) and SRO Authority and Investigations

- Understanding the regulatory structure of the securities industry.
- Jurisdiction of the SEC, SROs, and state regulators.
- Obligations to respond to regulatory inquiries.
- Definition and consequences of statutory disqualification.
- Settlement of employer-employee disputes.