

## **Content Outline for the S201 Regulatory Element**

### **Module A: Supervision and Control**

#### **A.1 Review, Approval, and Filing Requirements when Communicating with the Public**

- Review and approval of advertising, sales literature, and correspondence.
- Filing requirements and review procedures of written and electronic communications.
- Required disclosures and restrictions for materials distributed to the public, including, but not limited to:
  - ❖ Testimonials.
  - ❖ Copyrighted material.
  - ❖ Product-specific disclosure documents, such as the Options Disclosure Document (ODD).
  - ❖ Written investment recommendations.
- Guidelines ensuring communications are fair and balanced and do not contain misleading, exaggerated or unwarranted statements, or omit material facts.
- Use of professional designations.
- Supervisory responsibilities for the various methods of communicating with the public, including all forms of electronic communications.
- Prohibited communications, including predictions and projections, guaranteeing performance, and blanket recommendations.
- Prohibited distribution of confidential material including internal-use-only and broker-dealer-use only materials.
- Institutional correspondence and sales materials.
  - ❖ Content standards of sales material and correspondence.
  - ❖ Approval, recordkeeping, and spot-check procedures.

- Telemarketing restrictions, cold calling, various Do-Not-Call lists, Federal regulations applicable to broker-dealers when contacting prospective clients.

## **A.2 Supervisory Controls**

- Associated person conduct and supervision.
  - ❖ Outside business activities.
  - ❖ Outside accounts/investments.
  - ❖ Family/employee related accounts.
  - ❖ Cash/non-cash compensation.
  - ❖ Restrictions, approvals, and disclosure requirements when accepting or paying referral fees.
  - ❖ Political contributions disclosures/solicitations.
  - ❖ Special RR compensation programs, such as new recruitment incentives.
- Exception reports.
  - ❖ Account reviews (active accounts, high turnover rate, large debit balances, overconcentration, profit and loss statements, commissions and fees).
- Sales activities for new products.
- Private securities transactions.
- Referral fees: Restrictions, approvals, and disclosure requirements.
- Books and Records requirements.
- Requirements for conducting transfer or disbursement of funds.
- Registration and reporting requirements.
- Continuing Education Requirements.
  - ❖ Regulatory Element.
  - ❖ Firm Element.

### **A.3 Evaluating and Monitoring Client Suitability**

- Requirements for determining suitability of investments before making recommendations, including institutional investors.
- Responsibilities for obtaining and periodically confirming clients' financial and life profile data, investment objectives, risk tolerance, and time horizon.
- Risks, features, and required disclosures for investment products.
- Solicited (recommended) versus unsolicited (not recommended) transactions.
- Supervision and 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 B: Handling Customer Accounts, Trade & Settlement Practices**

### **B.1 Anti-Money Laundering**

- Recognizing the three stages of money laundering (placement, layering, and integration).
- Anti-Money Laundering Rules, USA PATRIOT Act, and the Bank Secrecy Act.
  - ❖ Customer Identification Program (CIP).
  - ❖ Politically-Exposed Persons.
  - ❖ Potential indicators ("red flags") to detect money laundering.
  - ❖ Controls to prevent and report Money laundering activities.
  - ❖ Training needs and annual requirements.
- 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).

## **B.2 Foreign Corrupt Practices Act (FCPA)**

- Prohibited foreign trade practices.
- Antibribery provisions.
- Recordkeeping requirements.

## **B.3 Account Opening and Client Information**

- Procedures for opening and maintenance of client accounts, including required approvals and recordkeeping requirements.
- Understanding the purpose and characteristics of account types, including, but not limited to:
  - ❖ 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.

- ❖ Educational funding accounts (e.g., 529 College Savings Plans, Coverdell accounts, and pre-paid state tuition plans).
- ❖ Retirement accounts.
- Client address issues, such as P.O. boxes and temporary addresses.
- Deceased Accounts.
- Account transfers/ACATS.
- Option accounts/approvals/agreement/ Options Disclosure Documents.
- Penny stock rules and disclosures requirements.
- Confirmations & statements.
- Privacy rules (Regulation SP).
- Safeguarding firm and client information.
- ❖ IT security.
- ❖ Document security and destruction.
- ❖ Outsourcing/third-party vendors.
- 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.

#### **B.4 Trade Review and Approval / Reporting Activity**

- Internal controls and requirements for order entry and price reporting.
- Order ticket requirements, such as recording transactions as solicited or unsolicited.
- Order errors/account changes.

- Trade reporting requirements and systems. (e.g., TRACE, OATS, RTRS)
- Short sales.
- Payment and Trade Settlement: General requirements, consequences of nonpayment/non-delivery.

## **B.5 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.
  - ❖ Supervision of and required procedures when using discretion.
- Time & Price Discretion.

## **B.6 Client Complaints and Inquiries**

- Requirements for reporting, investigating and documenting client complaints.
- Responding to requests for information.
- Information disclosed in disciplinary records and/or Forms U4 and U5.
- Arbitration procedures and awards.
- Mediation and negotiated settlements.

## **B.7 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, pre-arranged 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, and trading at the close/mark the close.

### **B.8 Margin/Calls/Maintenance/Regulation T/Extensions**

- Supervision of margin accounts.
- Appropriate use of margin and associated risks.
- Obligations for informing clients of risks and benefits.
- Required disclosures.

## **Module C: New and Secondary Offerings and Corporate Finance**

### **C.1 SEC Registration and Prospectus Requirements**

- Registration requirements.
- Preliminary prospectus (red herring).
- Limits on advertising and other written materials.
- Prospectus delivery requirements.
- Prohibition on sales before effective date.
- Restrictions before, during, and after a distribution.
- Rule 144/restricted securities.
- Control persons / affiliated persons.

### **C.2 Research & Investment Banking Conflicts**

- Information Barrier.
- Restricted interaction and communication between research and investment banking personnel (e.g., pitch books, roadshows, and conferences).
- Broker-dealer restricted and watch lists.

- Review of proprietary and employee trading accounts (both in and away from the broker-dealer).
- Research and research reports review and supervision.
- Monitoring the flow of material, nonpublic information to ensure that the information is not misused.

### **C.3 Public Offerings**

- Transactions relating to Initial Public Offerings (IPOs).
- Syndicate activities; policies and procedures when allocating new issue securities to the public.
  - ❖ Indications of Interest (IOI).
  - ❖ Restricted persons and accounts.
  - ❖ Selling Agreement: Agreement between a selling dealer and primary distributor providing for the sale to clients by the selling dealer of open-end fund securities.
  - ❖ Official Statement/Prospectus: Discloses material information about a new issue.
- Secondary Offering/Follow-On Offering/Aftermarket: Regulation M, trading in existing or outstanding shares of securities on either a national exchange or OTC market.
- Electronic Municipal Market Access System (EMMA).

### **C.4 Private Placement Offerings**

- Exemptions from registration.
- Regulation D Offering.
  - ❖ Accredited investor and non-accredited investors.
- Disclosure requirements including, but not limited to Private Offering Memorandum/Subscription Agreement requirements.
- Resale restriction (s).



## **Module D: Product Knowledge and Related Supervisory Considerations**

### **D.1 Mutual Funds**

- Structure and operation of funds.
- Characteristics and policies by investment objectives and underlying investments (e.g., aggressive growth funds, income funds, money market funds, municipal bond funds).
- Share classes.
- Basis of comparison; performance statistics and other factors (e.g., sales and distribution charges, minimum purchase requirements).
- Determination and consequences of Net Asset Value (NAV).
- 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.
- Switching, late trading/market timing, exchange privileges/conversions, rights of reinstatement.

### **D.2 Other Open and Closed End Investment Companies**

- Characteristics of Unit Investment Trusts (UITs); Exchange Traded Funds (ETFs); Real Estate Investment Trusts (REITs), and closed-end investment companies.

### **D.3 Variable Contracts**

- Characteristics and types of variable annuities, riders, bonus features, related sales charges and expenses, valuation of a variable annuity contract, and tax considerations of variable annuity contracts in qualified accounts.
- Supervision and review of variable annuity subaccounts.
- Supervision, review, and approval of 1035 Exchanges.

- Supervisory review requirements for sales of deferred variable annuities.
  - ❖ Suitability and disclosure obligations for recommended transactions.
  - ❖ Supervisory review and approval requirements, including the timing of principal approval.
  - ❖ Establishing and maintaining supervisory procedures.
  - ❖ Developing and documenting specific training policies and programs.
- Variable Life Insurance (fixed and flexible premium types).
  - ❖ 1035b Exchanges: Tax sheltered exchange of cash value from one annuity policy to the next purchased from different companies.
  - ❖ Characteristics of universal and variable life insurance (e.g., death benefits, cash value, risk premium payments, conversion privileges).
  - ❖ Fees and related expenses (e.g., mortality costs, cost of insurance, investment management fee).
  - ❖ Life Settlement transactions.
  - ❖ Valuation of a variable life insurance policy.
  - ❖ Tax treatment of variable life insurance to the policyholder.

#### **D.4 Supervision of Other Products**

- Equity securities.
- Fixed-income securities.
- Listed and OTC options.
- Preferred/Convertible securities.
- Rights and Warrants.
- American Depositary Receipts (ADRs)/American Depositary Shares (ADSs).
- Low-priced securities.
- Alternative investments

- Structured products.
- Hedge funds.
- Derivatives; futures and currencies.
- Municipal securities.
- Cash equivalents
- Equity-indexed annuities.
- Life Settlements

## **D.5 Supervision of Other Activities**

- Managed accounts.
- On-line trading.
- Investment Adviser/RR activities.

## **D.6 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.
- Types of Individual Retirement Accounts (IRAs).
- Employer sponsored plans, including, but not limited to, defined contribution and defined benefit plans, profit sharing plans, money purchase plans, SEP (Simplified Employee Pension) plans, 401(k) plans, 403(b) tax-deferred annuity plans/custodial accounts, SIMPLE IRA/401(k) plans.