

Content Outline for the S901 Regulatory Element

Module A: Client Confidentiality and Responsibilities of Registered Persons

Registration, continuing education and termination of associated persons

- FINRA, SRO and state registration requirements
- Reporting of certain events on the Form U4 and Form U5
- Consequences of filing misleading information or omitting information
- Failing to register an associated person

Code of conduct

- Outside business activities and outside securities accounts
- Prohibition against insider trading
- Selling away
- Restrictions for associated persons purchasing IPOs
- Use of manipulative, deceptive or other fraudulent devices
- Improper use of customers' securities or funds and prohibitions against guarantees and sharing in customer accounts
- Prohibition against paying commissions to unregistered persons

Relationships and Dealings with Customers, Vendors and Associated Persons of the Firm

- Non-public personal information (NPI)
- Dollar/value limits for gifts and gratuities and reporting requirements
- Business entertainment in relation to other FINRA member firms
- Reporting of political contributions and consequences for exceeding dollar contribution thresholds

Customer Privacy

- Confidentiality of customer information
- Exchange and control of information between departments and outside the firm
- Disclosures to customers
- Privacy rules

Importance of Escalating Complaints and/or Potential Red Flags

Module B: Operations Workflow

- Basic Knowledge of Account Opening and Maintenance
- Basic Knowledge of Movement of funds and securities
- Basic Knowledge of Custody and Control of Securities
- Basic Knowledge of Trade Reporting and Trade Corrections
- Basic Knowledge of Corporate Actions
- Basic Knowledge of Margin and Stock Loan/Securities Lending
- Basic Knowledge of Settlement
- Basic Knowledge of Books and Records
- Basic Knowledge of Account Statements and Confirmations

Module C: Product and Market Knowledge

Characteristics of the following products:

- Equities
- Derivatives

- Debt/fixed income
- Packaged securities/alternative investments

Types of corporate actions

- Making adjustments for securities subject to corporate actions
- Processing customer instructions and special situations related to corporate actions
- Delivery of notices
- Corporate action deadlines

Types of broker-dealer businesses

- Executing broker-dealer versus clearing prime broker
- Introducing broker-dealer versus clearing broker-dealer
- Clearing broker-dealer versus clearing facility
- Institutional clearing and settlement arrangements

Trading orders and strategies: long and short, buy and sell, naked and covered, bearish and bullish

Module D: Personalized Cases

D.1 New Accounts

Types of retail, institutional and prime brokerage customer accounts

- Types of customer account registrations (e.g., individual, corporate) Accounts for associated persons of member firms

Types of individual and employer-sponsored retirement accounts

- Contribution limits and required minimum distributions (RMD)
- Transfer versus rollover

Account opening

- Entities authorized to open and transact business in the account
- New account paperwork and appropriate approvals
- Standing settlement instructions (SSIs)

Transfers or partial transfers of accounts between broker-dealers

- Methods of fund transfer Automated Customer Account Transfer Service (ACATS) versus non-ACATS transfers
- Methods of giving instructions (e.g., letter of authorization)
- Transfer processes for various account types

Anti-money laundering (AML) reviews

- AML compliance program
- Required customer information and documentation

- Customer Identification Program (CIP) requirements
- “Know Your Customer” (KYC)
- Office of Foreign Asset Control (OFAC) and the Specially Designated Nationals and Blocked Persons (SDNs) list
- Financial Crimes Enforcement Network (FinCEN)
- Suspicious activity reports (SARs)
- Currency Transaction Reports (CTRs)

Maintenance of accounts

- Escheatment process
- Updating customer account records
- Restricting account activity or freezing accounts
- Medallion signature guarantee program

Customer account statements

- Types of information that appear on an account statement
- Time frame for providing statements

Tax reporting

- Cost basis
- Types of optional and required tax withholding

D.2 Trading and Settlement

- Trade reporting systems
- Best execution, trading capacity and quotation
- Regular market hours versus extended hours
- Trader corrections “as/of” and past settlement date
- Error accounts
- Knowledge of prohibited activities related to trading, including front-running, churning or excessive trading, market manipulation, excessive mark-ups, prohibited breakpoint sales, and improper sharing in profits and losses with customers
- Margin, hypothecation and re-hypothecation
- Marginable versus non-marginable securities
- Different margin requirements for different securities
- Types of accounts that are permitted to trade on margin
- Documentation and disclosure requirements
- Federal and FINRA margin requirements, margin calls
- Stock lending
- Short sale requirements, including locating and borrowing securities
- Day trading and buying power
- Comparison of trades
- Same day versus regular way settlement
- Standard settlement time frames for various products
- Settlement service providers and methods of settlement
- Repo/resale trades and settlements
- Continuous Net Settlement (CNS)
- Don’t Know (DK) trade
- Requirements to buy-in or closeout a fail
- Confirmation of aged securities fails

- Reinvestments and sweeps
- Types of information that appear on a confirmation
- Confirmation delivery requirements, including electronic confirmations
- Non-trade confirmations/third party activity notices

D.3 Operations Generalist

Topics covered in Modules D1 and D2 from the perspective of a small firm, introducing broker and/or branch office, In addition to physical certificates and Business Continuity Plans

D.4 Treasury, Custody and Control

Regulatory requirements of broker-dealers

- Financial and Operations Principal (FINOP)
- Financial and Operational Combined Uniform Single (FOCUS) report
- General ledger
- Net capital and the reserve formula calculation

Safekeeping versus segregation

- Custody and control
- Street name
- Directly held mutual fund shares
- Securing customer assets
- Periodic physical count of securities ("box count")
- Maintenance of a stock record and verifying securities

Securities transfers

- Registered versus bearer certificates
- Good delivery, transfer agent and stock/bond power
- Validation of a certificate
- Maintenance of a securities blotter
- Handling lost certificates
- Direct Registration System (DRS) and Deposit/Withdrawal at Custodian (DWAC)
- Types of securities that are depository eligible

Stock legends

- Impact of a legend on the negotiability of a certificate
- Control and restricted securities
- Holding periods for the removal of legends
- Commission management/soft dollars

Prohibited activities related to cashiering and account transfers

- Structuring, layering and other money laundering activities
- Check kiting or altering checks
- Holding checks for extended periods
- Not processing (or holding) account transfers for an extended period

Handling checks

- Characteristics of negotiable checks
- Check issuance

- Maintenance of a check blotter

Proxies and proxy voting

- Delivery of annual and interim issuer reports

Business Continuity Plan (BCP)

- Disclosure to customers

Prohibited activities related to pricing securities on account statements and confirmations

- Falsifying or withholding documents
- Holding mail beyond the permissible time frames
- Reconciliations
- Timeline of posting entries
- Retention requirements for firm documents, including requirements for electronic storage
- Prohibited activities related to maintenance of books and records (e.g., falsifying records and improper maintenance/retention of records)

Topics Which May Be Applicable to All Modules

Key controls and the separation/segregation of duties

- Segregation of functions and supervision among departments of the broker-dealer
- Information barriers
- Controlling access to buildings, office spaces, files and systems
- Entitlement policies
- Restrictions on access to information

Written Supervisory Procedures (WSPs)

- Compliance with WSPs
- Updating
- Annual Certification of Compliance and Supervisory Processes