



# **Financial and Operations Principal Qualification Examination (Series 27)**

## **Content Outline**

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## **INTRODUCTION**

The Series 27 exam is the Financial and Operations Principal Qualification Examination. The exam is developed and maintained by the Financial Industry Regulatory Authority (FINRA). This content outline provides a comprehensive guide to the topics covered on the Series 27 exam. The outline is intended to familiarize exam candidates with the range of subjects covered on the exam, as well as the depth of knowledge required. Sample items are also included to acquaint candidates with the types of multiple-choice items used on the exam. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam.

## **PURPOSE OF THE EXAM**

The Series 27 exam is designed to assess the competency of entry-level Financial and Operations Principals. It is intended to safeguard the investing public by helping to ensure that Financial and Operations Principals are competent to perform their jobs. Given this purpose, the Series 27 exam seeks to measure the degree to which each candidate possesses the knowledge, skills and abilities needed to perform the critical functions of a Financial and Operations Principal. For more information about the permissible activities of a Financial and Operations Principal, please see FINRA Rule 1220(a), which is viewable in the FINRA Rule Manual through the following link: [www.finra.org](http://www.finra.org).

## **ELIGIBILITY REQUIREMENTS**

The candidate must be associated with and sponsored by a FINRA member firm to be eligible to take the Series 27 exam. There is no prerequisite requirement for this exam. For more information on eligibility requirements, please see FINRA Rule 1220(a), which is viewable in the FINRA Rule Manual through the following link: [www.finra.org](http://www.finra.org).

## **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®) and request the Financial and Operations Principal position (FN) on the Form U4.

## STRUCTURE OF THE EXAM

The exam consists of 145 multiple-choice items, which are distributed among the five major content areas listed in the table below.

**Job Functions and Number of Items by Job Function**

Job Functions		Number of Items
Function 1	Financial Reporting	25
Function 2	Operations, General Securities Industry Regulations, and Preservation of Books and Records	42
Function 3	Customer Protection	24
Function 4	Net Capital	41
Function 5	Funding and Cash Management	13
Total		145

## DEVELOPMENT AND MAINTENANCE OF THE CONTENT OUTLINE AND EXAM

The Series 27 content outline was developed based on the results of a job analysis study of Financial and Operations Principals. The job analysis process included collecting data about the job functions, tasks and required knowledge of Financial and Operations Principals from a wide variety of firms using numerous data collection techniques.

Under the guidance of FINRA staff, a committee of industry representatives (Committee) writes, reviews and validates all exam items to ensure and sustain the job relevance of the exam. Exam items are subject to multiple reviews prior to inclusion on the exam, and each item links directly to a component of the content outline. Items vary in difficulty and complexity. Each item has only one correct or best answer.

The bank of items changes frequently as a result of amendments to, or the introduction of, government and self-regulatory organization (SRO) rules and regulations, changes in industry practice, and the introduction of new products. Exam items and their statistical performance are analyzed routinely by FINRA staff and the Committee to ensure relevance to the functions of Financial and Operations Principals. **Candidates are responsible for keeping abreast of changes made to the applicable rules and regulations as the exam is updated when new rules are introduced and when the rules are amended.**

## ADMINISTRATION OF THE EXAM

The exam is administered via computer. A tutorial on how to take the exam via computer is provided prior to the exam. Each candidate's exam includes 10 additional, unidentified pretest items that do not contribute toward the candidate's score. The 10 items are randomly distributed throughout the exam. Therefore, each candidate's exam consists of a total of 155 items (145 scored and 10 unscored). There is no penalty for

guessing. Therefore, candidates should attempt to answer all items. Candidates will be allowed 3 hours and 45 minutes to complete the exam.

The test administrator will provide white boards/dry erase markers and basic electronic calculators to candidates, who must return these materials to the test center administrator at the end of the testing session. Some exam items may involve calculations. Only calculators provided by the test center administrators are allowed for use during the exam.

Candidates are not 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 exams.

## **HOW THE EXAM IS SCORED**

The passing score for the exam is the minimum number of items that a candidate has to answer correctly in order to pass the exam. Using a standard-setting procedure, FINRA staff, in consultation with the Committee, establishes the passing score for the exam. The passing score is an absolute standard and is independent of the performance of candidates taking the exam. The passing score for this exam is 69%.

# SERIES 27 CONTENT OUTLINE

## FUNCTION 1—Financial Reporting

### 1.1 Prepare and review accuracy of financial statements

#### KNOWLEDGE OF:

- General accounting requirements [e.g., generally accepted accounting principles (GAAP)] including relevant Financial Accounting Standards Board (FASB) statements (e.g., valuation, mark to market, revenue recognition, fair value measurement, accruals, categorizing assets and liabilities)
- Preparation and maintenance of general ledger and sub-ledgers
- Preparation of trial balance
- Risk assessment [including Material Associated Persons (MAPs)]
- Reporting of financing transactions (e.g., borrow, repurchase, stock loan)
- Financial statement disclosures
- Affiliate transactions and expense sharing agreements

FINRA Rule  
4140—Audit

Securities Exchange Act of 1934  
Rule 17h-1T—Risk Assessment Recordkeeping Requirements for Associated Persons of Brokers and Dealers  
Rule 17h-2T—Risk Assessment Reporting Requirements for Brokers and Dealers

### 1.2 Compile, review and file FOCUS and supplemental reports

#### KNOWLEDGE OF:

- Regulatory classification and recognition of specific assets and liabilities, revenue and expenses
- Timing and method of filing FOCUS reports
- Form custody

FINRA Rules  
4517—Member Filing and Contact Information Requirements  
4523—Assignment of Responsibility for General Ledger Accounts and Identification of Suspense Accounts  
4524—Supplemental FOCUS Information

Securities Exchange Act of 1934  
Rule 17a-5—Reports to Be Made By Certain Brokers and Dealers  
Rule 17a-5(a)—Filing of Monthly and Quarterly Reports

### 1.3 Manage, complete and file audited financials and other reports with appropriate regulatory bodies and jurisdictions

#### KNOWLEDGE OF:

- Internal control structure including compliance over the financial responsibility rules
- SEC reporting and filing requirements
- Role of external auditors
- Timing of filing of audited financial statements and other reports
- SIPC filing requirements

#### FINRA Rules

2261—Disclosure of Financial Condition

4140—Audit

#### Securities Exchange Act of 1934

Rule 17a-5—Reports to Be Made By Certain Brokers and Dealers

Rule 17a-5(d)—Annual Reports

Rule 17a-5(e)—Nature and Form of Reports

Rule 17a-5(f)—Qualifications of Independent Public Accountant

Rule 17a-5(g)—Engagement of Independent Public Accountant

Rule 17a-5(h)—Notification of Non-Compliance or Material Weakness

Rule 17a-5(i)—Reports of the Independent Public Accountant Required Under Paragraph (d)(1)(i)(C)

Rule 17a-5(o)—Filing Requirements

Rule 17h-1T—Risk Assessment Recordkeeping Requirements for Associated Persons of Brokers and Dealers

Rule 17h-2T—Risk Assessment Reporting Requirements for Brokers and Dealers

#### Securities Investor Protection Act of 1970 (SIPA)

SIPC-6 General Assessment Payment Form

SIPC-7 General Assessment Reconciliation Form

### 1.4 File regulatory notifications as necessary

#### KNOWLEDGE OF:

- Specific regulatory notifications (e.g., capital infusions, withdrawals, early warning notifications, hindsight deficiencies, change of external auditors, independent public accountants, books and records not current, electronic filings)
- Appropriate response to regulatory inquiries (e.g., audits, market movement, securities fails, short interest)
- Timing and method of filing regulatory notifications

## FINRA Rules

- 1017—Application for Approval of Change in Ownership, Control, or Business Operations
- 1020—Approval of Change in Exempt Status under SEA Rule 15c3-3
- 4110—Capital Compliance
  - 4110(c)—Withdrawal of Equity Capital
  - 4110(d)—Sale-and-Leasebacks, Factoring, Financing, Loans and Similar Arrangements
  - 4110(e)—Subordinated Loans, Notes Collateralized by Securities and Capital Borrowings
- 4120(a)—Regulatory Notification and Business Curtailment—Notification
- 4150—Guarantees by, or Flow Through Benefits for, Members
- 4517—Member Filing and Contact Information Requirements
- 4521—Notifications, Questionnaires and Reports

## Securities Exchange Act of 1934

- Rule 15c3-1(e)(1)—Net Capital Requirements For Brokers or Dealers—Notice Provisions Relating to Limitations on the Withdrawal of Equity Capital
- Rule 15c3-3(i)—Customer Protection – Reserves and Custody of Securities—Notification in the Event of Failure to Make a Required Deposit
- Rule 17a-5—Reports to Be Made By Certain Brokers and Dealers
  - Rule 17a-5(c)—Customer Statements
    - Rule 17a-5(c)(2)—Audited Statements to Be Furnished
    - Rule 17a-5(c)(3)—Unaudited Statements to Be Furnished
  - Rule 17a-5(f)(1)—Qualifications of Independent Public Accountant
  - Rule 17a-5(f)(2)—Statement Regarding Independent Public Accountant
  - Rule 17a-5(f)(3)—Replacement of Accountant
  - Rule 17a-5(m)—Extensions and Exemptions
  - Rule 17a-5(n)—Notification of Change of Fiscal Year
- Rule 17a-8—Financial Recordkeeping and Reporting of Currency and Foreign Transactions
- Rule 17a-11—Notification Provisions for Brokers and Dealers
- Rule 17f-1—Requirements for Reporting and Inquiry With Respect to Missing, Lost, Counterfeit or Stolen Securities

## 1.5 Disclose regulatory and operational impact of material or unusual transactions

### KNOWLEDGE OF:

- **Market, liquidity and credit risks**
- **Trade and settlement requirements (e.g., marketability)**
- **Identification of unexpected gains/losses on transactions, trading above limits**
- **Financial statement disclosures (e.g., contingencies, guarantees, off-balance sheet items)**

## Securities Exchange Act of 1934

- Rule 15c3-1—Net Capital Requirements For Brokers or Dealers
  - Rule 15c3-1(c)(2)(iv)—Assets Not Readily Convertible Into Cash
  - Rule 15c3-1(c)(2)(vi)—Securities Haircuts
  - Rule 15c3-1(c)(2)(vii)—Non-Marketable Securities



## **FUNCTION 2—Operations, General Securities Industry Regulations, and Preservation of Books and Records**

### **2.1 Manage and review general operations functions**

#### **KNOWLEDGE OF:**

- **Clearance, settlement and delivery**
- **Confirmations**

#### FINRA Rules

2251—Processing and Forwarding of Proxy and Other Issuer-Related Materials

11130—When, As and If Issued/Distributed Contracts

11140—Transactions in Securities “Ex-Dividend,” “Ex-Rights” or “Ex-Warrants”

11150—Transactions “Ex-Interest” in Bonds Which Are Dealt in “Flat”

11160—“Ex” Liquidating Payments

11210—Sent by Each Party

11310—Book-Entry Settlement

11320—Dates of Delivery

11361—Units of Delivery—Stocks

11362—Units of Delivery—Bonds

11363—Units of Delivery—Unit Investment Trust Securities

11364—Units of Delivery—Certificates of Deposit for Bonds

11550—Assignments and Powers of Substitution; Delivery of Registered Securities

11574—Certificate in Name of Deceased Person, Trustee, Etc.

11620—Computation of Interest

11740—Marking to the Market

11810—Buy-In Procedures and Requirements

11820—Selling-Out

11840—Rights and Warrants

11860—COD Orders

11870—Customer Account Transfer Contracts

11880—Settlement of Syndicate Accounts

11890 Series—Clearly Erroneous Transactions

11891—General

11892—Clearly Erroneous Transactions in Exchange-Listed Securities

11893—Clearly Erroneous Transactions in OTC Equity Securities

11894—Review by the Uniform Practice Code (“UPC”) Committee

#### Securities Exchange Act of 1934

Rule 10b-10—Confirmation of Transactions

## **2.2 Prepare and preserve financial records to ensure accuracy and completeness of internal financial documents**

### **KNOWLEDGE OF:**

- **General ledger and sub-ledgers**
- **Stock records/trade blotters**
- **Central repository for records**
- **Business continuity plans**
- **Reconciling to third-party statements**
- **Records management policy**
- **Records documenting internal risk management controls**

### FINRA Rules

2231—Customer Account Statements

4160—Verification of Assets

4370—Business Continuity Plans and Emergency Contact Information

4510 Series—Books and Records Requirements

4511—General Requirements

4512—Customer Account Information

4513—Records of Written Customer Complaints

4514—Authorization Records for Negotiable Instruments Drawn From a Customer's Account

4515—Approval and Documentation of Changes in Account Name or Designation

4517—Member Filing and Contact Information Requirements

4522—Periodic Security Counts, Verifications and Comparisons

4523—Assignment of Responsibility for General Ledger Accounts and Identification of Suspense Accounts

4530—Reporting Requirements

### Securities Exchange Act of 1934

Rule 17a-3(a)—Records to Be Made By Certain Exchange Members, Brokers and Dealers

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

Rule 17a-13—Quarterly Security Counts to Be Made By Certain Exchange Members, Brokers and Dealers

## **2.3 Demonstrate understanding of fundamental regulatory and industry knowledge**

### **KNOWLEDGE OF:**

- **Qualifications and registration requirements**
- **Business conduct**
- **Gifts and gratuities**
- **Anti-money laundering**
- **Arbitration and hearing procedures**
- **Supervisory responsibilities**
- **Insider trading regulations**

## FINRA By-Laws

Article III—Qualifications of Members and Associated Persons

Article V—Registered Representatives and Associated Persons

## FINRA Rules

1210—Registration Requirements

1220—Registration Categories

1230—Associated Persons Exempt from Registration

1240—Continuing Education Requirements

2010—Standards of Commercial Honor and Principles of Trade

2020—Use of Manipulative, Deceptive or Other Fraudulent Devices

2060—Use of Information Obtained in Fiduciary Capacity

2121—Fair Prices and Commissions

2122—Charges for Services Performed

3110—Supervision

3120—Supervisory Control System

3130—Annual Certification of Compliance and Supervisory Processes

3160—Networking Arrangements Between Members and Financial Institutions

3170—Tape Recording of Registered Persons by Certain Firms

3210—Accounts at Other Broker-Dealers and Financial Institutions

3220—Influencing or Rewarding Employees of Others

3270—Outside Business Activities of Registered Persons

3280—Private Securities Transactions of an Associated Person

3310—Anti-Money Laundering Compliance Program

4130—Regulation of Activities of SEC 15C Members Experiencing Financial and/or Operational Difficulties

5130—Restrictions on the Purchase and Sale of Initial Equity Public Offerings

8210—Provision of Information and Testimony and Inspection and Copying of Books

9557—Procedures for Regulating Activities under Rules 4110, 4120 and 4130 Regarding a Member Experiencing Financial or Operational Difficulties

9559—Hearing Procedures for Expedited Proceedings under the Rule 9550 Series

12000 Series—Code of Arbitration Procedure for Customer Disputes

Part I—Interpretive Material, Definitions, Organization and Authority

FINRA IM-12000—Failure to Act Under Provisions of Code of Arbitration Procedure for Customer Disputes

Part II—General Arbitration Rules

12200—Arbitration Under an Arbitration Agreement or the Rules of FINRA

13000 Series—Code of Arbitration Procedure for Industry Disputes

Part I—Interpretive Material, Definitions, Organization and Authority

13200—Required Arbitration

13201—Statutory Employment Discrimination Claims and Disputes Arising Under a Whistleblower Statute that Prohibits the Use of Predispute Arbitration Agreements

13202—Claims Involving Registered Clearing Agencies

14000 Series—Code of Mediation Procedure

## Securities Exchange Act of 1934

Section 3—Definitions and Application of Title

Rule 10b-5—Employment of Manipulative and Deceptive Devices

Rule 17f-2(d)(1)—Record Maintenance—Maintenance of Fingerprint Cards and Other Related Information

Insider Trading and Securities Fraud Enforcement Act of 1988

Section 3—Civil Penalties of Controlling Persons for Illegal Insider Trading by Controlled Persons

Section 4—Increases in Criminal Penalties

Section 5—Liability to Contemporaneous Traders for Insider Trading

## **FUNCTION 3—Customer Protection**

### **3.1 Determine, obtain and maintain possession or control of customer securities**

#### **KNOWLEDGE OF:**

- **Purpose of a stock record (*i.e.*, ownership and location)**
- **Control and non-control locations**
- **Privacy and confidential treatment of customer information**

#### FINRA Rule

2150—Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees

#### Securities Exchange Act of 1934

Rules 8c-1 and 15c2-1—Hypothecation of Customers' Securities

Rule 15c3-1—Net Capital Requirements For Brokers or Dealers

Rule 15c3-1(a)(2)—Brokers or Dealers that Carry Customer Accounts

Rule 15c3-3—Customer Protection—Reserves and Custody of Securities

Rule 15c3-3(a)—Definitions

Rule 15c3-3(b)—Physical Possession or Control of Securities

Rule 15c3-3(c)—Control of Securities

Rule 15c3-3(d)—Requirement to Reduce Securities to Possession or Control

Regulation S-P—Privacy of Consumer Financial Information and Safeguarding Personal Information

### **3.2 Prepare customer reserve computation**

#### **KNOWLEDGE OF:**

- **Accounts listed under Regulation T (*e.g.*, cash, margin, non-purpose loans)**
- **Identification and classification of customer and noncustomer accounts**
- **Stock record allocation**
- **Concentration of margin debits and underlying securities**
- **Other credits (*e.g.*, bank overdraft)**
- **Unsecured and partly secured accounts**
- **Aging of open transactions and suspense balances**
- **Frequency of computation**

#### FINRA Rules

3250—Designation of Accounts

4330—Customer Protection—Permissible Use of Customers' Securities

4512—Customer Account Information

Securities Exchange Act of 1934

Rule 15c3-1(a)(1)(ii)—Net Capital—Alternative Standard

Rule 15c3-3—Customer Protection—Reserves and Custody of Securities

Rule 15c3-3(h)—Buy-In of Short Security Differences

Rule 15c3-3(j)—Treatment of Free Credit Balances

Exhibit A—Formula for Determination of Customer and PAB Account Reserve Requirements of Brokers and Dealers Under Rule 15c3-3

Federal Reserve Board

Regulation T—Credit by Brokers and Dealers

Rule 220.2—Definitions

Rule 220.4—Margin Account

Rule 220.8—Cash Account

### 3.3 Prepare proprietary account of a broker-dealer (PAB) reserve computation

#### **KNOWLEDGE OF:**

- **Identification and classification of correspondent balances (e.g., clearing deposit)**
- **Stock record allocation**
- **Concentration of margin debits and underlying securities**
- **Other credits (e.g., suspense items, overdrafts, dividends and interest payable on PAB accounts)**
- **Excluded items (e.g., commissions payable)**
- **Unsecured and partly secured accounts**
- **Aging of open transactions and suspense balances**
- **Frequency of computation**

FINRA Rule

4311—Carrying Agreements

Securities Exchange Act of 1934

Rule 15c3-3—Customer Protection—Reserves and Custody of Securities

Rule 15c3-3(a)—Definitions

Rule 15c3-3(b)—Physical Possession or Control of Securities

### 3.4 Establish, maintain and fund the reserve bank account

#### **KNOWLEDGE OF:**

- **Documentation and requirements for accounts for the exclusive benefit of customers**
- **Qualified deposits and qualified institutions**
- **Documentation and requirements for PAB Reserve Bank Accounts**

Securities Exchange Act of 1934

Rule 15c3-3—Customer Protection—Reserves and Custody of Securities

Rule 15c3-3(a)—Definitions

Rule 15c3-3(e)—Special Reserve Bank Accounts For the Exclusive Benefit of Customers and PAB Accounts

Rule 15c3-3(f)—Notification of Banks

Rule 15c3-3(g)—Withdrawals from the Reserve Bank Accounts

### **3.5 Determine and monitor claim for exemption under the Customer Protection Rule**

#### **KNOWLEDGE OF:**

- **Exemptions**
- **Proper transmission of customer assets**

Securities Exchange Act of 1934

Rule 15c2-4—Transmission or Maintenance of Payments Received in Connection With Underwritings

Rule 15c3-3(k)—Exemptions

## **FUNCTION 4—Net Capital**

### **4.1 Determine minimum net capital requirement**

#### **KNOWLEDGE OF:**

- **Net capital requirements of brokers and dealers (e.g., introducing, carrying)**
- **Basic method vs. alternative method**
- **Treatment of different products (e.g., stocks, bonds, derivatives, reverse repurchase agreements)**

Securities Exchange Act of 1934

Rule 15c3-1(a)—Net Capital Requirements For Brokers or Dealers

Rule 15c3-1(b)—Exemptions

### **4.2 Calculate aggregate indebtedness**

#### **KNOWLEDGE OF:**

- **Distinction between cash liabilities and deferrals**
- **Exclusions from aggregate indebtedness (e.g., approved subordinated loans)**

Securities Exchange Act of 1934

Rule 15c3-1(c)(1)—Aggregate Indebtedness

### **4.3 Review trial balance to determine allowable and non-allowable assets**

#### **KNOWLEDGE OF:**

- **Assets not readily convertible into cash**
- **Nonmarketable securities**
- **Aging and collateralization of receivables**

Securities Exchange Act of 1934

Rule 15c3-1—Net Capital Requirements For Brokers or Dealers

Rule 15c3-1(c)(2)(iv)—Assets Not Readily Convertible Into Cash

Rule 15c3-1(c)(2)(vii)—Non-Marketable Securities

Rule 15c3-1 Appendix B—Adjustments to Net Worth and Aggregate Indebtedness For Certain  
Commodities Transactions

### **4.4 Determine adjustments to net worth**

#### **KNOWLEDGE OF:**

- **Deferred taxes**
- **Discretionary liabilities**
- **Guarantees of loans**
- **Subordinated liabilities**



Securities Exchange Act of 1934

Rule 15c3-1—Net Capital Requirements For Brokers or Dealers

Rule 15c3-1(c)(2)(i)—Adjustments to Net Worth Related to Unrealized Profit or Loss, Deferred Tax Provisions, and Certain Liabilities

Rule 15c3-1(c)(2)(ii)—Subordinated Liabilities

Rule 15c3-1 Appendix C (d)—Consolidated Computations of Net Capital and Aggregate Indebtedness For Certain Subsidiaries and Affiliates—Certain Precluded Acts

#### 4.5 Review operational reports to determine other deductions

##### **KNOWLEDGE OF:**

- **Fail charges**
- **Margin deficits**
- **Secured financing charges (e.g., repurchase transactions, securities lending)**
- **Other charges (e.g., suspense, fidelity bond deductible, unconfirmed trades, security differences)**

Securities Exchange Act of 1934

Rule 15c3-1—Net Capital Requirements For Brokers or Dealers

Rule 15c3-1(c)(2)(iv)—Assets Not Readily Convertible Into Cash

Rule 15c3-1(c)(2)(v)—Securities Differences

Rule 15c3-1(c)(2)(viii)—Open Contractual Commitments

Rule 15c3-1(c)(2)(xiv)—Deduction From Net Worth For Excess Deductible Amounts Related to Fidelity Bond Coverage

#### 4.6 Apply the appropriate haircut deduction to individual products

##### **KNOWLEDGE OF:**

- **Product knowledge for applicable haircut charges**
- **Ready market, undue concentration**
- **Open contractual commitments**
- **Definitions under the Securities Exchange Act of 1934 (e.g., exempt securities, banks, broker, government securities, municipal securities)**
- **Control or restricted securities**

Securities Exchange Act of 1934

Rule 15c3-1—Net Capital Requirements For Brokers or Dealers

Rule 15c3-1(c)(2)(vi)—Securities Haircuts

Rule 15c3-1(c)(2)(vi)(M)(1)—Undue Concentration

Rule 15c3-1(c)(2)(vii)—Non-Marketable Securities

Rule 15c3-1(c)(2)(viii)—Open Contractual Commitments

Rule 15c3-1(c)(11)—Ready Market

Rule 15c3-1 Appendix A—Options

Rule 15c3-1 Appendix B—Adjustments to Net Worth and Aggregate Indebtedness For Certain Commodities Transactions

#### 4.7 Compute net capital in compliance with SEA Rule 15c3-1

##### **KNOWLEDGE OF:**

- **Moment-to-moment compliance**
- **Ratios for withdrawals of capital**
- **Consolidations with subsidiaries and affiliates**
- **Business curtailment**

##### FINRA Rules

4110—Capital Compliance

4120—Regulatory Notification and Business Curtailment

4150—Guarantees by, or Flow Through Benefits for, Members

##### Securities Exchange Act of 1934

Rule 15c3-1—Net Capital Requirements For Brokers or Dealers

Rule 15c3-1(a)—Net Capital Requirements For Brokers or Dealers

Rule 15c3-1(d)—Debt-Equity Requirements

Rule 15c3-1(e)—Notice Provisions Relating to Limitations on the Withdrawal of Equity Capital

Rule 15c3-1 Appendix C—Consolidated Computations of Net Capital and Aggregate  
Indebtedness for Certain Subsidiaries and Affiliates

## **FUNCTION 5—Funding and Cash Management**

### **5.1 Manage and review margin activity, excesses and deficits**

#### **KNOWLEDGE OF:**

- **Margin requirements (e.g., Regulation T, SRO and industry rules)**
- **Margin calls**
- **Customer account balances**
- **Processing customer checks and securities**
- **Day-trading requirements**
- **Stock loan and stock borrowed**
- **Repurchases and reverse repurchases**
- **Responsibilities of clearing and introducing firms**
- **Maintenance of credit**
- **Liquidation of accounts**
- **Restrictions of the withdrawals of cash and/or securities from an account**
- **Concentration of margin debits**
- **Initial daily and intra-day margin calculations**
- **Corporate actions and reorganizations**
- **Reconciliation of processing accounts (e.g., money and control location account, dividend reinvestments, mutual funds processing)**
- **Balancing purchase and sale (P&S) statements**

#### FINRA Rules

3240—Borrowing From or Lending to Customers

4210—Margin Requirements

4220—Daily Record of Required Margin

4230—Required Submissions for Requests for Extensions of Time Under Regulation T and SEA Rule 15c3-3

4311(c)(1)(E)—Carrying Agreements—Extension of Credit

4523—Assignment of Responsibility for General Ledger Accounts and Identification of Suspense Accounts

#### Federal Reserve Board

Regulation T—Credit by Brokers and Dealers

Rule 220.1—Authority, Purpose, and Scope

Rule 220.3—General Provisions

Rule 220.3(c)—Maintenance of Credit

Rule 220.4—Margin Account

#### Securities Exchange Act of 1934

Rule 15c3-3—Customer Protection – Reserves and Custody of Securities

Rule 15c3-3(m)—Completion of Sell Orders on Behalf of Customers

Regulation SHO—Regulation of Short Sales

Rule 203—Borrowing and Delivery Requirements

Rule 204—Close-Out Requirement

**5.2 Assess a firm's regulatory funding for business operations**

**KNOWLEDGE OF:**

- **Subordinations**
- **Secured demand notes**

Securities Exchange Act of 1934

Rule 15c3-1—Net Capital Requirements For Brokers or Dealers

Rule 15c3-1 Appendix D—Satisfactory Subordination Agreements

## SAMPLE ITEMS

The following sample items are included to provide an introduction to the basic formats of multiple-choice items used on the exam. The sample items do not reflect the difficulty level of actual exam items. Candidates who familiarize themselves with these formats may be able to improve their test-taking skills so their performance on the exam will better reflect their knowledge of the areas tested. An asterisk indicates the correct answer to each sample item.

**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:** Under the SEC Net Capital Rule, what is the haircut for the firm inventory of 2000 shares of WXYZ at 154?

- (A) \$ 23,100
- (B) \$ 46,200\*
- (C) \$ 92,400
- (D) \$154,000

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

**Example:** Under SEC Rule 17a-3, blotters or other records of original entry must be prepared no later than the:

- (A) trade date.
- (B) settlement date
- (C) business day following the trade date.\*
- (D) business day preceding the settlement date.

**Except or Not:** "Except" or "not" is used when the task is to select the response option that is an exception to the principle or rule stated in the stem. In such cases, the stem may be open or closed.

**Example:** In determining whether to approve a change from the exempt status of a member firm under SEC Rule 15c3-3, FINRA considers each of the following factors **except**:

- (A) the firm's current financial condition.
- (B) the type of business the firm conducts.
- (C) the firm's procedures for safeguarding customer assets.
- (D) the amount of the firm's errors and omissions insurance coverage.\*

## REFERENCES

Listed below are government and SRO websites that provide information about rules and regulations and other information candidates may find useful in preparing for the exam. In addition to information about rules, the SRO may publish glossaries of terms, explanations of securities products, and compliance procedures. Candidates are encouraged to refer to the SRO websites for information memos or regulatory notices concerning amendments to rules and the announcement of new rules that may relate to the exam. Candidates can purchase copies of federal securities laws and SEC rules and regulations through the network of federal government printing offices. However, some of this information may be available on the SRO and pertinent federal government (*e.g.*, the SEC) websites. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam. FINRA produces only the content outline and is not involved with nor does it endorse any particular course of study.

**Financial Industry Regulatory Authority  
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[www.finra.org](http://www.finra.org)

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

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