Securities Trader Qualification Examination (Series 57)
PURPOSE OF THE EXAM
The Series 57 exam is designed to assess the competency of entry-level Securities Traders. The Series 57 exam seeks to measure the degree to which each candidate possesses the knowledge, skills and abilities needed to perform the critical functions of a Securities Trader. In order to obtain registration as a Securities Trader, candidates must pass both the Series 57 exam and a general knowledge co-requisite, the Securities Industry Essentials (SIE) exam. For more information about the activities requiring registration as a Securities Trader, see FINRA Rule 1220(b)(4).

STRUCTURE OF THE EXAM
The exam consists of 50 multiple-choice items, and each item consists of four answer choices. The allocation of exam items for each major function is as follows:

<table>
<thead>
<tr>
<th>Function</th>
<th>Description</th>
<th>Percentage of Exam Items</th>
<th>Number of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Trading Activities</td>
<td>82%</td>
<td>41</td>
</tr>
<tr>
<td>2</td>
<td>Maintaining Books and Records, Trade Reporting and Clearance and Settlement</td>
<td>18%</td>
<td>9</td>
</tr>
<tr>
<td>TOTAL:</td>
<td></td>
<td>100%</td>
<td>50</td>
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</tbody>
</table>

ADMINISTRATION OF THE EXAM
The exam is administered via computer. A tutorial on how to take the exam is provided prior to taking the exam. Each candidate’s exam includes 5 additional, unidentified pretest items that do not contribute toward the candidate’s score. The pretest items are randomly distributed throughout the exam. Therefore, each candidate’s exam consists of a total of 55 items (50 scored and 5 unscored). There is no penalty for guessing. Therefore, candidates should attempt to answer all items. Candidates will be allowed 1 hour and 45 minutes to complete the Series 57 exam.

All candidate test scores are placed on a common scale using a statistical adjustment process known as equating. Equating scores to a common scale accounts for the slight variations in difficulty that may exist among the different sets of exam items that candidates receive. This allows for a fair comparison of scores and ensures that every candidate is held to the same passing standard regardless of which set of exam items they received.

Candidates are not permitted to bring reference materials to their testing session. Severe penalties are imposed on candidates who cheat or attempt to cheat on FINRA-administered exams.

Please visit www.finra.org for additional details.
Function 1: Trading Activities

1.1 Understanding General Trading Practices

1.1.1 Achieving Market Making Status

Knowledge of:
- The role of the floor broker
- The use of market participant identifiers (MPIDs)
- Responsibilities of a qualified block positioner
- Registration as a market maker
- Net capital requirements

FINRA Rules
- 6276 – Voluntary Termination of Registration
- 5250 – Payments for Market Making
- 6271 – Registration as an ADF Market Maker or ADF ECN
- 6275 – Withdrawal of Quotations
- 6480 – Multiple MPIDs for Quoting and Trading in OTC Equity Securities

SEC Rules and Regulations
- Securities Exchange Act of 1934
  - Section 3(a)(38) – Definition of a Market Maker
  - 3b-8 – Definitions of “Qualified OTC Market Maker,” “Qualified Third Market Maker” and “Qualified Block Positioner”

1.1.2 Understanding Order Types

Knowledge of:
- Different order types and their use in the marketplace including:
  - Market
  - Limit
  - Stop
  - Stop limit
  - Market-on-open (MOO), Market-on-close (MOC)
  - Contingent/stipulation (e.g., day, good-till-canceled (GTC))
  - Reserve
  - Peg

NYSE American Rules
- 900.3NY – Orders Defined

NYSE Arca Rules
- 6.62-O – Certain Types of Orders Defined
- 7.31-E – Orders and Modifiers

1.1.3 Market Access

Knowledge of:
- Requirements for direct market access (DMA)/sponsored access
- The purpose of credit and capital limits
Series 57

- Identifying pre-trade risk controls

SEC Rules and Regulations
   Securities Exchange Act of 1934
   15c3-5 – Risk Management Controls for Brokers or Dealers with Market Access

1.1.4 Identifying and Handling Clearly Erroneous Transactions

Knowledge of:
- Identifying minimum criteria necessary for a transaction to qualify as clearly erroneous
- Nullification and adjustment of transactions including obvious errors

FINRA Rule
   11890 Series – Clearly Erroneous Transactions

1.1.5 Display, Execution and Trading Systems

Knowledge of:
- Understanding order entry parameters
- Trading rotations
- The use of the Alternative Display Facility (ADF)
- The role of alternative trading systems (ATS)

FINRA Rules
   6200 Series – Alternative Display Facility (ADF)
      6210 – General
      6220 – Definitions
      6230 – Use of Alternative Display Facility Data Systems
      6240 – Prohibition from Locking or Crossing Quotations in NMS Stocks
      6250 – Quote and Order Access Requirements
      6260 – Review of Direct or Indirect Access Complaints
      6273 – Normal Business Hours

SEC Rules and Regulations
   Regulation ATS
      300 – Definitions
      301 – Requirements for Alternative Trading Systems
      302 – Recordkeeping Requirements for Alternative Trading Systems
      303 – Record Preservation Requirements for Alternative Trading Systems

1.1.6 Identifying and Avoiding Prohibited Activities

Knowledge of:
- Prohibited activities
  - Trading ahead of research reports
  - Use of material nonpublic information for insider trading
  - Use of trading schemes (e.g., prearranged trading, spoofing, pump and dump)
  - Engaging in conduct that influences or intimidates other market participants
FINRA Rules

5200 Series - Quotation and Trading Obligations and Practices
5230 – Payments Involving Publications that Influence the Market Price of a Security
5270 – Front Running of Block Transactions
5280 – Trading Ahead of Research Reports
5240 – Anti-Intimidation/Coordination
5290 – Order Entry and Execution Practices

SEC Rules and Regulations

 Securities Exchange Act of 1934
Section 9 – Prohibition Against Manipulation of Security Prices
Section 15(g) – Registration and Regulation of Brokers and Dealers (policies and procedures to be developed by broker-dealers to prevent misuse of material nonpublic information)
10b-5 – Employment of Manipulative and Deceptive Devices
10b5-2 – Duties of Trust or Confidence in Misappropriation Insider Trading Cases

1.1.7 Disseminating Quotes and Trade Advertisements

Knowledge of:
- Quotations and trading halts
- Halt and imbalance crosses
- Trade volume advertising
- Publishing indications of interest (IOI)
- Volatility trading pauses (VTPs)
- Offers at stated prices

FINRA Rules

5200 Series - Quotation and Trading Obligations and Practices
5210 – Publication of Transactions and Quotations
5220 – Offers at Stated Prices
5260 – Prohibition on Transactions, Publication of Quotations, or Publication of Indications of Interest During Trading Halts

6000 Series – Quotation, Order, and Transaction Reporting Facilities
6120 – Trading Halts
6121 – Trading Halts Due to Extraordinary Market Volatility
6190 – Compliance with Regulation NMS Plan to Address Extraordinary Market Volatility
6272 – Character of Quotations
6277/6360A/6360B – Suspension and Termination of Quotations by FINRA Action
6440 – Trading and Quotation Halt in OTC Equity Securities

SEC Rules and Regulations

 Regulation NMS
602 – Dissemination of Quotations in NMS Securities
610 – Access to Quotations

1.2 Trading Specific Products

1.2.1 Initial Public Offerings (IPOs), Secondary Offerings and Safe Harbor

Knowledge of:
- Permitted and prohibited trading activities related to IPOs and secondary offerings
Series 57

- Penalty bids
- Stabilizing bids
- Passive market making
- Required notification related to IPOs and secondary offerings
- Trading within safe harbors

FINRA Rules
- FINRA Rules 5131 – New Issue Allocations and Distributions
- FINRA Rules 5190(e) – Notice of Penalty Bids and Syndicate Covering Transactions in OTC Equity Securities
- FINRA Rules 6130 – Transactions Related to Initial Public Offerings
- FINRA Rules 6435 – Withdrawal of Quotations in an OTC Equity Security in Compliance with SEC Regulation M

SEC Rules and Regulations
- Securities Act of 1933
  - Regulation D – Rules Governing the Limited Offer and Sale of Securities Without Registration Under the Securities Act of 1933
- Securities Exchange Act of 1934
  - Section 5 – Transactions on Unregistered Exchanges
  - 10b5-1 – Trading “On The Basis Of” Material Nonpublic Information in Insider Trading Cases
  - 10b-18 – Purchases of Certain Equity Securities By the Issuer and Others
- Regulation M
  - 101 – Activities By Distribution Participants
  - 102 – Activities By Issuers and Selling Security Holders During a Distribution
  - 103 – Nasdaq Passive Market Making
  - 104 – Stabilizing and Other Activities in Connection with an Offering
  - 105 – Short Sales in Connection with a Public Offering

1.2.2 Non-listed and Penny Stocks

Knowledge of:
- Characteristics of penny stocks
- Disclosure requirements
- Over-the-counter (OTC) quoting and trading
- OTC Bulletin Board (OTCBB)
- Initiating or resuming market making in OTC and OTCBB (Form 211)

FINRA Rules
- FINRA Rules 6140 – Other Trading Practices
- FINRA Rules 6400 Series – Quoting and Trading in OTC Equity Securities
  - FINRA Rules 6410 – General
  - FINRA Rules 6420 – Definitions
  - FINRA Rules 6432 – Compliance with the Information Requirements of SEA Rule 15c2-11
  - FINRA Rules 6433 – Minimum Quotation Size Requirements for OTC Equity Securities
  - FINRA Rules 6434 – Minimum Pricing Increment for OTC Equity Securities
  - FINRA Rules 6437 – Prohibition from Locking or Crossing Quotations in OTC Equity Securities
  - FINRA Rules 6438 – Displaying Priced Quotations in Multiple Quotation Mediums
  - FINRA Rules 6460 – Display of Customer Limit Orders
- FINRA Rules 6500 Series – OTC Bulletin Board Service
  - FINRA Rules 6510 – Applicability
  - FINRA Rules 6520 – Operation of the Service
  - FINRA Rules 6530 – OTCBB-Eligible Securities
  - FINRA Rules 6540 – Requirements Applicable to Market Makers
SEC Rules and Regulations
Securities Exchange Act of 1934
Section 3(a)(51) – Definition of Penny Stock
15c2-11 – Initiation or Resumption of Quotations Without Specified Information
15g-1 – Exemptions for Certain Transactions
15g-3 – Broker or Dealer Disclosure of Quotations and Other Information Relating to the Penny Stock Market
15g-4 – Disclosure of Compensation to Brokers or Dealers
15g-5 – Disclosure of Compensation to Associated Persons in Connection with Penny Stock Transactions
15g-8 – Sales of Escrowed Securities of Blank Check Companies

1.2.3 Options Trading

Knowledge of:
- Option orders and types including spreads, straddles and combinations
- Index options (e.g., Cboe Volatility Index (VIX))
- Exercise and assignment
- Tender of exercise notices
- Position and exercise limits

Cboe Rules
4.11 – Position Limits
4.12 – Exercise Limits
4.13 – Reports Related to Position Limits
6.53 – Certain Types of Orders Defined
11.1 – Exercise of Option Contracts
11.2 – Allocation of Exercise Notices
24.4 – Position Limits for Broad-Based Index Options
24.4A – Position Limits for Industry Index Options
24.4B – Position Limits for Options on Micro Narrow-Based Indexes as Defined Under Rule 24.2(d)
24.4C – Position Limits for Individual Stock or ETF Volatility Index Options
24.5 – Exercise Limits
24A.7 – Position Limits and Reporting Requirements
24A.8 – Exercise Limits
24B.7 – Position Limits and Reporting Requirements
24B.8 – Exercise Limits

1.2.4 Handling and Executing Short Sales

Knowledge of:
- Short sale regulations
- Locates and borrows
- Price test
- Close-out requirements
- Order marking requirements
- Short sale exemptions

FINRA Rules
6182 – Trade Reporting of Short Sales
6624 – Trade Reporting of Short Sales

SEC Rules and Regulations
1.3 Handling Customer Orders

1.3.1 Meeting Obligations to Customers Regarding Orders

Knowledge of:
- Market hours vs. pre- and post-market trading
- Best execution requirements
- Adjustment of orders for stock splits, dividends
- Fair prices and commissions
- Net transactions
- Order marking

FINRA Rules
2010 – Standards of Commercial Honor and Principles of Trade
2121 – Fair Prices and Commissions
2124 – Net Transactions with Customers
2265 – Extended Hours Trading Risk Disclosure
5300 Series – Handling of Customer Orders
   5310 – Best Execution and Interpositioning
   5330 – Adjustment of Orders
   5350 – Stop Orders
6140 – Other Trading Practices

1.3.2 Identifying and Avoiding Prohibited Practices

Knowledge of:
- Trading ahead of customer orders
- Use of manipulative or deceptive devices
- Prohibited transactions of investment advisers

FINRA Rules
2020 – Use of Manipulative, Deceptive or Other Fraudulent Devices
5320 – Prohibition Against Trading Ahead of Customer Orders

Investment Advisers Act of 1940
Section 206 – Prohibited Transactions by Investment Advisers

1.3.3 Regulation NMS

Knowledge of:
- Order protection
- Customer limit order display requirements
- Trade through protection
- Sub-Penny Rule
Function 2: Maintaining Books and Records, Trade Reporting and Clearance and Settlement

2.1 Reporting Trades to the Designated Reporting Facility

Knowledge of:
- Distinctions among reporting facilities
- Trade reporting requirements (e.g., modifiers, timing, trade acceptance)

FINRA Rules

6100 Series – Quoting and Trading in NMS Stock
  6110 – Trading Otherwise than on an Exchange
  6160 – Multiple MPIDs for Trade Reporting Facility Participants
  6170 – Multiple MPIDs for Alternative Display Facility Participants
  6181 – Timely Transaction Reporting
  6183 – Exemption from Trade Reporting Obligation for Certain Alternative Trading Systems

6280 Series – Transaction Reporting
  6281 – Reporting Transactions in ADF-Eligible Securities
  6282 – Transactions Reported by Members to the ADF

7100 Series – Alternative Display Facility
  7110 – Definitions
  7120 – Trade Reporting Participation Requirements
  7130 – Trade Report Input
  7140 – Trade Report Processing
  7150 – Obligation to Honor Trades
  7160 – Audit Trail Requirements

6300A/7200A Series – FINRA/Nasdaq Trade Reporting Facility
  6310A/6320A – General
  6320A/6320B – Definitions
  6380A/6380B – Transaction Reporting
  7210A/7210B – Definitions
  7220A/7220B – Trade Reporting Participation Requirements
  7230A/7230B – Trade Report Input
  7240A/7240B – Trade Report Processing
  7250A/7250B – Obligation to Honor Trades
  7260A/7260B – Audit Trail Requirements
  7270A/7270B – Violation of Reporting Rules

6550 – Transaction Reporting (OTCBB)

6600 Series – OTC Reporting Facility
  6610 – General
  6621 – Definitions
  6622 – Transaction Reporting
  6623 – Timely Transaction Reporting
  6625 – Exemption from Trade Reporting Obligation for Certain Alternative Trading Systems
2.2 Creating, Retaining and Reporting Required Records of Orders and Transactions

Knowledge of:
- Large Trade ID and related reporting and monitoring requirements
- Order execution/routing information
- Order Audit Trail System (OATS) and OATS reporting obligations, including timing and required fields
- Consolidated Options Audit Trail System (COATS)
- Books and records requirements and pre-time stamping
- ATS transparency

FINRA Rules
4511 – General Requirements
4515 – Approval and Documentation of Changes in Account Name or Designation
4590 – Synchronization of Member Business Clocks
5340 – Pre-Time Stamping
6800 Series – Consolidated Audit Trail Compliance Rule
7400 Series – Order Audit Trail System (OATS)
  7410 – Definitions
  7420 – Applicability
  7440 – Recording of Order Information
  7450 – Order Data Transmission Requirements
  7460 – Violation of Order Audit Trail System Rule

SEC Rules and Regulations
Securities Exchange Act of 1934 Rules
  13h-1 – Large Trader Reporting
  17a-3 – Records To Be Made By Certain Exchange Members, Brokers and Dealers
Regulation NMS
  605 – Disclosure of Order Execution Information
  606 – Disclosure of Order Routing Information

Cboe Rules
  6.51 – Reporting Duties
  6.58 – Submission of Trade Information to the Exchange
  15.1 – Maintenance, Retention and Furnishing of Books, Records and Other Information

2.3 Clearance and Settlement

Knowledge of:
- Confirmations
- Standard settlement time frames for various products
- Options Clearing Corporation (OCC) assignment procedure
• Close-out requirements for various products

FINRA Rules
  2232 – Customer Confirmations
  6274/6350A/6350B – Clearance and Settlement
  11000 Series – Uniform Practice Code
    11130 – When, As and If Issued/Distributed Contracts
    11140 – Transactions in Securities “Ex-Dividend,” “Ex-Rights” or “Ex-Warrants”
    11320 – Dates of Delivery

SEC Rules and Regulations
  Securities Exchange Act of 1934
    10b-10 – Confirmation of Transactions
    15c6-1 – Settlement Cycle

Cboe Rules
  6.50 – Submission for Clearance
  11.1 – Exercise of Option Contracts
  11.2 – Allocation of Exercise Notices
  11.3 – Delivery and Payment