

Securities Trader Qualification Examination (Series 57)

CONTENT OUTLINE

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:

Function	Description	Percentage of Exam Items	Number of Items
1	Trading Activities	82%	41
2	Maintaining Books and Records, Trade Reporting and Clearance and Settlement	18%	9
TOTAL:		100%	50

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-til-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

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- 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

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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

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

FINRA Rules

- 5131 – New Issue Allocations and Distributions
- 5190(e) – Notice of Penalty Bids and Syndicate Covering Transactions in OTC Equity Securities
- 6130 – Transactions Related to Initial Public Offerings
- 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
- Initiating or resuming market making in OTC (Form 211)

FINRA Rules

- 6140 – Other Trading Practices
- 6400 Series – Quoting and Trading in OTC Equity Securities
 - 6410 – General
 - 6420 – Definitions
 - 6432 – Compliance with the Information Requirements of SEA Rule 15c2-11
 - 6433 – Minimum Quotation Size Requirements for OTC Equity Securities
 - 6434 – Minimum Pricing Increment for OTC Equity Securities
 - 6437 – Prohibition from Locking or Crossing Quotations in OTC Equity Securities
 - 6438 – Displaying Priced Quotations in Multiple Quotation Mediums
 - 6439 – Requirements for Member Inter-Dealer Quotation Systems
 - 6460 – Display of Customer Limit Orders

SEC Rules and Regulations

- Securities Exchange Act of 1934
 - Section 3(a)(51) – Definition of Penny Stock

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- 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

- 5.6 – Order Types, Order Instructions, and Time-in-Force
- 6.2 – Exercise of Option Contracts
- 6.21 – Allocation of Exercise Notices
- 8.30 – Position Limits
- 8.31 – Position Limits for Broad-Based Index Options
- 8.32 – Position Limits for Industry Index Options
- 8.33 – Position Limits for Options on Micro Narrow-Based Indexes as Defined Under Rule 24.2(d)
- 8.34 – Position Limits for Individual Stock or ETF Volatility Index Options
- 8.35 – Position Limits for FLEX Options
- 8.42 – Exercise Limits
- 8.42 – Exercise Limits
- 8.43 – Reports Related to Position 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

- Regulation SHO
 - 200 – Definition of “Short Sale” and Marking Requirements
 - 201 – Circuit Breaker
 - 203 – Borrowing and Delivery Requirements
 - 204 – Close-out Requirement

1.3 Handling Customer Orders

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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

SEC Rules and Regulations

- Regulation NMS – Regulation of the National Market System
 - 600 – NMS Security Designation and Definitions
 - 604 – Display of Customer Limit Orders
 - 611 – Order Protection Rule
 - 612 – Minimum Price Increments

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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
- 6300B/7200B Series – FINRA/NYSE Trade Reporting Facility
 - 6310A/6300B – 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
- 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
- 7300 Series – OTC Reporting Facility
 - 7310 – Definitions
 - 7320 – Trade Reporting Participation Requirements
 - 7330 – Trade Report Input
 - 7340 – Trade Report Processing
 - 7350 – Obligation to Honor Trades
 - 7360 – Audit Trail Requirements
 - 7370 – Violation of Reporting Rules

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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
- 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

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

- 6.1 – Report Transactions to the Exchange
- 7.1 – Maintenance, Retention and Furnishing of Books, Records and Other Information
- 7.5 – Automated Submission of Trading Data

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

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15c6-1 – Settlement Cycle

Cboe Rules

- 6.2 – Exercise of Option Contracts
- 6.21 – Allocation of Exercise Notices
- 6.22 – Delivery and Payment
- 6.4 – Reporting of Trades to OCC