



# General Securities Sales Supervisor Qualification Examination (Test Series 9 and 10)

## Study Outline

## Introduction

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The General Securities Sales Supervisor Qualification Examination (combination of Series 9 and 10) is intended to test a candidate's knowledge of securities industry rules and certain statutory provisions applicable to the supervision of sales activities at a general securities-oriented branch office. A candidate for this exam must satisfy the prerequisite that normally is registration as a general securities representative. This study outline, the exam item bank and item allocation have been developed by a committee of securities industry professionals with experience in retail securities sales.

A passing score will satisfy the qualification requirements of Chicago Board Options Exchange, FINRA, Municipal Securities Rulemaking Board, Nasdaq OMX PHLX, NYSE MKT, and NYSE ARCA (jointly referred to as SROs) for a candidate who will supervise the sales activities in corporate, municipal and option securities, investment company products, variable contracts, and direct participation programs. In addition to branch office managers, regional and national sales managers may also be registered solely as Limited Principals-General Securities Sales Supervisor as long as they supervise only sales activities. Senior management and supervisors of underwriting, trading, or overall firm compliance need to qualify under other exam programs. Candidates should refer to the rules of the SROs mentioned earlier to determine the appropriateness of this exam in light of their job descriptions.

The General Securities Sales Supervisor Qualification Exam includes the six general areas listed below, along with the percentage point value assigned to each area.

Exam	Section	Topics	Number of Items	Percentage Value
<b>Series 10</b>	1	Hiring, Qualifications, and Continuing Education	9	4.5%
	2	Supervision of Accounts and Sales Activities	94	47%
	3	Conduct of Associated Persons	14	7%
	4	Recordkeeping Requirements	8	4%
	5	Municipal Securities Regulation	20	10%
<b>Series 9</b>	6	Options Regulation	55	27.5%
<b>Total</b>			<b>200</b>	<b>100%</b>

This study outline presents topics that the SROs and test development committee consider to be major job functions of a general securities sales supervisor. Although not all-inclusive, the outline describes tasks associated with major components of the job and

identifies pertinent SRO rules associated with those tasks, grouping those rules that are substantively similar. Thus, in areas of parallel interest, rules of the options exchanges or those governing municipal securities are cited in the general portion of the exam. Rules and sections of rules that are specific to options and municipal securities will be tested only in the Series 9 and the municipal securities portion of the Series 10, respectively. This approach is intended to eliminate redundancy in testing similar rules, and focus emphasis on products and concepts that are unique to options and municipal securities. Since the outline is used to develop a blueprint for the exam, firms may use the outline to help candidates prepare for the exam. This outline may also be used by course developers in the preparation of training material, and by training directors in the development of lecture notes and seminar programs. Candidates may use the outline to structure their study and as a final review checklist before sitting for the exam. This outline is available on the FINRA Web Site at [www.finra.org](http://www.finra.org).

### **Structure of the Exam**

The General Securities Sales Supervisor Qualification exam contains 200 multiple-choice items. Series 9 contains 55 items on Regulation of Options (section 6 of this outline) and candidates are allotted 1 1/2 hours of testing time. Series 10 contains 145 items (sections 1 through 5 of this outline) and the testing time allotted is 4 hours.

To ensure that new items meet acceptable testing standards prior to use, the Series 9/10 exam includes 15 additional, unidentified "pre-test" items that do not contribute towards the candidate's score. The 15 items are randomly distributed throughout the exam with 5 pre-test items appearing on the Series 9 and 10 pre-test items on the Series 10. Therefore, each candidate will receive a total of 215 items (60 on the Series 9 and 155 on the Series 10), of which only 200 items (55 on the Series 9 and 145 on the Series 10) are scored.

The Series 9 and Series 10 may be taken in any order at any time within the 120-day enrollment period. They are closed-book tests administered on-line at FINRA-approved test centers. Candidates may NOT use any reference material during their testing sessions. The test center administrator will provide both white boards/dry erase markers and a basic calculator for each candidate. Only calculators provided by the test center administrator will be allowed. The scratch paper and calculator must be returned to the administrator at the end of the testing session. Severe penalties are imposed on candidates who cheat on securities industry qualification exams. Exam items are updated regularly to reflect the most current interpretations of the rules and regulations. Items on new rules will be added to the pool of items for this exam within a reasonable period of their effective dates.

A candidate must receive at least a 70% score on the Series 9 (the Options Group) and at least a 70% score on the Series 10 (the General Group) to receive a passing grade. At the completion of the test, candidates will receive an informational breakdown of their performance on each section of the test as well as their overall score. This score will also be posted on the candidate's CRD record and once all requirements have been satisfied for this registration, the candidate will be approved as a General Securities Sales Supervisor.

Information about qualifications exams may be found at <http://www.finra.org/industry/qualification-exams>.

There are also sample Series 9/10 test items written in the various formats. They do not mirror the difficulty level of the actual test items or the subject matter distribution of the test itself. Their use is merely to familiarize the candidate with the styles of multiple-choice items used in the Series 9/10 exam.

The following reference materials may be used in preparing for the exam.

Please Note: 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.

## References

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**NYSE MKT Rules**  
<http://www.nyse.com/>

**Chicago Board Options  
Exchange  
Constitution and Rules**  
[www.cboe.com](http://www.cboe.com)

**Code of Federal Regulation  
Title 17—Commodity and  
Securities Exchanges**  
Superintendent of Documents  
U.S. Government Printing Office  
Washington, DC 20402

**Dictionary of Finance and Investment  
Terms**  
Barron's Financial Guides  
[www.barronseduc.com](http://www.barronseduc.com)

**Federal Securities Law  
Reporter, Volumes 2 and 3**  
Commerce Clearing House, Inc.  
4025 W. Peterson Avenue  
Chicago, IL 60646

**Municipal Securities Rulemaking  
Board Rule Book**  
[www.msrb.org](http://www.msrb.org)

**Other Publications Available through**  
[www.finra.org](http://www.finra.org)  
FINRA/NASD Rules  
FINRA Notices

**New York Stock Exchange, Inc.  
Constitution and Rules**  
[www.nyse.com](http://www.nyse.com)

**NYSE Arca, Inc.  
Constitution and Rules**  
<http://www.nyse.com>

**Philadelphia Stock Exchange, Inc.  
Manual**  
<http://www.phlx.com>

**Securities Act Handbook**  
Aspen Publishers  
[www.aspenpublishers.com](http://www.aspenpublishers.com)

**Securities Credit Transactions  
Regulations T, U, and X**  
Board of Governors of the  
Federal Reserve System  
Constitution Avenue at  
20th Street, NW  
Washington, DC 20551

**Securities Law Handbook, 2005 ed.**  
H.S. Bloomenthal  
Clark Boardman Callaghan  
610 Opperman Drive  
Eagan, IL 55123  
[www.west.thomson.com](http://www.west.thomson.com)

**Securities Regulation**  
Joel Seligman, The Late Louis Loss  
Prentice-Hall, Inc.  
Englewood Cliffs, NY 07632  
[www.aspenpublishers.com](http://www.aspenpublishers.com)

**SIPC**  
[www.sipc.org](http://www.sipc.org)

**1.0**  
**Hiring, Qualifications, and Continuing Education**

**1.1 Qualification and Registration Requirements**

- **Ensure that RRs' Form U4s are current**
- **Ensure that state registration requirements for agents and investment advisers are met**
- **Initiate pre-hire investigations**
- **Review new employees' previous registration and work history**
- **Supervise RRs' compliance with Continuing Education requirements**

**1.1.1 Qualification and Registration**

**1.1.1.1 Investigation and records**

FINRA By-Laws

Article III, Sec. 3 Ineligibility of Certain Persons for Membership or Association

FINRA Rules

Rule 3110 (e)—Responsibility of Member to Investigate Applicants for Registration

NYSE Rules

Rule 345.11—Investigation and records

NYSE MKT Rules

Rule 341 Commentary .07 Qualifications

Securities Exchange Act of 1934

Rule 17f-2—Fingerprinting of securities industry personnel

**1.1.1.2 Qualification, registration and approval**

FINRA By-Laws

Article V, Sec. 1 - Qualification Requirements

CBOE Rules

Rule 9.2—Registration of options principals

Rule 9.8—Supervision of accounts

MSRB Rules

Rule G-2—Standards of professional qualification

Rule G-3(a)(i)—Municipal securities representative - Definition

Rule G-3(a)(ii)—Qualification requirements

Rule G-3(b)(i)—Municipal securities principal – Definition

Rule G-3(b)(iv)(A)—Municipal fund securities limited principal

Rule G-3(c)(i)—Municipal securities sales principal -Definition

Rule G-3(c)(ii)—Qualification requirements

Rule G-3(f)—Retaking of examinations

NASD Rules

Rule 1000—Membership, registration and qualification requirements

Nasdaq OMX PHLX Rules

Rule 604—Registration and termination of registered persons

Rule 1024(a)(i)—Registration of options principals

- Rule 1024(a)(iii)—Foreign currency options – qualified customer personnel
- NYSE Rules
  - Rule 345—Employees—registration, approval, records
- NYSE MKT Rules
  - Rule 341(a) and (b) --- Approval of Registered Employees and Officers
  - Rule 920—Registration and examination of options personnel
- NYSE Arca Rules
  - Rule 9.26—Registration of options principals
  - Rule 9.27(a)—Registration of representatives

## **1.1.2 Special Registration Review for Disciplinary History**

### **1.1.2.1 Statutory disqualification**

- FINRA By-Laws
  - Article III Sec .4—Definition of Disqualification
- CBOE Rules
  - Rule 3.18—Members and associated persons who are or become subject to a statutory disqualification
- MSRB Rules
  - Rule G-4—Statutory disqualifications
- NYSE Rules
  - Rule 345—Employees – registration, approval, records
  - Rule 345A(3) – Continuing Education for Registered Persons
- NYSE MKT Rules
  - Rule 341A(a)(2) —Continuing Education for Registered Persons- Disciplinary Actions
  - Rule 341B(2) – Independent Contractors
  - Rule 401(e) – Association of Members, Member Organizations, and Persons Associated with Member Organizations
- Securities Exchange Act of 1934
  - Sec. 3(a)(39)—Definition of “statutory disqualification”

## **1.1.3 Continuing Education for Registered Persons**

### **1.1.3.1 Regulatory Element**

- CBOE Rules
  - Rule 9.3A(a) & (b)—Regulatory element
- FINRA Rules
  - Rule 1250 — Continuing Education Requirements
- MSRB Rules
  - Rule G-3(h)(i)—Regulatory element
- Nasdaq OMX PHLX Rules
  - Rule 640(a)—Regulatory element
- NYSE Rules
  - Rule 345A(a)—Regulatory element

NYSE MKT Rules  
    Rule 341A(a)—Regulatory element  
NYSE Arca Rules  
    Rule 9.27(c)—Regulatory element

1.1.3.2 Firm Element

CBOE Rules  
    Rule 9.3A(c)—Firm element  
FINRA Rules  
    Rule 1250 — Continuing Education Requirements  
MSRB Rules  
    Rule G-3(h)(ii)—Firm element  
Nasdaq OMX PHLX Rules  
    Rule 640 (b)—Firm element  
NYSE Rules  
    Rule 345A(b)—Firm element  
NYSE MKT Rules  
    Rule 341A(b)—Firm element



## 2.0

### Supervision of Accounts and Sales Activities

#### 2.1 Solicitation

##### 2.1.1 Communications with the Public

- **Review and approve correspondence to customers, including electronic communications**
- **Evidence review of correspondence from customers, including electronic communications**
- **Review and approve sales literature and other public communications**
- **Review and approve RR-generated sales material**
- **Review and approve public seminars and presentations**
- **Monitor the use of ‘internal use only’ sales material**
- **Monitor telemarketing procedures (e.g., maintain ‘do not call’ list)**
- **Maintain a log of public seminars and presentations given by RRs**

##### 2.1.1.1 Communications with the public

###### FINRA Rules

Rule 2210 – Communication With The Public

Rule 2220—Options Communications

Rule 2241—Research Analysts and Research Reports

###### MSRB Rules

Rule G-21(a-c) and (e)—Advertising

Rule G-27(e)—Review of correspondence

###### NASD Rules

Rule 2711—Research Analysts and Research Reports

###### Nasdaq OMX PHLX Rules

Rule 605—Advertisements, market letters, research reports and sales literature

###### NYSE Rules

Rule 342.16—Supervision of registered representatives

Rule 342.17—Review of communications with the public

Rule 472—Communications with the public

###### NYSE MKT Rules

Rule 481—Communications with the Public

Rule 1106—Prior Approval of Certain Communications to Customers

###### NYSE Arca Rules

Rule 9.21 through 9.25—Advertising and sales literature

###### Securities Act of 1933

Section 5—Prohibitions relating to interstate commerce and the mails

Rule 135a—Generic advertising

Rules 138 and 139—Definition to “offer for sale” and “offer to sell” in Sections 2(10) and 5(C) in relation to certain publications

Rule 156—Investment company sales literature

- 2.1.1.2 Telemarketing requirements
  - CBOE Rules
    - Rule 9.24—Telephone solicitation
  - MSRB Rules
    - Rule G-39—Telemarketing
  - FINRA Rules
    - Rule 3230—Telemarketing
  - Nasdaq OMX PHLX Rules
    - Rule 762—Telemarketing
  - NYSE MKT Rules
    - Rule 428—Recordkeeping
    - Rule 429—Telemarketing
  - NYSE Arca Rules
    - Rule 9.20— Telemarketing

## 2.2 Opening of Accounts

### 2.2.1 Account Documentation

- **Review customer information and documentation obtained to approve new accounts**
- **Review and approve the opening of all new accounts for suitability and compliance with regulatory and firm requirements**
- **Ensure third party trading authorizations are current**
- **Supervise the documentation and transactions in different types of accounts, including but not limited to: fiduciary accounts, Uniform Gifts/Transfers to Minors Act accounts, Advisory and Wrap accounts, Retirement Plans, accounts with check-writing capability, and discretionary accounts**
- **Ensure proper handling of accounts of incompetents and decedents**
- **Review activity in discretionary accounts for proper documentation, authorizations and suitability**

#### 2.2.1.1 Diligence as to accounts

- CBOE Rules
  - Rule 9.7(b) —Diligence in opening account
- FINRA Rules
  - Rule 2090 – Know Your Customer
- NYSE MKT Rules
  - Rule 411—Duty to Know and Approve Customers
- NYSE Arca Rules
  - Rule 9.2(b)—Diligence as to accounts

#### 2.2.1.2 Opening of accounts

- CBOE Rules
  - Rule 9.7—Opening of accounts
- FINRA Rules
  - Rule 3250 – Designation of Accounts
  - Rule 4510 – Books and Records Requirements

- MSRB Rules
  - Rule G-8(a)(xi)—Customer account information
  - Rule G-19(a) and (b)—Account information
  - Rule G-27(c)(i)(G)(1)—Opening of accounts
- Nasdaq OMX PHLX Rules
  - Rule 1024(b)—Opening accounts
- NYSE MKT Rules
  - Rule 921(c)—Diligence in opening account
- NYSE Arca Rules
  - Rule 9.18(b) —Opening of accounts
- Securities Exchange Act of 1934
  - Regulation S-P—Privacy of consumer financial information

2.2.1.3 Approval of accounts

- CBOE Rules
  - Rule 9.7(a)—Opening of accounts - approval required
- NYSE Rules
  - Rule 405(3)—Approval of accounts
- NYSE MKT Rules
  - Rule 921(a)(b) and (c) —Opening of Accounts

2.2.1.4 Information obtained in fiduciary capacity

- FINRA Rules
  - Rule 2060—Use of Information Obtained in Fiduciary Capacity
- MSRB Rules
  - Rule G-24—Use of ownership information obtained in fiduciary or agency capacity

2.2.1.5 Discretionary accounts—required documentation and approval

- CBOE Rules
  - Rule 9.10 —Discretionary accounts
- MSRB Rules
  - Rule G-19(d)—Discretionary accounts
  - Rule G-22(b)—Control relationships – discretionary accounts
- NASD Rules
  - Rule 2510—Discretionary accounts
- NYSE Rules
  - Rule 408—Discretionary power in customers’ accounts
- NYSE MKT Rules
  - Rule 421—Discretion as to customers’ Accounts
- NYSE Arca Rules
  - Rule 9.18(e) —Discretionary accounts
- Securities Exchange Act of 1934
  - Rule 15c1-7—Discretionary accounts

## 2.3 Supervision of Account Activities

### 2.3.1 Suitability

- **Assist RRs in helping customers formulate investment objectives and to set financial goals**
- **Review trading and suitability of trade activity, *e.g.*, use of margin, day trading or concentrated positions and/or excessive transactions**
- **Review for initial and ongoing suitability of various investment portfolios and objectives**
- **Review managed accounts to ensure that the investment styles of the advisers and managers are consistent with the objectives of the customer**
- **Ensure that RRs have necessary product knowledge**
- **Ensure suitability of recommending options strategies**
- **Ensure that RRs understand suitability requirements**
- **Monitor customer accounts for mutual fund switching and variable annuity 1035 exchanges**

2.3.1.1 Special products and accounts, *e.g.*, direct participation programs; index shares; exchange traded funds (ETFs); investment company products; depository receipts; IRAs: Traditional, Roth, Coverdell; transfers; corporate pension plans; corporate deferred payment profit sharing plans; variable annuities and tax deferred annuity plans; 401(k) plans; 403(b) plans; employee stock ownership plans (ESOP); eligible worker-owned cooperative (EWOC); and nonqualified retirement plans

#### CBOE Rules

Chapter XXX—Trading in stocks, warrants and other securities

#### FINRA Rules

Rule 2310 – Direct Participation Programs

Rule 2320(b) – Variable Contracts of an Insurance Company

#### NASD Rules

Rule 2830(b)—Investment company securities

### 2.3.1.2 Suitability of recommendations

#### CBOE Rules

Rule 9.9—Suitability of recommendations

#### FINRA Rules

Rule 2111—Suitability

#### MSRB Rules

Rule G-19 (a)-(c)—Suitability of recommendations and transactions

#### Nasdaq OMX PHLX Rules

Rule 1026—Suitability

#### NYSE MKT Rules

Rule 411—Commentary .02—Duty to know and approve customers (index warrants)

Rule 924(c)— Prohibited Transactions

Rule 1102—Suitability

Rule 1000—Portfolio Depositary Receipts  
 Rule 1000A—Index Fund Shares  
 Rule 1200— Trust Issued Receipts Rule, Rules of general applicability  
 Rule 1200A—Commodity-Based Trust Shares  
 Listing Standards—Policies—Requirements, Section 107 B. Equity Linked Term Notes  
 Listing Standards—Policies—Requirements, Section 107 C. Index-Linked Exchangeable Notes  
 Listing Standards—Policies—Requirements, Section 107 E. Trust Certificate Securities  
 Listing Standards—Policies—Requirements, Section 118 A. Investment Trusts Based on Securities of Individual Issuers  
 Listing Standards—Policies—Requirements, Section 118 B. Investment Trusts Based on Stock Indexes or Debt Instruments  
 NYSE Arca Rules  
 Rule 9.18(c) —Suitability

### 2.3.2 Prohibited Activities

- **Review for market manipulation, insider trading, marking the close, creating an appearance of volume, *e.g.*, pump and dump**
- **Monitor trading activities for front running of customer orders, research and block trades, fictitious trades, *e.g.*, painting the tape**

#### 2.3.2.1 Anti-manipulation rules

FINRA Rules  
     Rule 6140 – Other Trading Practices  
     Rule 2020 – Use of Manipulative, Deceptive or Other Fraudulent Devices  
     Rule 5210 – Publication of Transactions and Quotations  
 Investment Advisers Act of 1940  
     Rule 205—Investment advisory contracts  
 Nasdaq OMX PHLX Rules  
     Rule 782—Manipulative operations  
 NYSE Rules  
     Rule 77—Prohibited dealings and activities  
     IM 99-51—Market-on-close/limit-on-close procedure  
     IM 98-20—Market-on-close and limit-on-close policy  
 NYSE MKT Rules  
     Rule 4—Manipulation  
     Constitution, Article V, Section 4(c) and (d) —Fictitious transactions and market demoralization, respectively  
 Securities Exchange Act of 1934  
     Section 9(a)(1) – (a)(6)—Prohibition against manipulation of security prices  
     Rule 10b-1—Prohibition of use of manipulative or deceptive devices or contrivances with respect to certain securities exempted from registration

Rule 10b-3—Employment of manipulative and deceptive devices by brokers or dealers  
Rule 14e-3—Transactions in securities on the basis of material, nonpublic information in the context of tender offers  
Rule 14e-4—Prohibited transactions in connection with partial tender offers  
Rule 15c1-2—Fraud and misrepresentation  
Rule 15c1-3—Misrepresentation by brokers, dealers and municipal securities dealers as to registration

#### 2.3.2.2 Insider trading

##### CBOE Rules

Rule 4.18—Prevention of misuse of material, nonpublic information  
Insider Trading and Securities Fraud Enforcement Act of 1988  
Section 3—Civil penalties of controlling persons for illegal insider trading by controlled persons

##### Nasdaq OMX PHLX Rules

Rule 761—Supervisory procedures relating to Insider Trading and Securities Fraud Enforcement Act of 1988

##### NYSE Rules

Rule 342.21—Trade review and investigation  
Rule 351(e)— Reporting Requirements

##### NYSE Arca Rules

Rule 11.3—Prevention of misuse of material, nonpublic information

##### Securities Exchange Act of 1934

Section 15(f)—Registration and regulation of brokers and dealers – written policies and procedures relating to misuse of material, non-public information  
Rule 10b-5—Employment of manipulative or deceptive devices  
Rule 10b5-1—Trading on the basis of material nonpublic information in insider trading cases  
Rule 10b5-2—Duties of trust or confidence in misappropriation insider trading cases

#### 2.3.2.3 Review account activity for trade practice violations

##### FINRA Rules

Rule 5240 – Anti-intimidation/coordination  
Rule 5270 – Front Running of Block Transactions  
Rule 5280 – Trading Ahead of Research Reports  
Rule 5320 – Prohibition Against Trading Ahead of Customer Orders

##### NYSE MKT Rules

Rule 3(d) —Confidential information  
Rule 24—Block Transactions  
Rule 111, Commentary, .03—Restrictions on Registered Traders (front-running)  
Rule 150—Purchases and sales while holding unexpected order

Rule 950(d), Commentary .04—Rules of General Applicability  
(knowledge of all material terms and conditions)

### 2.3.3 Sales and Business Practices

- **Ensure compliance with firm’s supervisory and compliance procedures for sales office**
- **Monitor trading activities for possible selling away**
- **Review customer accounts to determine that RRs are properly handling customer securities or funds**
- **Prevent improper use of customer assets**
- **Monitor and document third party transfer of securities or funds**
- **Monitor entry and allocation of block orders**
- **Ensure correct entry and handling of orders**
- **Review employee related accounts for any irregularities**
- **Review customer accounts to ensure that investments are consistent with stated objectives and risk tolerance**
- **Ensure that proper disclosures are made regarding nature of securities sold to a customer**
- **Conduct same day review of trading for unauthorized discretion, excessive transactions and suitability of transactions**
- **Review mutual fund transactions to ensure proper application of breakpoint sales discounts**

#### 2.3.3.1 Business conduct

CBOE Rules

Rule 4.1—Just and equitable principles of trade

FINRA Rules

Rule 2010 – Standards of Commercial Honor and Principles of Trade

Rule 2040—Payments to Unregistered Persons

Rule 6140 – Other Trading Practices

Nasdaq OMX PHLX Rules

Rule 707—Just and equitable principles of trade

NYSE Rules

Rule 401—Business conduct

NYSE MKT Rules

Rule 3(a) —General prohibitions and duty to report

Rule 3(c) —Rumors

Rule 16—Business conduct

Rule 345(a) and (b)— Determinations involving employees and prospective employees

NYSE Arca Rules

Rule 6.1 to 6.29—Options Trading – Rules principally applicable to trading of Option Contracts

Rule 11.2(b) —Just and equitable principles of trade

#### 2.3.3.2 Fair dealings with customers

FINRA Rules

- Rule 2121 – Fair Prices and Commissions
- Rule 2122 – Charges for Services Performed
- Rule 5220—Offers at Stated Prices
- Rule 5230—Payments Involving Publications that Influence the Market Price of a Security

MSRB Rules

- Rule G-13—Quotations relating to municipal securities
- Rule G-17—Conduct of municipal securities activities
- Rule G-30—Prices and commissions

NYSE Rules

- Rule 78—Sell and buy orders coupled at same price

### 2.3.3.3 General supervision of customer accounts

CBOE Rules

- Rule 9.8—Supervision of accounts
- Rule 9.10(a) —Discretionary accounts-authorization and approval required
- Rule 9.10(c)— Discretionary accounts-excessive transactions prohibited

FINRA Rules

- Rule 2150—Improper Use of Customers’ Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts
- Rule 2320(c)-(g) – Variable Contracts of an Insurance Company
- Rule 2342 – “Breakpoint” Sales
- Rule 3110—Supervision

MSRB Rules

- Rule G-19(e) —Churning

NASD Rules

- Rule 2510(a) —Excessive transactions
- Rule 2830(c)-(n)—Investment company securities

Nasdaq OMX PHLX Rules

- Rule 1027(c)—Discretionary accounts-prohibited transactions

NYSE Rules

- Rule 405(2)—Supervision of accounts
- Rule 405A—Non-managed fee based account programs
- Rule 408(c) —Discretionary power in customers’ accounts

NYSE MKT Rules

- Rule 411— Supervision of accounts
- Rule 1104— Supervision of Account

NYSE Arca Rules

- Rule 9.2(a) —Account supervision

### 2.3.3.4 Anti-money laundering compliance program

CBOE Rules

- Rule 4.20—Anti-money laundering compliance program

FINRA Rules

- Rule 3310—Anti-Money Laundering Compliance Program

MSRB Rules

- Rule G-41 – Anti-money laundering compliance program



- NYSE Arca Rules
  - Rule 11.19—Anti-money laundering compliance program
- Nasdaq OMX PHLX Rules
  - Rule 757—Anti-money laundering compliance program

#### 2.3.3.5 Statement of account to customers

- CBOE Rules
  - Rule 9.12—Statements of accounts to customers
- FINRA Rules
  - Rule 2360(b)(15)—Statements of account
- NASD Rules
  - Rule 2340—Customer account statements
- Nasdaq OMX PHLX Rules
  - Rule 1032—Statements of accounts
- NYSE Rules
  - Rule 409—Statement of accounts to customers
- NYSE MKT Rules
  - Rule 419—Statements of accounts
  - Rule 420— Mailing Statements, Confirmations and Communications to Customers
  - Rule 930—Statement of accounts
- NYSE Arca Rules
  - Rule 9.18(j)—Statement of accounts to customers
- Securities Exchange Act of 1934
  - Rule 17a-5(c) —Customer statements

#### 2.3.3.6 Order tickets

- FINRA Rules
  - Rule 2360(b)(12)—Confirmations
- NYSE Rules
  - Rule 123(e)—Records of orders
  - Rule 410A(a)-(d)—Records of orders
- NYSE MKT Rules
  - Rule 153—Record of Orders
  - Rule 422—Excessive transactions for discretionary account prohibited
  - Rule 730—Recording and use of give-up name
  - Rule 153A—Automated submission of trading data
  - Rule 924(d) —Discretion as to Price or Time Expected
  - Rule 925—Confirmations
- NYSE Arca Rules
  - Rule 9.18(f) —Confirmations
- Securities Exchange Act of 1934
  - Rule 10b-10—Confirmation of transactions

#### 2.3.3.7 Supervision

- FINRA Rules
  - Rule 3110(d)—Review of transactions and correspondence
- CBOE Rules

Rule 9.8—Supervision of accounts  
NYSE Rules  
Rule 342(d)(3)—Offices approval, supervision and control  
NYSE MKT Rules  
Rule 320—Offices -- approval, supervision and control  
NYSE Arca Rules  
Rule 9.18(d)—Supervision of accounts

#### **2.3.4 New Issues (Public and Private Offerings)**

- **Understand the structure and distribution of new issues**
- **Ensure that RRs are providing customers with current information, *e.g.*, prospectus**
- **Understand the responsibilities and risks associated with distribution of new issues**
- **Supervise sale of securities during initial distribution**
- **Monitor activity related to purchases and sales of initial public offerings of equity securities**
- **Understand the Blue Sky considerations during the course of a distribution of securities**

##### 2.3.4.1 Registration of securities

Securities Act of 1933

Section 6—Registration of securities

Regulation C—Registration

Rule 415—Delayed or continuous offering and sale of securities

Regulation A—Conditional small issue exemption

Regulation D—Offer and sale of securities without registration

##### 2.3.4.2 Offer and sale of new issue securities – indications of interest

FINRA Rules

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

##### 2.3.4.3 Offering documents

Securities Act of 1933

Rule 134—Communications not deemed a prospectus

Rule 427—Contents of prospectus used after nine months

Rule 430—Prospectus for use prior to effective date

Section 23—Unlawful representation

Securities Exchange Act of 1934

Rule 15c2-8—Delivery of prospectus

#### **2.3.5 Distribution of Restricted Securities**

- **Ensure RRs provide customers full disclosure regarding costs and fees associated with investment transactions**
- **Understand the responsibilities and risks associated with transactions in unregistered securities**
- **Ascertain initial and ongoing suitability**
- **Supervise transactions in restricted securities**

- **Ensure proper documentation is obtained for settlement**

#### 2.3.5.1 Restrictions on sales and resale of certain securities

##### FINRA Rules

Rule 2360(b)(14) – Restricted Stock

##### Securities Act of 1933

Rule 144—Persons deemed not to be engaged in a distribution and therefore not underwriters

Rule 144A—Private resale of securities to institutions

Rule 145—Reclassification of securities, mergers, consolidations and acquisitions of assets

Regulation S—Rules governing offers and sales made outside the United States without registration under the Securities Act of 1933

##### Securities Exchange Act of 1934

Rule 10b-18—Purchase of certain equity security by the issuer

## 2.4 Trading and Settlement Practices

### 2.4.1 Trading

- **Train RRs to understand the securities markets and industry regulations**
- **Ensure that RRs understand the various markets, *e.g.*, auction, Electronic Communication Network (ECN), negotiated, over-the-counter etc.**
- **Review erroneous transactions for proper resolution**
- **Review and approve cancellations and re-bills**
- **Review and approve daily trading activity**

#### 2.4.1.1 Overview of U.S. securities markets

##### 2.4.1.1.1 Auction market

##### 2.4.1.1.2 Nasdaq Market Center—Execution Services (SuperMontage)

##### 2.4.1.1.3 Other facilities *e.g.*, Automated Display Facility (ADF); Alternative Trading System (ATS); ECNs; Bulletin Board and pink sheets; Unlisted Trading privilege (UTP)

#### 2.4.1.2 Trading halts

##### CBOE Rules

Rule 6.3—Trading halts

Rule 6.3B—Trading halts due to extraordinary market volatility

##### FINRA Rules

Rule 6120 – Trading Halts

Rule 5260—Prohibition on Transactions, Publication of Quotations, or Publication of Indications of Interest During Trading Halts

##### Nasdaq OMX PHLX Rules

Rule 133—Trading halts due to extraordinary market volatility

Rule 136—Trading halts in certain exchange traded funds

##### NYSE Rules

Rule 80B—Trading halts due to extraordinary market volatility

##### NYSE MKT Rules

Rule 117—Trading halts due to extraordinary market volatility

Rule 119—Indications, Opening and Reopenings  
Rule 1109—Trading Halts  
NYSE Arca Rules  
Rule 6.65—Trading halts in the interests of a fair and orderly market

#### 2.4.1.3 Transaction review

CBOE Rules  
Rule 6.52—Price binding despite erroneous report  
FINRA Rules  
Rule 11890—Clearly Erroneous Transactions  
NYSE MKT Rules  
Rule 958—Price Binding Despite Erroneous Report  
Rule 152—Taking or supplying stock to fill customer’s order  
Rule 731—Resolution of uncompleted transactions  
Rule 970—Comparison of option transactions excluded from clearance  
NYSE Arca Rules  
Rule 6.70—Price binding despite erroneous report

### 2.4.2 Extensions of Credit in the Securities Industry

- **Review margin accounts for proper handling by the RRs**
- **Comply with margin requirements for day traders**
- **General understanding of Regulation T**
- **Review customer accounts/transactions to ensure compliance with short sale and buy-in rules**

#### 2.4.2.1 Margin requirements (General concept only – no calculations)

##### 2.4.2.1.1 Regulation T

Initial margin requirement  
Depositing or liquidating securities to meet a margin call  
Special miscellaneous accounts  
Extensions of time – cash/margin  
Miscellaneous provisions  
Arranging for loans by others  
Completion of sell orders on behalf of customers

##### 2.4.2.1.2 Maintenance margin requirements

CBOE Rules  
Rule 12.3—Margin Requirements  
FINRA Rules  
Rule 4210(a)-(f)—Margin Requirements  
Rule 4210(f)(8)(B)—Special Initial and Maintenance Margin Requirements (Day Trading)  
Rule 11740—Marking to the market  
Nasdaq OMX PHLX Rules

Rule 722—Margin accounts  
NYSE MKT Rules  
Rule 460—Adequate margin required  
Rule 461—Establishment of minimum margins  
NYSE Arca Rules  
Rule 4.16—Margin requirements  
Rule 5.25—Margin requirement

2.4.2.1.3 Short sales and mandatory buy-ins  
Lenders privileges  
Short against the box

FINRA Rules  
Rule 11810—Buy-in Procedures and Requirements  
Nasdaq OMX PHLX Rules  
Rule 455—Short sales  
NYSE Rules  
Rule 440B—Short sales  
Rule 440C— Deliveries of Short Sales  
NYSE MKT Rules  
Rule 7—Short Sales  
Rule 784—Mandatory closing of fails  
PXC Rules  
Rule 7.16—Short sales  
Securities Exchange Act of 1934  
Regulation SHO—Short sales  
Rule 15c3-3(h)—Customer Protection – reserves and custody of securities

2.4.2.1.4 Other margin requirements  
Securities Exchange Act of 1934  
Rule 11d1-1—Exemption of certain securities from section 11(d)(1)  
Rule 15c2-1—Hypothecation of customer securities  
Rule 15c3-2—Customer’s free credit balances

### 2.4.3 Settlement Practices

- **Ensure RRs understand and are able to explain to customers the settlement procedures, e.g., prompt receipt and delivery, affirmative determination, denominations of delivery, assignments, ex-dividend transactions, etc.**
- **Ensure proper handling of customer requests to transfer accounts**

2.4.3.1 Settlement and delivery requirements

FINRA Rules  
Rule 11860 – COD Orders  
Rule 11550—Assignments and powers of substitutions; delivery of registered securities

- Rule 11574—Certificate in name of deceased person, trustee, etc.
- Nasdaq OMX PHLX Rules
  - Rule 1044—Delivery and payment
- NYSE Rules
  - Rule 198—Signatures
  - Rule 199—Corporate assignments
  - Rule 200—Assignments - by member organizations
  - Rule 201—Assignments - by persons since deceased, trustees, guardians, etc.
  - Rule 207—Two or more names
  - National Medallion Signature Guarantee Program
- NYSE MKT Rules
  - Rule 748—Denominations on delivery: Stocks
  - Rule 751—Delivery on cash contracts
  - Rule 753—Payment of delivery
  - Rule 765—Assignments-by member organizations
  - Rule 774—Signature Guarantee
  - Rule 775—Legal Assignments
  - Rule 776—Book-Entry settlement of transactions
  - Rule 831—Buyer entitled to dividend
  - Rule 882—Due-bills on failures to deliver
- NYSE Arca Rules
  - Rule 3.7—Assignment

#### 2.4.3.2 Account transfer requirements

- CBOE Rules
  - Rule 9.20—Transfer of accounts
- FINRA Rules
  - Rule 2140 -Interfering with the transfer of customer accounts in the context of employment disputes
  - Rule 11870—Customer account transfer contracts
- MSRB Rules
  - Rule G-26—Customer account transfers

## **3.0 Conduct of Associated Persons**

### **3.1 General Supervisory Responsibilities**

- **Ensure compliance with firm written supervisory procedures and systems**
- **Monitor RRs' activities regarding gifts and gratuities**
- **Review possible outside business activities of RRs – obtain necessary approvals**
- **Review for possible private securities transactions by RRs (selling away)**
- **Review RRs' accounts and employee-related accounts held at other firms – ensure necessary approvals are obtained, review confirmations and statements**

#### **3.1.1 Written Supervisory Procedures and Systems**

##### CBOE Rules

Rule 9.8—Supervision of accounts

##### FINRA Rules

Rule 2130—Approval Procedures for Day-Trading Accounts

Rule 2270—Day-Trading Risk Disclosure Statement

Rule 3110—Supervision - related to associated persons, employees and others' employees

Rule 3160—Networking Arrangements Between Members and Financial Institutions

##### MSRB Rules

Rule G-27(b) —Supervision system

Rule G-27(f) — Supervisory control system

##### Nasdaq OMX PHLX Rules

Rule 748—Supervision

##### NYSE Rules

Rule 342(a)—Offices – approval, supervision and control

Rule 343—Offices – sole tenancy, hours, display of membership certificates

##### NYSE MKT Rules

Rule 320—Offices-approval, supervision and control

##### NYSE Arca Rules

Rule 11.18(c)—Written procedures

#### **3.1.2 Outside Business Activities**

##### CBOE Rules

Rule 9.4—Other affiliations of registered associated persons

##### FINRA Rules

Rule 3270—Outside Business Activities of Registered Persons

Rule 3280—Private Securities Transactions of an Associated Person

##### NYSE Arca Rules

Rule 2.23(d) and (e) —Limitations-employment and association

#### **3.1.3 Gifts and Gratuities**

##### CBOE Rules

Rule 4.4—Gratuities

- FINRA Rules
  - Rule 3220 – Influencing or Rewarding Employees of Others
- MSRB Rules
  - Rule G-20—Gifts, gratuities, and non-cash compensation
- NYSE MKT Rules
  - Rule 347—Gratuities to Employees of Financial Concerns
  - Rule 417(c) —Transactions Involving Exchange Employees
- NYSE Arca Rules
  - Rule 2.23—Registration
  - Rule 11.11(a) —Disclosure of financial arrangements

### **3.1.4 Non-cash Compensation**

- FINRA Rules
  - Rule 2320(g) – Variable Contracts of an Insurance Company
  - Rule 5110(e) – Valuation of Non Cash Compensation
- NASD Rules
  - Rule 2830(l)—Member compensation

### **3.1.5 Sharing in Customer Accounts**

- CBOE Rules
  - Rule 9.18—Guarantees and profit sharing
  - Rule 9.19—Assuming losses
  - Rule 9.25—Borrowing from or lending to customers
- FINRA Rules
  - Rule 2150(b)—Prohibition Against Guarantees
  - Rule 2150(c)—Sharing in Accounts; Extent Permissible
  - Rule 3240—Borrowing From or Lending To Customers
- MSRB Rules
  - Rule G-25(b)—Improper use of assets - Guaranties
  - Rule G-25(c)—Improper use of assets - Sharing account
- NYSE Rules
  - Rule 352—Guarantees and sharing in accounts
- NYSE MKT Rules
  - Rule 135(b) —Cancellation of, and revisions in, transactions where both the Buying and Selling Members Agree to the Cancellation or Revision
  - Rule 135A(d) —Cancellation of, and revisions in, transactions where both the Buying and Selling Members Do Not Agree to the Cancellation or Revision
  - Rule 390—Assumption of loss prohibited
- NYSE Arca Rules
  - Rule 9.1—Sharing profits—losses

### **3.1.6 Transactions with Other Professionals**

- CBOE Rules
  - Rule 9.17—Transactions of certain customers
- MSRB Rules
  - Rule G-28—Transactions with employees and partners of other municipal securities professionals
- NASD Rules



Rule 3050—Transactions for or by associated persons  
Nasdaq OMX PHLX Rules  
Rule 751—Accounts of employees of members of participating organizations  
NYSE MKT Rules  
Rule 415—Member’s transactions with another member organization

### 3.2 Procedural Rules

- **Ensure that RRs understand the consequences of failure to comply with industry regulations**
- **Ensure compliance with rules pertaining to suspended associated persons**

#### 3.2.1 Investigations and Resulting Sanctions

##### CBOE Rules

Rule 17.1—Disciplinary jurisdiction  
Rule 17.2—Complaint and investigation  
Rule 17.3—Expedited proceeding  
Rule 17.4—Charges  
Rule 17.7—Summary proceedings  
Rule 17.8—Offers of settlement  
Rule 17.11—Judgment and sanction

##### FINRA By-Laws

Article V – Registered Representatives and Associated Persons  
Section 4 – Retention of Jurisdiction  
Article XII – Disciplinary Proceedings

##### FINRA Procedural Rules

Rule 8000—Investigations and sanctions  
Rule 8210—Provisions of information and testimony and inspection and copying of books  
Rule 8310—Sanction for violation of the rules  
Rule 8320—Payment of fines, other monetary sanctions, or costs; summary action for failure to pay

##### MSRB Rules

Rule G-5—Disciplinary actions by appropriate regulatory agencies; remedial notices by registered securities associations

##### Nasdaq OMX PHLX Rules

Rule 960—Disciplinary Rules

##### NYSE Rules

Rule 475—Prohibition or limitation with respect to access to services  
Rule 476—Disciplinary proceedings involving charges against members  
Rule 9000 Series—Disciplinary Rules

##### NYSE MKT Rules

Article V of NYSE MKT Constitution: Discipline of Members  
Sec.1—Procedures  
Sec.2—Delegation of disciplinary power  
Sec.4—Suspension or expulsion  
Sec.6—Retention of jurisdiction over former members

Rule 345(c), (d), (e) and (f)—Determinations involving employees and prospective employees  
Rule 590—Minor Rule Violation Fine Systems  
Exchange disciplinary proceedings: Rules 1-12 NYSE Alternext US LLC Sanction Guidelines  
NYSE Arca Rules  
Rule 10—Disciplinary proceedings and appeals

### **3.3 Dispute Resolution Procedures**

- **Disclose to associated persons the effect of signing a pre-dispute arbitration clause**
- **Understand matters subject to arbitration**
- **Understanding the difference between arbitration and mediation processes**

#### **3.3.1 Arbitration and Mediation Procedures**

CBOE Rules  
Chapter XVIII—Arbitration  
FINRA Rules  
Rule 2263 – Arbitration Disclosure to Associated Persons Signing or Acknowledging Form U4  
Code of Arbitration Procedure  
Rule 10100 – Administrative Provisions  
Rule 10200 – Industry and Clearing Controversies  
Rule 10300 – Uniform Code of Arbitration  
NYSE Rules  
Rule 347(a)—Controversies as to employment or termination of employment  
Rule 600—Arbitration  
Rule 636—Requirements when using pre-dispute arbitration agreements with customers  
Rule 638—Mediation  
NYSE MKT Rules  
Rule 600—Arbitration  
NYSE Arca Rules  
Rule 12—Arbitration  
Nasdaq OMX PHLX Rules  
Rule 950—Arbitration

## 4.0 Recordkeeping Requirements

### 4.1 Recordkeeping Requirements

- **Comply with firm and regulatory requirements regarding review of correspondence, complaints and records**
- **Comply with all document retention requirements, including any action taken**

#### 4.1.1 Books and Records

##### CBOE Rules

Rule 15.1—Maintenance, retention and furnishing of books, records and other information

##### FINRA Rules

Rule 4510—Books and records

##### Nasdaq OMX PHLX Rules

Rule 760—Maintenance, retention and furnishing of books records and other information

##### NYSE Rules

Rule 410(a)(1-4)—Records of orders

Rule 440—Books and records

##### NYSE Arca Rules

Rule 11.16(a)—Books and records

##### NYSE MKT Rules

Article XI, Sec. 3—Keeping of Books

Rule 31—Requests for books, papers, records or testimony

Rule 302—Provisions with respect to books of account

Rule 324—Books and Records

Rule 448—Requirements for Control of Securities

Rule 922(b) – Maintenance of customer records

##### Securities Exchange Act of 1934

Rule 17a-3—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-5(c)—Reports to be made – customer statements

Rule 17a-8—Financial record keeping and reporting of currency and foreign transactions

Rule 17f-1—Requirements for reporting and inquiry with respect to missing, lost, counterfeit or stolen securities

## **4.2 Customer Complaints**

- **Review and investigate customer complaints (oral and written)**
- **Document and keep records of customer complaints**
- **Ensure that complaints are forwarded to main office within prescribed time frames**
- **Comply with firm and SRO reporting requirements**
- **Ensure that options related complaints are segregated and forwarded to main office within prescribed time**

### **4.2.1 Handling Customer Complaints**

#### CBOE Rules

Rule 9.23—Customer complaints

#### FINRA Rules

Rule 2360(b)(17)—Maintenance of Records

Rule 4513—Record of Written Customer Complaints

#### MSRB Rules

Rule G-8(a)(xii)—Books and records to be made - customer complaints

Rule G-9(a)(v)—Records to be preserved for six years – customer complaints

Rule G-10—Delivery of investor brochure

Rule G-27 (c)(i)(B)—Procedures for handling customer complaints

#### Nasdaq OMX PHLX Rules

Rule 1070—Customer complaints

#### NYSE Rules

Rule 732—Customer complaints

#### NYSE MKT Rules

Rule 932—Customer Complaints

Rule 1105—Customer Complaints

#### NYSE Arca Rules

Rule 2.17(c) —Termination – filing of an amended U-5

### **4.2.2 Reporting Requirements**

#### CBOE Rules

Rule 4.9—Disciplinary actions by other organizations

Rule 9.3(b)—Termination – reporting of U-5s

Rule 9.3(c)—Termination – filing of amended U-5s

#### FINRA Rules

Rule 4530—Reporting Requirements

#### NYSE MKT Rules

Rule 341, Commentary .09—Termination of Employment

#### NYSE Arca Rules

Rule 2.17(c)—Termination-filing of an amended U-5

### **4.3 Securities Investor Protection Act and SIPC Rules**

- **Know coverage limits for various types of accounts**
- **Know advertising requirements by members of SIPC**

#### **4.3.1 Securities Investor Protection Act and SIPC Rules Thereunder**

## **5.0 Municipal Securities Regulation**

### **5.1 Conduct of Business**

- **Understand which persons and/or entities are included in the definition of customer**
- **Understand the relevant factors in determining fairness of prices**
- **Ensure proper handling of material, non-public information**
- **Understand the rules and requirements relating to political contributions made to officials of an issuer**
- **Comply with firm's procedures for reporting of political contribution**

#### **5.1.1 Transactions with Customers**

Rule D-9—"Customer"

#### **5.1.2 Business Practice**

Rule G-13—Quotations relating to municipal securities

Rule G-17—Conduct of municipal securities activities – "fair dealing"

Rule G-18—Execution of transactions

Rule G-30—Prices and commissions

#### **5.1.3 Political Contributions and Prohibitions on Municipal Securities Business**

Rule G-37(a)-(d)—Political contribution and prohibitions on municipal securities business

Rule G-37(e)—Disclosure to Board

Rule G-37(g)(i), (ii), (iv), (vi) and (vii)—Definitions related to the conduct of municipal securities business

### **5.2 New Issue Underwriting**

- **Understand the priority to be accorded different types of orders and how allocations of securities are affected**
- **Understand the requirement to disclose group orders**
- **Ensure that disclosure requirements relating to new issues of municipal securities are satisfied**

#### **5.2.1 Disclosures in Connection with New Issues**

Rule G-11(d) and (e)—Disclosure of group orders and priority provisions

Rule G-32(a)—Customer disclosure requirements

### **5.3 Municipal Fund Securities (including 529 College Savings Plans)**

- **Understand how municipal fund securities differ from registered mutual funds and municipal bonds**

- **Understand the differences between municipal fund securities and the underlying investments, and the risks associated with both**
- **Demonstrate product knowledge of municipal fund securities, including comparisons to alternative education savings products**
- **Understand who is qualified to sell municipal fund securities**
- **Understand procedures related to confirmations or statements sent with sales of municipal fund securities**
- **Ensure that disclosure requirements relating to sales of municipal fund securities are met**
- **Understand sales practice issues with regard to municipal fund securities**

### **5.3.1 Sales of Municipal Fund Securities**

Rule D-12—“Municipal fund security”

Rule G-15(a)(i), (a)(vii) – (viii)—Customer confirmations

Rule G-32(a)(iv)(A)—Customer disclosure requirements

## **5.4 Trading**

- **Ensure that municipal securities offerings disseminated by any means reflect current prices and amounts of securities available**
- **Prohibit reciprocal dealings with municipal securities investment companies**
- **Maintain current records for agency transactions and transactions as principal**

### **5.4.1 Recordkeeping and Reporting Requirements**

Rule G-8(a)(vi) – (vii)—Records for agency and principal transactions

Rule G-9(b)(iii) – (iv)—Records to be preserved for three years

Rule G-14(a), (b)(i) – (ii)—Transaction reporting requirements

Rule G-14 RTRS Procedures - (a)(ii), (iii); (d)(i)-(iii)

### **5.4.2 Trading with Municipal Securities Investment Companies**

Rule G-31—Reciprocal dealings with municipal securities investment companies

## **5.5 Confirmation, Clearance and Settlement of Transactions**

- **Ensure that requirements to send written confirmations are met**
- **Ensure that all deliveries of securities are made in accordance with MSRB requirements**
- **Understand the requirements of DVP/RVP transactions**
- **Ensure timely response to claims of interest payments due on securities previously delivered to (or by) a customer**
- **Maintain records of confirmations and certain other notices to customers**

**5.5.1 Recordkeeping Requirements**

Rule G-8(a)(ix)—Copies of confirmations, periodic statements and certain other notices to customers

Rule G-9(b)(v)—Records to be preserved for three years

**5.5.2 Confirmation, Clearance and Settlement of Transactions with Customers**

Rule G-15(a) – (e)—Customer confirmations



## 6.0 Options Regulation

### 6.1 Listed Options

- **Understand terms and definitions of options**
- **Apply knowledge of terms and definitions in supervising options**
- **Understand terms and definitions applicable to narrow-based indices**

#### 6.1.1 **Equity Options** - Underlying securities, expiration cycles, strike price intervals, adjustment to option terms, expiration date

##### CBOE Rules

Rule 1.1—Definitions

##### FINRA Rules

Rule 2360(b)(2) – FLEX Equity Options

Rule 4210(f)(2)(A)—Definitions

##### Nasdaq OMX PHLX Rules

Rule 1000—Applicability, definitions and references

Rule 1010—Withdrawal of approval of underlying securities

Rule 1012—Series of options open for trading – Commentary .05(a)

##### NYSE MKT Rules

Rule 900—Applicability, definitions and references

Rule 900-ANTE—Applicability, definitions and references

#### 6.1.2 **Index Options** - Broad-based index, narrow based index, industry-based index, exercise style, expiration date, daily exercise, exercise assignment (European, American)

##### CBOE Rules

Chapter XXIV—Index options

##### Nasdaq OMX PHLX Rules

Rule 1006—Other restrictions on exchange options transactions and exercises

Rule 1101A(a) and (ii)—Terms of option contracts

##### NYSE MKT Rules

Rule 900C— Applicability and Definitions

##### NYSE Arca Rules

Section 3—Index options

#### 6.1.3 **Foreign Currency Options** - contract sizes, expiration date, expiration style (American style, European style), trading hours, expiration cycles

##### Nasdaq OMX PHLX Rules

Rule 1000(b)(13)—Definitions – foreign currency

Rule 1012(a)(ii)—Foreign currency options series

Rule 1016—Block transactions in foreign currency options

## **6.2 Strategy Investment Posture for Various Market Scenarios and Their Tax Implications**

- **Assist RRs in formulating investment strategy for customers**
- **Know how to calculate profit, loss and breakeven points of various strategies**
- **Identify uneconomic trades**
- **Understand wash sales and their impact on customer accounts**
- **Understand tax implications of options transactions**

**6.2.1 Strategies for Using Puts and Calls** – Call buying strategies, put buying strategies, covered call writing concepts, put writing concepts; spread, straddle, synthetic position; neutral, bullish and bearish outlook

### **6.2.2 Calculations of Profit, Loss and Breakeven**

Calculate profit, loss and breakeven limits and amounts at expiration of aggregate positions relative to movements in the underlying security – percentage return (loss)  
Limits will fluctuate from time of recommendation to time of close-out or expiration

**6.2.3 Tax Treatment of Options** – Holding period; wash sale rules; determination of cost basis; determination of taxable event; cabinet trading

6.2.3.1 Options purchased by investors  
Subsequent sale of options  
Expired options  
Exercised call options

6.2.3.2 Options written by investors  
Subsequent purchase of options  
Expired options  
Exercised put/call options

## **6.3 Supervising Options Sales Practices**

- **Conduct suitability review to ensure use of options is consistent with client profile**
- **Understand written supervisory procedures, application and adherence thereto**
- **Understand documentation requirements for options accounts**
- **Ensure compliance with firm's written supervisory procedures for trading of options**
- **Ensure that RRs receive adequate training in options**

### **6.3.1 Client Account Documentation**

- **Review account documentation for completion**
- **Review to ensure customer verification within 15 days of ROP approval and receipt of signed options agreement**
- **Ensure options disclosure document is delivered at or prior to account approval**
- **Provide special statement for uncovered writers**
- **Ensure that accounts approved for uncovered options transactions meet the firm's internal standards for approval**

- **Understand minimum net equity requirements for approval and maintenance of uncovered transactions**
- **Ensure that any exceptions are approved and evidenced by a Registered Options Principal designated by the firm’s written supervisory procedures**

#### 6.3.1.1 Account documentation

##### CBOE Rules

Rule 9.7(b)—Diligence in opening account, interpretations and policies .01

##### FINRA Rules

Rule 2360(b)(16)(A)(B)(D)—Opening of Accounts

Rule 2360(b)(17)—Maintenance of Records

##### Nasdaq OMX PHLX Rules

Rule 1024 (b)(ii)—Diligence in opening accounts

Rule 1024—Commentary .01—minimum information to be obtained

##### NYSE Rules

Rule 721—Opening of accounts

##### NYSE MKT Rules

Rule 921(c)-Diligence in opening account Commentaries .01 and .02—

Opening of Accounts: Minimum information to be obtained

#### 6.3.1.2 Customer verification

##### CBOE Rules

Rule 9.7(c)—Verification of customer background and financial information

Rule 9.7(d)—Agreements to be obtained

##### FINRA Rules

Rule 2360(b)(16)(C)—Opening of Accounts

##### Nasdaq OMX PHLX Rules

Rule 1024(b)(iii) —Verification of customer background and financial information

Rule 1024(b)(iv) —Agreements to be obtained

##### NYSE Rules

Rule 721(c)—Verification of customer background and financial information

Rule 721(d)—Agreements to be obtained

##### NYSE MKT Rules

Rule 921(d) and Commentary .03—Verification of customer background and financial information

Rule 921(e)—Agreements to be obtained

#### 6.3.1.3 Delivery of disclosure document

##### CBOE Rules

Rule 9.7(e)—Options disclosure documents to be furnished

Rule 9.15—Delivery of current options disclosure document

##### FINRA Rules

Rule 2360(b)(11)—Delivery of Current Disclosure Documents

##### Nasdaq OMX PHLX Rules

Rule 1024(b)(v)—Options disclosure documents to be furnished

NYSE Rules

Rule 726—Delivery of options disclosure document and prospectus

NYSE Alternext US LLC Rules

Rule 921(f)—Options disclosure document to be furnished

6.3.1.4 Minimum net equity requirements

CBOE Rules

Rule 9.7(f)(4)—Opening of accounts

FINRA Rules

Rule 4210—Margin Requirements

NYSE Rules

Rule 721(e)4—Uncovered short option accounts

NYSE MKT Rules

Rule 921(g)(4)—Minimum net equity requirements

6.3.1.5 Special statement for uncovered writers

CBOE Rules

Rule 9.7(f)(5)—Opening of accounts

Rule 9.15(c)—Delivery of current options disclosure documents and prospectus

FINRA Rules

Rule 2360(b)(9) —Rights and Obligations of Holders and Writers

Rule 2360(b)(16)(E) —Uncovered Short Option Contracts

Nasdaq OMX PHLX Rules

Rule 1029—Delivery of options disclosure documents and prospectus

NYSE Rules

Rule 721(e)(5)—Uncovered short option accounts

Rule 726(c)—Uncovered short options risk disclosure

NYSE MKT Rules

Rule 921(g)(5)—Special written description of the risks

6.3.1.6 Uncovered options transactions

CBOE Rules

Rule 9.7(f)—Opening of accounts

Rule 9.8(a)—Duty to supervise

FINRA Rules

Rule 2360(b)(7) —Limit on Uncovered Short Positions

Nasdaq OMX PHLX Rules

Rule 1024(c)—Uncovered options supervision

NYSE Rules

Rule 721(e)—Uncovered short option accounts

NYSE MKT Rules

Rule 921(g) and Commentary .04—Written procedures

NYSE Arca Rules

Rule 6.18—Limits on uncovered short options

## 6.3.2 Written Supervisory Procedures

- **Supervise RR and customer activities relating to options**
- **Ensure that a Registered Options Principal designated by the firm's written supervisory procedures approves options discretionary accounts**
- **Ensure that discretionary option orders are approved and initialed on the day entered**
- **Ensure that options programs are in writing**

### 6.3.2.1 Supervision

#### CBOE Rules

Rule 9.8(a)—Supervision of accounts, duty to supervise... Interpretations and policies (.01) and (.02)

#### FINRA Rules

Rule 2360(b)(20)—Supervision of Accounts

#### Nasdaq OMX PHLX Rules

Rule 1025—Supervision of accounts

#### NYSE Rules

Rule 722 (a)—Supervision of accounts; Duty to supervise; SROP

Rule 722 (b)—Compliance registered options principal

#### NYSE MKT Rules

Rule 922—Supervision of Accounts

#### NYSE Arca Rules

Rule 9.2—Account supervision

Rule 11.18—Supervision

### 6.3.2.2 Options discretionary accounts authorization and approval

#### CBOE Rules

Rule 9.10—Authorization and approval required

#### FINRA Rules

Rule 2360(b)(18)—Discretionary Accounts

#### Nasdaq OMX PHLX Rules

Rule 1027—Discretionary accounts

#### NYSE Rules

Rule 724—Discretionary accounts

#### NYSE MKT Rules

Rule 924(a)—Authorization and approval

#### NYSE Arca Rules

Rule 9.6(a)—Discretion as to customer's accounts

Rule 9.6(b)—Records of discretionary accounts

Rule 9.6(c)—Marking discretionary orders

### 6.3.2.3 Options programs

#### CBOE Rules

Rule 9.10(e)—Options programs

#### FINRA Rules

Rule 2360(b)(18)(C)—Options Programs

Nasdaq OMX PHLX Rule

Rule 1027(b)—Discretionary accounts – Options Programs

NYSE Rules

Rule 724(b)—Options programs

NYSE MKT Rules

Rule 924(b)—Discretionary account-options programs

### 6.3.3 Margin Requirements

- **Understands the margin implications associated with various options strategies**
- **Understands margin requirements (initial and maintenance), the nature of margin for security futures, and the acceptable collateral deposits**
- **Understands how margin is calculated (initial and maintenance; mark to market; calls)**
- **Supervises for compliance with the special margin requirements for pattern day traders**

6.3.3.1 Extensions of credit in the securities industry applicable to options – uniform short options margin requirements

CBOE Rules

Chapter XII—Margins

FINRA Rules

Rule 4210(f)(2)—Puts, Calls and Other Options

NYSE MKT Rules

Rule 462—Minimum margins

Regulation T

### 6.4 Communications with Customers – Advertisements, Educational Material, Sales Literature

- **Supervise RRs' use of options advertisements, sales literature and educational material**
- **Ensure that options materials comply with SRO requirements, *e.g.*, pre-use approval, content requirements, approval by a Registered Options Principal designated by the firm's written supervisory procedures (WSP)**
- **Ensure proper disclosures**
- **Ensure compliance with recordkeeping and record retention requirements**
- **Ensure that all advertisements, educational material and sales literature are approved in advance by the Registered Options Principal designated by the firm's written supervisory procedures**

#### 6.4.1 Definitions

CBOE Rules

Rule 9.21(e)(i), (ii), (iii)—Definitions

FINRA Rules

Rule 2220(a)—Definitions

Nasdaq OMX PHLX Rules

Rule 1049—Communications to customers

NYSE Rules

Rule 791(e)—Communications to customers, Definitions

NYSE MKT Rules  
Rule 991(e)—Definitions

#### **6.4.2 Requirements for Approval by a ROP designated by the member's WSP**

CBOE Rules  
Rule 9.21(b)—Approval by Registered Options Principal  
FINRA Rules  
Rule 2220(b)—Approval by a Registered Options Principal and Recordkeeping  
Nasdaq OMX PHLX Rules  
Rule 1049(b) —Approval by a CROP  
NYSE Rules  
Rule 791(b)—Approval by CROP  
NYSE MKT Rules  
Rule 991(b)—Approval by CROP

#### **6.4.3 SRO Approval Requirements**

CBOE Rules  
Rule 9.21(c)—Exchange approval required for options advertisements and educational material  
FINRA Rules  
Rule 2220(c)—FINRA Approval Requirements and Review Procedures  
Nasdaq OMX PHLX Rules  
Rule 1049(c)—Exchange approval required for options advertisements and educational material  
NYSE Rules  
Rule 791(c)—Exchange approval required for options advertisements and educational material  
NYSE MKT Rules  
Rule 991(c)—Exchange approval required for options advertisements and educational material

#### **6.4.4 Options Disclosure Documents Delivery Requirements**

CBOE Rules  
Rule 9.21(d)—Communication to customers  
NYSE Rules  
Rule 791(d)—Options disclosure document required  
NYSE MKT Rules  
Rule 926—Delivery of Options Disclosure Document and Prospectus  
Rule 991(d)—Delivery of disclosure documents

#### **6.4.5 Guidelines and Standards of Approval**

CBOE Rules  
Rule 9.21—Communications to customers  
Rule 9.21.01—Special risks  
Rule 9.21.02—Advertisements  
Rule 9.21.03—Educational material  
Rule 9.21.04—Sales literature  
FINRA Rules  
Rule 2220(d)—Standards Applicable to Communications

## Nasdaq OMX PHLX Rules

Rule 1049—Communications to customers

## NYSE Rules

Rule 791(a)—Communications to customers

## NYSE MKT Rules

Rule 991(a)—Communications to customers, general rule and Commentaries .01, .02, .03, and .04

## NYSE Arca Rules

Rule 9.28—Advertisements, market letters and sales literature relating to options

## 6.5 Trading Practices

- **Understand the roles and responsibilities of market participants**
- **Understand when and why a trading rotation and fast markets will be utilized**
- **Comply with relevant position/exercise limits**
- **Ensure appropriate aggregation of accounts for reporting position limits, exercise limits, and large positions**
- **Understand contract adjustment due to such events as splits, mergers, dividends**
- **Review orders to ensure that they are eligible for electronic order routing/execution**

### 6.5.1 Terms and Definitions

#### CBOE Rules

Rule 6.45—Priority of bids and offers-allocation of trades

Rule 6.70—Floor broker defined

Rule 6.73—Responsibilities of floor brokers

Rule 8.1—Market maker defined

Rule 8.8—Restriction on acting as market maker and floor broker

#### NYSE Arca Rules

Rule 6.52—Obligations for orders

#### NYSE MKT Rules

Rule 170—Registration and Functions of Specialists

Rule 156—Representation of Orders

Rule 950(g) and (n)—Floor Rules Applicable to Options: Rules of general applicability

Rule 958—Options transactions of registered traders

### 6.5.2 Trading Rotation

#### CBOE Rules

Rule 6.2—Trading rotations

Rule 6.2A—Rapid opening system

Rule 6.2B—Hybrid opening system

#### Nasdaq OMX PHLX Rules

Rule 1047—Trading rotations, halts and suspensions

#### NYSE Rules

Rule 717 (a)—Trading rotations

#### NYSE MKT Rules

Rule 1, Commentary .02—Options Trading after 4:02 p.m.



- Rule 918—Trading Rotations, Halts and Suspensions
- Rule 918C—Trading Rotations, Halts and Suspensions
- Rule 918-ANTE—Trading Rotations, Halts and Suspensions
- NYSE Arca Rules
  - Rule 6.64—Trading rotations

### **6.5.3 Fast Markets**

- CBOE Rules
  - Rule 6.3—Trading halts and suspensions
- NYSE Rules
  - Rule 717(b)—Trading halts
- NYSE MKT Rules
  - Rule 958A(d)—Use of Unusual Market Exception
  - Rule 958A-ANTE(d)— Use of Unusual Market Exception
- Nasdaq OMX PHLX Rules
  - Rule 1047—Trading rotations, halts and suspensions

### **6.5.4 Position and Exercise Limits**

- CBOE Rules
  - Rule 4.11—Position limits
  - Rule 4.12—Exercise limits
  - Rule 24.4—Position limits for broad-based index options
  - Rule 24.4A—Position limits for industry index options
  - Rule 24.5—Exercise limits
  - Rule 24.18—Exercise of American-style index options
- FINRA Rules
  - Supplementary Material .01—Position Limits Examples
  - Rule 2360(b)(4)—Exercise Limits
- Nasdaq OMX PHLX Rules
  - Rule 1001—Position limits
  - Rule 1001A—Position limits – options on indices
  - Rule 1002 – Exercise limits
- NYSE MKT Rules
  - Rule 904—Position limits
  - Rule 904C—Position limits – Stock index options
  - Rule 905—Exercise limits
  - Rule 905C—Exercise limits

### **6.5.5 Contract Adjustments**

- CBOE Rules
  - Rule 5.7— Adjustments
- NYSE Rules
  - Rule 703(g)—Contract adjustments
- NYSE MKT Rules
  - Rule 956—Open orders on “ex-date”
  - Rule 903(c) and (d)—Series of options opened for trading

## 6.5.6 Exercise/Assignment of Options

- **Understand the mechanics and ramifications of the tendering of exercise notices for options; exercise by exception and same day exercise**
- **Understand the effect of exercise prior to ex-dividend date**
- **Understand applicable time limitations**
- **Understand the mechanics and effects of assignment, particularly on ex-dividend date**
- **Understand OCC assignment procedure and firm/market maker/customer assignment**
- **Understand firm procedures for allocating customer assignments (FIFO, random)**
- **Ensure customer notification of allocation method**
- **Ensure compliance with requirement for delivery and payment/settlement**
- **Understand priority offered orders**
- **Understand time priority**
- **Understand off-floor accommodations and the necessary reporting Obligations**

### 6.5.6.1 Tender of exercise notices

#### CBOE Rules

Rule 11.1—Exercise of option contracts

#### FINRA Rules

Rule 2360(b)(23)—Tendering Procedures for Exercise of Options

#### Nasdaq OMX PHLX Rules

Rule 1042—Exercise of equity option contracts

Rule 1042A—Exercise of option contracts – options on indices

#### NYSE Rules

Rule 780—Exercise of options contracts

#### NYSE MKT Rules

Rule 980—Exercise of options contracts

Rule 980C—Exercise of stock index options contracts

Rule 980D—Exercise of options contracts

#### NYSE Arca Rules

Rule 5.24—Exercise of options contracts

### 6.5.6.2 Assignment of exercise notices

#### CBOE Rules

Rule 11.2—Allocation of exercise notices

Rule 11.3—Delivery and payment

#### Nasdaq OMX PHLX Rules

Rule 1043—Allocation of exercise notices

#### NYSE Rules

Rule 781—Allocation of exercise assignment

#### NYSE MKT Rules

Rule 981—Allocation of Exercise Notices

Rule 982—Delivery and payment

### 6.5.6.3 Off-floor accommodations

#### CBOE Rules

Rule 6.54—Accommodation liquidations

#### FINRA Rules

Rule 2360(b)(24)—Options Transactions and Reports by Market Makers in  
Listed Securities

#### Nasdaq OMX PHLX Rules

Rule 1059—Accommodation transactions

#### NYSE Rules

Rule 756—Transaction off the exchange

Rule 759—Accommodation transactions

#### NYSE MKT Rules

Rule 959—Accommodation transactions

#### NYSE Arca Rules

Rule 6.37—Obligations of market makers

Rule 6.46—Responsibilities of floor brokers

## Sample Items

The items that follow are similar in format and content to items in the exam. This sample of items, however, is not intended to parallel exactly either the level of difficulty or the distribution of topics in the exam. Their purpose here is to assist candidates and training personnel in preparing for the types of multiple-choice items that will appear in the exam.

1. Under the UTMA, how can stock subscription rights or warrants be handled in a custodial account?

- (A) The custodian cannot exercise or sell the rights for a custodial account.
- (B) The custodian may exercise or sell the rights as he deems suitable. \*\*
- (C) The rights may be exercised or sold only if the donor is also the custodian.
- (D) The rights may be exercised or sold only if the stock certificates are held in street name.

2. How long must advertisements, market letters and sales literature issued by a member organization pertaining to listed options be retained and readily available for inspection?

- (A) 6 months
- (B) 1 year
- (C) 3 years \*\*
- (D) 5 years

3. Under industry rules, all of the following elements must appear on an order ticket **except**:

- (A) the time an order is accepted.
- (B) the identity of the RR of record.
- (C) the exchange where the order is being executed. \*\*
- (D) the identity of the person who receives the order from the customer.