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

Study Outline
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.

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

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

NYSE MKT Rules
http://www.nyse.com/

http://www.phlx.com

Chicago Board Options Exchange
Constitution and Rules
www.cboe.com

Securities Act Handbook
Aspen Publishers
www.aspenpublishers.com

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

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

Dictionary of Finance and Investment Terms
Barron’s Financial Guides
www.barronseduc.com

H.S. Bloomenthal
Clark Boardman Callaghan
610 Opperman Drive
Eagan, IL 55123
www.west.thomson.com

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

Securities Regulation
Joel Seligman, The Late Louis Loss
Prentice-Hall, Inc.
Englewood Cliffs, NY 07632
www.aspenpublishers.com

Municipal Securities Rulemaking Board Rule Book
www.msrb.org

SIPC
www.sipc.org

Other Publications Available through
www.finra.org
FINRA/NASD Rules
FINRA Notices

New York Stock Exchange, Inc. Constitution and Rules
www.nyse.com

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

http://www.phlx.com

Securities Act Handbook
Aspen Publishers
www.aspenpublishers.com

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

Securities Credit Transactions Regulations T, U, and X
Board of Governors of the Federal Reserve System
Constitution Avenue at 20th Street, NW
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www.west.thomson.com

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

Securities Regulation
Joel Seligman, The Late Louis Loss
Prentice-Hall, Inc.
Englewood Cliffs, NY 07632
www.aspenpublishers.com

Municipal Securities Rulemaking Board Rule Book
www.msrb.org

SIPC
www.sipc.org

New York Stock Exchange, Inc. Constitution and Rules
www.nyse.com

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

NASDAQ 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

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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)—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

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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
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
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.