

## Qualification Examinations

### FINRA Revises the Series 24 and 23 Examination Programs

Implementation Date: October 13, 2014

#### Executive Summary

FINRA periodically reviews the content of qualification examinations to determine whether revisions are necessary or appropriate in view of changes—including changes to the laws, rules and regulations—pertaining to the subject matter the examinations cover. Based on this review process, FINRA has revised the General Securities Principal (Series 24) and General Securities Principal Sales Supervisor Module (Series 23) examination programs.<sup>1</sup>

The changes are reflected in the Series 24 and 23 content outlines on FINRA's website and will appear in Series 24 and 23 examinations administered on or after October 13, 2014.

Questions regarding this *Notice* should be directed to:

- ▶ Bridget Fox, Qualifications Analyst, Testing and Continuing Education Department, at (240) 386-6472; or
- ▶ Alexandra Toton, Manager, Testing and Continuing Education Department, at (240) 386-4677.

#### Background & Discussion

Section 15A(g)(3) of the Securities Exchange Act of 1934 (SEA) authorizes FINRA to prescribe standards of training, experience and competence for persons associated with FINRA-regulated firms. In accordance with that provision, FINRA has developed examinations that are designed to establish that persons associated with FINRA-regulated firms have attained specified levels of competence and knowledge, consistent with applicable registration requirements under FINRA rules.

#### August 2014

##### Notice Type

- ▶ Guidance

##### Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Registration
- ▶ Training

##### Key Topics

- ▶ General Securities Principal
- ▶ General Securities Principal Sales Supervisor Module
- ▶ Series 23
- ▶ Series 24
- ▶ Qualification Examinations

##### Referenced Rules & Notices

- ▶ FINRA Rule 2090
- ▶ FINRA Rule 2111
- ▶ FINRA Rule 3230
- ▶ FINRA Rule 4510
- ▶ NASD Rule 1021(b)
- ▶ NASD Rule 1022(a)
- ▶ NASD Rule 2212
- ▶ NASD Rule 2310
- ▶ NASD Rule 2510
- ▶ NASD Rule 3110
- ▶ Regulatory Notice 09-41
- ▶ SEA Rule 15c1-7
- ▶ SEA Section 15A(g)(3)

NASD Rule 1022(a) (General Securities Principal) requires that a “principal” qualify and register as a General Securities Principal,<sup>2</sup> unless the person’s activities are so limited as to qualify such person for one or more of the limited categories of principal registration, such as a Financial and Operations Principal, an Introducing Broker-Dealer Financial and Operations Principal, a Registered Options Principal, an Investment Company and Variable Contracts Products Principal, a Direct Participation Programs Principal, a General Securities Sales Supervisor or a Government Securities Principal. The rule does not preclude individuals whose activities are so limited from qualifying and registering as General Securities Principals.

NASD Rule 1022(a) also requires that a firm’s chief compliance officer (CCO) designated on Schedule A of the firm’s Form BD (Uniform Application for Broker-Dealer Registration) be qualified and registered as a General Securities Principal. If a firm’s activities are limited to investment company and variable contracts products, direct participation programs or government securities, the firm’s CCO may instead be qualified and registered as an Investment Company and Variable Contracts Principal, Direct Participation Programs Principal or Government Securities Principal, respectively. In addition, for purposes of the CCO requirement for firms that are also members of the NYSE, FINRA recognizes the NYSE Compliance Official (Series 14) examination as an acceptable alternative to the principal examination requirements for General Securities Principal, Investment Company and Variable Contracts Principal or Direct Participation Programs Principal, as applicable.

Pursuant to NASD Rule 1022(a), a General Securities Principal is not qualified to function as a Financial and Operations Principal, an Introducing Broker-Dealer Financial and Operations Principal, a Registered Options Principal, a General Securities Sales Supervisor, a Municipal Securities Principal or a Municipal Fund Securities Limited Principal, unless the General Securities Principal is also qualified and registered in these other categories.

Further, a General Securities Principal is not qualified to supervise the conduct of a Research Analyst or Supervisory Analyst engaged in equity research, unless the General Securities Principal has passed the Regulatory Administration and Best Practices (Series 87) portion of the Research Analyst examination or the Supervisory Analyst (Series 16) examination and is registered as a Research Principal.

A person seeking to register as a General Securities Principal must satisfy the General Securities Representative prerequisite registration or another acceptable prerequisite registration.<sup>3</sup> While registration as a Corporate Securities Representative, Private Securities Offerings Representative or Investment Banking Representative satisfies the prerequisite registration requirement for a General Securities Principal, such a principal will only have limited supervisory authority consistent with his or her representative category. In addition, NASD Rule 1022(a) requires that a General Securities Principal with responsibility over specific investment banking activities satisfy the Investment Banking Representative registration requirements, regardless of any other prerequisite registration.

A person registering as a General Securities Principal must also pass the Series 24 qualification examination or an alternative examination. The Series 23 examination, in combination with qualification and registration as a General Securities Sales Supervisor (Series 9/10),<sup>4</sup> is an acceptable qualification alternative to the Series 24 examination for associated persons who are required to qualify and register as General Securities Principals with FINRA. The Series 23 examination tests material from the Series 24 examination not otherwise tested on the Series 9/10 examination.

In consultation with a committee of industry representatives, FINRA recently undertook a review of the Series 24 and 23 examination programs. As a result of this review, FINRA has revised the content outlines for the examinations to reflect changes to the laws, rules and regulations covered by the examinations and to incorporate the functions and associated tasks currently performed by a General Securities Principal. FINRA also has revised the format of the content outlines.

## Revisions

FINRA has divided the Series 24 and 23 content outlines into the following five major job functions that are performed by a General Securities Principal and included specific tasks for each function:

Function 1: Supervision of Registration of the Broker-Dealer and Personnel Management Activities;

Function 2: Supervision of General Broker-Dealer Activities;

Function 3: Supervision of Retail and Institutional Customer-Related Activities;

Function 4: Supervision of Trading and Market Making Activities; and

Function 5: Supervision of Investment Banking and Research.

FINRA also has adjusted the number of questions assigned to each major job function to ensure that the examinations better reflect the key tasks performed by a General Securities Principal. The questions on the revised Series 24 and 23 examinations will place greater emphasis on key tasks such as supervision of registered persons, sales practices and compliance.

The following are the number of questions assigned to each of the functions on the Series 24:

Function 1: 9 questions;

Function 2: 45 questions;

Function 3: 32 questions;

Function 4: 32 questions; and

Function 5: 32 questions.

The following are the number of questions assigned to each of the functions on the Series 23:

Function 1: 6 questions;

Function 2: 26 questions;

Function 3: 12 questions;

Function 4: 28 questions; and

Function 5: 28 questions.

Each function also includes specific tasks describing activities associated with performing that function. There are two tasks (1.1 – 1.2) associated with Function 1; seven tasks (2.1 – 2.7) associated with Function 2; three tasks (3.1 – 3.3) associated with Function 3; three tasks (4.1 – 4.3) associated with Function 4; and three tasks (5.1 – 5.3) associated with Function 5.<sup>5</sup> For example, one such task (Task 2.1) is to develop, implement and update firm's policies, written supervisory procedures (WSP) and controls for applicable rules and regulations; and implement appropriate monitoring and testing.<sup>6</sup> Further, the outlines list the knowledge required to perform each function and associated tasks (*e.g.*, business and regulatory requirements for firm's systems and technologies).<sup>7</sup> In addition, where applicable, the outlines list the laws, rules and regulations a candidate is expected to know to perform each function and associated tasks. These include the applicable FINRA Rules (*e.g.*, FINRA Rule 2090), NASD Rules (*e.g.*, NASD Rule 2510) and SEC rules (*e.g.*, SEA Rule 15c1-7).<sup>8</sup>

FINRA conducted a job analysis study of General Securities Principals, which included the use of a survey, in developing each function and associated tasks and updating the required knowledge set forth in the revised outlines. The functions and associated tasks, which appear in the revised outlines for the first time, reflect the day-to-day activities of a General Securities Principal. FINRA also has revised the content of the Series 24 and 23 outlines to reflect changes to the laws, rules and regulations covered by the examinations. Among other revisions, FINRA has revised the content outlines to reflect the adoption of rules in

the consolidated FINRA rulebook (*e.g.*, NASD Rule 2310 (Recommendations to Customers (Suitability)), NASD Rule 2212 (Telemarketing) and NASD Rule 3110 (Books and Records) were adopted as FINRA Rule 2111 (Suitability), FINRA Rule 3230 (Telemarketing) and FINRA Rule 4510 Series (Books and Records Requirements), respectively)).<sup>9</sup>

In conjunction with the changes to the content outlines, FINRA has made changes to the weighting of questions on the topics on the content outlines and to the question banks for the Series 24 and 23 examinations.

Finally, FINRA has revised the format of the content outlines, including the preface, sample questions and reference materials.

The number of questions on the Series 24 examination will remain at 150 multiple-choice questions,<sup>10</sup> and candidates will continue to have 3 hours and 45 minutes to complete the examination. A score of 70 percent is required to pass the revised Series 24 examination, which is the same as the current passing score. The number of questions on the Series 23 examination will remain at 100 multiple-choice questions, and candidates will continue to have 2 hours and 30 minutes to complete the examination. A score of 70 percent is required to pass the revised Series 23 examination, which is the same as the current passing score.

### Availability of Content Outlines

The revised Series 24 and 23 content outlines are available on FINRA's website.

## Endnotes

1. See Securities Exchange Act Release No. 72765 (August 5, 2014), 79 FR 46898 (August 11, 2014) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2014-034); Securities Exchange Act Release No. 72766 (August 5, 2014), 79 FR 46887 (August 11, 2014) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2014-035).
2. The term “principal” is defined in NASD Rule 1021(b) (Definition of Principal).
3. The other acceptable prerequisite representative registrations are: United Kingdom Securities Representative; Canada Securities Representative; Investment Banking Representative; Corporate Securities Representative; or Private Securities Offerings Representative. See NASD Rule 1022(a)(1) (A); [Regulatory Notice 09-41](#) (July 2009); and Securities Exchange Act Release No. 57073 (December 31, 2007), 73 FR 1382 (January 8, 2008) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2007-028).
4. FINRA also recognizes the historical equivalents to the Series 9/10 registration category, the Series 8 and 12 registration categories.
5. See Series 24 and 23 Outlines Pages 6-29.
6. See Series 24 and 23 Outlines Page 9.
7. See Series 24 and 23 Outlines Page 9.
8. See Series 24 and 23 Outlines Page 19.
9. See [Rule Conversion Chart](#).
10. Consistent with FINRA’s practice of including “pre-test” questions on certain qualification examinations, which is designed to ensure that new examination questions meet acceptable testing standards prior to use for scoring purposes, the Series 24 examination includes 10 additional, unidentified pre-test questions that do not contribute towards the candidate’s score. Therefore, the examination actually consists of 160 questions, 150 of which are scored. The 10 pre-test questions are randomly distributed throughout the examination.