

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="63"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2014"/> - * <input type="text" value="035"/>
		Amendment No. (req. for Amendments *) <input type="text"/>

Filing by Financial Industry Regulatory Authority  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input checked="" type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \*  Last Name \*

Title \*

E-mail \*

Telephone \*  Fax

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date  Senior Vice President and Deputy General Counsel

By

(Name \*)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

Add Remove View

Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

Add Remove View

Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**1. Text of the Proposed Rule Change**

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “SEA”),<sup>1</sup> Financial Industry Regulatory Authority, Inc. (“FINRA”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) revisions to the content outline and selection specifications for the General Securities Principal (Series 24) examination program.<sup>2</sup> The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a General Securities Principal. In addition, FINRA is proposing to make changes to the format of the content outline. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws or Rules of FINRA.

The revised content outline is attached. The Series 24 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to SEA Rule 24b-2.<sup>3</sup>

(b) Not applicable.

(c) Not applicable.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> FINRA also is proposing corresponding revisions to the Series 24 question bank. Based on instruction from SEC staff, FINRA is submitting this filing for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder, and is not filing the question bank for review. See Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000. The question bank is available for SEC review.

<sup>3</sup> 17 CFR 240.24b-2.

**2. Procedures of the Self-Regulatory Organization**

The proposed rule change was approved by the Board of Directors of FINRA Regulation, Inc. (f/k/a NASD Regulation, Inc.) at its meeting on January 24, 2001, which authorized the staff to propose modifications to examination programs, including content outlines, selection specifications and question banks, and to file the proposed modifications with the SEC, without obtaining further or specific authorization from the Board of Directors of FINRA Regulation, Inc. The Board of Governors of FINRA (f/k/a NASD) had an opportunity to review that action at its meeting on January 25, 2001. No other action by FINRA is necessary for the filing of the proposed rule change.

As further discussed below, FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the revised Series 24 examination program on October 13, 2014. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice.

**3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) Purpose

Section 15A(g)(3) of the Act<sup>4</sup> authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with that provision, FINRA has developed examinations that are designed to establish that persons associated with FINRA members have attained specified levels of competence and knowledge, consistent with applicable registration requirements under FINRA rules. FINRA periodically reviews the content of the examinations to determine

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<sup>4</sup> 15 U.S.C. 78q-3(g)(3).

whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

NASD Rule 1022(a) (General Securities Principal) requires that a “principal” register and qualify as a General Securities Principal,<sup>5</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 registering and qualifying as General Securities Principals.

NASD Rule 1022(a) also requires that a member’s chief compliance officer (“CCO”) designated on Schedule A of the member’s Form BD (Uniform Application for Broker-Dealer Registration) be registered and qualified as a General Securities Principal. If a member’s activities are limited to investment company and variable contracts products, direct participation programs or government securities, the member’s CCO may instead be registered and qualified 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 members of FINRA that are also members of the NYSE, FINRA recognizes the NYSE Compliance Official (Series 14) examination as an acceptable alternative to the principal examination

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<sup>5</sup> The term “principal” is defined in NASD Rule 1021(b) (Definition of Principal).

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 registered and qualified 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>6</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

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<sup>6</sup> The other acceptable prerequisite 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).

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.<sup>7</sup>

In consultation with a committee of industry representatives, FINRA recently undertook a review of the Series 24 examination program. As a result of this review, FINRA is proposing to make revisions to the content outline to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a General Securities Principal. FINRA also is proposing to make changes to the format of the content outline.

### **Current Outline**

The current content outline is divided into five sections. The following are the five sections and the number of questions associated with each of the sections, denoted Section 1 through Section 5:

1. Supervision of Investment Banking, Underwriting Activities and Research, 33 questions;
2. Supervision of Trading and Market Making Activities, 31 questions;
3. Supervision of Brokerage Office Operations, 29 questions;

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<sup>7</sup> A person who is registered as a General Securities Sales Supervisor (Series 9/10) and passes the General Securities Principal Sales Supervisor Module (Series 23) examination is also qualified to function as a General Securities Principal. In conjunction with the proposed rule change, FINRA is filing revisions to the content outline and selection specifications for the Series 23 examination program. See SR-FINRA-2014-034 (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Revise the Series 23 Examination Program).

4. Sales Supervision and General Supervision of Employees, 43 questions; and
5. Compliance with Financial Responsibility Rules, 14 questions.

Each section also includes the applicable laws, rules and regulations associated with that section. The current outline also includes a preface (addressing, among other things, the purpose, administration and scoring of the examination), sample questions and reference materials.

### **Proposed Revisions**

FINRA is proposing to divide the content outline into five major job functions that are performed by a General Securities Principal. The following are the five major job functions, denoted Function 1 through Function 5, with the associated number of questions:

Function 1: Supervision of Registration of the Broker-Dealer and Personnel Management Activities, 9 questions;

Function 2: Supervision of General Broker-Dealer Activities, 45 questions;

Function 3: Supervision of Retail and Institutional Customer-Related Activities, 32 questions;

Function 4: Supervision of Trading and Market Making Activities, 32 questions;  
and

Function 5: Supervision of Investment Banking and Research, 32 questions.

FINRA is also proposing to adjust the number of questions assigned to each major job function to ensure that the overall examination better reflects the key tasks performed by a General Securities Principal. The questions on the revised Series 24 examination



will place greater emphasis on key tasks such as supervision of registered persons, sales practices and compliance.

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>8</sup> By way of 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>9</sup> Further, the outline lists the knowledge required to perform each function and associated tasks (e.g., business and regulatory requirements for firm’s systems and technologies).<sup>10</sup> In addition, where applicable, the outline lists 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>11</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 outline. The functions and associated tasks, which appear in the revised outline for the first time, reflect the day-to-day activities of a General Securities Principal.

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<sup>8</sup> See Exhibit 3a, Outline Pages 6-29.

<sup>9</sup> See Exhibit 3a, Outline Page 9.

<sup>10</sup> See Exhibit 3a, Outline Page 9.

<sup>11</sup> See Exhibit 3a, Outline Page 19.

As noted above, FINRA also is proposing to revise the content outline to reflect changes to the laws, rules and regulations covered by the examination. Among other revisions, FINRA is proposing to revise the content outline 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>12</sup>

FINRA is proposing similar changes to the Series 24 selection specifications and question bank.

Finally, FINRA is proposing to make changes to the format of the content outline, including the preface, sample questions and reference materials. Among other changes, FINRA is proposing to: (1) add a table of contents;<sup>13</sup> (2) provide more details regarding the purpose of the examination;<sup>14</sup> (3) provide more details on the application procedures;<sup>15</sup> (4) provide more details on the development and maintenance of the content outline and examination;<sup>16</sup> (5) explain that the passing scores are established by FINRA staff, in consultation with a committee of industry representatives, using a standard setting procedure and that the scores are an absolute standard independent of the

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<sup>12</sup> See Rule Conversion Chart, available at <http://www.finra.org/Industry/Regulation/FINRARules/p085560>.

<sup>13</sup> See Exhibit 3a, Outline Page 2.

<sup>14</sup> See Exhibit 3a, Outline Page 3.

<sup>15</sup> See Exhibit 3a, Outline Page 3.

<sup>16</sup> See Exhibit 3a, Outline Page 4.

performance of candidates taking the examination;<sup>17</sup> and (6) note that each candidate will receive a score report at the end of the test session, which will indicate a pass or fail status and include a score profile listing the candidate's performance on each major content area covered on the examination.<sup>18</sup>

The number of questions on the Series 24 examination will remain at 150 multiple-choice questions,<sup>19</sup> and candidates will continue to have 3 hours and 45 minutes to complete the examination. Currently, a score of 70 percent is required to pass the examination. The passing score will remain the same.

### **Availability of Content Outlines**

The current Series 24 content outline is available on FINRA's website, at [www.finra.org/brokerqualifications/exams](http://www.finra.org/brokerqualifications/exams). The revised Series 24 content outline will replace the current content outline on FINRA's website.

FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the revised Series 24 examination program on October 13, 2014. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice.

#### (b) Statutory Basis

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<sup>17</sup> See Exhibit 3a, Outline Page 5.

<sup>18</sup> See Exhibit 3a, Outline Page 5.

<sup>19</sup> 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 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.

FINRA believes that the proposed revisions to the Series 24 examination program are consistent with the provisions of Section 15A(b)(6) of the Act,<sup>20</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 15A(g)(3) of the Act,<sup>21</sup> which authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. FINRA believes that the proposed revisions will further these purposes by updating the examination program to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a General Securities Principal.

**4. Self-Regulatory Organization's Statement on Burden on Competition**

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The updated examination aligns with the functions and associated tasks currently performed by a General Securities Principal and tests knowledge of the most current laws, rules, regulations and skills relevant to those functions and associated tasks. As such, the proposed revisions would make the examination more efficient and effective.

**5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

Written comments were neither solicited nor received.

**6. Extension of Time Period for Commission Action**

Not applicable.

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<sup>20</sup> 15 U.S.C. 78o-3(b)(6).

<sup>21</sup> 15 U.S.C. 78o-3(g)(3).

**7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)**

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A)(i) of the Act<sup>22</sup> and Rule 19b-4(f)(1) thereunder,<sup>23</sup> in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of FINRA. FINRA proposes to implement the revised Series 24 examination program on October 13, 2014. FINRA will announce the implementation date in a Regulatory Notice.

**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

Not applicable.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**11. Exhibits**

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 3a. Revised Content Outline for the Series 24 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 24 Examination.

FINRA has requested confidential treatment for the Series 24 revised selection specifications, and thus the specifications are omitted from this filing. The Series 24

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<sup>22</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>23</sup> 17 CFR 240.19b-4(f)(1).

revised selection specifications have been filed separately with the Commission pursuant to SEA Rule 24b-2.<sup>24</sup>

Exhibit 3c. Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, Inc. from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000.

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<sup>24</sup> 17 CFR 240.24b-2.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-FINRA-2014-035)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Revise the Series 24 Examination Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “SEA”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on , Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. FINRA has designated the proposed rule change as “constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule” under Section 19(b)(3)(A)(i) of the Act<sup>3</sup> and Rule 19b-4(f)(1) thereunder,<sup>4</sup> which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is filing revisions to the content outline and selection specifications for

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>4</sup> 17 CFR 240.19b-4(f)(1).

the General Securities Principal (Series 24) examination program.<sup>5</sup> The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a General Securities Principal. In addition, FINRA is proposing to make changes to the format of the content outline. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws or Rules of FINRA.

The revised content outline is attached. The Series 24 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to SEA Rule 24b-2.<sup>6</sup>

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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<sup>5</sup> FINRA also is proposing corresponding revisions to the Series 24 question bank. Based on instruction from SEC staff, FINRA is submitting this filing for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder, and is not filing the question bank for review. See Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000. The question bank is available for SEC review.

<sup>6</sup> 17 CFR 240.24b-2.



A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Section 15A(g)(3) of the Act<sup>7</sup> authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with that provision, FINRA has developed examinations that are designed to establish that persons associated with FINRA members have attained specified levels of competence and knowledge, consistent with applicable registration requirements under FINRA rules. FINRA periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

NASD Rule 1022(a) (General Securities Principal) requires that a “principal” register and qualify as a General Securities Principal,<sup>8</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 registering and qualifying as General Securities Principals.

NASD Rule 1022(a) also requires that a member’s chief compliance officer (“CCO”) designated on Schedule A of the member’s Form BD (Uniform Application for

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<sup>7</sup> 15 U.S.C. 78o-3(g)(3).

<sup>8</sup> The term “principal” is defined in NASD Rule 1021(b) (Definition of Principal).

Broker-Dealer Registration) be registered and qualified as a General Securities Principal. If a member's activities are limited to investment company and variable contracts products, direct participation programs or government securities, the member's CCO may instead be registered and qualified 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 members of FINRA 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 registered and qualified 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>9</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.<sup>10</sup>

In consultation with a committee of industry representatives, FINRA recently undertook a review of the Series 24 examination program. As a result of this review, FINRA is proposing to make revisions to the content outline to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a General Securities Principal. FINRA also is proposing to make changes to the format of the content outline.

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<sup>9</sup> The other acceptable prerequisite 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).

<sup>10</sup> A person who is registered as a General Securities Sales Supervisor (Series 9/10) and passes the General Securities Principal Sales Supervisor Module (Series 23) examination is also qualified to function as a General Securities Principal. In conjunction with the proposed rule change, FINRA is filing revisions to the content outline and selection specifications for the Series 23 examination program. See SR-FINRA-2014-034 (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Revise the Series 23 Examination Program).

Current Outline

The current content outline is divided into five sections. The following are the five sections and the number of questions associated with each of the sections, denoted Section 1 through Section 5:

1. Supervision of Investment Banking, Underwriting Activities and Research, 33 questions;
2. Supervision of Trading and Market Making Activities, 31 questions;
3. Supervision of Brokerage Office Operations, 29 questions;
4. Sales Supervision and General Supervision of Employees, 43 questions; and
5. Compliance with Financial Responsibility Rules, 14 questions.

Each section also includes the applicable laws, rules and regulations associated with that section. The current outline also includes a preface (addressing, among other things, the purpose, administration and scoring of the examination), sample questions and reference materials.

Proposed Revisions

FINRA is proposing to divide the content outline into five major job functions that are performed by a General Securities Principal. The following are the five major job functions, denoted Function 1 through Function 5, with the associated number of questions:

Function 1: Supervision of Registration of the Broker-Dealer and Personnel Management Activities, 9 questions;

Function 2: Supervision of General Broker-Dealer Activities, 45 questions;

Function 3: Supervision of Retail and Institutional Customer-Related Activities, 32 questions;

Function 4: Supervision of Trading and Market Making Activities, 32 questions; and

Function 5: Supervision of Investment Banking and Research, 32 questions.

FINRA is also proposing to adjust the number of questions assigned to each major job function to ensure that the overall examination better reflects the key tasks performed by a General Securities Principal. The questions on the revised Series 24 examination will place greater emphasis on key tasks such as supervision of registered persons, sales practices and compliance.

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>11</sup> By way of 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>12</sup> Further, the outline lists the knowledge required to perform each function and associated tasks (e.g., business and regulatory requirements for firm’s systems and technologies).<sup>13</sup> In addition, where applicable, the outline lists the laws, rules and regulations a candidate

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<sup>11</sup> See Exhibit 3a, Outline Pages 6-29.

<sup>12</sup> See Exhibit 3a, Outline Page 9.

<sup>13</sup> See Exhibit 3a, Outline Page 9.

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>14</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 outline. The functions and associated tasks, which appear in the revised outline for the first time, reflect the day-to-day activities of a General Securities Principal.

As noted above, FINRA also is proposing to revise the content outline to reflect changes to the laws, rules and regulations covered by the examination. Among other revisions, FINRA is proposing to revise the content outline 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>15</sup>

FINRA is proposing similar changes to the Series 24 selection specifications and question bank.

Finally, FINRA is proposing to make changes to the format of the content outline, including the preface, sample questions and reference materials. Among other changes, FINRA is proposing to: (1) add a table of contents;<sup>16</sup> (2) provide more details regarding

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<sup>14</sup> See Exhibit 3a, Outline Page 19.

<sup>15</sup> See Rule Conversion Chart, available at <http://www.finra.org/Industry/Regulation/FINRARules/p085560>.

<sup>16</sup> See Exhibit 3a, Outline Page 2.

the purpose of the examination;<sup>17</sup> (3) provide more details on the application procedures;<sup>18</sup> (4) provide more details on the development and maintenance of the content outline and examination;<sup>19</sup> (5) explain that the passing scores are established by FINRA staff, in consultation with a committee of industry representatives, using a standard setting procedure and that the scores are an absolute standard independent of the performance of candidates taking the examination;<sup>20</sup> and (6) note that each candidate will receive a score report at the end of the test session, which will indicate a pass or fail status and include a score profile listing the candidate's performance on each major content area covered on the examination.<sup>21</sup>

The number of questions on the Series 24 examination will remain at 150 multiple-choice questions,<sup>22</sup> and candidates will continue to have 3 hours and 45 minutes to complete the examination. Currently, a score of 70 percent is required to pass the examination. The passing score will remain the same.

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<sup>17</sup> See Exhibit 3a, Outline Page 3.

<sup>18</sup> See Exhibit 3a, Outline Page 3.

<sup>19</sup> See Exhibit 3a, Outline Page 4.

<sup>20</sup> See Exhibit 3a, Outline Page 5.

<sup>21</sup> See Exhibit 3a, Outline Page 5.

<sup>22</sup> 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 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.

Availability of Content Outlines

The current Series 24 content outline is available on FINRA's website, at [www.finra.org/brokerqualifications/exams](http://www.finra.org/brokerqualifications/exams). The revised Series 24 content outline will replace the current content outline on FINRA's website.

FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the revised Series 24 examination program on October 13, 2014. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice.

2. Statutory Basis

FINRA believes that the proposed revisions to the Series 24 examination program are consistent with the provisions of Section 15A(b)(6) of the Act,<sup>23</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 15A(g)(3) of the Act,<sup>24</sup> which authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. FINRA believes that the proposed revisions will further these purposes by updating the examination program to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a General Securities Principal.

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<sup>23</sup> 15 U.S.C. 78o-3(b)(6).

<sup>24</sup> 15 U.S.C. 78o-3(g)(3).



B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The updated examination aligns with the functions and associated tasks currently performed by a General Securities Principal and tests knowledge of the most current laws, rules, regulations and skills relevant to those functions and associated tasks. As such, the proposed revisions would make the examination more efficient and effective.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>25</sup> and paragraph (f)(1) of Rule 19b-4 thereunder.<sup>26</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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<sup>25</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>26</sup> 17 CFR 240.19b-4(f)(1).

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2014-035 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2014-035. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3

p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2014-035 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>27</sup>

Secretary

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<sup>27</sup> 17 CFR 200.30-3(a)(12).



# General Securities Principal Qualification Examination (Series 24)

## Content Outline

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## **INTRODUCTION**

The Series 24 exam is the General Securities Principal Qualification Examination. The exam is developed and maintained by the Financial Industry Regulatory Authority (FINRA). This content outline provides a comprehensive guide to the topics covered on the General Securities Principal Qualification Examination (Series 24). The outline is intended to familiarize exam candidates with the range of subjects covered on the exam, as well as the depth of knowledge required. Sample items are also included to acquaint candidates with the types of multiple-choice items used on the exam. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam.

## **PURPOSE OF THE EXAM**

The Series 24 exam is designed to assess the competency of entry-level General Securities Principals. It is intended to safeguard the investing public by helping to ensure that General Securities Principals are competent to perform their jobs. Given this purpose, the Series 24 exam seeks to measure the degree to which each candidate possesses the knowledge, skills and abilities needed to perform the critical functions of a General Securities Principal. For more information about the permissible activities of a General Securities Principal, please see NASD Rule 1022, which is viewable in the FINRA Rule Manual through the following link: [www.finra.org](http://www.finra.org).

## **ELIGIBILITY REQUIREMENTS**

The candidate must be associated with and sponsored by a FINRA member firm to be eligible to take the Series 24 exam. In order to register in this category, candidates must first qualify as a General Securities Representative (Series 7), United Kingdom Module of Series 7 (Series 17), Canada Module of Series 7 (Series 37 or 38), Corporate Securities Limited Representative (Series 62), Limited Representative—Investment Banking (Series 79), or Limited Representative—Private Securities Offerings (Series 82). For more information on eligibility requirements, please see NASD Rule 1021, which is viewable in the FINRA Rule Manual through the following link: [www.finra.org](http://www.finra.org).

## **APPLICATION PROCEDURES**

The FINRA member firm that sponsors the applicant must file a Uniform Application for Securities Industry Registration or Transfer (Form U4) in the Central Registration Depository (CRD<sup>®</sup>) and request the General Securities Principal position (GP) on the Form U4.

## STRUCTURE OF THE EXAM

The exam consists of 150 multiple-choice items, which are distributed among the five major content areas listed in the table below.

**Job Functions and Number of Items by Job Function**

Job Functions		Number of Items
Function 1	Supervision of Registration of the Broker-Dealer and Personnel Management Activities	9
Function 2	Supervision of General Broker-Dealer Activities	45
Function 3	Supervision of Retail and Institutional Customer-Related Activities	32
Function 4	Supervision of Trading and Market Making Activities	32
Function 5	Supervision of Investment Banking and Research	32
<b>Total</b>		<b>150</b>

## DEVELOPMENT AND MAINTENANCE OF THE CONTENT OUTLINE AND EXAM

The Series 24 Content Outline was developed based on the results of a job analysis study of General Securities Principals. The job analysis process included collecting data about the job functions, tasks and required knowledge of General Securities Principals from a wide variety of firms using numerous data collection techniques, including a survey.

Under the guidance of FINRA staff, a committee of industry representatives (“the Committee”) writes, reviews and validates all exam items to ensure and sustain the job relevance of the exam. Exam items are subject to multiple reviews prior to inclusion on the exam, and each item links directly to a component of the content outline. Items vary in difficulty and complexity. Each item has only one correct or best answer.

The bank of items changes frequently as a result of amendments to, or the introduction of, government and self-regulatory organization (SRO) rules and regulations, changes in industry practice, and the introduction of new products. Exam items and their statistical performance are analyzed routinely by FINRA staff and the Committee to ensure relevance to the functions of General Securities Principals. **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.**

## ADMINISTRATION OF THE EXAM

The exam is administered via computer. A tutorial on how to take the exam via computer is provided prior the exam. Each candidate’s exam includes 10 additional, unidentified pretest items that do not contribute toward the candidate’s score. The 10 items are randomly distributed throughout the exam. Therefore, each candidate’s exam consists of a total of 160 items (150 scored and 10 unscored). Each scored item is worth

one point. There is no penalty for guessing. Therefore, candidates should attempt to answer all items. Candidates will be allowed 3 hours and 45 minutes to complete the exam.

The test administrator will provide scratch paper and basic electronic calculators to candidates, who must return these materials to the test center administrator at the end of the testing session. Some exam items may involve calculations. Only calculators provided by the test center administrators are allowed for use during the exam.

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

## **HOW THE EXAM IS SCORED**

The passing score for the exam is the minimum number of items that a candidate has to answer correctly in order to pass the exam. Using a standard-setting procedure, FINRA staff, in consultation with the Committee, establishes the passing score for the exam. The passing score is an absolute standard and is independent of the performance of candidates taking the exam. The passing score for this exam is 70%.

## **CANDIDATES' EXAM RESULTS**

On the day of the exam, candidates will receive a report of their exam results both on screen and in paper format at the end of their exam session. The score report will indicate pass/fail status and a score profile indicating performance based on each major content area covered on the exam. It is recommended that candidates who fail the exam review the information provided on the score report, as they may want to focus on the areas on which they performed poorly when preparing to retake the exam. For security reasons, the exam and individual items are not available for review after taking the exam.



## SERIES 24 CONTENT OUTLINE

### FUNCTION 1—Supervision of Registration of the Broker-Dealer and Personnel Management Activities

- 1.1 Initiate or terminate the registration of the broker-dealer and physical office locations in the Central Registration Depository (CRD) System by filing, updating or amending appropriate documents

**KNOWLEDGE OF:**

- Difference between SEC, SRO and state requirements, including information about registration requirements and exemptions
- Form BD, Form BDW, Form BR
- Difference between Registered Investment Adviser (RIA) and Broker-Dealers (BD) and required registrations

FINRA By-Laws

Article IV—Membership

Section 1—Application for Membership

Section 3—Executive Representative

Section 5—Resignation of Members

Section 6—Retention of Jurisdiction

Section 7—Transfer and Termination of Membership

Section 8—Registration of Branch Offices

NASD/Incorporated NYSE Rules and Rule Interpretations

1010 Series/311, 312, 313, 321 and 401/03—Membership Proceedings

IM-1000-4—Branch Offices and Offices of Supervisory Jurisdiction

3010(g)—Definitions

Securities Exchange Act of 1934

Section 3(a)(4)—Broker

Section 3(a)(5)—Dealer

Section 15—Registration and Regulation of Brokers and Dealers

Section 15(a)(1)

Rule 15a-6—Exemption of Certain Foreign Brokers or Dealers

Section 15(b)(1)

Rule 15b1-1—Application for Registration of Brokers or Dealers

Section 15(b)(2)(A)

Rule 15b1-3—Registration of Successor to Registered Broker or Dealer

Section 15(b)(8)

Rule 15b3-1—Amendments to Application

Section 15(b)(4)—Sanctions Against Brokers or Dealers

Section 15(b)(5)

Rule 15b6-1—Withdrawal from Registration

Section 15(b)(6)—Sanctions For Persons Associated with a Broker or Dealer

Section 15(c)(1)

Rule 15c1-3—Misrepresentation by Brokers, Dealers and Municipal Securities Dealers as to  
Registration

Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others

Rule 17a-4(d)

Investment Advisers Act of 1940

Section 202(a)(11)

Securities Investor Protection Act of 1970 (SIPA)

Section 3(a)(2)(A)—Members of SIPC

## 1.2 Conduct hiring and registration of associated persons and maintenance of registration

### KNOWLEDGE OF:

- Prehire requirements based on background, disciplinary, complaint or financial history and the registration/affiliation
- Associated person registration requirements
- SEC, SRO and state requirements, including basic information about registration requirements
- Requirements for heightened supervision
- Forms U4 and U5 and required amendments
- Types of activities of associated or registered persons
- Regulatory element and firm element continuing education requirements

### FINRA By-Laws

Article I—Definitions

Paragraph (rr)

Article III—Qualifications of Members and Associated Persons

Section 1—Persons Eligible to Become Members and Associated Persons of Members

Section 2—Authority of Board to Adopt Qualification Requirements

Section 3—Ineligibility of Certain Persons for Membership or Association

Section 4—Definition of Disqualification

Article V—Registered Representatives and Associated Persons

Section 1—Qualification Requirements

Section 2—Application for Registration

Section 3—Notification by Member to the Corporation and Associated Person of Termination;

Amendments to Notification

Section 4—Retention of Jurisdiction

### FINRA Rules

1010—Electronic Filing Requirements for Uniform Forms

1122—Filing of Misleading Information as to Membership or Registration

1230(b)(6)—Operations Professional

1250—Continuing Education Requirements

2263—Arbitration Disclosure to Associated Persons Signing or Acknowledging Form U4  
8311—Effect of a Suspension, Revocation, Cancellation, or Bar  
9500 Series—Other Proceedings

NASD/Incorporated NYSE Rules and Rule Interpretations

IM-1000-2 /345(a)/03—Status of Persons Serving in the Armed Forces of the U.S.  
IM-1000-3—Failure to Register Personnel  
1020 Series/342.13—Registration of Principals  
1030 Series/345.10—Registration of Representatives  
1041—Registration Requirements for Assistant Representatives  
1042—Restrictions for Assistant Representatives  
1043—Proctors of In-Firm Delivery of Regulatory Element  
1050/344—Registration of Research Analysts  
1060(a)—Persons Exempt from Registration  
1070—Qualification Examinations and Waiver of Requirements  
1080—Confidentiality of Examinations  
1100—Foreign Associates  
1150—Executive Representative  
3010(e)—Qualifications Investigated

Securities Exchange Act of 1934

Section 3(a)(39)  
Section 15(b)(7)  
Rule 15b7-1—Compliance with Qualification Requirements of Self-Regulatory Organizations  
Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others  
Rule 17a-3(a)(12)  
Rule 17a-3(a)(13)  
Rule 17a-3(a)(15)  
Rule 17f-2—Fingerprinting of Security Industry Personnel  
Section 15A(g)(2)  
Rule 19h-1—Notice by a Self-Regulatory Organization of Proposed Admission to or Continuance in Membership or Participation or Association with a Member of Any Person Subject to a Statutory Disqualification, and Applications to the Commission for Relief Therefrom

## **FUNCTION 2—Supervision of General Broker-Dealer Activities**

- 2.1 Develop, implement and update firm’s policies, written supervisory procedures (WSP) and controls for applicable rules and regulations; and implement appropriate monitoring and testing

**KNOWLEDGE OF:**

- Requirement to conduct periodic inspections and reviews of activities of personnel located at the Office of Supervisory Jurisdiction (OSJ), branch offices and associated office locations
- Appropriate testing of the firm’s procedures and controls including the CEO Certification
- Business and regulatory requirements for firm’s systems and technologies
- Requirement that all activities and systems have proper controls
- Requirements to implement and test the firm’s Business Continuity Plan (BCP)

FINRA Rules

- 3130—Annual Certification of Compliance and Supervisory Processes
- 4370—Business Continuity Plans and Emergency Contact Information
- 8110—Availability of Manual to Customers

NASD/ Incorporated NYSE Rules and Rule Interpretations

- 1160—Contact Information Requirements
- 3010/342—Supervision
  - IM-3010-1—Standards for Reasonable Review
- 3012/342.23—Supervisory Control System

Securities Exchange Act of 1934

- Section 15(b)(2)(C)
  - Rule 15b2-2—Inspection of Newly Registered Brokers and Dealers
- Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others
  - Rule 17a-3(a)(22)
  - Rule 17a-4(e)(7)

- 2.2 Supervise the conduct of associated persons

**KNOWLEDGE OF:**

- Regulatory requirements to manage conflicts of interests
- Regulatory requirements related to personal trading, private securities transactions and outside business and other activities

FINRA Rules

- 2010—Standards of Commercial Honor and Principles of Trade
- 2020—Use of Manipulative, Deceptive or Other Fraudulent Devices
- 2060—Use of Information Obtained in a Fiduciary Capacity
- 2150—Improper Use of Customers’ Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts

2320—Variable Contracts of an Insurance Company  
3240—Borrowing From or Lending to Customer  
3270—Outside Business Activities of Registered Persons  
5210.01—Publication of Transactions and Quotations – Manipulative and Deceptive Quotations

NASD/Incorporated NYSE Rules and Rule Interpretations

2830—Investment Company Securities  
3010(d)—Review of Transactions and Correspondence  
3040—Private Securities Transactions of an Associated Person  
3050/407—Transactions for or by Associated Persons

Securities Exchange Act of 1934

Section 9 (a) and (e)—Prohibitions Against Manipulation of Security Prices  
Section 10—Regulation of the Use of Manipulative and Deceptive Devices  
    Rule 10b-1—Prohibition of Use of Manipulative or Deceptive Devices or Contrivances With Respect to Securities Exempted from Registration  
    Rule 10b-3—Employment of Manipulative and Deceptive Devices by Brokers or Dealers  
    Rule 10b-5—Employment of Manipulative and 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  
    Rule 10b-17—Untimely Announcements of Record Dates  
    Rule 10b-18—Purchases of Certain Equity Securities by the Issuer and Others  
Section 15(c)(1)  
    Rule 15c1-1—Definitions  
    Rule 15c1-2—Fraud and Misrepresentation  
Section 15(g)  
Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others  
    Rule 17a-3(a)(1)  
Section 20A—Liability to Contemporaneous Traders for Insider Trading  
Section 21—Investigations; Injunctions and Prosecution of Offenses  
Section 21A—Civil Penalties for Insider Trading  
Section 32—Penalties

### 2.3 Supervise compensation practices of member, associated persons and other parties

**KNOWLEDGE OF:**

- **Networking arrangements**
- **Payments for referrals**
- **Cash and non-cash compensation arrangements**
- **Gifts**

FINRA Rules

2320(g)—Member Compensation  
3160—Networking Arrangements Between Members and Financial Institutions  
3220—Influencing or Rewarding Employees of Others

NASD/Incorporated NYSE Rules and Rule Interpretations  
353—Rebates and Compensation  
345(a)(i)/01—Compensation to Non-Registered Persons  
345(a)(i)/02—Compensation Paid for Advisory Solicitations  
1060(b)—Persons Exempt from Registration

Securities Exchange Act of 1934  
Section 3(a)(4)(B)—Exception for Certain Bank Activities  
Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others  
Rule 17a-3(a)(19)

**2.4 Supervise the development, evaluation and delivery of products and services offered by the broker-dealer**

**KNOWLEDGE OF:**

- **Products and their risk characteristics and appropriate accounts**
- **Industry initiatives, developments, new and existing rules**
- **Requirements to train associated persons concerning products and services**  
Requirements to conduct due diligence on new products and services and continue risk assessment of existing products and services
- **Ongoing risk assessment of listing products and services**

FINRA Rules  
2111.05(a)—Components of Suitability Obligations  
2310—Direct Participation Programs  
2320—Variable Contracts of an Insurance Company  
2330—Members' Responsibilities Regarding Deferred Variable Annuities

NASD/Incorporated NYSE Rules and Rule Interpretations  
1014(a)(9)  
1017—Application for Approval of Change in Ownership, Control, or Business Operations  
2830—Investment Company Securities  
3010/342—Supervision  
3012/342.23—Supervisory Control System

Securities Exchange Act of 1934  
Section 3—Definitions and Application of Title  
Section 3(a)(10)—Security  
Section 3(a)(11)—Equity Security  
Rule 3a11-1—Definition of the Term "Equity Security"  
Section 3(a)(12)—Exempted Security  
Rule 3b-5—Non-Exempt Securities Issued Under Governmental Obligations

Securities Act of 1933  
Section 3(b)—Additional Exemptions

Regulation A—Conditional Small Issues Exemption  
Section 4(2) Transactions by an Issuer Not Involving Any Public Offerings  
Section 4(6) Transactions Involving Offers or Sale by an Issuer Solely to One or More Accredited Investors Up To the Section 3(b) Maximum  
Rule 144—Persons deemed Not To Be Engaged in a Distribution and Therefore Not Underwriters

Investment Company Act of 1940

Section 2—Definitions  
Section 3—Definition of Investment Company  
Section 4—Classification of Investment Company  
Section 5—Sub-Classification of Management Companies  
Section 8—Registration of Investment Companies  
Section 8(b)—Filing Requirements for Investment Companies  
Form N-1A—Registration Statement of Open-End Management Investment Companies  
Section 11—Offers of Exchange  
Section 12—Functions and Activities of Investment Companies  
Rule 12b-1—Distribution of Shares by Registered Open-End Management Investment Company  
Section 13—Changes in Investment Policy  
Section 19—Payments or Distributions  
Rule 19a-1—Written Statement to Accompany Dividend Payments by Management Companies  
Rule 19b-1—Frequency of Distribution of Capital Gains  
Section 22—Distribution, Redemption, and Repurchase of Redeemable Securities  
Section 22(c)—Regulation of Underwriters and Dealers by Commission  
Rule 22c-1—Pricing of Redeemable Securities for Distribution, Redemption and Repurchase  
Section 22(d)—Persons To and Through Whom Redeemable Securities May be Sold  
Rule 22d-1—Exemption from Section 22(d) to Permit Sales of Redeemable Securities at Prices Which Reflect Sales Loads Set Pursuant to a Schedule  
Rule 22d-2—Exemption from Section 22(d) for Certain Registered Separate Accounts  
Section 22(e)—Suspension of Rights of Redemption  
Rule 22e-1—Exemption from Section 22(e) During Annuity Payment Period of Variable Annuity Contracts Participating in Certain Registered Separate Accounts  
Section 23—Distribution and Repurchase of Securities: Closed-End Companies  
Section 35—Unlawful Representations and Names  
Section 37—Larceny and Embezzlement

Trust Indenture Act of 1939

Section 305—Securities Required To Be Registered Under Securities Act  
Section 306—Securities Not Registered Under Securities Act  
Section 307—Qualification of Indentures Covering Securities Not Required To Be Registered  
Section 309—When Qualification Becomes Effective; Effect of Qualification

- 2.5 **Take disciplinary or corrective actions relating to the conduct of associated persons; address regulatory actions regarding violations or potential violations of securities industry laws, rules and regulations; and address customer and industry disputes**

**KNOWLEDGE OF:**

- Proper handling and resolution of customer and industry disputes
- FINRA and SEC disciplinary processes
- Reporting requirements for customer complaints and other events

#### FINRA Rules

- 2080—Obtaining an Order of Expungement of Customer Dispute Information from the Central Registration Depository (CRD) System
- 4513—Records of Written Customer Complaints
- 4530—Reporting Requirements
- 8000 Series—Investigations and Sanctions
  - 8120—Definitions
  - 8210—Provision of Information and Testimony and Inspection and Copying of Books
  - 8310—Sanctions for Violation of the Rules
  - 8312—FINRA BrokerCheck Disclosure
  - 8320—Payment of Fines, Other Monetary Sanctions, or Costs; Summary Action for Failure to Pay
- 9000 Series—Code of Procedure
  - 9110—Application
  - 9120—Definitions
  - 9130—Service; Filing of Papers
  - 9140—Proceedings
  - 9210—Complaint and Answer
  - 9230—Appointment of Hearing Panel, Extended Hearing Panel
  - 9250—Discovery
  - 9260—Hearing and Decision
  - 9310—Appeal to or Review by National Adjudicatory Council
  - 9350—Discretionary Review by FINRA Board
  - 9370—Application to SEC for Review
- 12000 and 13000 Series—Code of Arbitration Procedure for Customer/Industry Disputes
  - Part I—Interpretive Material, Definitions, Organization and Authority
    - IM-12000 and IM-13000—Failure to Act Under Provisions of Code of Arbitration Procedure for Customer/Industry Disputes
    - 12105 and 13105—Agreement of the Parties
    - 13200—Required Arbitration
  - Part II—General Arbitration Rules
    - 12200—Arbitration Under an Arbitration Agreement or the Rules of FINRA
    - 12201—Elective Arbitration
  - Part VIII—Simplified Arbitration and Default Proceedings
    - 12800 and 13800—Simplified Arbitration
    - 12801 and 13801—Default Proceedings
- 14000 Series—Code of Mediation Procedure
  - 14104—Mediation Under the Code
  - 14105—Effect of Mediation on Arbitration Proceedings
  - 14109—Mediation Ground Rules

#### Securities Exchange Act of 1934

- Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others



Rule 17a-3(a)(18)  
Rule 17a-4(e)(6)  
Rule 17a-4(j)

**2.6 Develop and maintain policies, procedures and controls relating to the creation and retention of books and records**

**KNOWLEDGE OF:**

- Record retention requirements
- Electronic records storage requirements

FINRA Rules

4510 Series—Book and Records Requirements  
4511—General Requirements  
4570—Custodian of Books and Records

NASD Rules

3010(b)(2) —Tape Recording of Conversations

Securities Exchange Act of 1934

Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others

Rule 17a-3(a)(21)

Rules 17a-3(g) and 17a-3(h)(1)

Rule 17a-4(b)(7)

Rule 17a-4(f)

Rule 17a-4(g)

Rule 17a-4(i)

Rule 17a-4(l)

Rule 17a-7—Records of Nonresident Brokers and Dealers

**2.7 Supervise compliance with financial responsibility requirements and funding and cash management**

**KNOWLEDGE OF:**

- Reporting requirements of firm capital condition
- Requirements to segregate customer securities and funds
- Requirement to report short interest
- Introducing and clearing arrangements
- SEC requirements for extensions of credit and related disclosure

FINRA Rules

2261—Disclosure of Financial Condition

4120—Regulatory Notification and Business Curtailment

4160—Verification of Assets

4210—Margin Requirements

4220—Daily Record of Required Margin

4230—Required Submission for Extension of Time under Regulation T and SEC Rule 15c3-3  
4240—Margin Requirements for Credit Default Swaps  
4311—Carrying Agreements  
4330—Customer Protection—Permissible Use of Customers' Securities  
4340—Callable Securities  
4360—Fidelity Bonds  
4560—Short-Interest Reporting  
6274 and 6350A/B—Clearance and Settlement

NASD Rules

1090—Foreign Members  
3150—Reporting Requirements for Clearing Firms

Securities Exchange Act of 1934

Section 3(a)(12)

Rule 3a12-9—Exemption of Certain Direct Participation Program Securities From the Arranging Provisions of Sections 7(c) and 11(d)(1)

Section 1—Regulation of the Use of Manipulative and Deceptive Devices

Rule 10b-16—Disclosure of Credit Terms in Margin Transactions

Section 8—Restrictions on Borrowing by Members, Brokers and Dealers

Rule 8c-1—Hypothecation of Customers' Securities

Section 11(d)(1)—Extension of Credit

Rule 11d1-1—Exemption of Certain Securities from Section 11(d)(1)

Rule 11d1-2—Exemption From Section 11(d)(1) For Certain Investment Company Securities Held by Broker-Dealers as Collateral in Margin Accounts

Rule 15c1-9—Use of Pro Forma Balance Sheets

Section 15(c)(2)

Rule 15c2-1—Hypothecation of Customers' Securities

Appendix D—Satisfactory Subordination Agreements

Rule 15c2-5—Disclosure and Other Requirements When Extending or Arranging Credit in Certain Transactions

Section 15(c)(3)

Rule 15c3-1—Net Capital Requirements for Brokers or Dealers

Rule 15c3-2—Customers' Free Credit Balances

Rule 15c3-3—Customer Protection—Reserves and Custody of Securities

Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others

Rule 17a-3(a)(11)

Rule 17a-3(a)(14)

Rule 17a-4(b)(2)

Rule 17a-4(b)(3)

Rule 17a-4(b)(5)

Rule 17a-4(b)(8)

Rule 17a-5—Reports To Be Made by Certain Brokers and Dealers

Rule 17a-11—Notification Provisions for Brokers and Dealers

Rule 17f-1—Requirements for Reporting and Inquiry With Respect to Missing, Lost, Counterfeit or Stolen Securities

Federal Reserve Board Regulation T—Credit by Brokers and Dealers

Securities Investor Protection Act of 1970 (SIPA)

Section 3—Securities Investor Protection Corporation (SIPC)

Section 5—Protection of Customers

Section 9—SIPC Advances

Section 14—Prohibited Acts

Sarbanes—Oxley

Section 404—Management Assessment of Internal Controls

## FUNCTION 3—Supervision of Retail and Institutional Customer-Related Activities

### 3.1 Supervise new account opening and ongoing maintenance of existing accounts

#### KNOWLEDGE OF:

- Requirement to obtain specified customer information
- Requirement to verify that accounts comply with Customer Identification Program (CIP)
- Bank Secrecy Act and USA PATRIOT Act
- Office of Foreign Assets Control (OFAC)
- Financial Crimes Enforcement Network (FinCEN)
- Anti-Money Laundering regulations
- Asset transfer processes
- Required documentation for account changes
- Privacy of customer information
- Detect, prevent and mitigate identity theft

#### FINRA Rules

2010—Standards of Commercial Honor and Principles of Trade

2140—Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes

3250—Designation of Accounts

3310—Anti-Money Laundering Compliance Program

Supplementary Material

.01 Independent Testing Requirements

.02 Review of Anti-Money Laundering Compliance Person Information

4512—Customer Account Information

11870—Customer Account Transfer Contracts

#### NASD Rules

2340—Customer Account Statements

#### Securities Exchange Act of 1934

Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others

Rule 17a-3(a)(9)

Rule 17a-3(a)(17)

Rule 17a-4(c)

Rule 17a-4(e)(8)

Rule 17a-8—Financial Recordkeeping and Reporting of Currency and Foreign Transactions

SEC Regulation S-P—Privacy of Consumer Financial Information and Safeguarding Personal Information

#### Fair and Accurate Credit Transactions Act of 2003 (FACT Act)

FTC Red Flags Rule

**3.2 Monitor, review and approve speaking engagements and other communications with the public**

**KNOWLEDGE OF:**

- Social media and electronic communications guidelines
- Differences among research, retail and institutional communications and correspondence
- Various approval and filing requirements
- “Do Not Call” list requirements

**FINRA Rules**

2210—Communications with the Public

2212—Use of Investment Companies Rankings in Retail Communications

2213—Requirements for the Use of Bond Mutual Fund Volatility Ratings

2214—Requirements for the Use of Investment Analysis Tools

2216—Communications with the Public about Collateralized Mortgage Obligations (CMOs)

3230—Telemarketing

5230—Payments Involving Publications that Influence the Market Price of a Security

**NASD Rules**

IM-2210-2—Communications with the Public about Variable Life Insurance and Variable Annuities

3010(b)(2)—Tape Recording of Conversations

**Securities Act of 1933**

Section 10(b)

Rule 482—Advertising by an Investment Company as Satisfying Requirements of Section 10

Section 17(a)

Rule 156—Investment Company Sales Literature

**Securities Exchange Act of 1934**

Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others

Rule 17a-3(a)(20)

Rule 17a-4(b)(4)

**Investment Company Act of 1940**

Section 34(b)

Rule 34b-1—Sales Literature Deemed To Be Misleading

**Securities Investor Protection Act of 1970 (SIPA)**

Section 15(d)—Advertising

**3.3 Review securities transactions, recommendations and account activity, and verify that required disclosures are made**

**KNOWLEDGE OF:**

- Suitability requirements

- Requirement to recognize red flags, investigate and escalate potential issues
- Commission and markup regulations
- Requirements to provide disclosures concerning products, risks, services, costs and fees

FINRA Rules

- 2090—Know Your Customer
- 2111—Suitability
- 2114—Recommendations to Customers in OTC Equity Securities
- 2121—Fair Prices and Commissions
- 2124—Net Transactions with Customers
- 2130—Approval Procedures for Day-Trading Accounts
- 2232—Customer Confirmations
- 2251—Forwarding of Proxy and Other Issuer-Related Materials
- 2264—Margin Disclosure Statement
- 2265—Extended Hours Trading Risk Disclosure
- 2266—SIPC Information
- 2267—Investor Education and Protection
- 2268—Requirements When Using Predispute Arbitration Agreements for Customer Accounts
- 2270—Day-Trading Risk Disclosure Statement
- 2310(b)(2)—Direct Participation Programs
- 2342—“Breakpoint” Sales
- 4210(f)(8)(B)—Day Trading
- 4514—Authorization Records for Negotiable Instruments Drawn from a Customer’s Account

NASD/Incorporated NYSE Rules and Rule Interpretations

- 2410—Net Prices to Persons Not in Investment Banking or Securities Business
- 2420—Dealing with Nonmembers
  - IM-2420-1—Transactions Between Members and Nonmembers
  - IM-2420-2—Continuing Commissions Policy
- 2430—Charges for Services Performed
- 2510/408—Discretionary Accounts
- 3110(i)—Holding of Customer Mail

Securities Exchange Act of 1934

- Section 10—Regulation of the Use of Manipulative and Deceptive Devices
  - Rule 10b-10—Confirmation of Transactions
- Section 15(c)(1)
  - Rule 15c1-7—Discretionary Accounts
- Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others
  - Rule 17a-3(a)(8)
  - Rule 17a-4(b)(6)

## **FUNCTION 4—Supervision of Trading and Market Making Activities**

### **4.1 Supervise order entry, routing and execution**

#### **KNOWLEDGE OF:**

- Requirements to implement and enforce trader mandates and to restrict traders to assigned aggregation units
- Market making and quoting activities
- Requirements to comply with Regulation SHO
- Various execution venues, order routing, best execution obligations and Regulation NMS
- Various restrictions on trading systems and capital and credit limits
- Volatility trading pauses
- Prohibited trading activities
- Escalation requirements upon discovery of a prohibited activity

#### **FINRA Rules**

5200 Series—Quotation and Trading Obligations and Practices

5210—Publication of Transactions and Quotations

5220—Offers at Stated Prices

5240—Anti-intimidation/Coordination

5250—Payments for Market Making

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

5270—Front Running of Block Transactions

5280—Trading Ahead of Research Reports

5290—Order Entry and Execution Practices

5300 Series—Handling of Customer Orders

5310—Best Execution and Interpositioning

5320—Prohibition Against Trading Ahead of Customer Orders

5330—Adjustment of Orders

5340—Pre-Time Stamping

6100 Series—Quoting and Trading in NMS Stocks

6120—Trading Halts

6121—Trading Halts Due to Extraordinary Market Volatility

6190—Compliance with Regulation NMS Plan to Address Extraordinary Market Volatility

6200 Series—Alternative Display Facility

6220—Definitions

6272—Character of Quotations

6273—Normal Business Hours

6400 Series—Quoting and Trading in OTC Equity Securities

6431—Recording of Quotation Information

6432—Compliance with the Information Requirements of SEA Rule 15c2-11

6433—Minimum Quotation Size Requirement for OTC Equity Securities

6435—Withdrawal of Quotations in an OTC Equity Security in Compliance with SEC Regulation M

6440—Trading and Quotations Halt in OTC Equity Securities

6500 Series—OTC Bulletin Board® Service

6530—OTCBB-Eligible Securities

NASDAQ Rules

- 4121—Trading Halts Due to Extraordinary Market Volatility
- 4611—NASDAQ Market Center Participant Registration
- 4612—Registration as a NASDAQ Market Maker
- 4613—Market Maker Obligations
- 4617—Normal Business Hours
- 4619—Withdrawal of Quotations and Passive Market Making
- 4750 Series—NASDAQ Market Center—Execution Services
  - 4751—Definitions
- 4761—Adjustment of Open Quotes and/or Orders

Securities Exchange Act of 1934

- Section 10—Regulation of the Use of Manipulative and Deceptive Devices
  - Rule 10b5-1—Trading “On the Basis Of” Material Nonpublic Information in Insider Trading Cases
- Section 15(c)(2)
  - Rule 15c2-7—Identification of Quotations
  - Rule 15c2-11—Initiation or Resumption of Quotations without Specified Information
- Section 15(c)(3)
  - Rule 15c3-5—Risk management controls for brokers or dealers with market access
- Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others
  - Rule 17a-3(a)(1) through (a)(7)

SEC Regulation SHO

- Rule 200—Definition of “Short Sale” and Marking Requirements
- Rule 203—Borrowing and Delivery Requirements
- Rule 204—Close-Out Requirements

4.2 Confirm proper booking and settlement of trades

**KNOWLEDGE OF:**

- Trade confirmation requirements and disclosures
- Buy-in and close-out requirements

FINRA Rules

- 6274 and 6350A/B—Clearance and Settlement
- 11100 Series—Scope of Uniform Practice Code
- 11200 Series—Comparisons or Confirmation and “Don’t Know Notices”
- 11300 Series—Delivery of Securities
  - 11320—Dates of Delivery
  - 11361—Units of Delivery—Stocks
  - 11362—Units of Delivery—Bonds
  - 11363—Units of Delivery—Unit Investment Trust Securities
  - 11364—Units of Delivery—Certificates of Deposit for Bonds
- 11400 Series—Delivery of Securities with Draft Attached



- 11500 Series—Delivery of Securities with Restrictions
  - 11520—Delivery of Mutilated Securities
  - 11550—Assignments and Powers of Substitution; Delivery of Registered Securities
  - 11574—Certificate in Name of Deceased Person, Trustee, etc.
- 11600 Series—Delivery of Bonds and Other Evidences of Indebtedness
  - 11620—Computation of Interest
  - 11630—Due-Bills and Due-Bill Checks
  - 11640—Claims for Dividends, Rights, Interest, etc.
  - 11650—Transfer Fees
- 11700 Series—Reclamations and Rejections
  - 11740—Marking to the Market
- 11800 Series—Close-Out Procedures
  - 11810—Buy-In Procedures and Requirements
  - 11820—Selling-out
  - 11840—Rights and Warrants
  - 11860—COD Orders
- 11900 Series—Clearance of Corporate Debt Securities

Securities Exchange Act of 1934

Section 15(c)(6)

- Rule 15c6-1—Settlement Cycle

#### 4.3 Review executions for compliance with trade reporting requirements

**KNOWLEDGE OF:**

- **Trade reporting facilities for various types of securities**

FINRA Rules

- 4515—Approval and Documentation of Changes in Account Name or Designation
- 6100 Series—Quoting and Trading in NMS Stock
  - 6140—Other Trading Practices
  - 6150—Obligation to Provide Information
  - 6160—Multiple MPIDs for Trade Reporting Facility Participants
  - 6170—Primary and Additional MPIDs for Alternative Display Facility Participants
  - 6181—Timely Transaction Reporting
  - 6182—Trade Reporting of Short Sales
  - 6183—Exemption from Trade Reporting Obligation for Certain Alternative Trading Systems
- 6200 Series—Alternative Display Facility
  - 6220—Definitions
  - 6230—Use of Alternative Display Facility Data Systems
  - 6240—Prohibition from Locking or Crossing Quotations in NMS Stocks
  - 6250—Quote and Order Access Requirements
  - 6271—Registration as an ADF Market Maker or an ADF ECN
  - 6275—Withdrawal of Quotations
  - 6281—Reporting Transactions in ADF-Eligible Securities
- 6300A Series—FINRA/NASDAQ Trade Reporting Facilities

- 6320A—Definitions
- 6380A—Transaction Reporting
- 6500 Series—OTC Bulletin Board® Service
- 6620 Series—Reporting Transactions in OTC Equity Securities and Restricted Equity Securities
- 6700 Series—Trade Reporting and Compliance Engine (TRACE)
  - 6710—Definitions
  - 6720—Participation in TRACE
  - 6730—Transaction Reporting
  - 6740—Termination of TRACE Service
  - 6750—Dissemination of Transaction Information
  - 6760—Obligation to Provide Notice
- 7100 Series—Alternative Display Facility
  - 7110—Definitions
  - 7120—Trade Reporting Participation Requirement
  - 7130—Trade Report Input
  - 7170—Termination of Access
- 7200A Series and 7300 Series—FINRA/NASDAQ Trade Reporting Facility and OTC Reporting Facility
  - 7210A/7310—Definitions
  - 7220A/7320—Trade Reporting Participation Requirements
  - 7230A/7330—Trade Report Input
  - 7240A/7340—Trade Report Processing
  - 7270A/7370—Violation of Reporting Rules
- 7400 Series—Order Audit Trail and Trail Systems
  - 7410—Definitions
  - 7420—Applicability
  - 7430—Synchronization of Members Business Clocks
  - 7440—Recording of Order Information
  - 7450—Order Data Transmission Requirements
  - 7460—Violation of Order Audit Trail System Rules

#### NASDAQ Rules

- 4750 Series—NASDAQ Market Center—Execution Services
  - 4751—Definitions
  - 4755—Order Entry Parameters
  - 4756—Entry and Display of Quotes and Orders
  - 4757—Book Processing
- 4758—Order Routing 5001—The Qualification, Listing, and Delisting of Companies
- 5400 Series—NASDAQ Global Market

#### Securities Exchange Act of 1934

- Section 3—Definitions and Application of Title
  - Section 3(a)(23)(A)—Clearing Agency
  - Section 3(a)(38)—Market Maker
    - Rule 3b-1—Definition of “Listed”
    - Rule 3b-8—Definition of “Qualified OTC Market Maker,” “Qualified Third Market Maker,” and “Qualified Block Positioner”

Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others

Rule 17a-3(a)(16)

Rule 17a-4(b)(11)

Provisions of the Securities Exchange Act of 1934 Related to Penny Stocks

Section 3(a)(51)

Rule 3a51-1—Definition of Penny Stock

Section 15(h)—Requirements for Transactions in Penny Stocks

Rule 15g-1—Exemptions for Certain Transactions

Rule 15g-2—Penny Stock Disclosure Document Relating to the Penny Stock Market

Rule 15g-3—Broker or Dealer Disclosure of Quotations and Other Information Relating to the Penny Stock Market

Rule 15g-4—Disclosure of Compensation to Brokers or Dealers

Rule 15g-5—Disclosure of Compensation of Associated Persons in Connection With Penny Stock Transactions

Rule 15g-6—Account Statements for Penny Stock Customers

Rule 15g-9—Sales Practice Requirements for Certain Low Priced Securities

Rule 15g-100—Schedule 15G—Information To Be Included in the Document Distributed Pursuant to 17 CFR 240.15g-2

SEC Regulation ATS—Regulation of Exchanges and Alternative Trading Systems

SEC Regulation M

Rule 103—NASDAQ Passive Market Making

Rule 105—Short Selling in Connection with a Public Offering

Regulation NMS—National Market System

Rule 600—NMS Security Designation and Definitions

Rule 602—Dissemination of Quotations in NMS Securities

Rule 604—Display of Customer Limit Orders

Rule 605—Disclosure of Order Execution Information

Rule 606—Disclosure of Order Routing Information

Rule 607—Customer Account Statements

Rule 611—Order Protection Rule

Rule 612—Minimum Pricing Increments

SEC Regulation SHO

Rule 200—Definition of “Short Sale” and Marking Requirements

Rule 203—Borrowing and Delivery Requirements

## FUNCTION 5—Supervision of Investment Banking and Research

### 5.1 Develop and maintain policies, procedures and controls; and supervise related investment banking activities

#### KNOWLEDGE OF:

- Public and private offering regulations
- Requirements to conduct and document due diligence of issuers
- M&A, tender offers, corporate financial advisory and valuation services
- Fundamental terms of loan documents
- Terms of bankruptcy and the potential claims and priorities of investors
- Corporate annual and quarterly reports
- Requirements for information barriers

#### FINRA Rules

- 2262—Disclosure of Control Relationship with Issuer
- 2269—Disclosure of Participation or Interest in Primary or Secondary Distribution
- 5110—Corporate Financing Rule—Underwriting Terms and Arrangements
- 5121—Public Offerings of Securities with Conflicts of Interest
- 5122—Private Placements of Securities Issued by Members
- 5123—Private Placements of Securities
- 5130—Restrictions on the Purchase and Sale of Initial Equity Public Offerings
- 5131—New Issue Allocations and Distributions
- 5141—Sale of Securities in a Fixed Price Offering
- 5150—Fairness Opinions
- 5160—Disclosure of Price and Concessions in Selling Agreements
- 5190—Notification Requirements for Offering Participants
- 6130—Transactions Related to Initial Public Offerings
- 6760—Obligation to Provide Notice
- 11880—Settlement of Syndicate Accounts

#### NASDAQ Rules

- 4614—Stabilizing Bids
- 4624—Penalty Bids and Syndicate Covering Transactions

#### Securities Exchange Act of 1934

- Section 3—Definitions and Application of Title
  - Rule 3a4-1—Associated Persons of an Issuer Deemed Not To Be Brokers
  - Rule 3b-6—Liability for Certain Statements by Issuers
- Section 10—Regulation of the Use of Manipulative and Deceptive Devices
  - Rule 10b-9—Prohibited Representations in Connection With Certain Offerings
- Section 12—Registration Requirements for Securities
- Section 12(a)
- Section 12(g)
- Section 12(j)

Section 12(k)—Trading Suspensions; Emergency Authority

Section 13—Periodical and Other Reports

Rule 13a-1/Rule 15d-1—Requirement of annual reports

Rule 13a-11/Rule 15d-1—Current reports on Form 8-K

Rule 13a-13/Rule 15d-13—Annual reports on form 10-K

Rule 13a-13/Rule 15d-13—Quarterly reports on Form 10-Q

Rule 13d-1—Filing of Schedules 13D and 13G

Rule 13e-3—Going Private Transactions by Certain Issuers or Their Affiliates

Schedule 13E-3 Filing Requirement

Rule 13e-4—Tender Offers by Issuers

Schedule 13E-4—Filing Requirement

Rule 13f-1—Reporting by Institutional Investment Managers of Information with Respect to Accounts Over Which They Exercise Investment Discretion (Schedule 13F)

Regulation 13A—Reports of Issuers of Securities Registered Pursuant to Section 12 Annual Reports

Section 14—Proxies

Rule 14a-6—Filing Requirements (Proxy Statement) on Form 14A

Rule 14e-1—Unlawful Tender Offer Practices

Rule 14e-2—Position of Subject Company with Respect to a Tender Offer

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 14e-5—Prohibiting Purchases Outside of a Tender Offer

Section 15(c)(1)

Rule 15c1-5—Disclosure of Control

Rule 15c1-6—Disclosure of Interest in Distributions

Rule 15c1-8—Sales at the Market

Section 15(c)(2)

Rule 15c2-4—Transmission or Maintenance of Payments Received in Connection with Underwritings

Section 16—Directors, Officers and Principal Stockholders

Rule 16a-1—Definition of Terms

Rule 16a-2—Persons and Transactions Subject to Section 16

Rule 16a-3—Reporting Transactions and Holdings

Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others

Rule 17a-2—Recordkeeping Requirements Relating to Stabilizing Activities

Securities Act of 1933

Section 2(a)(11)

Rule 144—Persons Deemed Not to be Engaged in a Distribution and Therefore Not Underwriters

Rule 144A—Private Resales of Securities to Institutions

Section 2(a)(3)

Rule 145—Reclassification of Securities, Mergers, Consolidations, and Acquisitions of Assets

Section 3(a)(11)

Rule 147—“Part of an Issue,” “Person Resident” and “Doing Business Within,” for Purposes of Section 3(a)(11)

Section 4—Exempted Transactions

Section 7—Information Required in Registration Statement

- Section 8—Taking Effect of Registration Statements and Amendments Thereto
- Section 11—Civil Liabilities on Account of False Registration Statement
- Section 12—Civil Liabilities Arising in Connection With Prospectuses and Communications
  - Rule 159—Information Available to Purchaser at Time of Contract of Sale
- Section 15—Liability of Controlling Persons
- Section 17—Fraudulent Interstate Transactions
- Section 23—Unlawful Representations
  - Rule 175—Liability for Certain Statements by Issuers
  - Rule 412—Modified or Superseded Documents

Regulation C—Registration

- Rule 405—Definition of Terms
- Rule 415—Delayed or Continuous Offering and Sale of Securities (Shelf Registration)

Regulation D—Rules Governing the Limited Offer and Sale of Securities without Registration Under the Securities Act of 1933

- Rule 501—Definitions and Terms Used in Regulation D
- Rule 502—General Conditions To be Met
- Rule 503—Filing of Notice of Sales
- Rule 504—Exemption for Limited Offerings and Sales of Securities Not Exceeding \$1,000,000
- Rule 505—Exemption for Limited Offers and Sales of Securities Not Exceeding \$5,000,000
- Rule 506—Exemption for Limited Offers and Sales Without Regard to Dollar Amount of Offering

Regulation S—Rules Governing Offers and Sales Made Outside the U.S. Without Registration Under the Securities Act of 1933

- Rule 901—General Statement
- Rule 902—Definitions
- Rule 903—Offers or Sales of Securities by the Issuer, a Distributor, Any of Their Respective Affiliates, or Any Person Acting on Behalf of Any of the Foregoing; Conditions Relating to Specific Securities
- Rule 904—Offshore Resales

17 C.F.R. Part 210—Regulation S-X —Form and Content of and Requirements for Financial Statements, Securities Act of 1933, Securities Exchange Act of 1934, Investment Company Act of 1940, Investment Advisers Act of 1940, and Energy Policy and Conservation Act of 1975

17 C.F.R. Part 229—Regulation S-K—Standard Instructions for Filing Forms Under Securities Act of 1933, Securities Exchange Act of 1934 and Energy Policy and Conservation Act of 1975—Regulation S-K

Regulation M-A—Mergers and Acquisitions

Regulation AB—Asset-Backed Securities

Regulation M

- Rule 100—Preliminary Note; Definitions (“stabilization” and “stabilizing”)
- Rule 101—Activities by Distribution Participants
- Rule 102—Activities by Issuers and Selling Security Holders During a Distribution
- Rule 104—Stabilizing and Other Activities in Connection With an Offering

Regulation FD—Fair Disclosure

Hart–Scott–Rodino Act

15 U.S.C. Section 18a—Premerger Notification and Waiting Period

## 5.2 Review and approve investor disclosure materials, pitch books and marketing materials

### KNOWLEDGE OF:

- Communication regulations related to new issues
- Public notices excluded from the definition of prospectus

Securities Exchange Act of 1934

Section 15(c)(2)

Rule 15c2-8—Delivery of Prospectus

Securities Act of 1933

Section 2(a)(10), Section 2(a)(11), Section 4(3), Section 5—Prohibitions Relating to Interstate Commerce and the Mails, Section 7—Information Required in Registration Statement and Section 10—Information Required in Prospectus

Rule 134—Communications Not Deemed a Prospectus

Rule 135—Notice of Proposed Registered Offerings

Rule 135a—Generic Advertising

Rule 137—Publications or Distributions of Research Reports by Brokers or Dealers That Are Not Participating in an Issuer's Registered Distribution of Securities

Rule 142—Definition of "Participates," and "Participation," as Used in Section 2(11), in Relation to Certain Transactions

Rule 153a—Definition of "Preceded By a Prospectus" as Used in Section 5(b)(2) of the Act, in Relation to Certain Transactions Requiring Approval of Security Holders

Rule 163—Exemption from Section 5(c) of the Act for Certain Communications By or On Behalf of Well-Known Seasoned Issuers

Rule 163A—Exemption from Section 5(c) of the Act for Certain Communications Made By or On Behalf of Issuers More Than 30 Days Before a Registration Statement Is Filed

Rule 164—Post-Filing Free Writing Prospectuses in Connection with Certain Registered Offerings

Rule 168—Exemptions From Sections 2(a)(10) and 5(c) of the Act For Certain Communications of Regularly Released Factual Business Information and Forward-Looking Information

Rule 169—Exemptions From Sections 2(a)(10) and 5(c) of the Act For Certain Communications of Regularly Released Factual Business Information

Rule 172—Delivery of Prospectus

Rule 174—Delivery of Prospectus by Dealers; Exemptions Under Section 4(3) of the Act

Rule 175—Liability for Certain Statements by Issuers

Rule 405—Definitions of Terms

Rule 424—Filing of Prospectuses, Number of Copies

Rule 427—Contents of Prospectuses Used After Nine Months

Rule 430—Prospectus for Use Prior to Effective Date

Rule 430A—Prospectus in a Registration Statement at the Time of Effectiveness

Rule 430B—Prospectus in a Registration Statement After Effective Date  
Rule 433—Conditions to Permissible Post-Filing Free Writing Prospectuses  
Rule 460—Distribution of Preliminary Prospectus

**5.3 Develop and maintain policies, procedures and controls; and supervise activities relating to research**

**KNOWLEDGE OF:**

- **What constitutes research**
- **Research report approval and dissemination processes**
- **Disclosure requirements for analysts who make public appearances**

NASD/Incorporated NYSE Rules and Rule Interpretations  
2711/472—Research Analysts and Research Reports

Securities Exchange Act of 1934  
Section 3(a)(35)  
Section 28(e)

Securities Act of 1933  
Section 2(a)(10) and Section 5—Prohibitions Relating to Interstate Commerce and the Mails  
Rule 138—Publications or Distributions of Research Reports by Brokers or Dealers About Securities Other Than Those They Are Distributing  
Rule 139—Publications or Distributions of Research Reports by Brokers or Dealers Distributing Securities

SEC Regulation AC—Analyst Certification



## SAMPLE ITEMS

The following sample items are included to provide an introduction to the basic formats of multiple-choice items used on the exam. The sample items do not reflect the difficulty level of actual exam items. Candidates who familiarize themselves with these formats may be able to improve their test-taking skills so their performance on the exam will better reflect their knowledge of the areas tested. An asterisk indicates the correct answer to each sample item.

**Closed-Stem:** The stem (the part that poses the question) is a complete sentence and thus concludes with a question mark. The options (answer choices) may be complete or incomplete sentences.

**Example:** The designation of the person or persons permitted to trade on behalf of a corporation is usually found in which of the following?

- (A) Corporate resolutions\*
- (B) Articles of incorporation
- (C) Listings on the company website
- (D) Registration statements

**Open-Stem (Sentence Completion):** The stem is an incomplete statement, and the options represent conclusions to the sentence.

**Example:** Round lot trades in NASDAQ securities must be reported within:

- (A) 10 seconds of execution.\*
- (B) 90 seconds of execution.
- (C) 5 minutes of execution.
- (D) 20 minutes of execution.

**Except or Not:** "Except" or "not" is used when the task is to select the response option that is an exception to the principle or rule stated in the stem. In such cases, the stem may be open or closed.

**Example:** In determining whether to approve a change from the exempt status of a member firm under SEC Rule 15c3-3, FINRA considers each of the following EXCEPT:

- (A) the type of business the firm conducts.
- (B) the amount of the firm's errors and omissions insurance coverage.\*
- (C) the firm's current financial condition.
- (D) the firm's procedures for safeguarding customer assets.

## REFERENCES

Listed below are government and SRO websites that provide information about rules and other information candidates may find useful in preparing for the exam. In addition to information about rules, the SRO may publish glossaries of terms, explanations of securities products, and compliance procedures. Candidates are encouraged to refer to the SRO websites for information memos or Regulatory Notices concerning amendments to rules and the announcement of new rules that may relate to the exam. Candidates can purchase copies of federal securities laws and SEC rules through the network of federal government printing offices. However, some of this information may be available on the SRO and pertinent federal government (*e.g.*, the SEC) websites. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam. FINRA produces only the content outline and is not involved with nor does it endorse any particular course of study.

**Financial Industry Regulatory Authority  
(FINRA)**  
1735 K Street  
Washington, DC 20006  
[www.finra.org](http://www.finra.org)

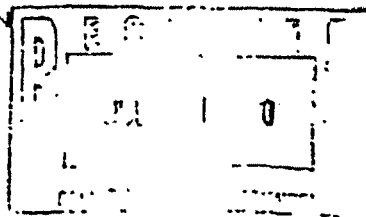
**Securities Industry/Regulatory Council  
On Continuing Education**  
[www.cecouncil.com](http://www.cecouncil.com)

**Securities and Exchange Commission  
Office of Investor Education and Advocacy**  
1-800-SEC-0330  
[www.sec.gov](http://www.sec.gov)

**NASDAQ OMX**  
805 King Farm Boulevard  
Rockville, MD 20850  
[www.nasdaqomx.com](http://www.nasdaqomx.com)



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549



July 24, 2000

Mr. Alden S. Adkins  
Senior Vice President & General Counsel  
NASD Regulation, Inc.  
1735 K Street, N. W.  
Washington, D.C. 20006-1500

Re: Procedure for Filings Relating to Qualification Examinations

Dear Mr. Adkins: <sup>Alden</sup>

I am writing to inform you of a change in the filing requirements for proposed rule changes involving qualification examinations for associated persons. In the past, the Division required the SROs to file question banks for new examinations for Commission approval pursuant to Section 19(b)(2) of the Exchange Act. The Division also required SROs to file questions being added to the question bank for Commission approval.

The Division has decided that it is no longer necessary for SROs to file new exam question banks for Commission approval under Section 19(b)(2). In the future, any new examinations should be filed as non-controversial rule changes for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange Act and Rule 19b-4(f)(6) thereunder. As you know, Rule 19b-4(f)(6) requires the SRO to give notice to the Commission of its intent to file a proposed rule change five days before doing so. During the five days prior to filing, the Division will determine if the proposed rule change is appropriately filed as non-controversial. To assist us in our analysis, please include a complete description of the examination in your rule filing. For example, the proposed rule change should address who will be required to take the exam, what information the exam will cover, the time allotted for each section, the weight assigned to each topic, the effective date of the exam requirement, and any other information that would be helpful to us in determining whether the proposal should become effective on filing. Also, pursuant to Rule 19b-4(f)(6), the rule change should be designated as effecting a change that does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition and, by its terms, does not become operative for 30 days after the date of the filing.

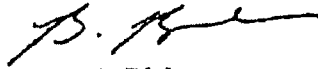
Alden S. Adkins

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Filings to modify an existing examination should be submitted as "constituting a stated policy, practice, or interpretation with respect to the meaning, administration or enforcement of an existing rule..." pursuant to Section 19(b)(3)(A) of the Exchange Act.

Our goal in changing these procedures is to expedite the effectiveness of proposed rule changes involving examination requirements for persons associated with SRO members. Please contact Kathy England, Assistant Director, at 202-942-0154, or Karl Varner, Special Counsel, at 202-942-7125, if you have any questions.

Sincerely,



Belinda Blaine  
Associate Director