

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="50"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2018"/> - * <input type="text" value="008"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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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 \*).

Proposed Rule Change to Revise the General Securities Representative (Series 7) Examination

**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 * <input type="text" value="Kosha"/>	Last Name * <input type="text" value="Dalal"/>
Title * <input type="text" value="Associate Vice President and Associate General Counsel"/>	
E-mail * <input type="text" value="kosha.dalal@finra.org"/>	
Telephone * <input type="text" value="(202) 728-6903"/>	Fax <input type="text" value="(202) 728-8264"/>

**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 <input type="text" value="02/12/2018"/>	<input type="text" value="Senior Vice President and Deputy General Counsel"/>
By <input type="text" value="Patrice M. Gliniecki"/>	<input type="text" value="Patrice Gliniecki,"/>
(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**

Add Remove View

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 Representative (Series 7) examination as part of the restructuring of the representative-level examination program.<sup>2</sup> The proposed revisions also update the material to reflect changes to the laws, rules and regulations covered by the examination. 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 Series 7 content outline is attached. The revised Series 7 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 7 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. 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**

At its meeting on December 15, 2015, the FINRA Board of Governors authorized the filing of the proposed rule change with the SEC. No other action by FINRA is necessary for the filing of the proposed rule change.

As discussed further below, FINRA is filing the proposed rule change for immediate effectiveness. The implementation date will be October 1, 2018, to coincide with the implementation of the restructured representative-level examination program. FINRA will also announce the implementation date of the proposed rule change 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 whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

The SEC recently approved a proposed rule change to restructure the FINRA

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

representative-level qualification examination program.<sup>5</sup> The rule change, which will become effective on October 1, 2018,<sup>6</sup> restructures the examination program into a new format whereby all new representative-level applicants will be required to take a general knowledge examination (the Securities Industry Essentials or SIE™) and a tailored, specialized knowledge examination (a revised representative-level qualification examination) for their particular registered role.

The restructured program eliminates duplicative testing of general securities knowledge on the current representative-level qualification examinations by moving such content into the SIE examination.<sup>7</sup> The SIE examination will test fundamental securities-related knowledge, including knowledge of basic products, the structure and function of the securities industry, the regulatory agencies and their functions and regulated and prohibited practices, whereas the revised representative-level qualification examinations will test knowledge relevant to day-to-day activities, responsibilities and job functions of representatives.<sup>8</sup>

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<sup>5</sup> See Securities Exchange Act Release No. 81098 (July 7, 2017), 82 FR 32419 (July 13, 2017) (Order Approving File No. SR-FINRA-2017-007).

<sup>6</sup> See Regulatory Notice 17-30 (SEC Approves Consolidated FINRA Registration Rules, Restructured Representative-Level Qualification Examinations and Changes to Continuing Education Requirements) (October 2017).

<sup>7</sup> Each of the current representative-level examinations covers general securities knowledge, with the exception of the Research Analyst (Series 86 and 87) examinations.

<sup>8</sup> FINRA filed the SIE content outline with the SEC for immediate effectiveness. See Securities Exchange Act Release No. 82578 (January 24, 2018), 83 FR 4375 (January 30, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2018-002). In addition to the proposed rule change relating to the revised Series 7 examination, FINRA is filing with the Commission for immediate effectiveness the content outlines for the other revised representative-level qualification examinations.

As part of the restructuring process and in consultation with a committee of industry representatives, FINRA undertook a review of the General Securities Representative (Series 7) examination to remove the general securities knowledge currently covered on the examination and to create a tailored examination to test knowledge relevant to the day-to-day activities, responsibilities and job functions of a General Securities Representative. As a result of this review, FINRA also is proposing to revise the Series 7 content outline to reflect changes to the laws, rules and regulations covered by the examination. In addition, FINRA is proposing to make changes to the format of the Series 7 content outline.

Beginning on October 1, 2018, new applicants seeking to register as General Securities Representatives must pass the SIE examination and the revised General Securities Representative (Series 7) examination.

### **Current Content Outline**

The current Series 7 content outline is divided into five major job functions that are performed by a General Securities Representative. The following are the five major job functions, denoted F1 through F5, with the associated number of questions:

- F1: Seeks Business for the Broker-Dealer through Customers and Potential Customers, 68 questions;
- F2: Evaluates Customers' Other Security Holdings, Financial Situation and Needs, Financial Status, Tax Status, and Investment Objectives, 27 questions;
- F3: Opens Accounts, Transfers Assets, and Maintains Appropriate Account Records, 27 questions;

F4: Provides Customers with Information on Investments and Makes Suitable Recommendations, 70 questions; and

F5: Obtains and Verifies Customer's Purchase and Sales Instructions, Enters Orders, and Follows Up, 58 questions.

Each function also includes specific tasks describing activities associated with performing that function. Further, the content outline includes a knowledge section describing the underlying knowledge required to perform the major job functions and associated tasks and a rule section listing the laws, rules and regulations related to the job functions, associated tasks and knowledge statements. There are cross-references within each section to the other applicable sections. The current content outline also includes a preface (e.g., table of contents, details regarding the purpose of the examination and eligibility requirements), sample questions and reference materials.

### **Revised Content Outline**

As noted above, FINRA is proposing to move the general securities knowledge currently covered on the Series 7 examination to the SIE examination. For example, FINRA Rule 3220 (Influencing or Rewarding Employees of Others) (the Gifts Rule) will now be tested on the SIE examination, rather than on the Series 7 examination. As a result, the revised Series 7 examination will test knowledge specific to the day-to-day activities, responsibilities and job functions of a General Securities Representative.

Further, FINRA is proposing to make changes to the major job functions that are performed by a General Securities Representative. The proposed change aligns the major job functions performed by a General Securities Representative with the major job functions performed by other sales representatives, including Investment Company and

Variable Contracts Products Representatives, Direct Participation Programs

Representatives and Private Securities Offerings Representatives. The following are the revised job functions, denoted Function 1 through Function 4, with the associated number of questions:

Function 1: Seeks Business for the Broker-Dealer from Customers and Potential Customers, 9 questions;

Function 2: Opens Accounts After Obtaining and Evaluating Customers' Financial Profile and Investment Objectives, 11 questions;

Function 3: Provides Customers with Information About Investments, Makes Suitable Recommendations, Transfers Assets and Maintains Appropriate Records, 91 questions; and

Function 4: Obtains and Verifies Customers' Purchase and Sales Instructions and Agreements; Processes, Completes, and Confirms Transactions, 14 questions.

FINRA also is 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 Representative. The questions on the revised Series 7 examination will place emphasis on tasks such as seeking business for the broker-dealer from customers and potential customers, opening customer accounts, providing customers with suitable recommendations and verifying customer agreements and transactions.

Further, FINRA is proposing to make changes to the specific tasks associated with performing each function. There are two tasks (1.1 – 1.2) associated with Function



1;<sup>9</sup> four tasks (2.1 – 2.4) associated with Function 2;<sup>10</sup> four tasks (3.1 – 3.4) associated with Function 3;<sup>11</sup> and four tasks (4.1 – 4.4) associated with Function 4.<sup>12</sup> For example, one such task (Task 1.1) is contacting current and potential customers in person and by telephone, mail and electronic means, developing promotional and advertising materials and seeking appropriate approvals to distribute marketing materials.<sup>13</sup> The content outline also lists the knowledge required to perform each revised function and associated tasks (e.g., standards and required approvals of communications). In addition, where applicable, the content outline lists the laws, rules and regulations a candidate is expected to know to perform each revised function and associated tasks (e.g., FINRA Rule 2111 (Suitability)).

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 new FINRA rules (e.g., FINRA Rule 2273 (Educational Communication Related to Recruitment Practices and Account Transfers)).

FINRA is proposing similar changes to the Series 7 selection specifications and question bank.

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<sup>9</sup> See Exhibit 3a, Outline Pages 3-5.

<sup>10</sup> See Exhibit 3a, Outline Pages 6-8.

<sup>11</sup> See Exhibit 3a, Outline Pages 9-16.

<sup>12</sup> See Exhibit 3a, Outline Pages 17-20.

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

Finally, FINRA is proposing to make changes to the format of the content outline, including to the preface, sample questions and reference materials.<sup>14</sup> Among other changes, FINRA is proposing to: (1) reduce the preface to one page of introductory information; (2) streamline details regarding the purpose of the examination; (3) move the application procedures to FINRA's website; and (4) explain that the passing score is established using a standard setting procedure, and that a statistical adjustment process known as equating is used in scoring the examination.<sup>15</sup>

As a result of the proposed changes, the number of scored questions on the Series 7 examination will be reduced from 250 questions to 125 questions.<sup>16</sup> Further, the test time, which is the amount of time candidates will have to complete the examination, will be reduced from six hours to three hours and 45 minutes. Currently, a score of 72 percent is required to pass the examination. FINRA will publish the passing score of the revised Series 7 examination on its website, at [www.finra.org](http://www.finra.org), prior to its first administration.

#### **Availability of Content Outline**

The current Series 7 content outline is available on FINRA's website. The revised Series 7 content outline will replace the current content outline on FINRA's website, and it will be made available on the website on the date of this filing.

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<sup>14</sup> FINRA is proposing similar changes to the content outlines for other representative-level examinations.

<sup>15</sup> See Exhibit 3a, Outline Page 2.

<sup>16</sup> Consistent with FINRA's practice of including "pretest" questions on examinations, the Series 7 examination includes 10 additional, unidentified pretest questions that do not contribute towards the candidate's score. The pretest questions are designed to ensure that new examination questions meet acceptable testing standards prior to use for scoring purposes. Therefore, the Series 7 examination actually consists of 135 questions, 125 of which are scored. The 10 pretest questions are randomly distributed throughout the examination.

FINRA is filing the proposed rule change for immediate effectiveness. The implementation date will be October 1, 2018, to coincide with the implementation of the restructured representative-level examination program. FINRA will also announce the implementation date of the proposed rule change in a Regulatory Notice.

(b) Statutory Basis

FINRA believes that the proposed revisions to the Series 7 examination program are consistent with the provisions of Section 15A(b)(6) of the Act,<sup>17</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>18</sup> which authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. The proposed rule change will improve the examination program, without compromising the qualification standards, by removing the general knowledge content currently covered on the Series 7 examination, since that content will be covered in the co-requisite SIE examination. In addition, the proposed revisions will further the purposes of the Act by updating the examination program to reflect changes to the laws, rules and regulations covered by the examination.

**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

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<sup>17</sup> 15 U.S.C. 78o-3(b)(6).

<sup>18</sup> 15 U.S.C. 78o-3(g)(3).

performed by a General Securities Representative 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 effective. FINRA also provided a detailed economic impact assessment regarding the introduction of the SIE examination and the restructuring of the representative-level examinations as part of the proposed rule change to restructure the FINRA representative-level qualification examination program.<sup>19</sup>

**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.

**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>20</sup> and Rule 19b-4(f)(1) thereunder,<sup>21</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. The implementation date will be October 1, 2018, to coincide with the implementation of the restructured representative-level examination program. FINRA will also announce the implementation date of the proposed rule change in a Regulatory Notice.

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<sup>19</sup> See Securities Exchange Act Release No. 80371 (April 4, 2017), 82 FR 17336 (April 10, 2017) (Notice of Filing of File No. SR-FINRA-2017-007).

<sup>20</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>21</sup> 17 CFR 240.19b-4(f)(1).

**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 7 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 7 Examination.

FINRA has requested confidential treatment for the Series 7 revised selection specifications, and thus the specifications are omitted from this filing. The Series 7 revised selection specifications have been filed separately with the Commission pursuant to SEA Rule 24b-2.<sup>22</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>22</sup> 17 CFR 240.24b-2.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-FINRA-2018-008)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Revise the General Securities Representative (Series 7) Examination

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<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 proposing revisions to the content outline and selection specifications for the General Securities Representative (Series 7) examination as part of the

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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).

restructuring of the representative-level examination program.<sup>5</sup> The proposed revisions also update the material to reflect changes to the laws, rules and regulations covered by the examination. 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 Series 7 content outline is attached. The revised Series 7 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 7 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. 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.

The SEC recently approved a proposed rule change to restructure the FINRA representative-level qualification examination program.<sup>8</sup> The rule change, which will become effective on October 1, 2018,<sup>9</sup> restructures the examination program into a new format whereby all new representative-level applicants will be required to take a general knowledge examination (the Securities Industry Essentials or SIE™) and a tailored, specialized knowledge examination (a revised representative-level qualification examination) for their particular registered role.

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

<sup>8</sup> See Securities Exchange Act Release No. 81098 (July 7, 2017), 82 FR 32419 (July 13, 2017) (Order Approving File No. SR-FINRA-2017-007).

<sup>9</sup> See Regulatory Notice 17-30 (SEC Approves Consolidated FINRA Registration Rules, Restructured Representative-Level Qualification Examinations and Changes to Continuing Education Requirements) (October 2017).



The restructured program eliminates duplicative testing of general securities knowledge on the current representative-level qualification examinations by moving such content into the SIE examination.<sup>10</sup> The SIE examination will test fundamental securities-related knowledge, including knowledge of basic products, the structure and function of the securities industry, the regulatory agencies and their functions and regulated and prohibited practices, whereas the revised representative-level qualification examinations will test knowledge relevant to day-to-day activities, responsibilities and job functions of representatives.<sup>11</sup>

As part of the restructuring process and in consultation with a committee of industry representatives, FINRA undertook a review of the General Securities Representative (Series 7) examination to remove the general securities knowledge currently covered on the examination and to create a tailored examination to test knowledge relevant to the day-to-day activities, responsibilities and job functions of a General Securities Representative. As a result of this review, FINRA also is proposing to revise the Series 7 content outline to reflect changes to the laws, rules and regulations covered by the examination. In addition, FINRA is proposing to make changes to the format of the Series 7 content outline.

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<sup>10</sup> Each of the current representative-level examinations covers general securities knowledge, with the exception of the Research Analyst (Series 86 and 87) examinations.

<sup>11</sup> FINRA filed the SIE content outline with the SEC for immediate effectiveness. See Securities Exchange Act Release No. 82578 (January 24, 2018), 83 FR 4375 (January 30, 2018) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2018-002). In addition to the proposed rule change relating to the revised Series 7 examination, FINRA is filing with the Commission for immediate effectiveness the content outlines for the other revised representative-level qualification examinations.

Beginning on October 1, 2018, new applicants seeking to register as General Securities Representatives must pass the SIE examination and the revised General Securities Representative (Series 7) examination.

Current Content Outline

The current Series 7 content outline is divided into five major job functions that are performed by a General Securities Representative. The following are the five major job functions, denoted F1 through F5, with the associated number of questions:

- F1: Seeks Business for the Broker-Dealer through Customers and Potential Customers, 68 questions;
- F2: Evaluates Customers' Other Security Holdings, Financial Situation and Needs, Financial Status, Tax Status, and Investment Objectives, 27 questions;
- F3: Opens Accounts, Transfers Assets, and Maintains Appropriate Account Records, 27 questions;
- F4: Provides Customers with Information on Investments and Makes Suitable Recommendations, 70 questions; and
- F5: Obtains and Verifies Customer's Purchase and Sales Instructions, Enters Orders, and Follows Up, 58 questions.

Each function also includes specific tasks describing activities associated with performing that function. Further, the content outline includes a knowledge section describing the underlying knowledge required to perform the major job functions and associated tasks and a rule section listing the laws, rules and regulations related to the job functions, associated tasks and knowledge statements. There are cross-references within

each section to the other applicable sections. The current content outline also includes a preface (e.g., table of contents, details regarding the purpose of the examination and eligibility requirements), sample questions and reference materials.

#### Revised Content Outline

As noted above, FINRA is proposing to move the general securities knowledge currently covered on the Series 7 examination to the SIE examination. For example, FINRA Rule 3220 (Influencing or Rewarding Employees of Others) (the Gifts Rule) will now be tested on the SIE examination, rather than on the Series 7 examination. As a result, the revised Series 7 examination will test knowledge specific to the day-to-day activities, responsibilities and job functions of a General Securities Representative.

Further, FINRA is proposing to make changes to the major job functions that are performed by a General Securities Representative. The proposed change aligns the major job functions performed by a General Securities Representative with the major job functions performed by other sales representatives, including Investment Company and Variable Contracts Products Representatives, Direct Participation Programs Representatives and Private Securities Offerings Representatives. The following are the revised job functions, denoted Function 1 through Function 4, with the associated number of questions:

Function 1: Seeks Business for the Broker-Dealer from Customers and Potential Customers, 9 questions;

Function 2: Opens Accounts After Obtaining and Evaluating Customers' Financial Profile and Investment Objectives, 11 questions;

Function 3: Provides Customers with Information About Investments, Makes Suitable Recommendations, Transfers Assets and Maintains Appropriate Records, 91 questions; and

Function 4: Obtains and Verifies Customers' Purchase and Sales Instructions and Agreements; Processes, Completes, and Confirms Transactions, 14 questions.

FINRA also is 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 Representative. The questions on the revised Series 7 examination will place emphasis on tasks such as seeking business for the broker-dealer from customers and potential customers, opening customer accounts, providing customers with suitable recommendations and verifying customer agreements and transactions.

Further, FINRA is proposing to make changes to the specific tasks associated with performing each function. There are two tasks (1.1 – 1.2) associated with Function 1;<sup>12</sup> four tasks (2.1 – 2.4) associated with Function 2;<sup>13</sup> four tasks (3.1 – 3.4) associated with Function 3;<sup>14</sup> and four tasks (4.1 – 4.4) associated with Function 4.<sup>15</sup> For example, one such task (Task 1.1) is contacting current and potential customers in person and by telephone, mail and electronic means, developing promotional and advertising materials

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<sup>12</sup> See Exhibit 3a, Outline Pages 3-5. The outline is attached as Exhibit 3a to the 19b-4 form.

<sup>13</sup> See Exhibit 3a, Outline Pages 6-8.

<sup>14</sup> See Exhibit 3a, Outline Pages 9-16.

<sup>15</sup> See Exhibit 3a, Outline Pages 17-20.

and seeking appropriate approvals to distribute marketing materials.<sup>16</sup> The content outline also lists the knowledge required to perform each revised function and associated tasks (e.g., standards and required approvals of communications). In addition, where applicable, the content outline lists the laws, rules and regulations a candidate is expected to know to perform each revised function and associated tasks (e.g., FINRA Rule 2111 (Suitability)).

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 new FINRA rules (e.g., FINRA Rule 2273 (Educational Communication Related to Recruitment Practices and Account Transfers)).

FINRA is proposing similar changes to the Series 7 selection specifications and question bank.

Finally, FINRA is proposing to make changes to the format of the content outline, including to the preface, sample questions and reference materials.<sup>17</sup> Among other changes, FINRA is proposing to: (1) reduce the preface to one page of introductory information; (2) streamline details regarding the purpose of the examination; (3) move the application procedures to FINRA's website; and (4) explain that the passing score is

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

<sup>17</sup> FINRA is proposing similar changes to the content outlines for other representative-level examinations.

established using a standard setting procedure, and that a statistical adjustment process known as equating is used in scoring the examination.<sup>18</sup>

As a result of the proposed changes, the number of scored questions on the Series 7 examination will be reduced from 250 questions to 125 questions.<sup>19</sup> Further, the test time, which is the amount of time candidates will have to complete the examination, will be reduced from six hours to three hours and 45 minutes. Currently, a score of 72 percent is required to pass the examination. FINRA will publish the passing score of the revised Series 7 examination on its website, at [www.finra.org](http://www.finra.org), prior to its first administration.

#### Availability of Content Outline

The current Series 7 content outline is available on FINRA's website. The revised Series 7 content outline will replace the current content outline on FINRA's website, and it will be made available on the website on the date of this filing.

FINRA is filing the proposed rule change for immediate effectiveness. The implementation date will be October 1, 2018, to coincide with the implementation of the restructured representative-level examination program. FINRA will also announce the implementation date of the proposed rule change in a Regulatory Notice.

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<sup>18</sup> See Exhibit 3a, Outline Page 2.

<sup>19</sup> Consistent with FINRA's practice of including "pretest" questions on examinations, the Series 7 examination includes 10 additional, unidentified pretest questions that do not contribute towards the candidate's score. The pretest questions are designed to ensure that new examination questions meet acceptable testing standards prior to use for scoring purposes. Therefore, the Series 7 examination actually consists of 135 questions, 125 of which are scored. The 10 pretest questions are randomly distributed throughout the examination.

2. Statutory Basis

FINRA believes that the proposed revisions to the Series 7 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. The proposed rule change will improve the examination program, without compromising the qualification standards, by removing the general knowledge content currently covered on the Series 7 examination, since that content will be covered in the co-requisite SIE examination. In addition, the proposed revisions will further the purposes of the Act by updating the examination program to reflect changes to the laws, rules and regulations covered by the examination.

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 Representative 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 effective. FINRA also provided a detailed economic impact assessment regarding the introduction of the

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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).

SIE examination and the restructuring of the representative-level examinations as part of the proposed rule change to restructure the FINRA representative-level qualification examination program.<sup>22</sup>

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>23</sup> and paragraph (f)(1) of Rule 19b-4 thereunder.<sup>24</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.

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:

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<sup>22</sup> See Securities Exchange Act Release No. 80371 (April 4, 2017), 82 FR 17336 (April 10, 2017) (Notice of Filing of File No. SR-FINRA-2017-007).

<sup>23</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>24</sup> 17 CFR 240.19b-4(f)(1).



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-2018-008 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-FINRA-2018-008. 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. Persons submitting comments are cautioned that we do not redact or edit personal

identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2018-008 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>25</sup>

Robert W. Errett  
Deputy Secretary

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<sup>25</sup> 17 CFR 200.30-3(a)(12).



Exhibit 3a  
SR-FINRA-2018-008

# General Securities Representative Qualification Examination (Series 7)

CONTENT OUTLINE

## Series 7

### PURPOSE OF THE EXAM

The Series 7 exam is designed to assess the competency of entry-level General Securities Representatives. The Series 7 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 Registered Representative. In order to obtain registration as a General Securities Representative, candidates must pass both the Series 7 exam and a general knowledge co-requisite, the Securities Industry Essentials (SIE) exam. For more information about the activities requiring registration as a General Securities Representative, see FINRA Rule 1220(b)(2).

### STRUCTURE OF THE EXAM

The exam consists of 125 multiple-choice items, and each item consists of four answer choices. The allocation of exam items for each major function is as follows:

Function	Description	Percentage of Exam Items	Number of Items
1	Seeks Business for the Broker-Dealer from Customers and Potential Customers	7%	9
2	Opens Accounts After Obtaining and Evaluating Customers' Financial Profile and Investment Objectives	9%	11
3	Provides Customers with Information About Investments, Makes Suitable Recommendations, Transfers Assets and Maintains Appropriate Records	73%	91
4	Obtains and Verifies Customers' Purchase and Sales Instructions and Agreements; Processes, Completes and Confirms Transactions	11%	14
<b>TOTAL</b>		100%	125

### ADMINISTRATION OF THE EXAM

The exam is administered via computer. A tutorial on how to take the exam is provided prior to taking the exam. Each candidate's exam includes 10 additional, unidentified pretest items that do not contribute toward the candidate's score. The pretest items are randomly distributed throughout the exam. Therefore, each candidate's exam consists of a total of 135 items (125 scored and 10 unscored). 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 Series 7 exam.

All candidate test scores are placed on a common scale using a statistical adjustment process known as equating. Equating scores to a common scale accounts for the slight variations in difficulty that may exist among the different sets of exam items that candidates receive. This allows for a fair comparison of scores and ensures that every candidate is held to the same passing standard regardless of which set of exam items they received.

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

Please visit [www.finra.org](http://www.finra.org) for additional details.

## Series 7

### Function 1: Seeks Business for the Broker-Dealer from Customers and Potential Customers

- 1.1 **Contacts current and potential customers in person and by telephone, mail and electronic means; develops promotional and advertising materials and seeks appropriate approvals to distribute marketing materials**

#### Knowledge of:

- Standards and required approvals of public communications
- Types of communications (e.g., retail, institutional, correspondence)
- Seminars, lectures and other group forum requirements
- Product specific advertisements and disclosures
  - Investment company products and variable contracts
  - Options-related communications; options disclosure document (ODD)
  - Municipal securities
  - Research reports (e.g., quiet periods, distribution, third-party research)
  - Government securities, collateralized mortgage obligations (CMOs), certificates of deposit (CDs)

#### FINRA Rules

- 2210 – Communications with the Public
- 2211 – Communications with the Public about Variable Life Insurance and Variable Annuities
- 2212 – Use of Investment Companies Rankings in Retail Communications
- 2213 – Requirements for the Use of Bond Mutual Fund Volatility Ratings
- 2216 – Communications with the Public about Collateralized Mortgage Obligations (CMOs)
- 2220 – Options Communications
- 2330 – Members' Responsibilities Regarding Deferred Variable Annuities
- 2360 – Options

#### SEC Rules and Regulations

- Securities Act of 1933
  - Section 5 – Prohibitions Relating to Interstate Commerce and the Mails
  - 156 – Investment Company Sales Literature
  - 482 – Advertising by an Investment Company as Satisfying Requirements of Section 10
  - 498 – Summary Prospectuses for Open-End Management Investment Companies
- Securities Exchange Act of 1934
  - 15c2-12 – Municipal Securities Disclosure
  - 15c3-3 – Customer Protection — Reserves and Custody of Securities

#### CBOE Rules

- 9.14 – Addressing of Communications to Customers
- 9.15 – Delivery of Current Options Disclosure Documents
- 9.21 – Options Communications

#### MSRB Rule

- G-21 – Advertising

- 1.2 **Describes investment products and services to current and potential customers with the intent of soliciting business**

## Series 7

### Knowledge of:

- Process for bringing new issues to market (*e.g.*, due diligence, registration statement, preliminary prospectus, final prospectus, underwriting agreement, selling group agreement, blue-sky laws and procedures)
- Regulatory requirements for initial public offerings (IPOs) (*e.g.*, restrictions on prospecting or soliciting, allowable communications with the public)
- Primary financing for municipal securities (*e.g.*, competitive sale, negotiated sale, private offering, advance refunding)
- Syndicate formation and operational procedures (*e.g.*, purpose of syndicate bid, roles and responsibilities of underwriters, selling group concession and allowance)
- Pricing practices and components of underwriters' spread and determination of underwriters' compensation and selling practices
- Prospectus requirements (*e.g.*, timeliness of information, preliminary prospectus (red herring), final prospectus)
- Information required in a registration statement and offering material on new issue (*e.g.*, in pre-filing period, in cooling-off period, in post-registration period)
- Official statements, preliminary official statements, notice of sale for municipal securities
- Qualified institutional buyer (QIB) and accredited investor
- Qualification requirements for Regulation A offerings (*e.g.*, filing of abbreviated registration statement and offering circular)
- Regulation D offerings (*e.g.*, exemption from SEC registration, access to capital markets, accredited investors)
- Securities and transactions exempted from registration, including Section 3(a)(11) of the Securities Act of 1933 and Rule 147 thereunder (*i.e.*, intrastate offering)
- Regulatory requirements for private placements or resales
- Nonregistered foreign securities sold to institutions qualified in the U.S.
- Foreign securities prohibited from being sold to U.S. investors

### FINRA Rules

- 3160 – Networking Arrangements Between Members and Financial Institutions
- 3170 – Tape Recording of Registered Persons by Certain Firms
- 5110 – Corporate Financing Rule — Underwriting Terms and Arrangements
- 5121 – Public Offerings of Securities with Conflicts of Interest
- 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
- 5160 – Disclosure of Price and Concessions in Selling Agreements
- 5190 – Notification Requirements for Offering Participants

### SEC Rules and Regulations

#### Securities Act of 1933

- Section 3 – Exempted Securities
- Section 4 – Exempted Transactions
- 134 – Communications Not Deemed a Prospectus
- 134a – Options Material Not Deemed a Prospectus
- 144 – Persons Deemed Not To Be Engaged in a Distribution and Therefore Not Underwriters
- 144A – Private Resales of Securities to Institutions
- 145 – Reclassification of Securities, Mergers, Consolidations and Acquisitions of Assets
- 147 – Intrastate Offers and Sales
- 164 – Post-filing Free Writing Prospectuses in Connection with Certain Registered Offerings

## Series 7

### Securities Exchange Act of 1934

10b-1 – Prohibition of Use of Manipulative or Deceptive Devices or Contrivances with Respect to Certain Securities Exempted from Registration

10b-3 – Employment of Manipulative and Deceptive Devices by Brokers or Dealers

10b-18 – Purchases of Certain Equity Securities by the Issuer and Others

15c2-8 – Delivery of Prospectus

17a-3 – Records To Be Made by Certain Exchange Members, Brokers and Dealers

### Regulation A – Conditional Small Issues Exemption

#### Regulation C – Registration

415 – Delayed or Continuous Offering and Sale of Securities

427 – Contents of Prospectus Used After Nine Months

430 – Prospectus for Use Prior to Effective Date

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

430B – Prospectus in a Registration Statement After Effective Date

433 – Conditions to Permissible Post-filing Free Writing Prospectuses

### Regulation D – Rules Governing the Limited Offer and Sale of Securities Without Registration Under the Securities Act of 1933

500 – Use of Regulation D

501 – Definitions and Terms Used in Regulation D

502 – General Conditions to be Met

503 – Filing of Notice of Sale

504 – Exemption for Limited Offerings and Sales of Securities Not Exceeding \$5,000,000

506 – Exemption for Limited Offers and Sales Without Regard to Dollar Amount of Offering

507 – Disqualifying Provision Relating to Exemptions under Rules 504 and 506

508 – Insignificant Deviations from a Term, Condition or Requirement of Regulation D

### Regulation M

### Regulation S – Rules Governing Offers and Sales Made Outside the United States Without Registration Under the Securities Act of 1933

### Trust Indenture Act of 1939

### MSRB Rules

G-11 – Primary Offering Practices

G-28 – Transactions with Employees and Partners of Other Municipal Securities Professionals

G-32 – Disclosures in Connection with Primary Offerings

G-34 – CUSIP Numbers, New Issue, and Market Information Requirements

G-38 – Solicitation of Municipal Securities Business

## Series 7

### Function 2: Opens Accounts After Obtaining and Evaluating Customers' Financial Profile and Investment Objectives

#### 2.1 Informs customers of the types of accounts and their appropriateness and provides disclosures regarding various account types and restrictions

##### Knowledge of:

- Types of accounts (*e.g.*, pattern day trading, prime brokerage, delivery verses payment/receive versus payment (DVP/RVP), advisory or fee-based)
- Account registration types (*e.g.*, tenants in common (TIC), community property, sole proprietorship, partnership, unincorporated associations)
- Requirements for opening customer accounts
- Retirement plans and other tax advantaged accounts
  - Transfers, rollovers, eligibility, distribution strategies and taxation (*e.g.*, types of allowable contributions, distribution options, taxation of distribution at retirement, age restrictions for distributions, permissible investments)
  - Employer-sponsored plans and ERISA (*e.g.*, 457, defined benefit, profit-sharing, stock options and stock purchase, non-qualified deferred compensation programs)
- Wealth events (*e.g.*, inheritance)
- Account registration changes and internal transfers

##### FINRA Rules

2270 – Day-trading Risk Disclosure Statement

2130 – Approval Procedures for Day-trading Accounts

4512 – Customer Account Information

4514 – Authorization Records for Negotiable Instruments Drawn from a Customer's Account

4515 – Approval and Documentation of Changes in Account Name or Designation

##### CBOE Rule

9.7 – Opening of Accounts

##### Internal Revenue Code

219 – Retirement Savings

415 – Limitations on Benefits and Contributions Under Qualified Plans

529 – Qualified Tuition Programs

530 – Coverdell Education Savings Accounts

##### Employee Retirement Income Security Act of 1974 (ERISA)

#### 2.2 Obtains and updates customer information and documentation, including required legal documents and identifies and escalates suspicious activity

##### Knowledge of:

- Customer screening (*e.g.*, customer identification program (CIP), know-your-customer (KYC), domestic or foreign residency and/or citizenship, corporate insiders, employees of broker-dealers or self-regulatory organizations (SROs))
- Information security and privacy regulations (*e.g.*, initial privacy disclosures to customers, opt-out notices, disclosure limitations, exceptions)



## Series 7

- Account authorizations (e.g., power of attorney (POA), trust documents, corporate resolutions, trading authority, discretionary account documents)

### FINRA Rule

2090 – Know Your Customer

### NASD Rule

2510 – Discretionary Accounts

### SEC Rules and Regulations

Securities Exchange Act of 1934

Section 3(a)(35) – Definitions and Application of Title – “Investment Discretion”

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

### CBOE Rule

9.10 – Discretionary Accounts

### NYSE Rule

408 – Discretionary Power in Customers’ Accounts

## 2.3 Makes reasonable efforts to obtain customer investment profile information including, but not limited to, the customer's other security holdings, financial situation and needs, tax status and investment objectives

### Knowledge of:

- Essential facts regarding customers and customer relationships
- Financial factors relevant to assessing a customer’s investment profile
  - Security holdings, other assets and liabilities, annual income, net worth, tax considerations
  - Other considerations (e.g., age, marital status, dependents, employment, investment experience, home ownership and financing, employee stock options, insurance, liquidity needs)
- Investment objectives (e.g., preservation of capital, income, growth, speculation)
- Reasonable-basis suitability, customer-specific suitability and quantitative suitability
- Investment strategies and recommendations to hold
- Verification of investor accreditation and sophistication

### FINRA Rules

2111 – Suitability

2214 – Requirements for the Use of Investment Analysis Tools

### MSRB Rule

G-19 – Suitability of Recommendations and Transactions

## 2.4 Obtains supervisory approvals required to open accounts

### Knowledge of:

- Required review, approvals and documentation for account opening and maintenance
- Physical receipt, delivery and safeguarding of cash or cash equivalents, checks and securities
- Circumstances for refusing or restricting activity in an account or closing accounts

### FINRA Rules

## Series 7

3110 – Supervision  
3120 – Supervisory Control System

CBOE Rule  
9.8 – Supervision of Accounts

MSRB Rule  
G-27 – Supervision

## Series 7

### Function 3: Provides Customers with Information About Investments, Makes Suitable Recommendations, Transfers Assets and Maintains Appropriate Records

#### 3.1 Provides customers with information about investment strategies, risks and rewards, and communicates relevant market, investment and research data to customers

##### Knowledge of:

- Customer-specific factors that generally affect the selection of securities (*i.e.*, customer's investment profile, including the customer's risk tolerance, investment time horizon and investment objectives, liquidity needs)
- Portfolio or account analysis and its application to security selection (*e.g.*, diversification, asset allocation principles, concentration, volatility, potential tax ramifications)
- Portfolio theory (*e.g.*, alpha and beta considerations, Capital Asset Pricing Model (CAPM))
- Delivery of annual reports and notices of corporate actions (*e.g.*, dividends, splits, odd lot tenders)
- Fundamental analysis of financial statements and types of financial statements included in an annual report, importance of footnotes, material risk disclosures and key terms (*e.g.*, assets, liabilities, capital, cash flow, income, earnings per share (EPS), book value, shareholders' equity, depreciation, depletion, goodwill)
- Balance sheet and methods of inventory valuation: last-in, first out (LIFO), first-in, first-out (FIFO) and methods of depreciation
- Income statement and calculations derived from an income statement: earnings before interest and taxes (EBIT); earnings before taxes (EBT); net profit; and earnings before interest, taxes, depreciation and amortization (EBITDA)
- Principal tools to measure financial health
  - Liquidity: working capital, current ratio, quick assets, acid test ratio
  - Risk of bankruptcy: bond ratio, debt-to-equity ratio
  - Efficient use of assets: inventory turnover ratio, cash flow
  - Profitability: margin-of-profit ratio, net profit ratio, asset coverage and safety of income (*i.e.*, net asset value (NAV) per bond, bond interest coverage, book value per share)
  - EPS: fully diluted EPS, price-earnings (P/E) ratio, dividend payout ratio, current yield
  - Competitiveness (comparative performance): return on common equity

##### SEC Rules and Regulations

###### Securities Exchange Act of 1934

14e-3 – Transactions in Securities on the Basis of Material, Nonpublic Information in the Context of Tender Offers

14e-4 – Prohibited Transactions in Connection with Partial Tender Offers

##### CBOE Rule

9.9 – Suitability of Recommendations

#### 3.2 Reviews and analyzes customers' investment profiles and product options to determine suitable investment recommendations

##### Knowledge of:

###### Equity securities

- Types of stock (*e.g.*, authorized, issued, outstanding, Treasury stock, stated value)
- Characteristics of common stock
  - Rights of common stockholders (*e.g.*, pre-emptive right, pro rata share of dividends, access to corporate books, voting power (statutory, cumulative, nonvoting), residual claims on corporate assets)
  - Spinoffs

## Series 7

- Stock acquired through a consolidation or transfer
- Penny stocks and rules associated with penny stock transactions
- Characteristics of preferred stock
  - Types of preferred stock (*e.g.*, cumulative, non-cumulative, participating, nonparticipating, convertible, callable, adjustable-rate and variable-rate)
  - Rights of preferred stockholders (*e.g.*, preference upon corporate dissolution, dividend payment, conversions, sinking fund provisions)
- Rights and warrants: origination, exercise terms, relationship of subscription price to market price of underlying stock, anti-dilution agreement
- Electronic exchanges or auction markets (*e.g.*, electronic communications networks (ECNs), over-the-counter (OTC), dark pools of liquidity)
- Types and characteristics of non-U.S. market securities (*e.g.*, American Depositary Receipts (ADRs), corporate equity)
- Tax treatment of equity securities transactions
  - Capital gains and losses, dividend distributions (qualified and non-qualified), wash sales, holding periods
  - Determination of net long-term and short-term gains or losses
  - When-issued securities, securities acquired through conversion
  - Calculation of cost basis per share on: purchases, exchange of convertibles for common shares, stock dividends and stock rights, inherited or gifted securities
  - Cost valuation: FIFO, LIFO, identified shares

## Packaged products

- Investment companies, exchange-traded funds (ETFs), unit investment trusts (UITs)
  - Types of mutual funds: equity, fixed income, money market, interval
  - Structure of investment companies (*e.g.*, open-end and closed-end funds)
  - Fund objectives (*e.g.*, value, growth, income, balanced, international, sector, life cycle)
  - Characteristics of:
    - Open-end funds: *e.g.*, NAV, forward pricing, offering price, exchange privileges within families of funds, fees and expenses: no load, load (front-end, back-end), distribution fees, management fees, nature of 12b-1 fees
    - Closed-end funds: distributed in primary market at IPO price, traded in secondary market
  - Sales practices (*e.g.*, dollar-cost averaging (DCA), computing sales charge, breakpoints)
  - Redemption (*e.g.*, redemption price, payout or withdrawal plans, conversion privilege, restrictions, contingent deferred sales charge, tenders)
  - Tax treatment of mutual funds
  - Reinvestment of dividends and capital gain distributions
  - Charges and expenses
- Variable life insurance/annuity contracts
  - Characteristics and insurance features (*e.g.*, minimum guarantees, death benefits, living benefits, riders)
  - Separate accounts (*e.g.*, purpose, management of portfolio, investment policies, performance of account)
  - Valuation of a variable annuity contract (*e.g.*, accumulation units, surrender value, annuitization units)
  - Purchasing or exchanging variable annuities (*e.g.*, immediate annuity, charges, fees, penalties, right of accumulation (ROA), waiver of premium)
  - Annuitization: types of election, variable payout, assumed interest rate, relationship between assumed interest rate and actual rate of return

## Series 7

- Tax treatment of variable annuity contracts during accumulation period and annuity period and taxation at surrender of contract
- Real estate investment trusts (REITs)
  - Structure (*e.g.*, finite number of shares, distributed in primary market at IPO price, traded in secondary market, premiums and discounts to NAV)
  - Types and characteristics (*e.g.*, equity REIT, mortgage REIT, hybrid REIT)
  - Tax treatment (*e.g.*, dividends, capital gains, distributions)
- Direct participation programs (DPPs)
  - General characteristics
    - Structures (*e.g.*, limited partnerships (*e.g.*, roles and duties of general partners vs. limited partners), limited liability companies, corporations that have tax pass-through exemption from the IRS)
    - Tax treatment (*e.g.*, flow-through of income, expenses and tax liability, real estate depreciation, oil and gas tax advantages)
  - Types of DPPs (*e.g.*, real estate, oil and gas, small-cap debt and equity, business development companies (BDCs), equipment leasing) and their investment advantages, risks and tax implications
  - Types of DPP offerings (*i.e.*, private placements and public offerings)
  - Evaluation of DPPs (*e.g.*, economic soundness of the program, expertise of the general partner, basic objectives of the program; start-up costs, leverage and other revenue considerations)

## Options

- Listed options and their characteristics (*e.g.*, contract specifications and adjustments, dividends, exercise/assignment, settlement date, opening and closing transactions, values (premium, intrinsic and time), volume, open interest, position limits, exercise limits)
  - The Options Clearing Corporation (OCC)
  - American-style and European-style
  - Long-term Equity Anticipation Securities (LEAPS)
- Basic strategies (*e.g.*, covered writing and hedging for equity, index, foreign currency and yield-based options)
  - Protective put for equity and index options
  - Covered call and put writing for equity options
- Advanced strategies (*e.g.*, spreads, straddles, combinations, uncovered writing)
  - Long (debit) and short (credit) spreads
  - Straddle/combination for equity and index options
  - Uncovered (naked) call or put writing for equity, index and yield-based options
- Profit and loss calculations, break-even points, economics of positions
- Tax treatment of option transactions (equity, index, foreign currency, yield-based)

## Debt Securities

- Types of debt securities and money market instruments (*e.g.*, corporate commercial paper, brokered CDs, Eurodollar bond, variable-rate preferreds)
- Characteristics: structure, risks and rewards, call provisions
- Structured products (*e.g.*, equity-linked securities, exchange-traded notes (ETNs))
- Types and characteristics of non-U.S. market securities (*e.g.*, sovereign and corporate debt)
- Types of yields (*e.g.*, coupon (nominal), current, yield to maturity (YTM), yield to call (YTC), yield to worst and discount yield, calculations and relationship to price)
- Bond ratings
- Tax implications of taxable debt securities, including original issue discount (OID) rules, interest, principal, premiums, discounts, and capital gains and losses

## Series 7

## Corporate bonds

- Types of corporate bonds (*e.g.*, mortgage bonds, equipment trust certificates, debentures, step coupon bonds, zero-coupon bonds, convertible bonds, high-yield bonds, income bonds) and their characteristics
- Convertible bonds: general characteristics, (*e.g.*, conversion privilege, fixed versus variable, conversion ratio or price, calculation of parity price of underlying security, arbitrage, factors influencing conversion)

## Municipal securities

- General characteristics of municipal fund securities, method of quotations (*e.g.*, yield/basis price, dollar price), interest rate, payment periods, denominations, diversity of maturities (*e.g.*, serial, term) and legal opinion (purpose and contents)
- Analysis and diversification of municipal investments: geographical, type and rating
- Analysis of general obligation (GO) bonds, including: characteristics of the issuer, nature of the issuer's debt, factors affecting the issuer's ability to pay, municipal debt ratios
- Analysis of revenue bonds, including feasibility studies, sources of revenue, security (protective covenants of bond indenture), financial reports and outside audits, restrictions on the issuance of additional bonds, flow of funds, earnings coverage, sources of credit information, rating services, credit enhancements
- Purpose and characteristics of specific types of municipal securities:
  - Types of municipal bonds (*e.g.*, GO bonds, limited tax GO bonds and notes, revenue bonds, short-term municipal obligations (*e.g.*, tax anticipation notes (TANs), bond anticipation notes (BANs), revenue anticipation notes (RANs), tax-exempt commercial paper, grant anticipation notes (GANs), tax and revenue anticipation notes (TRANs)))
  - Special tax, special assessment, moral obligation, advance or pre-refunded, double-barreled, taxable (*e.g.*, Build America bonds), OIDs, zero-coupon (capital appreciation) bonds, certificates of participation (COPs), alternative minimum tax (AMT), lease revenue, variable rate securities, auction rate securities
  - Municipal fund securities including 529 college savings plans, local government investment pools (LGIPs), ABLE accounts (*e.g.*, change in beneficiary, rollovers, ownership, tax consequences of unqualified withdrawals)
  - Call features (*e.g.*, par or premium, optional, mandatory, partial call, sinking fund, extraordinary calls, make whole calls), advantages/disadvantages to issuers and investors
  - Put or tender options
  - Refunding methods: direct exchange versus sale of new issue, advance refunding, refunding at call dates/current refunding, escrowed to maturity, crossover refunding
- Factors affecting the marketability of municipal bonds: rating, maturity, call features, interest (coupon) rate, block size, liquidity (ability to sell the bond in the secondary market), dollar/yield price, issuer name (local or national reputation), credit enhancement, credit and liquidity support, denominations
- Pricing of municipal securities and other mathematical calculations: dollar price, accrued interest (regular coupon, odd first coupon), computations of accrued interest (30/360), amortization of premium, accretion of discount, relationship of bond prices to changes in maturity, coupon, various yield calculations (taxable equivalent yield, net yield after capital gains tax, current yield, YTC on premium bonds) value of basis point, in default,
- Tax treatment of municipal securities: securities bought at a discount or premium in the secondary market, OID, federal income tax status, state and local tax status, computation of taxable equivalent yield, accrued interest, AMT, bonds, taxable bonds, bank qualified bonds

## Registered hedge funds and fund of funds

- Structure (*e.g.*, private placements, registered, exemption from registration under the Investment Company Act of 1940, blind pool/ blank check)
- Characteristics (*e.g.*, limited or no liquidity, limited available information, lock-up provisions, charges and expenses, tangible assets, wide array of investment styles, models and vehicles)

## Series 7

- Tax treatment of distributions

### Asset-backed securities

- Collateralized mortgage obligations (CMOs)
- Collateralized debt obligations (CDOs)
- Characteristics (*e.g.*, indenture, maturities, form of ownership, interest payment periods, call and put features, calculation of accrued interest, and specific characteristics (*e.g.*, maturity, type of collateral, priority of claim, call provisions))

### U.S. Treasury securities

- Treasury bills, notes, bonds
- Treasury receipts (Separate Trading of Registered Interest and Principal Securities (STRIPS)/zero-coupon)
- Treasury Inflation Protected Securities (TIPS)
- Characteristics (*e.g.*, types, maturities, denominations, payment of interest)

### U.S. government agency securities

- Government National Mortgage Association (GNMA)
- Federal National Mortgage Association (FNMA)
- Federal Home Loan Mortgage Corporation (FHLMC)
- Student Loan Marketing Association (SLMA)
- Characteristics: types, maturities, denominations, primary dealers, distribution, issue form, quotations, pass-through, calculating a spread, pricing, payment of interest and principal

### FINRA Rules

- 2114 – Recommendations to Customers in OTC Equity Securities
- 2121 – Fair Prices and Commissions
- 2122 – Charges for Services Performed
- 2124 – Net Transactions with Customers
- 2310 – Direct Participation Programs
- 2320 – Variable Contracts of an Insurance Company
- 2341 – Investment Company Securities
- 2350 Series – Trading in Index Warrants, Currency Index Warrants, and Currency Warrants
- 4210(f)(2) – Definitions Related to Options, Currency Warrants, Currency Index Warrants and Stock Index Warrant Transactions

### SEC Rules and Regulations

#### Securities Exchange Act of 1934

- Section 9(a) – Prohibition Against Manipulation of Security Prices (Transactions Relating to Purchase or Sale of Security)
- Exemption of Certain Issuers from Section 15(D) of the Act
- 3a51-1 – Definition of "Penny Stock"
- 15g-1 – Exemptions for Certain Transactions
- 15g-2 – Penny Stock Disclosure Document Relating to the Penny Stock Market
- 15g-5 – Disclosure of Compensation of Associated Persons in Connection with Penny Stock Transactions
- 15g-9 – Sales Practice Requirements for Certain Low-priced Securities

#### Investment Company Act of 1940

- Section 2(a) – General Definitions
- Section 10 – Affiliations or Interest of Directors, Officers and Employees

## Series 7

Section 12(a) – Functions and Activities of Investment Companies (Purchase of Securities on Margin; Joint Trading Accounts; Short Sales of Securities; Exceptions)  
Section 13(a) – Changes in Investment Policy (Prohibited Actions for Registered Investment Companies)  
Section 15(a) – Investment Advisory and Underwriting Contracts (Written Contract to Serve or Act as Investment Adviser; Contents)  
Section 16(a) – Changes in Board of Directors; Provisions Relative to Strict Trusts (Election of Directors)  
Section 17(a) – Transactions of Certain Affiliated Persons and Underwriters (Prohibited Transactions)  
Section 18 – Capital Structure  
Section 19 – Dividends  
Section 22 – Distribution, Redemption, and Repurchase of Redeemable Securities  
Section 23 – Distribution and Repurchase of Securities: Closed-end Companies  
Section 30 – Periodic and Other Reports; Reports of Affiliated Persons  
Section 35 – Unlawful Representations and Names  
Section 36 – Breach of Fiduciary Duty  
Section 37 – Larceny and Embezzlement  
12b-1 – Distribution of Shares by Registered Open-end Management Investment Company

### CBOE Rules

1.1 – Definitions  
4.1 – Just and Equitable Principles of Trade  
4.11 – Position Limits  
5.7 – Adjustments  
5.8 – Long-term Equity Option Series (LEAPS®)  
11.1 – Exercise of Option Contracts  
11.2 – Allocation of Exercise Notices  
23.3 – Position Limits — Interest Rate Options  
23.4 – Exercise Limits — Interest Rate Options  
24.4 – Position Limits for Broad-based Index Options  
24.4A – Position Limits for Industry Index Options  
24.5 – Exercise Limits — Index Options  
24.18 – Exercise of American-style Index Options

### MSRB Rules

D-12 – Definition of Municipal Fund Securities  
G-13 – Quotations Related to Municipal Securities  
G-17 – Conduct of Municipal Securities Activities  
G-30 – Prices and Commissions  
G-45 – Reporting of Information on Municipal Fund Securities

Real Estate Investment Trusts (REITs)  
REIT Modernization Act of 1999

### Internal Revenue Code

301 – Distributions of Property  
316 – Dividend Defined  
856 – Definition of Real Estate Investment Trust  
858 – Dividends Paid by Real Estate Investment Trust After Close of Tax Year  
1035 – Certain exchanges of Insurance Policies  
1091 – Loss from Wash Sales of Stock or Securities



## Series 7

1233 – Gains and Losses from Short Sales

1256 – Contracts Marked to Market

### 3.3 Provides appropriate disclosures regarding investment products and their characteristics, risks, services and expenses

#### Knowledge of:

- Required disclosures on specific transactions (*e.g.*, material aspects of investments, statement of additional information, material events, control relationships)
- Types of investment risk (*e.g.*, call, systematic and nonsystematic, reinvestment, timing)
- Types of investment returns (*e.g.*, tax-exempt interest, return of capital)
- Costs and fees associated with investments (*e.g.*, markups, commissions, net transactions, share classes, non-discretionary fee-based accounts, surrender charges, 12b-1 fees, mortality and expense charges in variable products, soft dollar arrangements)
- Tax considerations (*e.g.*, unification of gift and estate taxes, lifetime exclusion, annual gift limit, taxation of securities received as a gift, inheritance of securities)
- Market analysis considerations (*e.g.*, market sentiment, market indices, options volatility, put/call ratio, market momentum, available funds, trading volume, short interest, index futures)
- Market analysis considerations for municipal securities, including Bond Buyer indexes (*e.g.*, 11 GO Bonds Index, Municipal Bond Index (40 Bond), 20 GO Bonds Index)
- Technical analysis of basic chart patterns and key terms (*e.g.*, trend lines, saucer/inverted saucer, head-and-shoulders/inverted head-and-shoulders, breakouts, resistance/support levels, moving averages, consolidation, stabilization, overbought and oversold)
- Disclosure of material events effecting retail sales of municipal bonds

#### FINRA Rule

2165 – Financial Exploitation of Specified Adults

#### SEC Rules and Regulations

Securities Exchange Act of 1934

Section 28(e) – Effect on Existing Law (Exchange, Broker, and Dealer Commissions; Brokerage and Research Services)

#### Internal Revenue Code

2503 – Taxable Gifts

### 3.4 Communicates with customers about account information, processes requests and retains documentation

#### Knowledge of:

- Customer confirmations and statements, including: components, timing, mailings to third parties, and exceptions
- Account value, profits and losses, realized and unrealized
- Withdrawals and tenders
- Customer account records (*e.g.*, updating for change of address, sending required notifications, investment objectives)
- Transferring accounts between broker-dealers (*e.g.*, Automated Customer Account Transfer Service (ACATS), transfer agent and procedures)
- Books and records retention requirements
- Account closure procedures

## Series 7

### FINRA Rules

- 2232 – Customer Confirmations
- 2273 – Educational Communication Related to Recruitment Practices and Account Transfers
- 4510 – Books and Records Requirements
- 11870 – Customer Account Transfer Contracts

### NASD Rule

- 2340 – Customer Account Statements

### NYSE Rule

- 409 – Statements of Accounts to Customers

### SEC Rules and Regulations

- Securities Exchange Act of 1934
  - 10b-10 – Confirmation of Transactions
  - 15g-6 – Account Statements for Penny Stock Customers
  - 17a-4 – Records To Be Preserved by Certain Exchange Members, Brokers and Dealers
- Regulation FD – Disclosure Requirements

### CBOE Rules

- 9.11 – Confirmation to Customers
- 9.12 – Statements of Accounts to Customers
- 9.20 – Transfer of Accounts
- 15.1 – Maintenance, Retention and Furnishing of Books, Records and Other Information
- 15.2 – Reports of Transactions
- 15.3 – Reports of Uncovered Short Positions
- 15.5 – Financial Reports
- 15.6 – Audits
- 15.7 – Automated Submission of Trading Data
- 15.8 – Risk Analysis of Market-maker Accounts
- 15.8A – Risk Analysis of Portfolio Margin Accounts
- 15.9 – Regulatory Cooperation

### MSRB Rules

- G-8 – Books and Records To Be Made by Brokers, Dealers, and Municipal Securities Dealers and Municipal Advisors
- G-9 – Preservation of Records
- G-15 – Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers
- G-26 – Customer Account Transfers

## Series 7

### Function 4: Obtains and Verifies Customers' Purchase and Sales Instructions and Agreements; Processes, Completes and Confirms Transactions

#### 4.1 Provides current quotes

##### Knowledge of:

- Orders, offerings and transactions in customer accounts (*e.g.*, at advertised yield)
- Trade execution activities
- Types of securities quotes (*e.g.*, firm, subject)
- Types of orders (*e.g.*, all-or-none (AON), fill-or-kill (FOK), immediate-or-cancel (IOC), not-held, market-on-close (MOC), spread, straddle)
- Short sale requirements and strategies (*e.g.*, order marking, locate, borrow and delivery, speculation, hedging, arbitrage)
- Securities lending (*e.g.*, hard to borrow, fail to deliver)
- Best execution obligations

##### FINRA Rules

- 4320 – Short Sale Delivery Requirements
- 4551 – Requirements for Alternative Trading Systems to Record and Transmit Order and Execution Information for Security Futures
- 5210 – Publication of Transactions and Quotations
- 5220 – Offers and Stated Prices
- 5260 – Prohibition on Transactions, Publication of Quotations, or Publication of Indications of Interest During Trading Halts
- 5290 – Order Entry and Execution Practices
- 5310 – Best Execution and Interpositioning
- 6100 Series – Quoting and Trading in NMS stocks
  - 6110 – Trading Otherwise than on an Exchange
  - 6120 – Trading Halts
  - 6121 – Trading Halts Due to Extraordinary Market Volatility
  - 6130 – Transactions Related to Initial Public Offerings
- 6400 Series – Quoting and Trading in OTC Equity Securities
- 6500 Series – OTC Bulletin Board® Service
- 6600 Series – OTC Reporting Facility
- 11860 – COD Orders

##### SEC Rules and Regulations

- Securities Exchange Act of 1934
  - 15c2-7 – Identification of Quotations
  - 15c2-11 – Initiation or Resumption of Quotations Without Specified Information
  - 15g-3 – Broker or Dealer Disclosure of Quotations and Other Information Relating to the Penny Stock Market
  - 15g-4 – Disclosure of Compensation to Brokers or Dealers
- Regulation ATS – Alternative Trading Systems
- Regulation SHO – Regulation of Short Sales

##### CBOE Rules

- 6.24 – Required Order Information
- 6.53 – Certain Types of Orders Defined

## Series 7

## NYSE Rules

- 13 – Orders and Modifiers
- 54 – Dealings on the Floor-persons
- 61 – Recognized Quotations
- 64 -- Bonds, Rights and 100-Share-Unit Stocks
- 70 – Execution of Floor Broker Interest
- 71 – Precedence of Highest Bid and Lowest Offer
- 72 – Priority of Bids and Offers and Allocation of Executions
- 74 – Publicity of Bids and Offers
- 75 – Disputes as to Bids and Offers
- 76 – “Crossing” Orders
- 77 – Prohibited Dealings and Activities
- 79A – Miscellaneous Requirements on Stock Market Procedures
- 80B – Trading Halts Due to Extraordinary Market Volatility
- 104 – Dealings and Responsibilities of DMMs
- 115A – Orders at Opening
- 123A – Miscellaneous Requirements
- 123C – The Closing Procedures
- 123D – Openings and Halts in Trading
- 127 – Block Crosses Outside of the Prevailing NYSE Quotation
- 1000 – Automatic Executions
- 1001 – Execution of Automatically Executing Orders
- 1002 – Availability of Automatic Execution Feature
- 1004 – Election of Buy Minus Zero Plus Orders

#### 4.2 Processes and confirms customers’ transactions pursuant to regulatory requirements and informs customers of delivery obligations and settlement procedures

##### Knowledge of:

- Information required on an order ticket (*e.g.*, symbol, account number, price)
- Market making activities: role and functions of the designated market maker, listing requirements, limitations on trading during significant market declines, principal transactions, agency transactions, quotations (*e.g.*, firm, subject or otherwise qualified, bid wanted, offer wanted, size obligations), SEC order handling rules, transaction reporting
- Use of automated execution systems
- Regulatory reporting requirements (*e.g.*, Order Audit Trail System (OATS), Trade Reporting and Compliance Engine (TRACE), Electronic Municipal Market Access (EMMA), trade reporting facility (TRF), Real-Time Transaction Reporting System (RTRS))
- Delivery requirements
- Good delivery (*e.g.*, certificates in possession of the seller, certificates in the name of two persons, deceased owner, stock or bond powers, mutilated certificates, due bills, DVP/RVP, book entry securities, stock certificate, endorsements, denominations, bearer, registrar, registered, Direct Registration System (DRS))
- Settlement of transactions (*e.g.*, security-specific requirements, when-, as- and if-issued, ex-rights, ex-dividends, due bill checks, negotiated settlements, option exercise/assignment, don’t know (DK), extensions)

## Series 7

### FINRA Rules

- 5330 – Adjustment of Orders
- 6000 Series – Quotation, Order, and Transaction Reporting Facilities
- 6140 – Other Trading Practices
- 6700 Series – Trade Reporting and Compliance Engine
- 7000 Series – Clearing, Transactions and Order Data Requirements, and Facility Charges
- 11000 Series – Uniform Practice Code

### SEC Rules and Regulations

- Securities Exchange Act of 1934
- 15c6-1 – Settlement Cycle

### CBOE Rules

- 11.1 – Exercise of Options Contracts
- 11.2 – Allocation of Exercise Notices
- 11.3 – Delivery and Payment

### MSRB Rules

- G-12 – Uniform Practice
- G-14 – Reports of Sales or Purchases

### Nasdaq Stock Market Rules

- 4600 Series – Requirements for Nasdaq Market Makers and Other Nasdaq Market Center Participants
- 4750 Series – Nasdaq Market Center-Execution Services

### NYSE Rules

- 63 – “When Issued” — “When Distributed”
- 130 Series – Comparison and Exchange of Contracts
- 133 – Comparison—Non-cleared Transactions
- 135 – Differences and Omissions—Cleared Transactions (“DK’s”)
- 136 – Comparison—Transactions Excluded from a Clearance

### 4.3 Informs the appropriate supervisor and assists in the resolution of discrepancies, disputes, errors and complaints

#### Knowledge of:

- Erroneous reports, errors, cancels and rebills
- Requirements for addressing customer complaints and consequences of improper handling of complaints
- Methods of formal resolution (e.g., arbitration, mediation, litigation)
- Form U4 reporting requirements

### FINRA Rules

- 4513 – Records of Written Customer Complaints
- 4530 – Reporting Requirements
- 8000 Series – Investigations and Sanctions
- 11892 – Clearly Erroneous Transactions in Exchange-listed Securities
- 11893 – Clearly Erroneous Transactions in OTC Equity Securities
- 12000 Series – Code of Arbitration Procedure for Customer Disputes
- 13000 Series – Code of Arbitration Procedure for Industry Disputes
- 14000 Series – Code of Mediation Procedure

## Series 7

### CBOE Rules

- 6.52 – Price Binding Despite Erroneous Report
- 9.23 – Customer Complaints

### 4.4 Addresses margin issues

#### Knowledge of:

- Requirements and characteristics of margin accounts (*e.g.*, minimums, approvals, ineligible accounts, eligible/ineligible securities), and required disclosures (*e.g.*, interest rate disclosure and hypothecation)
- Product or strategy specific requirements (*e.g.*, Treasury securities, mutual funds)
- Calculations in margin accounts (*e.g.*, long and/or short positions)
- Initial margin: long market value, short market value, debit balance, credit balance, initial Regulation T margin requirement on long or short positions, Regulation T requirement for established accounts, loan value, excess equity, buying power of deposited securities
- Maintenance: additional purchases, sales (long or short), cash withdrawals, stock withdrawals, simultaneous purchases and sales, restrictions, liquidation to meet a margin/maintenance call, deposit of cash or securities required to meet a margin or maintenance call
- Special memorandum account (SMA): balance, buying power, prohibited use of SMA, effect of excess equity, deposit of marginable securities, receipt of cash dividends and earned interest, liquidation of securities in the account, cash or securities withdrawals, new margin securities purchased or sold short
- Other margin accounts (*e.g.*, portfolio margin, day trading)

### FINRA Rules

- 2264 – Margin Disclosure Statement
- 4210 – Margin Requirements

### CBOE Rules

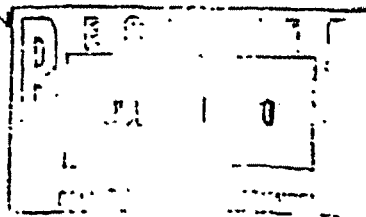
- 12.1 – General Rules
- 12.2 – Time Margin Must Be Obtained
- 12.3 – Margin Requirements
- 12.4 – Portfolio Margin
- 12.5 – Determination of Value for Margin Purposes
- 12.7 – "When Issued" and "When Distributed" Securities
- 12.8 – Guaranteed Accounts
- 12.9 – Meeting Margin Calls by Liquidation Prohibited
- 12.10 – Margin Required Is Minimum
- 12.11 – Compliance with Margin Requirements of New York Stock Exchange
- 12.12 – Daily Margin Record

### Federal Reserve

- Regulation T – Credit by Brokers and Dealers



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.

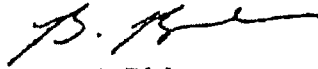
Alden S. Adkins

Page 2

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