Financial and Operations
Principal Qualification
Examination (Test Series 27)

Study Outline

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Study Outline

The FINRA Financial and Operations principal Qualification Examination (Series 27) is designed to test a candidate’s knowledge of applicable rules and statutory provisions relating to broker-dealer financial responsibility and recordkeeping and the protection afforded investors under the Securities Investor Protection Act of 1970. The examination and this study outline are divided into seven general areas, which are listed below with the number of points assigned to each.

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Structure of the Examination

The examination is composed of 145 multiple-choice questions covering all of the materials in the following outline in accordance with the subject-matter distribution shown above. Candidates will be allowed 3 hours and 45 minutes to complete the examination. A candidate must correctly answer 70 percent of the questions to receive a passing grade. At the completion of the examination, each candidate will receive an informational breakdown of their performance on each section and their overall score. The examination is a closed-book test and candidates will not be permitted to use any reference material during their testing session. Scratch paper and a basic electronic calculator will be provided by the test center administrator. Severe penalties are imposed on candidates who cheat on securities industry qualification examinations. Examination questions are updated regularly to reflect the most current interpretations of the rules and regulations. Questions on new rules will be added to the pool of questions for this examination within a reasonable period of their effective dates.

To ensure that new questions meet acceptable testing standards prior to use, each examination includes 10 additional, unidentified "pre-test" questions that do not contribute towards the candidate's score. The 10 questions are randomly distributed throughout the examination. Therefore, each candidate takes a total of 155 questions, of which 145 questions are scored.

Information about qualifications exams may be found at
http://www.finra.org/industry/qualification-exams
There are also sample Series 27 test questions written in the various formats. They do not mirror the difficulty level of the actual test questions or the subject matter distribution of the test itself. Their use is merely to familiarize the candidate with the styles of multiple-choice questions used in the Series 27 Examination.

Please Note: Candidates are responsible for keeping abreast of changes made to the applicable rules and regulations, as the examination is updated when new rules are introduced and/or amended.

This study outline is available on the FINRA Web Site at www.finra.org

The following reference materials may be used in preparing for the examination.
# Reference Materials

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<thead>
<tr>
<th>An Explanation of the Securities Investor Protection Act of 1970</th>
<th>Handbook of Stock Brokerage Accounting</th>
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<tr>
<td>SIPC</td>
<td>Richard Ross</td>
</tr>
<tr>
<td>900 17th Street, N.W., Suite 800</td>
<td>New York Institute of Finance</td>
</tr>
<tr>
<td>Washington, DC 20006</td>
<td>2 Broadway</td>
</tr>
<tr>
<td><a href="http://www.sipc.org">www.sipc.org</a></td>
<td>New York, NY 10004</td>
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<tr>
<th>Securities Act Handbook</th>
<th>Municipal Securities Rulemaking Board — Rulebook</th>
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<tr>
<td>Aspen Publishers</td>
<td>MSRB</td>
</tr>
<tr>
<td>111 Eighth Avenue</td>
<td>1900 Duke Street, Suite 600</td>
</tr>
<tr>
<td>New York, NY 10011</td>
<td>Alexandria, VA 22314</td>
</tr>
<tr>
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<td><a href="http://www.MSRB.org">www.MSRB.org</a></td>
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<tr>
<th>Code of Federal Regulations</th>
<th>Regulation of Brokers, Dealers and Securities Markets</th>
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<tr>
<td>Title 17 — Commodity and Securities Exchanges</td>
<td>N. Wolfson, R.M. Phillips and T.A. Russo</td>
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<td>Superintendent of Documents</td>
<td>Warren, Gorham &amp; Lamont, Inc.</td>
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<tr>
<td>U.S. Government Printing Office</td>
<td>210 South Street</td>
</tr>
<tr>
<td>Washington, DC 20402</td>
<td>Boston, MA 02111</td>
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<td>FINRA/NASD Rules</td>
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<td>Commerce Clearing House, Inc.</td>
<td>FINRA Notices</td>
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<tr>
<td>4025 W. Peterson Avenue</td>
<td>Compliance Checklist</td>
</tr>
<tr>
<td>Chicago, IL 60646</td>
<td>NASD Guide to Rule Interpretations</td>
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<td>NASD Sanctions Guidelines</td>
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<th>Glossary of Municipal Securities Terms</th>
<th>Website for SEC Rules:</th>
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<tr>
<td><a href="http://www.msrb.org/msrb1/glossary">www.msrb.org/msrb1/glossary</a></td>
<td><a href="http://www.law.uc.edu/CCL/xyz/sldtoc.html">http://www.law.uc.edu/CCL/xyz/sldtoc.html</a></td>
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1.0
Keeping And Preservation of Records and Broker-Dealer
Financial Reporting Requirements

1.1 SEC Rule 17a-3 — Records to be Made By Brokers and Dealers (MSRB Rule G-8)

1.1.1 Blotters or other records of original entry containing an itemized daily record of:

1.1.1.1 Purchases and sales of securities
1.1.1.2 Receipts and deliveries of securities
1.1.1.3 Receipts and disbursements of cash
1.1.1.4 Other debits and credits

1.1.2 Ledgers or other records reflecting all assets and liabilities, income and expense and capital accounts

1.1.3 Ledger accounts or other records itemizing separately as to each cash and margin account

1.1.4 Ledgers or other records reflecting the following:

1.1.4.1 Securities in transfer
1.1.4.2 Dividends and interest received
1.1.4.3 Securities borrowed and securities loaned
1.1.4.4 Monies borrowed and monies loaned
1.1.4.5 Securities failed to receive and failed to deliver
1.1.4.6 All long and all short security differences
1.1.4.7 Repurchase and reverse repurchase agreements

1.1.5 Securities record or ledger reflecting separately for each security by account all long and short security positions

1.1.6 Memorandum of each brokerage order given or received for the purchase or sale of securities

1.1.7 Memorandum of each purchase and sale for the account of such member, broker or dealer
1.1.8 Copies of customer confirmations and copies of notices of all other debits and credits for accounts of customers

1.1.9 Identification data on beneficial owners of all cash and margin accounts maintained by the broker/dealer

1.1.10 Record of all option positions (proprietary account) in which the broker/dealer either has an interest or has granted or guaranteed

1.1.11 Proof of money balances of all ledger accounts

1.1.12 Questionnaire or application for employment executed by each “associated person” approved in writing by an authorized representative of the broker/dealer

1.1.13 Fingerprint records required to be maintained pursuant to SEC Rule 17f-2(d)

1.1.14 Exemptions from Rule 17a-3

1.1.14.1 Introducing broker/dealers

1.1.14.2 Broker/dealers clearing through banks

1.2 SEC Rule 17a-4 — Records to be Preserved by Brokers and Dealers (MSRB Rule G-9)

1.2.1 Records to be preserved for not less than six years

1.2.2 Records to be preserved for not less than three years

1.2.3 Customer account records for a period of six years after the closing of such account

1.2.4 Partnership articles or articles of incorporation or charter, minute books and stock certificate books for the life of the enterprise and of any successor enterprise

1.2.5 Records with respect to associated persons

1.2.6 Preservation of required records on microfilm or optical storage technology

1.2.7 Applicability of preservation requirements to firms ceasing to transact a securities business

1.2.8 Outside service bureaus

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1.3.1 Filing of monthly and quarterly reports
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1.3.3 Customer statements

1.3.3.1 Exemptions

1.3.3.2 Audited statements to be furnished

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1.3.4 Annual filing of audited financial statements

1.3.5 Nature and form of reports

1.3.6 Accountants

1.3.7 Audit objectives

1.3.8 Extent and timing of audit procedures

1.3.9 Accountant’s reports

1.3.10 Accountant’s report on material inadequacies

1.3.11 Extensions and exemptions

1.3.12 Notification of change of fiscal year

1.3.13 Filing requirements

1.4 SEC Rule 17a-8 — Financial Recordkeeping and Reporting of Currency and Foreign Transactions (NASD Notice to Members 87-51; Federal Register, Volume 52, Number 67)

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

1.5.1 Requirements for broker/dealers whose net capital is less than the required minimum net capital under Rule 15c3-1

1.5.2 Requirement for broker/dealers to send prompt notice after the occurrence of certain specified events

1.5.3 Requirement for broker/dealers who fail to make and keep current the books and records specified in Rule 17a-3

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

2.1.1  Ratio requirements

2.1.1.1  Aggregate indebtedness standard

2.1.1.2  Alternative standard

2.1.2  Minimum requirements

2.1.2.1  Broker/dealers that carry customer accounts

2.1.2.2  Prime brokers

2.1.2.3  Broker/dealers that carry accounts, receive but do not hold customer funds or securities and operate under Paragraph (k)(2)(I) exemption of Rule 15c3-3

2.1.2.4  Introducing broker/dealers

Firms that introduce accounts on a fully disclosed basis to another broker/dealer and do not receive funds or securities

Firms that introduce accounts on a fully disclosed basis to another broker or dealer and receive, but do not hold, customer or other broker/dealer securities and do not receive funds

2.1.2.5  Dealers

2.1.2.6  Mutual fund brokers or dealers transacting a business in redeemable shares of registered investment companies and certain other share accounts

Wire order basis
Subscription basis (and do not otherwise receive or hold funds or securities)

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2.1.2.8  Brokers or dealers transacting a business only in direct participation program securities

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7.3.3.2 Rule 2020 — Use of manipulative, deceptive or other fraudulent devices (NYSE Rule 77)

7.3.3.3 FINRA Rule 2262 — Disclosure of control relationship with issuer

7.3.3.4 FINRA Rule 2251 — Forwarding of proxy and other materials

7.3.3.5 FINRA Rule 2150 — Improper use of customers’ securities or funds; prohibition against guarantees and sharing in accounts (NYSE 353)
Improper use
Prohibition against guarantees
Sharing in accounts; extent permissible

7.3.3.6 FINRA Rule 3160—Networking arrangements between members and financial institutions
| 7.3.3.7 | FINRA Rule 3240—Borrowing from or lending to customers |
| 7.3.3.8 | NASD Rule 2420 — Dealing with non-members  
Transactions with non-members  
Transactions with foreign non-members  
Non-member broker or dealer  
IM-2420-1 — Interpretations between member and non-members |
| 7.3.3.9 | NASD Rule 2430 — Charges for services performed |
| 7.3.3.10 | FINRA Rule 2121 — Fair Prices and Commissions |

**FINRA Rules**

| 7.3.3.11 | FINRA Rule 5110 — Corporate financing rule  
Underwriting compensation and arrangements |
| 7.3.3.12 | FINRA Rule 5122 — Private placements of securities issued  
By a member firm or control entity |
| 7.3.3.13 | FINRA Rule 5121 — Public offerings of securities with conflicts of interest |
| 7.3.3.14 | FINRA Rule 5141 — Sale of securities in a fixed price offering |

**FINRA Rules**

| 7.3.3.15 | Rule 5130 — Restrictions on purchase and sale of initial equity public offerings  
General prohibitions  
Preconditions for sale  
General exemptions  
Issuer-directed securities  
Anti-dilution provisions  
Stand-by purchasers  
Undersubscribed offerings  
Definitions |

**FINRA/NASD Rules**

| 7.3.3.16 | FINRA Rule 3110—Supervision  
Supervisory systems  
Written procedures  
Internal inspections  
Written approval  
Review of correspondence and internal communications  
Qualifications investigated |
Definitions
Office of supervisory jurisdiction
Branch office
NASD 3010—Supervision
Qualifications Investigated
Applicant's Responsibility

7.3.3.17 FINRA Rule 3120—Supervisory control system

7.3.3.18 Rule 3130—Annual certification of compliance and supervisory processes

FINRA and NASD Conduct Rules

7.3.3.19 FINRA Rule 3270 — Outside business activities of registered persons

7.3.3.20 Rule 3040 — Private securities transactions of an associated person

7.3.3.21 Rule 3050 — Transactions for or by associated persons (NYSE Rule 407)
Determine adverse interest
Obligations of executing member
Obligations of associated persons concerning an account with a member
Obligations of associated persons concerning an account with an investment adviser, bank, or other financial institution
Exemption for transactions in investment company shares and unit investment trusts

7.3.3.22 FINRA Rule 3220 — Influencing and rewarding employees of others (NYSE Rule 350)

7.3.3.23 FINRA Rule 4530 — Reporting requirements

7.3.3.24 FINRA Rule 2060 — Use of information obtained in fiduciary capacity

7.3.3.25 FINRA Rule 4311 — Carrying agreements

7.3.3.26 FINRA Rule 4370 — Business continuity plans and emergency contact information

7.3.4 FINRA Procedural Rules

7.3.4.1 Rule 8000 — Investigations and sanctions (NYSE Rules 475, 476, and 477)
Rule 8100 — General provisions
Rule 8200 — Investigations
Rule 8300 — Sanctions

7.3.4.2 Rule 9000 — Code of procedure
Rule 9100 — Application and purpose of code
Rule 9200 — Disciplinary proceedings
Rule 9300 — Review of disciplinary proceeding by national adjudicatory council and NASD Board; application for commission review
Rule 9500 — Other proceedings
7.3.4.3 Rule 9800—Temporary cease and desist orders
    Rule 9810—Initiation of proceeding
    Rule 9830—Hearing
    Rule 9840—Issuance of temporary cease and desist order by hearing panel
    Rule 9870—Application to commission for review

7.3.4.4 Rule 10000 — Code of arbitration procedure (NYSE Rules 347(a), 600 and 601)
    Rule 10100 — Administrative provisions
    Rule 10200 — Industry and clearing controversies
    Rule 10300 — Uniform code of arbitration
    Rule 10400 — Mediation rules (NYSE Rule 638)

7.4 Proprietary Accounts of Introducing Broker/Dealers NASD Notices to Members 99 – 44 and 98/99)

7.4.1 Required computations
    Net capital
    Customer reserve
    Segregation of introducing broker/dealer accounts
    Frequency of calculations

7.4.2 Required written agreements
Sample Question

The questions that appear below are similar in format and content to questions on the examination. This sample of questions, however, is not intended to exactly parallel either the level of difficulty or the subject coverage of the examination. Their purpose here is to assist candidates and training personnel in preparing for the types of multiple-choice questions that will appear on the examination.

Answers
1. (B)  
2. (C)  
3. (A)  
4. (D)

1. Under SEC Rule 17a-3, blotters or other records of original entry must be prepared no later than the
   (A) trade date  
   (B) business day following the trade date  
   (C) settlement date  
   (D) business day preceding the settlement date

2. Under the SEC Net Capital Rule, what is the haircut for the Firm inventory of 2000 shares of WXYZ at 154?
   (A) $154,000  
   (B) $ 92,400  
   (C) $ 46,200  
   (D) $ 23,100

3. A bona fide regular customer, upon request, may inspect an NASD member’s
   (A) balance sheet  
   (B) general ledger  
   (C) stock transfer book  
   (D) investment account

4. Under NASD rules, which two of the following are TRUE regarding a fully disclosed clearing agreement between two NASD members?
   I. Customers must provide a written acknowledgement of the clearing agreement.  
   II. The introducing member is required to submit the agreement to NASD for review.  
   III. The agreement must provide for written notification to customers, upon account opening, of the existence of the clearing agreement.  
   IV. The clearing member is required to submit the agreement to NASD for review.
   (A) I and III  
   (B) I and IV  
   (C) II and III  
   (D) II and IV