Supervisory Analyst Qualification Examination

(Series 16)

Content Outline

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INTRODUCTION

The content outline serves as a guide to the topics that are covered on the Supervisory Analyst Qualification Examination. It is recommended that candidates review the content outline prior to taking the examination.

THE PURPOSE OF THE EXAMINATION

The Series 16 Examination is designed to assess the competency of entry-level Supervisory Analysts. It is intended to safeguard the investing public by helping to ensure that Supervisory Analysts are competent to perform their jobs. Given this purpose, the Series 16 Examination seeks to measure the degree to which each candidate possesses the knowledge, skills and abilities needed to perform the critical functions of a Supervisory Analyst.

This exam qualifies individuals to approve the following communications with the public:

- research reports on debt and equity securities;
- discussions of broad-based indices;
- commentaries on economic political or market conditions;
- technical analysis concerning the demand and supply for a sector, index or industry based on trading volume and price;
- statistical summaries of multiple companies' financial data, including listings of current ratings;
- recommendations regarding increasing or decreasing holdings in particular industries or sectors;
- notices of ratings or price target changes, provided certain conditions are met; and
- other research that does not meet the definition of "research report" under NASD Rule 2711(a)(9), provided that the Supervisory Analyst has technical expertise in the particular product area and any additional product-specific registrations that may be required.

ELIGIBILITY REQUIREMENTS

The candidate must be associated with and sponsored by a FINRA member firm to be eligible to take the Series 16 Examination.

Experience: Incorporated NYSE Rule 344 and its interpretation require candidates to present evidence of three years of appropriate experience. A candidate's member firm must submit, on behalf of the applicant, evidence of that candidate's experience, as deemed acceptable by FINRA.

Appropriate experience for a candidate means at least three years prior experience within the immediately preceding six years involving securities or financial analysis. Examples of appropriate experience may include the following:

- Equity or Fixed Income Research Analyst;
- Credit Analyst for a securities rating agency;
- Supervising preparation of materials prepared by financial/securities analysts;
- Financial analytical experience gained at banks, insurance companies or other financial institutions;
- Academic experience relating to the financial/securities markets/industry.

Exemption: If an individual possesses the appropriate experience, and has passed the Chartered Financial Analyst Level I examination, he or she is exempt from Part II of the Series 16 Examination (Series 162). An applicant requesting an exemption from Part II must include evidence of having passed the CFA Level I Examination.

APPLICATION PROCEDURES

The FINRA member firm that sponsors the applicant must file a Uniform Application for Securities Industry Registration or Transfer (Form U4) in the Central Registration Depository (CRD®) and request the Supervisory

Analyst (SA) position on the Form U4. If the candidate has no U4 (registration application) on file, the member firm must file one with FINRA and request the Series 16 examination on the form.
If the candidate is currently registered in any capacity, the firm must file a letter with FINRA on behalf of the candidate requesting an administration of the exam. The letter must also provide an explanation of the candidate's appropriate experience, and an updated *Page One only* of the U4 application.

EXPERIENCE ACCEPTABILITY & EXAMINATION WAIVER REQUESTS

Member firms must submit all qualification examination waiver requests and Series 16 {experience acceptability} requests electronically through the FINRA Firm Gateway. Member firms' Web CRD Primary Account Administrators will receive (or may apply for) entitlement privileges to give the firm's registration or compliance personnel the ability to file requests for qualification examination waivers and Series 16 experience acceptability through the Firm Gateway.

The following link contains more information on waivers and experience acceptability requests:

http://www.finra.org/Industry/Compliance/Registration/QualificationsExams/RegisteredReps/Qualifications/p010600

STRUCTURE OF THE EXAMINATION

The examination consists of two parts: *Regulations*, and *Valuation of Securities.*

Part I: Regulations - This section *(Series 161)* contains 50 questions regarding relevant FINRA rules, as well as the applicable provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. Candidates are allotted 90 minutes to complete Part I.

Part I focuses on government and self-regulatory organization (SRO) rules and regulations. Of particular importance to Supervisory Analysts are ***FINRA Rule 2210*** *(Communications with the Public),* ***NASD Rule 2711*** *(Research Analysts and Research Reports), and* ***NYSE Rule 472*** *(Communications with the Public).* Candidates are encouraged to have a thorough understanding of these rules and regulations, including applicable information found in Regulatory Notices and FAQs.

Part I delineates two critical job functions:

Function 1: Review and approve research analysts' communications to ensure compliance with applicable SEC and FINRA rules and regulations, and firm policies and procedures (34 questions); and

Function 2: Serve as liaison between the Research Department and other internal and external parties (16 questions).

Part II: Valuation of Securities - This section *(Series 162)* contains 50 questions regarding various topics pertaining to securities' analysis, including accounting, economics, and technical analysis, among others. Candidates are allotted 120 minutes to complete Part II.

Part II delineates two critical job functions:

Function 1: Review the content of the report to assess the accuracy, consistency, and sources of data and calculations included in the report (16 questions); and

Function 2: Review the content of the report to ensure a reasonable basis exists for the analyst's conclusions (e.g., price targets, recommendations, ratings, estimates, and valuation parameters) (34 questions).

DEVELOPMENT AND MAINTENANCE OF THE CONTENT OUTLINE AND EXAMINATION

The Series 16 Content Outline was developed based on the results of a job analysis study of Supervisory Analysts. The job analysis process included collecting data about the job functions, tasks and required knowledge of Supervisory Analysts from a wide variety of firms using numerous data collection techniques, including a survey.

To ensure and sustain the job relevance of the examination, under the guidance of FINRA staff, a committee of industry representatives ("the Committee") writes, reviews and validates all test questions. Test questions are subjected to multiple reviews prior to inclusion on the examination and each question is linked directly to a component of the content outline. Test questions vary in difficulty and complexity. Each question will have only one correct or best answer.

The bank of test questions changes constantly as a result of amendments to, or the introduction of, government and SRO rules and regulations, changes in industry practice and the introduction of new products. It is the candidate's responsibility to keep abreast of such changes when preparing to take the examination. Examination questions and their statistical performance are analyzed routinely by FINRA staff and the Committee to ensure that test questions continue to be relevant to the functions of Supervisory Analysts. Examination questions are updated when necessary to reflect current industry practices and government and SRO rules and regulations. **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 when the rules are amended.**

THE ADMINISTRATION OF THE EXAMINATION

For operational and delivery purposes only, the Series 16 is administered as two separate examinations: ***Series 161*** (for Part I) and ***Series 162*** (for Part II). When making an appointment, the candidate should refer to the Series 16, keeping in mind that reference may also be made to the S161 or the S162.

The examinations are administered via computer. A tutorial on how to take the examination via computer is provided prior to taking the examination.

Scratch paper and basic electronic calculators will be provided to candidates by the test administrator, and must be returned to the test center administrator at the end of the testing session. Some test questions involve calculations. Only calculators provided by the test center administrators are allowed for use during the examination. Candidates will not be permitted to bring any reference material to their testing session. Severe penalties are imposed on candidates who cheat or attempt to cheat on FINRA-administered examinations.

HOW THE EXAMINATION IS SCORED

The passing score for the examination is the minimum number of test questions that a candidate has to answer correctly in order to pass the examination. FINRA staff, in consultation with the Committee, using a standard setting procedure, establishes the passing score for the examination. The passing score is an absolute standard and it is independent of the performance of candidates taking the examination. The passing score for Part I (Regulations) of the examination is 72%. The passing score for Part II (Valuation of Securities) of the examination is 74%.

CANDIDATES' TEST RESULTS

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

The candidate will be registered as an SA after passing both the S161 and S162 (or the Series 161 only if the candidate is exempt from the Series 162 as noted earlier). In the event of a failing score on one part of the exam (or both parts), the candidate must retake whichever part(s) that he failed.

If a candidate fails the examination, he may take the examination again 30 days after the date of the prior examination. If a candidate fails an examination three or more times in succession, he or she must wait until 180 calendar days have elapsed from the date of the last attempt to pass the examination. Within a few days of passing the examination, approval of the candidate's status as an SA will be recorded in the Central Registration Depository (CRD). The individual's registration is effective as of the date of the SA approval in the CRD system, not the date of passing the examination.

THE SERIES 16 CONTENT OUTLINE

Part I. Regulations

Function 1: Review and approve research analysts' communications to ensure compliance with applicable SEC and FINRA rules and regulations, and firm policies and procedures.

Tasks:

T1. Determine whether communication is a research report and determine the necessary approvals (e.g., SA, appropriately qualified principal, legal and compliance) or additional review by product specialists.
T2. Verify whether publishing of the communication is permissible (e.g., restricted list, watch list, quiet period, black-out period).
T3. Review the content of the communication to ensure that any price target or recommendation has a reasonable basis and includes the required discussion of risks.
T4. Ensure the report or other communication distinguishes fact from opinion or rumor, and does not include exaggerated or promissory language or any other language that will make the report unfair or unbalanced.
T5. Verify that a research report includes all applicable required disclosures.

Function 2: Serve as liaison between the Research Department and other internal and external parties.

Tasks:

T6. Comply with regulations and firms' policies and procedures when trading in personal and related accounts and maintain appropriate record keeping.
T7. Ensure that appropriate disclosures are provided and documented when a research analyst makes a public appearance (e.g., media, seminars, webinars, sales presentations, non-deal road shows).
T8. Coordinate with the legal/compliance department to obtain any necessary approvals for communications between analysts and other parties (e.g., the subject company, investment banking, sales or trading).
T9. Ensure that systems are in place for appropriate dissemination of communications (e.g., selective dissemination standards).

Knowledge of Rules and Regulations:

FINRA Rules:

Rule 2010 - *Standards of Commercial Honor and Principles of Trade*

Rule 2020 - *Use of Manipulative, Deceptive, or Other Fraudulent Devices*

Rule 2210 - *Communications with the Public*

Rule 5280 - *Trading Ahead of Research Reports*

NASD Rules:

Rule 1022 - *Categories of Principal Registration*

Rule 1050 - *Registration of Research Analysts*

Rule 2711 - *Research Analysts and Research Reports*

NYSE Rules:

Rule 342(b)(1) - *Offices - Approval, Supervision and Control*

Rule 344 - *Research Analysts and Supervisory Analysts*

Rule 345A - *Continuing Education for Registered Persons*

Rule 351(f) – *Reporting Requirements*

Rule 435(5) - *Miscellaneous Prohibitions-Circulation of Rumors*

Rule 472 - *Communications with the Public*

Securities Act of 1933:

Section 5(b)(1)(2) - *Prospectus Requirements*--delivery of prospectus for new issues

Section 12 – *Civil liabilities Arising in Connection with Prospectuses and Communications*

Rule 134 - *Communications not Deemed a Prospectus*

Rule 135 - *Notice of Proposed Registered Offerings*

Rule 135a – *Generic Advertising*

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

Rule 138 - *Publications or Distributions of Research Reports By Brokers or Dealers About Securities Other Than Those They are Distributing*

Rule 139 - *Publications or Distributions of Research Reports By Brokers or Dealers Distributing Securities*

Rule 144 – *Persons Deemed Not to Be Engaged in a Distribution and Therefore Not Underwriter*

Rule 144A - *Private Resales of Securities to Institutions*

Securities Exchange Act of 1934:

Section 9 – *Manipulation of Security Prices*

Section 15D – *Securities Analysts and Research Reports*

Rule 10b-1 - *Prohibition of Use of Manipulative or Deceptive Devices or*

Contrivances with Respect to Certain Securities Exempted from Registration

Rule 10b-3 - *Employment of Manipulative and Deceptive Devices (by brokers or dealers)*

Rule 10b-5 - *Employment of Manipulative and Deceptive Devices (by persons)*

Rule 17a-4 - *Records to Be Preserved by Certain Exchange Members, Brokers and Dealers*

Regulation AC - *Analyst Certification*

Regulation G - *Non-GAAP Disclosures*

Regulation M:

Rule 101(b)(1) - *Activities by Distribution Participant: Research*

Rule 101(c)(1) - *Activities by Distribution Participant: Excepted Securities*

Regulation FD - *Selective Disclosure and Insider Trading (Fair Disclosure)*

SUGGESTED REFERENCES

FINRA Rules and Regulations can be found on FINRA's website

http://www.finra.org/Industry/Regulation/

The Securities Act of 1933 and the Securities Exchange Act of 1934 can be found on the SEC's website

http://sec.gov/about/laws.shtml

Part II. Valuation of Securities

Function 1: Review the content of the report to assess the accuracy, consistency and sources of data and calculations included in the report.

Tasks:

T1. Verify that data and estimates included in the report are labeled and sourced properly and that the analyst has permission to use the data sourced

T2. Confirm calculations presented in the report are relevant, reasonable, reconcile with financial statements and are consistent throughout

T3. Verify the subject company's market data (dividends, yield, market cap, price, trading volume, 52-week high-low stock prices), and accuracy and credibility of data sources provided throughout the report

Function 2: Review the content of the report to ensure a reasonable basis exists for the analyst's conclusions (e.g., price targets, recommendations, ratings, estimates, and valuation parameters)

Tasks:

T4. Review financial models to confirm accuracy and consistency of use throughout the report

T5. Validate that projections are reasonable and there is a reasonable explanation for estimate changes

T6. Verify that valuation methods and rationale for ratings are reasonable and that the data/estimates support the ratings or outlook

T7. Verify that recommendation is aligned with the price target and that price target parameters are accurate and relevant

T8. Validate that valuation thesis supports recommendation

T9. Ensure that recommendations and the content of the report are consistent

Knowledge:

Financial Accounting

Principles and Construction of Accounting Statements

- Income statements
- Balance sheets
- Statement of Cash Flows
- Auditor's report; importance of footnotes
- Management's discussion and analysis of operating results and financial condition

Financial Analysis of Accounting Statements

- Adjustments for comparability (operating income, balance sheet adjustments and sustainable cash flow adjustments)
- Calculations of key ratios
- Adjustments for subsidiaries, affiliates and foreign operations
- Stock splits and dividends

Accounting Principles and Practices

- Inventories
- Depreciation
- Income taxes
- Intangibles
- Consolidation
- Acquisitions and mergers
- Deferred assets and liabilities
- Pension plans
- Options

Economics

Microeconomic

- Concepts of demand, supply and elasticity
- Basic principles of market structures: monopolies, oligopolies, pure competition

Macroeconomics: Aggregate Analysis

- Fiscal policy--effects on aggregate demand and supply
- Relationships among budget deficits, inflation, and interest rates
- Components of the business cycle

Monetary Policy and International Economics

- Monetary policy effects on interest rates, output, and employment
- Monetary theory--velocity of money
- Relationships among balance of payments, exchange rates and interest rates; the effects of monetary and fiscal policies on the exchange-rate value for a given currency

Money and the Banking System

- Functions of Role of the Federal Reserve Board--Federal Open Market Committee (FOMC)
- Definition of money and money supply

Analysis of Fixed Income Securities

Bond Instruments and Analysis

- Fixed-income instruments
- Taxable, tax exempt
- U.S. Treasuries; government agencies' securities
- International fixed-income
- Conventional, mortgage-backed, convertible security, debenture, high-yield junk bonds, mortgage-related securities, deep discount bond, commercial paper, collateralized mortgage obligations, asset-backed securities
- Fixed-coupon, floating-coupon, zero-coupon, call protection
- Sinking fund, put, extendable, retractable, fixed maturity

- Average life, half-life of amortizing, mortgage-backed bonds
- Yield and duration
- Types of bond swaps
- Credit quality--bond ratings, earning power tests, asset tests

Credit Markets

- Yield curve, yield spread, investor expectations, relative value, interest rate forecasting
- Credit Default Swaps

Analysis of Equity Securities

Sources of Information (news information, pricing information, financial information)

Types of Equity Securities

- Stocks (common and preferred), American Depositary Receipts (ADRs), warrants, rights, ETFs, closed-end funds, etc.

Industry Appraisal and Evaluation

- Inter-industry competition, supply-demand, product prices, costs and profits

Company Valuation

- Sales volume, product prices, product research, intra-industry competition Ratio analysis--balance sheet and income statement and analysis of corporate profitability, liquidity, solvency, operating and financial leverage
- Management appraisal
- Earnings quality and dividend security; near- and long-term; growth rate determination
- Valuation analysis and techniques--long- and short-term discounted cash flow earnings multiples, absolute and relative valuation models, growth stock valuation, security market valuation and target price
- Forecasting
- Risk analysis--quantitative and qualitative, alpha and beta considerations

Analysis of preferred stocks

Analysis of packaged securities

Technical analysis

Analysis of the equities markets

- Market sentiment, advance/decline index, market momentum, available funds, trading volume

Basic chart patterns, trend lines, and key terms

- Breakouts, resistance levels, support levels, moving averages, consolidation, stabilization, overbought, oversold

In addition, a basic understanding and application of the following is required:

A. Asset turnover
B. Cash collection cycle (including receivables turnover, inventory turnover, and payables turnover)
C. Current ratio (working capital ratio)
D. Debt to capital ratio (total and long-term)
E. Debt to equity ratio (total and long-term)
F. Dividend payout ratio
G. Earnings Per Share (EPS)
H. Earnings Before Interest and Taxes (EBIT) margin
I. Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) margin
J. Equity turnover
K. Gross profit margin
L. Interest coverage ratio
M. Inventory valuation (e.g., LIFO, FIFO)
N. Leases
O. Net profit margin
P. Pension liability accounting
Q. Pre-tax margin
R. Pro forma vs. GAAP reporting
S. Operating profit margin
T. Quick ratio (Acid test)
U. Return on assets
V. Return on equity
W. Return on invested capital
X. Leverage, including degree of operating, financial and total leverage.
Y. Tax accounting (including tax rate calculation and deferred tax accounting)

SAMPLE QUESTIONS

The following sample questions are included to provide an introduction to the basic formats of multiple-choice questions used on the examination. The sample questions do not reflect the difficulty level of actual test questions. Candidates who familiarize themselves with these formats may be able to improve their test-taking skills so that their performance on the examination will better reflect their knowledge of the areas tested.

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

Example: Which of the following formulas would a research analyst use to calculate a P/E Ratio?

(A) Market value per share / earnings per share*
(B) Total liabilities / total stockholders' equity
(C) Net income available to shareholders / number of shares outstanding
(D) Dividend / earnings

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

Example: **I**f a perfume manufacturer raises the price of its product and, as a result, revenues fall sharply, the demand for the company's perfume can be described as:

(A) Inelastic
(B) Elastic
(C) Nondiscretionary
(D) Discretionary

Except or Not: The "EXCEPT" case is used when the task is to select the response option that is an exception to the principle or rule stated in the stem. If it is clearly more straightforward or less awkward to use "not," rather than "except," this is done. In either case, the stem may be open or closed.

Example: "When we first recommended XYZ, the stock was selling at 15.50. A year later, the price for the shares had almost doubled. The stock has continued to advance since then and has been the only one in its industry group to post a new high since the beginning of this year." For a Supervisory Analyst to find the preceding statement acceptable in a research report, the report MUST contain all the following EXCEPT

(A) The past 12 months' performance data for all stocks in a related universe
(B) An indication of the general market conditions during the period covered
(C) The comment that past performance does not guarantee future results
(D) Two years' price history for the stock*

REFERENCES

Listed below are government and SROs' websites that provide information about rules and other information that may useful in preparing for the examination. In addition to information about rules, the SROs may publish glossaries of terms, explanations of securities products, and compliance procedures. Candidates are encouraged to refer to the SROs' websites for information memos or Regulatory Notices concerning amendments to rules and the announcement of new rules that may be pertinent to the examination. Copies of federal securities laws and SEC rules may be purchased through the network of federal government printing offices. However, some of this information may be available on the SROs' and pertinent federal government's (*e.g.,* the SEC) websites. It is recommended that candidates refer to the content outline as part of their preparation to take the examination. Candidates are responsible for planning their course of study in preparation for the examination. FINRA produces only the content outline and is not involved or endorses any particular course of study.

Financial Industry Regulatory Authority (FINRA)
1735 K Street
Washington DC, 20006
www.finra.org

Securities and Exchange Commission
Office of Investor Education and Advocacy
1-800-SEC-0330
www.sec.gov

Securities Industry/Regulatory Council
On Continuing Education
www.cecouncil.com