



Research Analyst Qualification Examinations (Series 86 and 87)

CONTENT OUTLINE

Series 86/87

PURPOSE OF THE EXAMS

The Series 86 and 87 exams are designed to assess the competency of entry-level Research Analysts. The Series 86 and 87 exams seek to measure the degree to which each candidate possesses the knowledge, skills and abilities needed to perform the critical functions of a Research Analyst. In order to obtain registration as a Research Analyst, candidates must pass both the Series 86 and 87 exams and a general knowledge co-requisite, the Securities Industry Essentials (SIE) exam. For more information about the activities requiring registration as a Research Analyst, see FINRA Rule 1220(b)(6).

STRUCTURE OF THE EXAMS

The exams comprise two parts: Part I (Series 86) and Part II (Series 87). Part I contains 85 multiple-choice items and Part II consists of 50 multiple-choice items. Each item consists of four answer choices. The allocation of exam items for each major function is as follows:

Part 1 (Series 86)

Function	Description	Percentage of Exam Items	Number of Items
1	Information and Data Collection	21%	18
2	Data Verification and Analysis	33%	28
3	Valuation and Forecasting	46%	39
TOTAL		100%	85

Part 2 (Series 87)

Function	Description	Percentage of Exam Items	Number of Items
4	Preparation of Research Reports	72%	36
5	Dissemination and Marketing of Information	28%	14
TOTAL		100%	50

ADMINISTRATION OF THE EXAMS

The exams are administered via computer. A tutorial on how to take the exams is provided prior to taking the exams. Each candidate's exam includes additional, unidentified pretest items that do not contribute toward the candidate's score. The pretest items are randomly distributed throughout the exam. The Series 86 exam includes 10 additional pretest items, and the Series 87 exam includes 5 additional pretest items. Therefore, each candidate's Series 86 exam consists of a total of 95 items (85 scored and 10 unscored), and each candidate's Series 87 exam consists of a total of 55 items (50 scored and 5 unscored). There is no penalty for guessing. Therefore, candidates should attempt to answer all items. Candidates will be allowed 4 hours and 30 minutes to complete the Series 86 exam, and 1 hour and 45 minutes to complete the Series 87 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 for additional details.

Function 1: Information and Data Collection — Collects Information and Data from Various Sources to Evaluate the Economy and the Industry

1.1. Gather macroeconomic data

Knowledge of:

- Current macroeconomic status
 - Economic indicators
 - Market forces
 - Fiscal Policy
 - Monetary policy
 - Government statistics (e.g., consumer confidence, disposable income, unemployment rates, inflation and interest rates, gross domestic product (GDP))
- Short- and long-term trends in:
 - Economy
 - Demographic information
 - Domestic and international issues
- Key economic drivers that impact the covered industry that may be supplemented or confirmed by conducting correlation studies of industry factors (e.g., using statistical techniques such as regression analysis)

1.2. Gather information about the industry sector

Knowledge of:

- Current industry status
 - Market size
 - Capital intensity
 - Growth rate
 - Products offered
 - Product pricing flexibility
 - Supplier dynamics
 - Supply curve
 - Customer demand
 - Regulatory issues
- Short-term and long-term trends within the industry sector
 - Secular
 - Industry
 - Cyclical
- Product demand and profitability assessment
 - Demand influences
 - Competitive climate
 - Product pricing flexibility
 - Factors affecting costs and profits
- Relationships of companies in the industry sector and peripheral sectors
 - Potential entry and exit of competing companies and/or products
 - Inter-relationships of companies within the industry sector through comparative analyses of like companies
 - Assessing risks of disruptive companies
 - Inter-relationships of peripheral sectors and companies that may affect the industry sector
 - Intra-industry competition to determine how companies are positioned competitively in their industry

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- Inter-industry competition to determine how companies are positioned competitively out of their industry
- The potential impact of the economy and regulatory environment on the industry sector

Function 2: Data Verification and Analysis of Individual Companies and the Industry Sector's Key Drivers

2.1 Analyze the data obtained about companies, the industry sector, competition, and supply and demand in the industry sector

Knowledge of:

- Fundamental Analysis
 - Company status based on the company's current and historical financial statements (e.g., Form 10-Ks, Form 10-Qs, income statements, balance sheets, statements of sources and uses of cash) and short- and long-term trends
 - Financial status
 - Legal and organizational structure
 - Supply chain
 - Costs
 - Revenue
 - The inter-relationships of financial statements, including relevant ratios or metrics
 - Business plan and implementation
 - Factors that influence a company's profits or growth prospects
 - Quality of management
 - Contract structures
 - Capital expenditures
 - Current capacity and capacity for growth
 - Strength of business model
 - New ideas, products or strategies
 - Product assessment
 - Customer concentration
 - Subscriber acquisition costs
 - Receivable turnover
 - Inventory turnover
 - Payables turnover
 - Depreciation methodology (LIFO vs FIFO)
 - Leases
 - Pension liability accounting
 - Tax rate calculation
 - Deferred tax accounting
 - Capital structure, debt structure and maturities
 - Working capital
 - The impact of corporate actions on individual companies
 - Mergers and acquisitions
 - Restructuring
 - Divestitures
 - Consolidations
 - A company's accounting practices for understanding the methodology variances and/or conservatism versus industry peers based on generally accepted accounting principles (GAAPs) and Financial Accounting Standards Board (FASB) principles

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- Adjusted financial information
- Accounting rule changes
- Differences between GAAP adjusted financials and underlying economics
- Key financial ratios and implications of adjusted financial figures
 - Margins
 - Pre-tax margin
 - Gross profit margin
 - Net profit margin
 - Return on equity (ROE)
 - Return on assets (ROA)
 - Return on invested capital (ROIC)
- Corporate governance, as detailed in proxy statements or other documents

Function 3: Valuation and Forecasting: Create a model to assess the current value of the company and forecast future valuation based on expectations derived from gathered data and analysis

3.1 Make financial projections about a company using qualitative and quantitative data

Knowledge of:

- Projections of future earnings and financial condition
 - Forecasts of key financial statements
 - Income statement
 - Sales
 - Gross profit
 - Operating profit
 - Cash flow statement
 - Sources of cash
 - Uses of cash
 - Balance sheet
 - Working capital
 - Asset productivity
 - Return on assets
 - Return on equity
 - Evaluation of assumptions and support of the theory based on the data that were analyzed
 - Ongoing monitoring and adjustments of financial models and projections

3.2 Determine the company's valuation and any recommendation

Knowledge of:

- Common metrics used to determine a company's valuation
 - Price to earnings (P/E)
 - Price-to-book (P/B) value (stated and tangible)
 - Price to free cash flow
 - P/E normalized earnings (for cyclical industries: mid-cycle or trend-line)

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- P/E to growth (PEG) ratio
- Debt to EBITDA
- Debt to capital ratio
- Debt to equity ratio (total and long-term)
- Dividend discount model
- Discounted cash flow
- Enterprise value (EV) to earnings before interest, taxes, depreciation and amortization (EBITDA)
- EV to sales
- Leverage ratio
- Interest coverage ratio
- Cost of capital
- Dividend yield
- Earnings yield
- Free cash flow yield
- Economic profit
- Private equity value/sum of the parts analysis

3.3 Forecast the future valuation of the company and determine any recommendation by identifying key catalysts that may alter the price of a stock and identifying patterns or events (macro, political, or company-specific) that move stock prices and create investment opportunities

Knowledge of:

- Characteristics of markets
- Factors that could impact the perceived risk of an investment
- Technical analysis
- Large shareholder exposure
- Activist investors
- Valuation considerations
 - Valuation relative to historical averages
 - Valuation relative to peer group
 - Patterns or events
 - Macro
 - Political
 - Company-specific

Function 4: Preparation of Research Reports — Prepare a Variety of Reports Summarizing the Research Conducted on Industry Sectors or Subject Companies. Develop Comprehensive Statements or Opinions Based on the Interpretation of the Data Collected and Analyzed. Create Drafts of Research Reports or Notes

4.1. Adhere to regulatory requirements in preparing research reports

Knowledge of:

- Disclosure requirements
 - Ratings systems
 - Distribution of ratings issued by the firm
 - Price chart with historical information
 - Investment banking-related conflicts of interest
 - Financial interest of the research analyst or a household member in the equity securities of the subject company.
 - Firm ownership of securities and if the firm makes a market in the subject company's securities
 - Other material conflicts of interest (by the analyst or the firm) to be included in reports and in public appearances
- Appropriate approvals needed prior to disseminating reports or information
- SEC Regulation AC certification requirements
- Managing conflicts of interest and other compliance requirements
 - Restrictions on the issuance of research reports and participation in public appearances
 - Communications restrictions and disclosure requirements
 - Compensation restrictions and disclosures
 - Trading restrictions associated with publishing research
 - Record keeping and document retention procedures
 - Other applicable SRO rules or regulations

FINRA Rules

- 1220(a)(14) – Supervisory Analyst
- 2210 – Communications with the Public
- 2241 – Research Analysts and Research Reports
- 2262 – Disclosure of Control Relationship with Issuer
- 2269 – Disclosure of Participation or Interest in Primary or Secondary Distribution
- 3110 – Supervision
- 3120 – Supervisory Control System
- 5121 – Public Offerings of Securities with Conflicts of Interest
- 5141 – Sale of Securities in a Fixed Price Offering
- 5230 – Payments Involving Publications that Influence Market Price of a Security

SEC Rules and Regulations

- 15c1-5 – Disclosure of Control
- 15c1-6 – Disclosure of Interest in Distributions
- Regulation A – Conditional Small Issues Exemption
- Regulation AC – Analyst Certification
- Regulation FD – Selective Disclosure and Insider Trading (Fair Disclosure)
- Regulation G – Non-GAAP Disclosures
- Regulation S – Rules Governing Offers and Sales Made Outside the U.S. Without Registration Under the Act of 1933

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4.2. Prepare various research reports supported by evidence and analysis

Knowledge of:

- Reports announcing initiation of coverage; ratings, price target or projected earnings changes; and termination of coverage
- Earnings analysis, earnings preview, and earnings review reports
- Fundamental reports
- Topical reports on relevant issues or theme pieces
- Short notes and summaries of pertinent news
- Industry reports
- Components of reports
 - Business model analysis
 - Company overview
 - Competitive position
 - Financial position
 - Quality of management
 - Industry overview
 - Industry and company outlook (projection)
 - Dividend outlook
 - Investment thesis
 - Sensitivity of company costs and revenues
 - Quality/quantity of earnings
 - Review of recently released financial data
 - Review of recent news
 - Ratings or recommendations
 - Valuation of company stock
 - Risk of investment

FUNCTION 5: Dissemination and Marketing of Information

5.1. Present and discuss research with the various individuals and/or groups

Knowledge of:

- Retail and institutional clients (*i.e.*, buy-side analysts, portfolio managers, hedge fund managers, mutual fund managers, pension fund managers, money managers)
- Institutional sales force
- Retail sales force
- Trading departments
- Management of companies
- Press and media
- Other research teams

FINRA Rule

5280—Trading Ahead of Research Reports

1220(b)(6) – Research Analyst

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5.2. Disseminate information via various means

Knowledge of:

- Dissemination of research including telephone, blast voice mail, instant messaging, text messaging, email, firm's website, internal "squawk box," external news information sources, social media, video pitches and podcasts

FINRA Rule

435(5)T – Miscellaneous Prohibitions-Circulation of Rumors

SEC Rules and Regulations

Securities Act of 1933

Section 5(b)(1)(2) – Prospectus Requirements – Delivery of Prospectus for New Issues

Section 11 – Civil Liabilities on Account of False Registration Statement

Section 12 – Civil Liabilities Arising in Connection with Prospectuses and Communication

Section 15 – Liabilities of Controlling Persons

Section 17 – Fraudulent Interstate Transactions

Securities Exchange Act of 1934

Section 9(a)(5) – Dissemination of Information for Consideration — Market Manipulation

Section 15D – Securities Analysts and Research Reports

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)

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

Regulation A-R – Special Exemptions

134 – Communications Not Deemed a Prospectus

134a – Options Material Not Deemed a Prospectus

135 – Notice of Proposed Registered Offerings

137 – Publications or Distributions of Research Reports by Brokers or Dealers that are not Participating in an Issuer's Registered Distribution of Securities (*i.e.*, definition of "offers," "participates" or "participation" in Section 2(11) of the Securities Act of 1933 in relation to certain publications by persons independent of participants in a distribution)

138 – Publications or Distributions of Research Reports by Brokers or Dealers About Securities Other than Those They Are Distributing (*i.e.*, definition of "offer for sale" and "offer to sell" in Sections 2(a)(10) and 5(c) of the Securities Act of 1933 in relation to certain publications)

139 – Publications or Distributions of Research Reports by Brokers or Dealers Distributing Securities (*i.e.*, definition of "offer for sale" and "offer to sell" in Sections 2(a)(10) and 5(c) of the Securities Act of 1933 in relation to certain publications)

144 – Persons Deemed Not To Be Engaged in a Distribution and Therefore Not Underwriters

144A – Private Resales of Securities to Institutions

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

Regulation M

101(b)(1) – Activities by Distribution Participant: Research

101(c)(1) – Activities by Distribution Participant: Excepted Securities