

ATTACHMENT 4

SUMMARY OF NASD EXAMINATION REQUIREMENTS

NASD Examinations for Principals and Representatives of Broker/Dealers

I. INTRODUCTION

One of the issues confronting the Task Force is the question of appropriate examinations. To start that process we addressed the issue of what functions registered representatives and principals of NASD member broker-dealers are permitted to perform under each NASD examination. More specifically, we are concerned with which examinations would permit representatives to sell private placements of corporate or other entity securities and which examinations would permit a principal to supervise a representative engaged in this activity?

This outline summarizes the examinations offered for registered representatives and principals and the functions each examination permits an individual passing that examination to perform. The series 82 examination is the examination which would most closely qualify a representative to sell private placements of corporate securities. The series 82 examination is separated into 4 sections: (1) characteristics of corporate securities (14 questions); (2) regulation of the market for registered and unregistered securities (45 questions); (3) analyzing corporate securities (15 questions); and (4) handling customer accounts and industry regulations (26 questions). However the series 82 examination only permits a representative to issue private placements of corporate securities as part of a primary offering. In addition, there is no corresponding principal examination to the series 82 examination for a representative.

II. CATEGORIES OF PRINCIPAL REGISTRATION AND EXAMINATION REQUIREMENTS

- A. **Registered Options Principal - (Series 4)** - This examination is required of an individual who will function as a registered options principal, compliance registered options principal, or senior registered options principal.¹ The topics covered under the Series 4 examination are general options contract trading knowledge and the regulations applicable to options trading, exchange rules, and Options Clearing Corporation rules.² The options exchanges, NYSE and the NASD require this test for people who will

¹Dynasty School, *Securities Series (NASD) License Information*, at <http://www.dynastyschool.com/sp-study.htm> (last visited July 9, 2002) [hereinafter Dynasty School].

²NASD, *NASD Registration and Examination Requirements*, at http://www.nasdr.com/5200_explan.asp (last visited July 9, 2002) [hereinafter NASD].

supervise the day-to-day activities of representatives who conduct business for the public in the options markets.³

- B. **General Securities Sales Supervisor - Options - (Series 9)** - This registration is required to be qualified to supervise the purchase and sale of options.⁴
- C. **General Securities Sales Supervisor - General - (Series 10)** - This examination qualifies a representative to supervise the purchase and sale of general securities.⁵ A registered principal under this series is qualified to sell securities, train sales personnel and sales supervisory personnel, and maintain records.
- D. **Compliance Officer (NYSE) - (Series 14)** - "Focuses on the rules of the SEC, NYSE, and NASD related to the responsibilities of a compliance official."⁶
- E. **Supervisory Analyst NYSE - (Series 16)** - This examination is conducted by the NYSE and required of those principals who prepare and approve research reports. The topics covered under a Series 16 examination are: NYSE Rules, Securities Act of 1933, Securities Exchange Act of 1934, rules for advertising, and techniques for analysis for fixed-income and equity securities.⁷
- F. **Investment Company Products/Variable Contracts Limited Principal - (Series 26)** - This examination is required to qualify an individual to supervise "the solicitation, purchase, and/or sale of redeemable securities of companies registered pursuant to the Investment Company Act of 1940; securities of closed-end companies registered pursuant to the Investment Company Act of 1940 during the period of original distribution only; and variable contracts and insurance premium funding programs and other contracts issued by an insurance company."⁸

³ Securities Examination Preparation, Inc., *NASD and NFE Examination Description*, at <http://home.earthlink.net/~examprep/examdef.html> (last visited July 9, 2002) [hereinafter Securities Examination Preparation].

⁴ Dynasty School, *supra* note 2.

⁵ *Id.*

⁶ Securities Training Corporation, *Courses and Schedules*, at <http://www.stcusa.com/course/home.html> (last visited July 9, 2002) [hereinafter Securities Training].

⁷ *Id.*

⁸ NASD, *supra* note 1.

- G. **Financial and Operations Principal - (Series 27)** - This examination qualifies individuals to prepare and maintain the books and records of a member.⁹ The chief financial officer and any other person involved in the financial and operational management of an NASD member must successfully complete this exam.¹⁰
- H. **Introducing Broker/Dealer Financial and Operations Principal - (Series 28)** - "This examination is required for the individual responsible for the recordkeeping requirements of introducing firms which do not carry customer accounts or hold customer funds or securities. Note that market makers must qualify with the Series 27."¹¹ A principal qualified under this series performs the same duties as listed under the Series 27 exam, but the supervision is over the activities of an introducing broker-dealer.
- I. **Direct Participation Programs Limited Principal - (Series 39)** - "This qualifies an individual who will function as a principal for the solicitation, purchase, and/or sale of programs which provide for flow-through tax consequences, such as oil and gas programs, real estate programs, and S corporation offerings."¹²
- J. **Municipal Securities Principal - (Series 53)** - Principals who supervise the activities of representatives dealing in municipal securities are required to pass this exam.¹³

III. CATEGORIES OF REPRESENTATIVE REGISTRATION AND EXAMINATION REQUIREMENTS

- A. **Investment Company/Variable Contracts Representative - (Series 6)** - "Required of individuals soliciting the purchase or sale of redeemable securities (mutual funds) registered under the Investment Company Act of 1940, variable contracts and insurance premium funding programs (variable life) issued by insurance companies."¹⁴
- B. **Assistant Representative - Order Processing - (Series 11)** - "This examination is designed for persons associated with a member who accepts unsolicited customer orders for submission for execution by a member. They cannot accept orders for municipal securities or direct participation programs."¹⁵

⁹ Dynasty School, *supra* note 2.

¹⁰ Securities Examination Preparation, *supra* note 4.

¹¹ NASD, *supra* note 1

¹² *Id.*

¹³ Dynasty School, *supra* note 2.

¹⁴ *Id.*

¹⁵ NASD, *supra* note 1.

- C. **Limited Registered Representative - (Series 17)** - "For individuals who are currently registered representatives under the auspices of the Securities and Futures Authority in the U.K. and wish to qualify in the United States."¹⁶ This examination tests the topics of advertising, qualifying customers, industry regulations, securities instruments, handling customer accounts, securities markets, order handling, and confirmations.¹⁷
- D. **Direct Participation Programs Limited Representative - (Series 22)** - This examination is required of representatives who wish to sell direct participation programs "such as limited partnerships in oil & gas, real estate or S-corporation offerings."¹⁸
- E. **Canada Module of the Series 7 - (Series 37 contains options questions)** - This examination qualifies Canadian registered representatives to sell securities in the United States through a United States broker-dealer.¹⁹
- F. **Canada Module of the Series 7 - (Series 38 has no options questions)** - This examination qualifies Canadian registered representatives who are already options-qualified to sell securities in the United States through a United States broker-dealer.²⁰
- G. **Registered Options Representative - (Series 42)** - "The Series 42 Registered Options Limited Representative Examination is used to qualify candidates as Registered Options Representatives (ROR's) for equity, debt, foreign currency, and index options. A co-requisite to registration as an ROR is registration as a Corporate Securities Limited Representative (Series 62) or as a General Securities Registered Representative (Series 7). The co-requisite registrations are required to establish a candidate's qualifications in the securities and the markets underlying options."²¹

¹⁶Series 7 Test.com, *NASD Examination Preparation*, at <http://www.series7test.com/other-NASD-Exam.html> (last visited July 9, 2002) [hereinafter Series 7].

¹⁷ Securities Training, *supra* note 7.

¹⁸ Dynasty School, *supra* note 2.

¹⁹ Securities Training, *supra* note 7.

²⁰ *Id.*

²¹The Cert Times Financial Edition, *Series 42-Registered Options Limited Representative*, at <http://www.certtimes.com/fin/examguide.php?topic=nasd&eg=42> (last visited July 9, 2002) [hereinafter Cert Times].

- H. **Japan Module of the Series 7 - (Series 47) - (not yet available)** - This examination is required for Japanese registered representatives wishing to sell securities in the United States through a United States broker-dealer.²²
- I. **Municipal Securities Representative - (Series 52)** - "For persons selling municipal bonds who do not have a Series 7 license. Along with municipal securities and municipal markets, the examination covers: U.S. government, federal agency and other financial instruments, federal legal considerations, and the behavior of interest rates."²³
- J. **Equity Trader Limited Representative - (Series 55)** - "Qualifies candidates to trade equity and convertible debt securities on a principal or agency basis. Series 7 (including the foreign modules) or Series 62 registration are prerequisite qualifications for the Series 55."²⁴
- K. **Corporate Securities Limited Representative - (Series 62)** - "This examination qualifies an individual as a representative for the sale of corporate stocks, corporate bonds, rights, warrants, real estate investment trusts, collateralized mortgage obligations, and securities of closed-end companies registered pursuant to the Investment Company Act of 1940."²⁵ "This limited examination is for any person who works for a broker/dealer and will transact business in corporate securities only. Securities excluded from this registration are options, municipal securities, direct participation programs, variable contracts, and mutual funds."²⁶
- L. **Government Securities Limited Representative - (Series 72)** - This examination qualifies a representative to deal in **Treasury** securities, government agency securities, and mortgage-backed securities.²⁷ A representative certified under this examination is not allowed to sell options on government securities.²⁸
- M. **Limited Representative-Private Securities Offerings Representative - (Series 82)** - This examination qualifies a representative to sell private securities offerings as part of a

²²Securities Training, *supra* note 7.

²³ *Id.*

²⁴Fire Solutions, *Securities Examination Prep Courses and Pricing*, at http://www.fireonlinetraining.com/elearning/securities_exam_prep_courses.shtml (last visited July 9, 2002) [hereinafter Fire Solutions].

²⁵ NASD, *supra* note 1.

²⁶ Securities Examination Preparation, *supra* note 4.

²⁷ NASD, *supra* note 1.

²⁸ Series 7, *supra* note 17.

primary offering; however, this does not qualify a representative to sell municipal or government securities or "equity interests in or the debt of direct participation programs (DPP securities)." ²⁹

IV. OTHER EXAMINATIONS ADMINISTERED BY NASD

- A. ***Interest Rate Options Examination - (Series 5)*** - "This examination is required of all general securities representatives, general securities sales supervisors, and registered options principals if they trade options contracts on U.S. government securities."³⁰ "The CBOE (Chicago Board Options Exchange) and the AMEX (American Stock Exchange) require this test for any representative who wishes to transact business only in options on interest rate instruments on those exchanges (e.g., T-Bills, T-Bonds, T-Notes, etc.)."³¹
- B. ***Foreign Currency Options Examination - (Series 15)*** - This examination qualifies representatives and principals to trade options contracts on foreign currencies on the Philadelphia Stock Exchange.³²
- C. ***National Commodity Futures Examination - (Series 3)*** - "The National Futures Association (NFA) requires this examination for anyone who is going to act as an Associated Person, Commodity Trading Advisor, Commodity Pool Operator, Introducing Broker, or Futures Commission Merchant and those Series #7 or Series #22 registered representatives who are interested receiving commissions on the sale of commodity limited partnerships or managed funds."³³
- D. ***Branch Managers Examination - Futures - (Series 30)*** - This examination is required by the National Futures Association "for those who act as a branch office manager for a (NFA Member) commodity futures firm."³⁴
- E. ***Futures Managed Funds Examination - (Series 31)*** - This examination is required by the National Futures Association and "is required for those who wish to receive trailing commissions on commodity limited partnerships or to raise money for CTAs and CPOs

²⁹Test-N-Learn Company, *Series 82 Course for Private Securities Offerings*, http://www.test-n-learn.net/series_82.htm (last visited July 9, 2002) [hereinafter Test-N-Learn].

³⁰ NASD, *supra* note 1.

³¹ Securities Examination Preparation, *supra* note 4.

³² NASD, *supra* note 1.

³³ Securities Examination Preparation, *supra* note 4.

³⁴ *Id.*

and who do not have or wish to take the Series 3. It is a limited registration and does not allow you to open regular commodity trading accounts."³⁵

- F. **Limited Futures Examination - Regulations - (Series 32)** - "This test is required for those individuals registered with the Securities and Futures Authority ("SFA") in the United Kingdom (as a General Representative or a Futures and Options Representative and who has taken and passed SFA's exam) to meet U.S. National Futures Association ("NFA") requirements."³⁶
- G. **Financial Instruments Examination - (Series 33)** - "Individuals may use the Series 33 if (1) they are **registered** with the NASD as a General Securities Representative with their sponsor and (2) they are going to limit their futures activities on behalf of their sponsor to soliciting or accepting customer orders for futures or options involving stock index, currency or interest rate products or security futures products or supervising persons who perform these same limited activities."³⁷
- H. **Uniform Securities Agent State Law Examination - (Series 63)** - Representatives who wish to sell securities inter-state must pass this examination ("Blue Sky Registration").³⁸
- I. **Uniform Investment Adviser Law Examination - (Series 65)** - This exam, required by certain states and created by NASAA, certifies a representative to provide investment advice for fee-based compensation.³⁹
- J. **Uniform Combined State Law Examination - (Series 66)** - "The Series 66 is required of individuals acting as or soliciting for the service of investment advisors and soliciting the purchase or sale of securities within a state."⁴⁰

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³⁵ *Id.*

³⁶ *Id.*

³⁷ National Futures Association, *Proficiency Requirements*, at <http://www.nfa.futures.org/registration/proficiency.html> (last visited July 9, 2002) [hereinafter National Futures].

³⁸ Securities Examination Preparation, *supra* note 4.

³⁹ *Id.*

⁴⁰ *Id.*