

## 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