

Section 1: Knowledge of Capital Markets

1.1 Regulatory Entities, Agencies and Market Participants

1.1.1 The Securities and Exchange Commission (SEC)

- The high-level purpose and mission of securities regulation
- Definition, jurisdiction and authority of the SEC

1.1.2 Self-regulatory Organizations (SROs)

- Purpose and mission of an SRO
- Jurisdiction and authority of SROs (e.g., CBOE, FINRA, MSRB)

1.1.3 Other Regulators and Agencies

- Department of the Treasury/IRS
- State regulators (e.g., NASAA)
- The Federal Reserve
- Securities Investor Protection Corporation (SIPC)
- Federal Deposit Insurance Corporation (FDIC)

1.1.4 Market Participants and their Roles

- Investors (e.g., accredited, institutional, retail)
- Broker-Dealers (e.g., introducing, clearing, prime brokers)
- Investment advisers
- Municipal advisors
- Issuers and underwriters
- Traders and market makers
- Custodians and trustees
- Transfer agents
- Depositories and clearing corporations (e.g., Depository Trust & Clearing Corporation (DTCC), Options Clearing Corporation (OCC))

1.2 Market Structure

1.2.1 Types of Markets

- The primary market
- The secondary market (e.g., electronic, over-the-counter (OTC), physical)
- The third market
- The fourth market

1.3 Economic Factors

1.3.1 The Federal Reserve Board's Impact on Business Activity and Market Stability

- Monetary vs. fiscal policy
- Open market activities and impact on economy
- Different rates (e.g., interest rate, discount rate, federal funds rate)

1.3.2 Business Economic Factors

- Purpose of financial statements (e.g., balance sheet, income statement)
- Business cycle (e.g., contraction, trough, expansion, peak)
- Indicators (e.g., leading, lagging, coincident, inflation)
- Basic effects on bond and equity markets (e.g., cyclical, defensive, growth)

- Principal economic theories (e.g., Keynesian, Monetarist)

1.3.3 International Economic Factors

- U.S. balance of payments
- Gross domestic product (GDP), gross national product (GNP)
- Exchange rates

1.4 Offerings

- Roles of participants (e.g., investment bankers, underwriting syndicate, municipal advisors)
- Types of offerings
 - Public vs. private securities offering
 - Initial public offering (IPO), secondary offering and follow-on offering
 - Methods of distribution (e.g., best efforts, firm commitment)
- Shelf registrations and distributions (e.g., definition, purpose)
- Types and purpose of offering documents and delivery requirements (e.g., official statement, program disclosure document, prospectus)
- Regulatory filing requirements and exemptions (e.g., SEC, blue-sky laws)

Rules

FINRA Rules

- 2266 – SIPC Information
- 2269 – Disclosure of Participation or Interest in Primary or Secondary Distribution
- 5250 – Payments for Market Making

MSRB Rules

- G-11 – Primary Offering Practices
- G-32 – Disclosures in Connection with Primary Offerings
- G-34 – CUSIP Numbers, New Issue and Market Information Requirements

SEC Rules and Regulations

Securities Act of 1933

- Section 7 – Information Required in a Registration Statement
- Section 8 – Taking Effect of Registration Statements and Amendments Thereto
- Section 10 – Information Required in Prospectus
- Section 23 – Unlawful Representations
- 215 – Accredited Investor
- 431 – Summary Prospectuses
- Schedule A – Schedule of Information Required in Registration Statement
- Schedule B – Schedule of Information Required in Registration Statement

Securities Exchange Act of 1934

- Section 3(a) – Definitions and Application of Title
- Section 12 – Registration Requirements for Securities
- Section 15 – Registration and Regulation of Brokers and Dealers
- Section 15A – Registered Securities Associations
- Regulation D – Rules Governing the Limited Offer and Sale of Securities Without Registration Under the Securities Act of 1933
 - 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 – "Part of an Issue," "Person Resident," and "Doing Business Within" for Purposes of Section 3(a)(11)
 - 164 – Post-filing Free Writing Prospectuses in Connection with Certain Registered Offerings

Securities Investor Protection Act of 1970 (SIPA)

Section 2: Understanding Products and Their Risks

2.1 Products

2.1.1 Equity Securities

- Types of equities
 - Common stock
 - Preferred stock
 - Rights
 - Warrants
 - American Depositary Receipts (ADRs)

Knowledge of:

- Ownership (e.g., order of liquidation, limited liability)
- Voting rights
- Convertible
- Control and restrictions (e.g., SEC Rule 144)

2.1.2 Debt Instruments

- Treasury securities (e.g., bills, notes, receipts, bonds)
- Agency (e.g., asset-backed and mortgage-backed securities)
- Corporate bonds
- Municipal securities
 - General obligation (GO) bonds
 - Revenue bonds
 - Others (e.g., special type bonds, taxable municipal securities, short-term obligations)
- Others (e.g., money market instruments, certificate of deposit (CD), bankers' acceptance, commercial paper)

Knowledge of:

- Varying maturities
- Generate income (e.g., interest)
- Coupon value
- Par value
- Yield
- Ratings and rating agencies
- Callable and convertible features
- Short-term vs. long-term characteristics
- Relationship between price and interest rate
- Negotiated vs. competitive offerings via underwriters and syndicates
- Auction

2.1.3 Options

- Types of options
 - Puts and calls
 - Equity vs. index

Knowledge of:

- Hedging or speculation
- Expiration date
- Strike price
- Premium

- Underlying or cash settlement
- In-the-money, out-of-the money
- Covered vs. uncovered
- American vs. European
- Exercise and assignment
- Varying strategies (e.g., long, short)
- Special disclosures (e.g., Options Disclosure Document (ODD))
- Options Clearing Corporation (OCC) for listed options

2.1.4 Packaged Products

- Investment companies
 - Types of investment companies
 - Closed-end funds
 - Open-end funds
 - Unit investment trusts (UITs)
 - Variable contracts/annuities

Knowledge of:

- Loads
- Share classes
- Net asset value (NAV)
- Disclosures
- Costs and fees
- Breakpoints
- Right of accumulation (ROA)
- Letter of intent (LOI)
- Net transactions
- Surrender charges
- Sales charges

2.1.5 Municipal Fund Securities

- 529 Plans
 - Prepaid tuition
 - Savings plans
- Local government investment pools (LGIPs)
- ABLE accounts

Knowledge of:

- Municipal fund securities
- Owner vs. beneficiary
- Restricted use of plan assets
- Tax advantages
- Direct or adviser sold

2.1.6 Direct Participation Programs (DPPs)

- Types of DPPs
 - Limited partnerships
 - Tenants in common (TIC)

Knowledge of:

- Pass-through tax treatment
- Unlisted
- Generally illiquid

2.1.7 Real Estate Investment Trusts (REITs)

- Types of REITs
 - Private
 - Registered, non-listed
 - Listed

Knowledge of:

- Real estate equity or debt
- Tax-advantaged income without double taxation

2.1.8 Hedge Funds

Knowledge of:

- Minimum investment
- Partnership structure
- Private equity
- Generally illiquid

2.1.9 Exchange-traded Products (ETPs)

- Types of ETPs
 - Exchange-traded funds (ETFs)
 - Exchange-traded notes (ETNs)

Knowledge of:

- Alternative investments to mutual funds
- Fee considerations
- Active vs. passive

2.2 Investment Risks

- Definition and Identification of Risk Types
 - Capital
 - Credit
 - Currency
 - Inflationary/purchasing power
 - Interest rate/reinvestment
 - Liquidity
 - Market/systematic
 - Non-systematic
 - Political
 - Prepayment
- Strategies for Mitigation of Risk
 - Diversification
 - Portfolio rebalancing
 - Hedging

Rules

FINRA Rules

- 2261 – Disclosure of Financial Condition
- 2262 – Disclosure of Financial Relationship with Issuer
- 2310 – Direct Participation Programs
- 2330 – Members' Responsibilities Regarding Deferred Variable Annuities
- 2342 – "Breakpoint" Sales
- 2360 – Options

MSRB Rules

- D-12 – Definition of Municipal Fund Securities
- G-17 – Conduct of Municipal Securities and Municipal Advisory Activities
- G-30 – Pricing and Commissions
- G-45 – Reporting of Information on Municipal Fund Securities

CBOE Rule

- Chapter I – Definitions

SEC Rules and Regulations

Securities Exchange Act of 1934

- 3a11-1 – Definition of the Term "Equity Security"
- 10b-18 – Purchases of Certain Equity Securities by the Issuer and Others

Investment Company Act of 1940

- Section 3(a) – Definitions - "Investment Company"
- Section 4 – Classification of Investment Companies
- Section 5 – Subclassification of Management Companies
- 12b-1 – Distribution of Shares by Registered Open-end Management Investment Company

Section 3: Understanding Trading, Customer Accounts and Prohibited Activities

3.1 Trading, Settlement and Corporate Actions

3.1.1 Orders and Strategies

- Types of orders (e.g., market, stop, limit, good-til-canceled (GTC), discretionary vs. non-discretionary, solicited vs. unsolicited)
- Buy and sell, bid-ask
- Trade capacity (e.g., principal, agency)
- Long and short, naked and covered
- Bearish and bullish

3.1.2 Investment Returns

- Components of return (e.g., interest, dividends, realized/unrealized gains, return on capital)
- Different types of dividends (e.g., cash, stock)
- Dividend payment dates (e.g., record date, ex-date, payable date)
- Concepts of measurement (e.g., yield, yield to maturity (YTM), yield to call (YTC), total return, basis points)
- Cost basis requirements
- Benchmarks and indices

3.1.3 Trade Settlement

- Settlement time frames for various products (e.g., T, T + 1, T + 2)
- Physical vs. book entry (e.g., delivery and settlement)

3.1.4 Corporate Actions

- Types of corporate actions (e.g., splits, reverse splits, buybacks, tender offers, exchange offers, rights offers, mergers and acquisitions (M&A))
- Impact of stock splits and reverse stock splits on market price and cost basis
- Adjustments to securities subject to corporate actions
- Delivery of notices and corporate action deadlines
- Proxies and proxy voting

3.2 Customer Accounts and Compliance Considerations

3.2.1 Account Types and Characteristics

- Cash
- Margin
- Options
- Discretionary vs. non-discretionary
- Fee-based vs. commission
- Educational accounts

3.2.2 Customer Account Registrations

- Individual
- Joint
- Corporate/institutional
- Trust (e.g., revocable, irrevocable)
- Custodial (e.g., UTMA)
- Partnerships
- Retirement (e.g., individual retirement account (IRA), qualified plans)
 - Types and characteristics

- Required minimum distributions
- Contributions

3.2.3 Anti-money Laundering (AML)

- Definition of money laundering
- Stages of money laundering (e.g., structuring, layering, placement)
- AML compliance program
- Suspicious Activity Report (SAR)
- Currency Transaction Report (CTR)
- FinCEN
- Office of Foreign Asset Control (OFAC) and the Specially Designated Nationals and Blocked Persons (SDNs) List

3.2.4 Books and Records and Privacy Requirements

- Books and records retention requirements
- Confirmations and account statements
- Holding of customer mail
- Business continuity plans (BCP)
- Customer protection and custody of assets
- Privacy requirements (e.g., Regulation S-P)
 - Nonpublic personal information
 - Confidentiality of information
 - Privacy notifications
 - Safeguard requirements

3.2.5 Communications with the Public and General Suitability Requirements

- Communications with the public and telemarketing
 - Classifications and general requirements
 - Do-not-call list
- Suitability requirements
 - Know-your-customer (KYC)
 - General requirements (e.g., what constitutes a recommendation)

3.3 Prohibited Activities

3.3.1 Market Manipulation

- Definition of market manipulation
- Types of market manipulation (e.g., market rumors, pump and dump, front running, excessive trading, marking the close, marking the open, backing away, freeriding)

3.3.2 Insider Trading

- Definition of insider trading
- Definition of material nonpublic information
- Identifying involved parties
- Penalties (e.g., fines, expulsion, incarceration)

3.3.3 Other Prohibited Activities

- Restrictions preventing associated persons from purchasing initial public offerings (IPOs)
- Use of manipulative, deceptive or other fraudulent devices
- Improper use of customers' securities or funds
 - Borrowing from customers
 - Sharing in customer accounts

- Financial exploitation of seniors
- Activities of unregistered persons
 - Prohibition against paying commissions to unregistered persons
 - Prohibition against solicitation of customers and taking orders
- Falsifying or withholding documents
 - Signatures of convenience
 - Responding to regulatory requests
- Prohibited activities related to maintenance of books and records (e.g., falsifying records and improper maintenance/retention of records)

Rules

FINRA Rules

- 2010 – Standards of Commercial Honor and Principles of Trade
- 2020 – Use of Manipulative, Deceptive or Other Fraudulent Devices
- 2040 – Payments to Unregistered Persons
- 2090 – Know Your Customer
- 2111 – Suitability
- 2120 – Commissions, Mark Ups and Charges
- 2150 – Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts
- 2165 – Financial Exploitation of Specified Adults
- 2210 – Communications with the Public
- 2251 – Forwarding of Proxy and Other Issuer-related Materials
- 2264 – Margin Disclosure Statement
- 2232 – Customer Confirmations
- 3150 – Holding of Customer Mail
- 3210 – Accounts at Other Broker-Dealers and Financial Institutions
- 3230 – Telemarketing
- 3240 – Borrowing from or Lending to Customers
- 3250 – Designation of Accounts
- 3310 – Anti-money Laundering Compliance Program
- 4210 – Margin Requirements
- 4370 – Business Continuity Plans and Emergency Contact Information
- 4511 – General Requirements
- 4512 – Customer Account Information
- 4514 – Authorization Records for Negotiable Instruments Drawn From a Customer's Account
- 5130 – Restrictions on the Purchase and Sale of Initial Equity Public Offerings
- 5210 – Publication of Transactions and Quotations
- 5220 – Offers at Stated Prices
- 5230 – Payments Involving Publications that Influence the Market Price of a Security
- 5240 – Anti-intimidation/Coordination
- 5270 – Front Running of Block Transactions
- 5280 – Trading Ahead of Research Reports
- 5290 – Order Entry and Execution Practices
- 5310 – Best Execution and Interpositioning
- 5320 – Prohibition Against Trading Ahead of Customer Orders
- 6438 – Displaying Priced Quotations in Multiple Quotation Mediums

NASD Rules

- 2340 – Customer Account Statements
- 2510 – Discretionary Accounts

MSRB Rules

- G-8 – Books and Records to be Made by Brokers, Dealers, Municipal Securities Dealers, and Municipal Advisors
- G-9 – Preservation of Records
- G-13 – Quotations
- G-14 – Reports of Sales or Purchases
- G-15 – Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers
- G-18 – Best Execution
- G-21 – Advertising
- G-25 – Improper Use of Assets
- G-39 – Telemarketing
- G-41 – Anti-money Laundering Compliance Program
- G-47 – Time of Trade Disclosure

SEC Rules and Regulations

- Regulation M

- Regulation S-P – Privacy of Consumer Financial Information and Safeguarding Personal Information

- Securities Exchange Act of 1934

- Section 10 – Regulation of the Use of Manipulative and Deceptive Devices

- Section 11(d) – Trading by Members of Exchanges, Brokers and Dealers – “Prohibition on Extension of Credit by Broker-Dealer”

- Section 14 – Proxies

- Section 15 – Rules Relating to Over-the-Counter Markets

- Section 20A – Liability to Contemporaneous Traders for Insider Trading

- Section 21A – Civil Penalties for Insider Trading

- 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-5 – Employment of Manipulative and Deceptive Devices

- 10b5-1 – Trading on Material Nonpublic Information in Insider Trading Cases

- 10b5-2 – Duties of Trust or Confidence in Misappropriation Insider Trading Cases

- 10b-10 – Confirmation of Transactions

- 15c1-2 – Fraud and Misrepresentation

- 15c1-3 – Misrepresentation by Brokers, Dealers and Municipal Securities Dealers as to Registration

- 15c2-12 – Municipal Securities Disclosure

- 17a-3 – Records to be Made by Certain Exchange Members, Brokers and Dealers

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

- Investment Company Act of 1940

- 17a-6 – Exemption for Transactions with Portfolio Affiliates

- 17a-7 – Exemption of Certain Purchase or Sale Transactions Between an Investment Company and Certain Affiliated Persons Thereof

- Insider Trading & Securities Fraud Enforcement Act of 1988 (ITSFEA)

- Federal Reserve Board

- Regulation T

- Federal Trade Commission

- Telemarketing Sales Rule

- USA PATRIOT Act

- Section 314 – Cooperative Efforts to Deter Money Laundering

- Section 326 – Verification of Identification

- Section 352 – Anti-Money Laundering Programs

Section 4: Overview of the Regulatory Framework

4.1 SRO Regulatory Requirements for Associated Persons

4.1.1 Registration and Continuing Education

- SRO qualification and registration requirements
 - Definition of registered vs. non-registered person
 - Permitted activities of registered and non-registered persons
 - Ineligibility for membership or association
 - Background checks
 - Fingerprinting
 - Statutory disqualification
 - Failing to register an associated person
- State registration requirements (e.g., blue-sky laws)
- Continuing Education (CE) requirement
 - Firm Element
 - Regulatory Element

4.2 Employee Conduct and Reportable Events

4.2.1 Employee Conduct

- Form U4 and Form U5 (e.g., purpose, when to update forms)
- Consequences of filing misleading information or omitting information
- Customer complaints
- Potential red flags

4.2.2 Reportable Events

- Outside business activities
- Private securities transactions
- Reporting of political contributions and consequences for exceeding dollar contribution thresholds
- Dollar and value limits for gifts and gratuities and non-cash compensation
- Business entertainment
- Felony, financial-related misdemeanors, liens, bankruptcy

Rules

FINRA By-Laws

- Article I – Definitions
- Article III – Qualifications of Members and Associated Persons
- Article IV – Membership
- Article V – Registered Representatives and Associated Persons
- Article VI – Dues, Assessments, and Other Charges
- Article XII – Disciplinary Proceedings
- Article XV – Limitations of Power

FINRA Rules

- 0100 Series – General Standards
- 1000 Series – Member Application and Associated Person Registration
- 1122 – Filing of Misleading Information as to Membership or Registration
- 1250 – Continuing Education Requirements
- 2060 – Use of Information Obtained in Fiduciary Capacity
- 2263 – Arbitration Disclosure to Associated Persons Signing or Acknowledging Form U4

- 2267 – Investor Education and Protection
- 2310(c) – Non-cash Compensation
- 2320(g)(4) – Non-cash Compensation
- 2341(l)(5) – Non-cash Compensation
- 3110(e) – Responsibility of Member to Investigate Applicants for Registration
- 3220 – Influencing or Rewarding the Employees of Others
- 3270 – Outside Business Activities of Registered Persons
- 3280 – Private Securities Transactions of an Associated Person
- 4513 – Written Customer Complaints
- 4330 – Customer Protection – Permissible Use of Customers' Securities
- 4530 – Reporting Requirements
- 5110(h) – Non-cash Compensation
- 8312 – FINRA's BrokerCheck Disclosure

CBOE Rule

- 15.10 – Fingerprint-based Background Checks of Exchange Directors, Officers, Employees and Others

MSRB Rules

- G-2 – Standards of Professional Qualifications
- G-3 – Professional Qualification Requirements
- G-7 – Information Concerning Associated Persons
- G-10 – Delivery of Investment Brochure
- G-20 – Gifts, Gratuities and Non-cash Compensations
- G-37 – Political Contributions and Prohibitions on Municipal Securities Business

SEC Rules and Regulations

- Securities Exchange Act of 1934

- Section 3(a)(39) – Definitions and Application of Title (Statutory Disqualification)
 - 17f-2 – Fingerprinting of Securities Industry Personnel