



---

**S T U D Y O U T L I N E**

---

**MUNICIPAL SECURITIES PRINCIPAL QUALIFICATION  
EXAMINATION  
2006**

## **Introduction**

MSRB rules require a dealer to supervise the municipal securities activities of its associated persons and the conduct of its business, and require that one or more municipal securities principals must be designated to carry out this supervisory responsibility. The Board has urged the enforcement agencies to look at a dealer's supervisors to ensure that compliance procedures are established and enforced. Moreover, the Board has taken the position that violations of Board rules, particularly those that indicate a lack of effective supervisory controls, also may constitute a "failure to supervise" on the part of the designated principal and the dealer.

### **THE MUNICIPAL SECURITIES PRINCIPAL**

The municipal securities principal bears primary responsibility for overseeing the municipal securities activities of a securities firm or bank dealer. In this capacity, a municipal securities principal MANAGES, DIRECTS or SUPERVISES one or more of the following activities:

- underwriting of municipal securities;
- trading of municipal securities;
- buying or selling municipal securities from or to customers;
- rendering of financial advisory or consultant services to issuers of municipal securities;
- communications with customers about any of the above activities;
- maintaining records on the above activities;
- processing, clearing, and (in the case of securities firms) safekeeping of municipal securities; and
- training of principals or representatives.

### **THE EXAMINATION**

The Municipal Securities Principal Qualification Examination is designed to determine whether an individual meets the Board's qualification standards for municipal securities principals. To do this, the examination measures a candidate's knowledge of Board rules, rule interpretations and federal statutory provisions applicable to the activities listed above. It also measures the candidate's ability to apply these rules and interpretations to given fact situations.

The examination consists of 100 multiple-choice questions assigned to the six areas of the examination as follows:

|                             |     |
|-----------------------------|-----|
| Federal Regulations         | 4%  |
| General Supervision         | 21% |
| Sales Supervision           | 29% |
| Origination and Syndication | 22% |
| Trading                     | 8%  |
| Operations                  | 16% |

These questions are further distributed among the various subtopics in a manner which reflects the distribution of subject matter in the study outline. Each question is worth one point, and the passing grade is 70%. Candidates are allowed three and one-half hours for each testing session. During the administration of the examination, candidates are not allowed to use reference materials.<sup>1</sup>

The questions used in the examination are reviewed and updated on a regular basis. Questions which test a new rule or a new rule amendment will be included in the examination after the effective date of the rule or rule change. Existing questions on rules or portions of rules, which have been amended or deleted, will be removed from the examination prior to the effective date of the amendment.

## **CONFIDENTIALITY**

In order to ensure that its examinations constitute valid tests of the qualifications of persons who take them, the Board has instituted various procedures, in the question-writing as well as the administration phases, which are designed to preserve the confidentiality of the examinations. On several occasions, the Board has found it necessary to take legal action, alleging copyright violations, against securities training schools which had used in their training material questions and answers that appeared to have been taken from questions contained in Board qualification examinations. In addition, candidates are advised that the practice of “debriefing” persons who have taken a qualification examination may not only give rise to an infringement of the Board’s copyright but would be a violation of Board rules for the candidate.<sup>2</sup>

---

1 The examination is administered by the NASD on the PROCTOR system. For further information on application and administration procedures for MSRB examinations, please contact NASD at (301) 590-6500, or refer to the NASD website at [www.nasd.com](http://www.nasd.com).

2 Rule G-3(e) on “Confidentiality of Qualification Examinations” states that No associated person of a broker, dealer, or municipal securities dealer shall:

## THE STUDY OUTLINE

This study outline serves as a guide to the subject matter tested by the Municipal Securities Principal Qualification Examination (Test Series 53). It lists the topics covered by the examination, and provides learning objectives associated with those topics that are intended to assist candidates preparing for the examination. The outline also provides sample questions similar to the type used in the examination.

The arrangement of the subject matter in the study outline reflects the various aspects of municipal securities activity within a securities firm or bank dealer and the tasks of a municipal securities principal in supervising such activities. Reference is made to the appropriate MSRB rule or federal regulation which governs each task.<sup>3</sup> Not only are questions in the examination based on these federal regulations and Board rules, but are also based on the interpretations which follow each Board rule.

- 
- (i) in the course of taking a qualification examination required by this rule receive or give assistance of any nature;
  - (ii) disclose to any person questions, or answers to any questions, on any qualification examination required by this rule;
  - (iii) engage in any activity inconsistent with the confidential nature of any qualification examination required by this rule, or with its purpose as a test of the qualification of persons taking such examinations; or
  - (iv) knowingly sign a false certification concerning any such qualification examination.

3 Referenced MSRB rules are found in the *MSRB Rule Book*. Referenced federal regulations are found in the *MSRB Manual*, which may be obtained from CCH Incorporated.

# Part One

## Federal Regulations (4%)

*Ensure that appropriate ethical practices govern the conduct of municipal securities business.*

- Understand the regulatory agencies that oversee municipal securities business.
- Understand the rulemaking process.
- Demonstrate understanding of the protections offered to investors by SIPC.
- Understand the applicability of the SEC’s antifraud statutes.

### 1.1 A. Securities Exchange Act of 1934

|         |    |   |   |
|---------|----|---|---|
| 1.1.1   | ▪  | Antifraud provisions applicable to all persons, including municipal issuers, dealers and municipal securities dealers | ‘34 Act<br>Sect. 10(b);<br>Sect. 15(c)                                      |
| 1.1.2   | ▪  | Regulatory framework for the municipal securities industry  |   |
| 1.1.2.1 | -- | Rulemaking process  | MSRB Manual<br>Par. 103   |
|         |    | Enforcement agencies  | ‘34 Act<br>Sect. 15B(c)(5);<br>Sect. 15A(b)(2);<br>and<br>Sect. 3(a)(34)(A) |
|         |    | Compliance examinations   | ‘34 Act<br>Sect. 15B(c)(7)(A);<br>and<br>G-16 <sup>1</sup>                  |

---

<sup>1</sup> All references in the study outline, unless otherwise noted, are to MSRB rules (*e.g.*, A-14, D-8 or G-16).

**Part One-B:  
Federal Regulations; Rules of the SEC**

**1.2 B. Rules of the Securities and Exchange Commission**

- Employment of manipulative and deceptive devices
  - By brokers, dealers, or municipal securities dealers SEC rule 10b-3
  - By any person, including municipal issuers, brokers, dealers and municipal securities dealers SEC rule 10b-5

**1.3 C. Securities Investor Protection Corporation (SIPC) SIPA<sup>1</sup> Sect. 5 and Sect. 9**

**1.3.1** ▪ Purpose of SIPC

**1.3.2** ▪ Coverage limitations

---

<sup>1</sup> Securities Investor Protection Act of 1970 – a recommended source of information on these subjects is the SIPC brochure entitled “How SIPC Protects You,” which is available at [www.sipc.org](http://www.sipc.org).

## Part Two

### General Supervision (21%)

*Ensure an appropriate level of understanding of the general supervisory responsibilities of a municipal securities principal.*

- Understand the rules that govern the overall municipal securities business as opposed to specific areas within the business.
- Ensure knowledge of key industry terms as they are employed in MSRB rules.
- Ensure knowledge of the registration, qualification and continuing education requirements of various categories of municipal securities professionals.
- Implement and monitor appropriate systems and procedures to comply with regulations governing municipal securities activities.
- Ensure that municipal securities activities are conducted fairly with appropriate disclosures made to customers.
- Understand requirements of associated persons and firms regarding certain responsibilities that are general in nature including solicitation of municipal securities business, gifts, and political contributions.

#### 2.1 A. **Definitional Rules**

|       |                           |                         |
|-------|---------------------------|-------------------------|
| 2.1.1 | ▪ “Bank dealer”           | D-8                     |
| 2.1.2 | ▪ “Customer”              | SEC rule 15c1-1;<br>D-9 |
| 2.1.3 | ▪ “Discretionary account” | D-10                    |
| 2.1.4 | ▪ Municipal fund security | D-12                    |

#### 2.2 B. **Qualification and Registration**

|         |   |                                       |
|---------|---|---------------------------------------|
| 2.2.1   | ▪ Broker/dealer   |                                       |
| 2.2.1.1 | -- SEC registration requirements                            | ‘34 Act<br>Sects. 15(a) and<br>15B(a) |
| 2.2.1.2 | -- Registration with the MSRB and<br>payment of initial fee | A-12                                  |
| 2.2.1.3 | -- MSRB annual fee  | A-14                                  |

**Part Two-B:  
General Supervision; Qualification and Registration - (cont'd)**

|                  |   |   |
|------------------|---|---|
| <b>2.2.1.4</b>   | -- Electronic mail contacts   | G-40  |
| <b>2.2.1.5</b>   | -- Notification to the MSRB of<br>change in status  | A-15  |
| <b>2.2.1.6</b>   | -- Separately identifiable department<br>or division of a bank (definition<br>of municipal securities dealer<br>activities) | G-1   |
| <b>2.2.1.7</b>   | -- Standards of professional qualification  | G-2   |
| <b>2.2.1.8</b>   | -- Minimum requirements to have a<br>certain number of principals   | G-3(b)(iii) and<br>(iv)(D);<br>G-3(d)(iii)  |
| <b>2.2.2.1</b>   | ▪ Associated persons  |   |
| <b>2.2.2.1</b>   | -- Definition of associated person  | G-7(a); D-11                                |
| <b>2.2.2.2</b>   | -- Information to be compiled on each<br>associated person  | G-7(b)                                      |
| <b>2.2.2.3</b>   | -- Verification, maintenance and filing<br>of such information  | G-7(c) through<br>G-7(h); G-9;<br>SEC 17a-4 |
| <b>2.2.2.4</b>   | ▪ Classification of principals and representatives<br>and qualification requirements:                                       |   |
| <b>2.2.2.4.1</b> | municipal securities representatives  | G-3(a)(i) and (ii)                          |
| <b>2.2.2.4.2</b> | municipal securities principals   | G-3(b)(i) and (ii)                          |
| <b>2.2.2.4.3</b> | municipal fund securities limited principals  | G-3(b)(iv)(A)and(B)                         |
| <b>2.2.2.4.4</b> | municipal securities sales<br>principals  | G-3(c)                                      |
| <b>2.2.2.4.5</b> | financial and operations<br>principals  | G-3(d)(i) and (ii)                          |

**Part Two-B:  
General Supervision; Qualification and Registration - (cont'd)**

|         |  |  |
|---------|--|--|
| 2.2.2.5 | -- Continuing education requirements   | G-3(h)   |
| 2.2.2.6 | -- Confidentiality of qualification examinations   | G-3(e)   |
| 2.2.2.7 | -- Apprenticeship requirement  | G-3(a)(iii) <sup>1</sup>   |
| 2.2.3   | <ul style="list-style-type: none"> <li>▪ Disqualification           <ul style="list-style-type: none"> <li>-- Statutory disqualifications</li> <li>-- Disciplinary actions by appropriate regulatory agencies</li> <li>-- Remedial notices by registered securities associations</li> </ul> </li> </ul>          | <p>G-4</p> <p>G-5(a)</p> <p>G-5(b)</p>                                   |
| 2.3     | <b>C. Supervisory Responsibilities</b>   |  |
| 2.3.1   | <ul style="list-style-type: none"> <li>▪ Dealer's obligation to supervise</li> </ul>   | G-27(a)  |
| 2.3.2   | <ul style="list-style-type: none"> <li>▪ Designation of principals           <ul style="list-style-type: none"> <li>-- Responsibility for municipal securities business and activities of associated persons</li> <li>-- Written record of designations</li> <li>-- Appropriate principal</li> </ul> </li> </ul> | <p>G-27(b)(i)</p> <p>G-27(b)(ii)<br/>G-8(a)(xiv)</p> <p>G-27(b)(iii)</p> |
| 2.3.3   | <ul style="list-style-type: none"> <li>▪ Written supervisory procedures<sup>2</sup></li> </ul>   | G-27(c)  |

---

<sup>1</sup> Restrictions concerning apprentices communicating with customers are found on page 8.

<sup>2</sup> Requirements for **SPECIFIC** supervisory procedures are found under the appropriate topics, *i.e.*, "Opening Customer Accounts" and "Communications with Customers" on p. 8, also "Discretionary Accounts" and "Customer Complaints" on p. 9.

**Part Two-C:  
General Supervision; Supervisory Responsibilities - (cont'd)**

|                |           |   |                 |
|----------------|-----------|---|-----------------|
| <b>2.3.4</b>   | ▪         | Duty to update and review written procedures                            | G-27(e)         |
| <b>2.3.5</b>   | ▪         | Availability of Board rules   | G-29            |
| <b>2.3.6</b>   | ▪         | Anti-money laundering compliance program                                | G-41            |
| <b>2.4</b>     | <b>D.</b> | <b>Conduct of Business</b>  |                 |
| <b>2.4.1</b>   | ▪         | Fair practice   |                 |
| <b>2.4.1.1</b> | --        | “Fair dealing” rule   | G-17            |
| <b>2.4.1.2</b> | --        | Use of ownership information obtained in a fiduciary or agency capacity | G-24            |
| <b>2.4.1.3</b> | --        | Improper use of assets  | G-25(a)         |
| <b>2.4.2</b>   | ▪         | Prices and commissions  |                 |
| <b>2.4.2.1</b> | --        | Principal transactions  | G-30(a)         |
| <b>2.4.2.2</b> | --        | Agency transactions   | G-30(b)         |
| <b>2.4.3</b>   | ▪         | Control relationships   |                 |
| <b>2.4.3.1</b> | --        | Definition  | G-22(a)         |
| <b>2.4.3.2</b> | --        | Disclosure to customers   | G-22(c)         |
| <b>2.4.4</b>   | ▪         | Gifts and gratuities  |                 |
| <b>2.4.4.1</b> | --        | General limitation on value of gifts and gratuities                     | G-20(a)         |
| <b>2.4.4.2</b> | --        | Normal business dealings and compensation for services                  | G-20(b) and (c) |
| <b>2.4.4.3</b> | --        | Non-cash compensation in connection with primary offerings              | G-20(d)         |

**Part Two-D:  
General Supervision; Conduct of Business - (cont'd)**

|         |   |                              |
|---------|---|------------------------------|
| 2.4.4.4 | -- Definitions  | G-20(e)                      |
| 2.4.4.5 | -- Records concerning compliance with Rule G-20   | G-8(a)(xvii)                 |
| 2.4.5   | ▪ Prohibition from engaging in municipal securities business  |                              |
| 2.4.5.1 | -- Definitions  | G-37(g)                      |
| 2.4.5.2 | -- Period of prohibition;<br><i>De minimis</i> exemption  | G-37(b)                      |
| 2.4.5.3 | -- Disclosure to Board and records concerning political contributions and prohibitions on municipal securities business | G-37(e), (f);<br>G-8(a)(xvi) |
| 2.4.6   | ▪ Solicitation of municipal securities business   |                              |
| 2.4.6.1 | -- Definitions  | G-38(b)                      |
| 2.4.6.2 | -- Prohibited payments  | G-38(a)                      |
| 2.4.6.3 | -- Transitional payments  | G-38(c)                      |
| 2.4.7   | ▪ Advertising   |                              |
| 2.4.7.1 | -- Definition   | G-21(a)                      |
| 2.4.7.2 | -- Professional advertisements  | G-21(b)                      |
| 2.4.7.3 | -- Product advertisements   | G-21(c)                      |
| 2.4.7.4 | -- Advertisements for municipal fund securities (including 529 college savings plans)                                   | G-21(e)                      |
| 2.4.7.5 | -- Approval by a principal  | G-21(f)                      |

**2.5 E. Any Recently Enacted Rules Governing General Supervision**

## **Part Three**

### **Sales Supervision (29%)**

*Ensure knowledge of the various supervisory tasks and regulations that apply to the supervision of salespersons within the municipal securities business.*

- Understand rules, record keeping responsibilities and review and approvals needed for the opening and maintenance of customer accounts.
- Demonstrate knowledge of the requirements that govern all types of communications with customers.
- Develop practical knowledge of what investments are suitable for customers; understand suitability rules.
- Understand unique requirements and supervisory procedures that relate to discretionary accounts.
- Understand the sales related activities that are deemed improper and/or prohibited.
- Understand rules governing the review, recording and handling of customer complaints.

#### **3.1 A. Opening Customer Accounts**

- |              |   |                        |
|--------------|---|------------------------|
| <b>3.1.1</b> | ▪ Requirement to obtain customer account information        | G-19(a)                |
| <b>3.1.2</b> | ▪ Review and approval by a principal                        | G-27(c)(iii) and (vii) |
| <b>3.1.3</b> | ▪ Recordkeeping requirement                                 | G-8(a)(xi)             |
| <b>3.1.4</b> | ▪ Transactions with employees and partners of other dealers |                        |
|              | -- Account instructions                                     | G-28(a)                |
|              | -- Account transactions                                     | G-28(b)                |

#### **3.2 B. Communications with Customers**

- |              |  |                  |
|--------------|--|------------------|
| <b>3.2.1</b> | ▪ Restrictions on apprentices            | G-3(a)(iii)(A)   |
| <b>3.2.2</b> | ▪ Review and retention of correspondence | G-27(d)(i)-(iii) |
| <b>3.2.3</b> | ▪ Telemarketing                          | G-39             |

**Part Three-C:  
Sales Supervision; Suitability**

|       |           |  |                 |
|-------|-----------|--|-----------------|
| 3.3   | <b>C.</b> | <b>Suitability</b>   |                 |
| 3.3.1 | ▪         | Knowledge of customer  | G-19(b)         |
| 3.3.2 | ▪         | Suitability of recommendations   | G-19(c)         |
| 3.4   | <b>D.</b> | <b>Improper Activities</b>   |                 |
| 3.4.1 | ▪         | Churning   | G-19(e)         |
| 3.4.2 | ▪         | Guarantees against loss  | G-25(b)         |
| 3.4.3 | ▪         | Sharing in profits or losses   | G-25(c)         |
| 3.4.4 | ▪         | Prohibition against soliciting and coordinating political contributions                | G-37(c) and (d) |
| 3.4.5 | ▪         | Prohibition against reciprocal dealings with municipal securities investment companies | G-31            |
| 3.5   | <b>E.</b> | <b>Discretionary Accounts</b>  |                 |
| 3.5.1 | ▪         | Suitability  | G-19(d)         |
| 3.5.2 | ▪         | Control relationships  | G-22(b)         |
| 3.5.3 | ▪         | Written supervisory procedures   | G-27(c)(vii)(B) |
| 3.6   | <b>F.</b> | <b>Customer Complaints</b>   |                 |
| 3.6.1 | ▪         | Review by a principal  | G-27(c)(ii)     |
| 3.6.2 | ▪         | Recordkeeping requirement  | G-8(a)(xii)     |
| 3.6.3 | ▪         | Delivery of investor brochure  | G-10            |
| 3.7   | <b>G.</b> | <b>Any Recently Enacted Rules Governing Sales Supervision</b>                          |                 |

## Part Four

### Origination and Syndication (18%)

*Demonstrate understanding of the activities required of a supervisory role related to the origination and syndication of new issue municipal securities in both financial advisory and underwriting roles.*

- Understand a dealer’s obligations when serving as a financial advisor to an issuer.
- Define advisory relationship.
- Understand requirements relating to the documenting of the advisory relationship.
- Understand required disclosures and responsibilities in connection with official statements, both as financial advisor and underwriter.
- Understand order types and disclosure of orders.
- Understand administration rules relating to role of lead manager of a syndicate.
- Understand timeframes associated with various responsibilities.

#### 4.1 A. Financial Advisors

|       |  |                 |
|-------|--|-----------------|
| 4.1.1 | ▪ Purpose of financial advisory rule and applicability of state or local law | G-23(a),(i)     |
| 4.1.2 | ▪ Financial advisory relationship  | G-23(b)         |
| 4.1.3 | ▪ Basis of compensation  | G-23(c)         |
| 4.1.4 | ▪ Underwriting activities  | G-23(d)         |
| 4.1.5 | ▪ Remarketing activities   | G-23(e)         |
| 4.1.6 | ▪ Disclosures to customers   | G-23(h)         |
| 4.1.7 | ▪ Disclosures to issuer of corporate affiliation                             | G-23(f)         |
| 4.1.8 | ▪ Records concerning activities of financial advisors                        | G-23(g);<br>G-9 |
| 4.1.9 | ▪ Responsibility to make official statement available                        | G-32(c)(ii)     |

**Part Four-B:  
Origination and Syndication; New Issue Syndicate Practices**

**4.2 B. New Issue Syndicate Practices**

- |                |   |   |
|----------------|---|---|
| <b>4.2.1</b>   | ▪ Obligations of municipal underwriters under SEC rules   |   |
|                | -- “Reasonable basis” interpretation  | SEC Release<br>No. 34-26100<br>Part III |
|                | -- Availability and review of official statements   | SEC rule 15c2-12                        |
| <b>4.2.2</b>   | ▪ New issue syndicate practices   |   |
| <b>4.2.2.1</b> | -- Definitions  | G-11(a)                                 |
| <b>4.2.2.2</b> | -- Disclosure of capacity   | G-11(b)                                 |
| <b>4.2.2.3</b> | -- Confirmations of sale  | G-11(c)                                 |
| <b>4.2.2.4</b> | -- Disclosure of group orders   | G-11(d)                                 |
| <b>4.2.2.5</b> | -- Priority provisions  | G-11(e)                                 |
| <b>4.2.2.6</b> | -- Communications relating to issuer syndicate requirements, priority provisions and order period | G-11(f)                                 |
| <b>4.2.2.7</b> | -- Designations and allocation of securities  | G-11(g)                                 |
| <b>4.2.2.8</b> | -- Disclosure of syndicate expenses and other information   | G-11(h)                                 |
| <b>4.2.3</b>   | ▪ Disclosures in connection with new issues   |   |
| <b>4.2.3.1</b> | -- Customer disclosure requirements   | G-32(a)                                 |
| <b>4.2.3.2</b> | -- Responsibility of managing underwriters and sole underwriters                                  | G-32(c)(i)                              |

**Part Four-B:  
Origination and Syndication; New Issue Syndicate Practices - (cont'd)**

|                 |           |   |              |
|-----------------|-----------|---|--------------|
| <b>4.2.3.3</b>  | --        | Definitions   | G-32(d)      |
| <b>4.2.4</b>    | ▪         | New issue advertisements  | G-21(d)      |
| <b>4.2.5</b>    | ▪         | CUSIP numbers and new issue requirements  |              |
| <b>4.2.5.1</b>  | --        | New issue securities  | G-34(a)      |
| <b>4.2.5.2</b>  | --        | Exemptions  | G-34(c)      |
| <b>4.2.6</b>    | ▪         | Syndicate administration  |              |
| <b>4.2.6.1</b>  | --        | Underwriting assessments  | A-13(a), (b) |
| <b>4.2.6.2</b>  | --        | Prohibition on charging fees to issuers   | A-13(e)      |
| <b>4.2.6.3</b>  | --        | Definitions   | A-13(f)      |
| <b>4.2.6.4</b>  | --        | Delivery of official statements,<br>advance refunding documents, and<br>Forms G-36 (OS) and G-36 (ARD)<br>to the Board or its designee                  | G-36         |
| <b>4.2.6.5</b>  | --        | Records of syndicate transactions   | G-8(a)(viii) |
| <b>4.2.6.6</b>  | --        | Records concerning deliveries of<br>official statements   | G-8(a)(xiii) |
| <b>4.2.6.7</b>  | --        | Records concerning delivery of<br>official statements, advance refunding<br>documents and Forms G-36 (OS) and<br>G-36(ARD) to the Board or its designee | G-8(a)(xv)   |
| <b>4.2.6.8</b>  | --        | Good faith deposits   | G-12(i)      |
| <b>4.2.6.9</b>  | --        | Settlement of syndicate or similar account  | G-12(j)      |
| <b>4.2.6.10</b> | --        | Payment of designated credit  | G-12(k)      |
| <b>4.3</b>      | <b>C.</b> | <b>Any Recently Enacted Rules Governing Origination and Syndication</b>   |              |

## **Part Five**

### **Trading (8%)**

*Ensure understanding of the rules and regulations related to supervision of trading of municipal securities.*

- Demonstrate understanding of the rules related to quotations of municipal securities.
- Understand record keeping responsibilities for principal and agency transactions.
- Understand procedures and timeframes for reporting every municipal securities transaction to the MSRB or its designee.
- Understand responsibilities related to the assignment of CUSIP numbers in secondary market trading.
- Understand the prohibition against dissemination of fictitious trade reports.

#### **5.1 A. Quotations**

**5.1.1**      ■      Applicability of the rule and definition of quotation      G-13(a)

**5.1.2**      ■      Bona fide quotations      G-13(b)

**5.1.3**      ■      Multiple markets in the same securities      G-13(c)

#### **5.2 B. Execution of Transactions**      G-18

#### **5.3 C. Reports of Sales or Purchases**

**5.3.1**      ■      Prohibition against dissemination of false trade reports      G-14(a)

**5.3.2**      ■      Transaction reporting requirements and RTRS procedures      G-14(b)

**5.3.3**      ■      Definitions      G-14(d)

**5.3.4**      ■      Transaction assessments      A-13(c)

**Part Five-D:  
Trading; Secondary Market Securities**

- 5.4 D. Secondary market securities** G-34(b)
  
- 5.5 E. Recordkeeping Responsibilities**

  - 5.5.1**      ▪      Records for agency transactions G-8(a)(vi)
  - 5.5.2**      ▪      Records for transactions as principal G-8(a)(vii)

  
- 5.6 F. Any Recently Enacted Rules Governing Trading**

## Part Six Operations (16%)

*Ensure understanding of the rules and record keeping requirements related to the operational aspects of supervision of the municipal securities business.*

- Understand the items required to confirm transactions.
- Understand the settlement process for trades.
- Understand the mechanics of delivery of securities and the requirements for handling trade or settlement problems.
- Understand procedures and timeframes for reporting of municipal securities trades to the MSRB.
- Demonstrate knowledge of various types of records that are required to be maintained, and the timeframes required for their maintenance.
- Understand requirements and rules governing the transfer of customer accounts to other firms.

|                |           |  |                     |
|----------------|-----------|--|---------------------|
| 6.1            | <b>A.</b> | <b>Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers</b> |                     |
| 6.1.1          | ▪         | Confirmation requirements  |                     |
| <b>6.1.1.1</b> | --        | Customer confirmations   | G-15(a)             |
| <b>6.1.1.2</b> | --        | Interdealer confirmations  | G-12(c)             |
| <b>6.1.1.3</b> | --        | Comparison and verification of interdealer confirmations; unrecognized transactions  | G-12(d)             |
| <b>6.1.2</b>   | ▪         | Settlement dates   | G-15(b) and G-12(b) |
| 6.1.3          | ▪         | Delivery of securities   |                     |
| <b>6.1.3.1</b> | --        | Deliveries to customers  | G-15(c)             |
| <b>6.1.3.2</b> | --        | Customer DVP/RVP transactions  | G-15(d)             |
| <b>6.1.3.3</b> | --        | Interdealer deliveries   | G-12(e)             |

**Part Six-A:  
Operations; Confirmation, Clearance, Settlement and Other Uniform Practice  
Requirements with Respect to Transactions with Customers - (cont'd)**

|                |   |             |
|----------------|---|-------------|
| <b>6.1.3.4</b> | -- Minimum denominations  | G-15(f)     |
| <b>6.1.3.5</b> | -- Forwarding official communications                               | G-15(g)     |
| <b>6.1.4</b>   | ▪ Transaction reporting   |             |
| <b>6.1.4.1</b> | -- Use of automated comparison,<br>clearance and settlement systems | G-12(f)     |
| <b>6.1.4.2</b> | -- Transaction reporting procedures                                 | G-14(b)     |
| <b>6.1.5</b>   | ▪ Interest payment claims   |             |
| <b>6.1.5.1</b> | -- Customer claims  | G-15(e)     |
| <b>6.1.5.2</b> | -- Interdealer claims   | G-12(l)     |
| <b>6.1.6</b>   | ▪ Rejections and reclamations                                       | G-12(g)     |
| <b>6.1.7</b>   | ▪ Close-outs  | G-12(h)     |
| <b>6.2</b>     | <b>B. Books and Records</b>   |             |
| <b>6.2.1</b>   | ▪ Books and records required to be made <sup>1</sup>                |             |
| <b>6.2.1.1</b> | -- Records of original entry  | G-8(a)(i)   |
| <b>6.2.1.2</b> | -- Account records  | G-8(a)(ii)  |
| <b>6.2.1.3</b> | -- Securities records   | G-8(a)(iii) |
| <b>6.2.1.4</b> | -- Subsidiary records   | G-8(a)(iv)  |

---

<sup>1</sup> Other required books and records are listed under specific topics.

**Part Six-B:  
Operations; Books and Records - (cont'd)**

|                |   |                       |
|----------------|---|-----------------------|
| <b>6.2.1.5</b> | -- Records of put options and repurchase agreements               | G-8(a)(v)             |
| <b>6.2.1.6</b> | -- Copies of confirmations and certain other notices to customers | G-8(a)(ix)            |
| <b>6.2.1.7</b> | -- Records concerning consultants                                 | G-8(a)(xviii)         |
| <b>6.2.1.8</b> | -- Financial records specified by SEC rules                       | G-8(a)(x)             |
| <b>6.2.2</b>   | ▪ Manner in which books and records are to be maintained          | G-8(b)                |
| <b>6.2.3</b>   | ▪ Non-clearing brokers and dealers                                | G-8(c)                |
| <b>6.2.4</b>   | ▪ Introducing brokers and dealers                                 | G-8(d)                |
| <b>6.2.5</b>   | ▪ Definition of customer  | G-8(e)                |
| <b>6.2.6</b>   | ▪ Compliance with SEC rules                                       |                       |
| <b>6.2.7</b>   | -- Records to be made   | G-8(f)                |
|                | ▪ Preservation of records   |                       |
|                | -- Period of time records must be preserved                       | G-9(a) through G-9(c) |
|                | -- Accessibility and availability                                 | G-9(d)                |
|                | -- Method of record retention                                     | G-9(e)                |
|                | -- Effect of lapse in dealer's registration                       | G-9(f)                |
|                | -- Requirements of SEC rules                                      | G-9(g)                |
| <b>6.3</b>     | <b>C. Customer Account Transfers</b>                              | G-26                  |

**Part Six-D:  
Operations; Calculations**

**6.4 D. Calculations (General Knowledge) G-33**

**6.5 E. Any Recently Enacted Rules Governing Operations**

## Sample Questions

The following questions are similar in format and content to questions on the examination. The sample questions, however, are **not** intended to parallel either the level of difficulty or the subjects covered in the examination. The sample questions are only intended to assist candidates in preparing for the types of multiple-choice questions which will appear on the examination.

1. A municipal securities dealer must send a copy of the final official statement to a customer who purchased new-issue securities during the new issue disclosure period only if
  - (A) the issuer prepares an official statement for the new issue
  - (B) the issue is a refunding issue
  - (C) the securities are rated at less than investment grade by the rating agencies
  - (D) the SEC has denied registration of the new issue for any reason
  
2. Reclamation of municipal securities is permitted for one business day following delivery for which of the following reasons?
  - (A) If there is a disagreement as to the purchase price
  - (B) If a coupon is discovered to be mutilated
  - (C) If the CUSIP number is not imprinted on the certificates
  - (D) If the securities go into default

3. Which two of the following statements correctly describe a manager's obligations with respect to disclosure of syndicate expenses to account members?
- I. An itemized statement of anticipated expenses must be provided prior to formation of the account.
  - II. The amount of the management fee must be disclosed to the account members prior to the submission of a bid.
  - III. The final account statement must be furnished not later than 60 days from the date of delivery of all securities by the syndicate.
  - IV. Each expense, regardless of the amount, must be listed in the final account statement.
- (A) I and III
  - (B) I and IV
  - (C) II and III
  - (D) II and IV
4. Senior managers of municipal securities syndicates must maintain, for each syndicate account, books and records that show all of the following information EXCEPT:
- (A) the terms and conditions governing operation of the syndicate account
  - (B) a reconciliation of the profits and expenses of the syndicate
  - (C) all allotments of those securities to syndicate members and the price at which sold
  - (D) the names and addresses of each customer purchasing securities from a syndicate member

### Answer Key

1.....A                    3.....C  
2.....B                    4.....D