
Municipal Securities Principal Qualification Examination (Series 53)

CONTENT OUTLINE



Municipal Securities Rulemaking Board

Municipal Securities Principal Qualification Examination (Series 53)

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INTRODUCTION

Municipal Securities Rulemaking Board (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 MSRB has urged the enforcement agencies to look at a dealer's supervisors to ensure that compliance procedures are established and enforced. Moreover, the MSRB has taken the position that violations of MSRB 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 CONTENT OUTLINE

This content outline serves as a guide to the subject matter tested by the Municipal Securities Principal Qualification Examination (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.¹ Not only are questions in the examination based on these federal regulations and MSRB rules, but are also based on the interpretations that follow each MSRB rule.

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 MSRB's qualification standards for municipal securities principals. To do this, the examination measures a candidate's knowledge of MSRB 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.

¹ 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.

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

Federal Regulations	4%
General Supervision	23%
Sales Supervision	25%
Origination and Syndication	23%
Trading	10%
Operations	15%

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.²

The questions used in the examination are reviewed and updated on a regular basis. Questions that 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 MSRB 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 MSRB has found it necessary to take legal action, alleging copyright violations, against securities training schools that had used in their training material questions and answers that appeared to have been taken from questions contained in MSRB 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 MSRB’s copyright but would be a violation of MSRB rules for the candidate.³

² The examination is administered by FINRA on the PROCTOR system. For further information on application and administration procedures for MSRB examinations, please contact FINRA at 301-590-6500, or refer to the FINRA website at www.finra.org.

³ Rule G-3(f) on “Confidentiality of Qualification Examinations” states that:

No associated person of a broker, dealer, municipal securities dealer or municipal advisor shall:

- (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.*

PART 1: FEDERAL REGULATIONS (4% OF TEST QUESTIONS)

- 1.0** **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** **Securities Exchange Act of 1934** *’34 Act, Section 10(b); Section 15(c)*
 - 1.1.1** Antifraud provisions applicable to all persons, including municipal issuers, dealers and municipal securities dealers

 - 1.1.2** Regulatory framework for the municipal securities industry
 - 1.1.2.1** Rulemaking process: Enforcement agencies *MSRB Manual, Par. 103 ; ’34 Act, Section 15B(c)(5); Section 15A(b)(2); and Section 3(a)(34)(A)*
 - 1.1.2.2** Compliance examinations *’34 Act, Section 15B(c)(7)(A) and Rule G-16⁴*
-
- 1.2** **Rules of the Securities and Exchange Commission**
- 1.2.1** Dodd-Frank Wall Street Financial Reform and Consumer Protection Act

 - 1.2.2** Employment of manipulative and deceptive devices by brokers, dealers, or municipal securities dealers; by any person, including municipal issuers, brokers, dealers and municipal securities dealers *SEC Rules 10b-3 and 10b-5*
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- 1.3** **Securities Investor Protection Corporation (SIPC)** *SIPA⁵ Section 5 and Section 9*
- 1.3.1** Purpose of SIPC

 - 1.3.2** Coverage limitations

⁴ All references in the study outline, unless otherwise noted, are to MSRB rules (e.g., A-14, D-8 or G-16).

⁵ 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.

PART 2: GENERAL SUPERVISION (23% OF TEST QUESTIONS)

- 2.0** **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** **Definitional rules:**
- "Bank dealer" **D-8**
- "Customer" **SEC rule 15c1-1; D-9**
- "Discretionary account" **D-10**
- "Associated person" **D-11**
- "Municipal fund security" **D-12**
- "Municipal advisory activities" **D-13**
- "Sophisticated Municipal Market Professional" (SMMP) **D-15**
-
- 2.2** **Qualification and Registration**
- 2.2.1** Broker/dealer: SEC registration requirements **'34 Act, Sects. 15(a) and 15B(a)**
- 2.2.1.1** Registration **A-12**
- 2.2.1.2** Assessments for Municipal Advisor Professionals **A-11**
- 2.2.1.3** Separately identifiable department or division of a bank (definition of municipal securities dealer activities) **G-1**
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- 2.2.1.5** Classification of principals and representatives and qualification requirements:
- 2.2.1.5.1** Municipal securities representatives and municipal securities sales limited representatives **G-3(a)(i) and (ii)**
- 2.2.1.5.2** Limited representative — investment company and variable contracts products **G-3(a)(i)(C)**
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- 2.2.1.5.4 Municipal fund securities limited principals **G-3(b)(iv)(A) and (B)**
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- 2.2.2 Associated persons
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 - 2.2.2.2 Information to be compiled on each associated person **G-7(b)**
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 - Disciplinary actions by appropriate regulatory agencies **G-5(a)**
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- 2.3 **Supervisory Responsibilities**
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 - 2.3.2 Designation of principals: Responsibility for municipal securities business and activities of associated persons **G-27(b)**
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 - Appropriate principal **G-27(b)(ii)(C)**
 - 2.3.3 Written supervisory procedures⁶ **G-27(c)**
 - 2.3.4 Duty to establish, maintain and enforce supervisory control policies and written procedures **G-27(f)**
 - 2.3.5 Internal inspections **G-27(d)**
 - 2.3.6 Availability of Board rules **G-29**
 - 2.3.7 Anti-money laundering compliance program **G-41**

- 2.4 **Conduct of Business**

⁶ 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.

- 2.4.1 Fair practice**
 - 2.4.1.1 “Fair dealing” rule **G-17**
 - 2.4.1.2 Use of ownership information obtained in a fiduciary or agency capacity **G-24**
 - 2.4.1.3 Improper use of assets **G-25(a)**
- 2.4.2 Control relationships**
 - 2.4.2.1 Definition of control relationship **G-22(a)**
 - 2.4.2.2 Disclosure to customers **G-22(c)**
- 2.4.3 Gifts and gratuities**
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 - 2.4.3.2 Normal business dealings and compensation for services **G-20(b)** and **(c)**
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 - 2.4.3.4 Definitions: “non-cash compensation;” “cash compensation;” “offeror” and “primary offering” **G-20(e)**
 - 2.4.3.5 Records concerning compliance with Rule G-20 **G-8(a)(xvii)**
- 2.4.4 Political contributions and prohibition from engaging in municipal securities business**
 - 2.4.4.1 Definitions including “municipal finance professional;” “municipal securities business” and “issuer official” **G-37(g)**
 - 2.4.4.2 Ban on municipal securities business; de minimis exemption **G-37(b)**
 - 2.4.4.3 Prohibition on soliciting and coordinating contributions **G-37(c)**
 - 2.4.4.4 Disclosure to Board and records concerning political contributions and prohibitions on municipal securities business **G-37(e), (f); G-8(a)(xvi)**
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 - 2.4.6.5 Approval by a principal **G-21(f)**
- 2.5 Any Recently Enacted Rules Governing General Supervision**

PART 3: SALES SUPERVISION (25% OF TEST QUESTIONS)

- 3.0** **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** **Opening Customer Accounts**
- 3.1.1** Requirement to obtain customer account information **G-19**
- 3.1.2** Review and approval by a principal **G-27(c)(i)(G)(1)**
- 3.1.3** Recordkeeping requirement **G-8(a)(xi)**
- 3.1.4** Transactions with employees and partners of other municipal securities professionals
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Exemption for municipal fund securities **G-28(c)**
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- 3.2.3** Tape recording of conversations **G-27(c)(ii)**
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- 3.3.2** Suitability of recommendations and transactions **G-19**

- 3.3.3 Time of trade disclosure **G-47**
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- 3.4 **Supervisory Concerns**
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- 3.5 **Discretionary Accounts**
- 3.5.1 Control relationships **G-22(b)**
- 3.5.2 Approval of transactions **G-27(c)(i)(G)(2)**

- 3.6 **Customer Complaints**
- 3.6.1 Review by a principal **G-27(c)(i)(B)**
- 3.6.2 Recordkeeping requirement **G-8(a)(xii)**
- 3.6.3 Delivery of investor brochure **G-10**

- 3.7 **Any Recently Enacted Rules Governing Sales Supervision**

PART 4: ORIGINATION AND SYNDICATION (23% OF TEST QUESTIONS)

4.0 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 Financial Advisors

4.1.1 Purpose of financial advisory rule and applicability of state or local law G-23(a), (f)

4.1.2 Financial advisory relationship G-23(b)

4.1.3 Agreement with respect to financial advisory relationship G-23(c)

4.1.4 Prohibition on engaging in underwriting activities G-23(d)

4.1.5 Remarketing activities G-23(e)

4.1.6 Preparation of official statement by financial advisors G-32(c)

4.2 New Issue Syndicate Practices

4.2.1 Obligations of municipal underwriters under SEC rules "Reasonable basis" interpretation SEC Release No. 34-26100, Part III

Availability and review of official statements SEC rule 15c2-12

4.2.2 New issue syndicate practices

4.2.2.1 Definitions G-11(a)

4.2.2.2 Disclosure of capacity G-11(b)

4.2.2.3 Confirmations of sale G-11(c)

4.2.2.4 Disclosure of group orders G-11(d)

4.2.2.5 Priority provisions G-11(e)

- 4.2.2.6 Communications relating to issuer syndicate requirements, priority provisions and order period **G-11(f)**
- 4.2.2.7 Designations and allocation of securities **G-11(g)**
- 4.2.2.8 Disclosure of syndicate expenses and other information **G-11(h)**
- 4.2.2.9 Retail order period and required disclosures **G-11(k)**
- 4.2.3 Disclosures in connection with new issues
 - 4.2.3.1 Customer disclosure requirements **G-32(a)**
 - 4.2.3.2 Underwriter submissions to EMMA **G-32(b)**
 - 4.2.3.3 Definitions **G-32(d)**
- 4.2.4 New issue advertisements **G-21(d)**
- 4.2.5 CUSIP numbers and new issue requirements
 - 4.2.5.1 New issue securities **G-34(a)**
 - 4.2.5.2 Exemptions **G-34(c)**
- 4.2.6 Syndicate administration
 - 4.2.6.1 Underwriting assessments **A-13(a), (b)**
 - 4.2.6.2 Prohibition on charging fees to issuers **A-13(e)**
 - 4.2.6.3 Definition of primary offering **A-13(f)**
 - 4.2.6.4 Records concerning primary offerings **G-8(a)(viii)**
 - 4.2.6.5 Records concerning disclosures in connection with primary offerings pursuant to Rule G-32 **G-8(a)(xiii)**
 - 4.2.6.6 Settlement of syndicate or similar account **G-11(i)**
 - 4.2.6.7 Payments of designations **G-11(j)**
- 4.3 **Any Recently Enacted Rules Governing Origination and Syndication**

PART 5: TRADING (10% OF TEST QUESTIONS)

- 5.0 **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 **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 **Execution of Transactions**
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- 5.2.2 Broker's brokers **G-43**
- 5.2.3 Prices and commissions
 - Principal transactions **G-30(a)**
 - Agency transactions **G-30(b)**
- 5.2.4 Time of trade disclosure **G-47**

- 5.3 **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 relating to reporting requirements for specific types of transactions
G-14, RTRS Procedures, Sect. (d)
- 5.3.4 Transaction and technology assessments **A-13(c)**

- 5.4 **Secondary Market Securities** *G-34(b)*

- 5.5 **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)*
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- 5.5.4 Broker's brokers activities *G-8(a)(xxv)*
- 5.5.6 Records for alternative trading systems *G-8(a)(xxvi)*

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

PART 6: OPERATIONS (15% OF TEST QUESTIONS)

- 6.0** **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** **Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers**
 - 6.1.1** Confirmation requirements
 - 6.1.1.1** Customer confirmations **G-15(a)**
 - 6.1.1.2** Interdealer confirmations **G-12(c)**
 - 6.1.1.3** Comparison and verification of interdealer confirmations; unrecognized transactions **G-12(d)**

 - 6.1.2** Settlement dates **G-15(b)** and **G-12(b)**

 - 6.1.3** Delivery of securities
 - 6.1.3.1** Deliveries to customers **G-15(c)**
 - 6.1.3.2** Customer DVP/RVP transactions **G-15(d)**
 - 6.1.3.3** Interdealer deliveries **G-12(e)**
 - 6.1.3.4** Minimum denominations **G-15(f)**
 - 6.1.3.5** Forwarding official communications **G-15(g)**

 - 6.1.4** Transaction reporting
 - 6.1.4.1** Use of automated comparison, clearance and settlement systems **G-12(f)**
 - 6.1.4.2** Transaction reporting procedures **G-14(b)**

 - 6.1.5** Interest payment claims
 - 6.1.5.1** Customer claims **G-15(e)**
 - 6.1.5.2** Interdealer claims **G-12(l)**

- 6.1.6 Rejections and reclamations **G-12(g)**
- 6.1.7 Close-outs **G-12(h)**

- 6.2 Books and Records**

 - 6.2.1 Books and records required to be made⁷
 - 6.2.1.1 Records of original entry **G-8(a)(i)**
 - 6.2.1.2 Account records **G-8(a)(ii)**
 - 6.2.1.3 Securities records **G-8(a)(iii)**
 - 6.2.1.4 Subsidiary records **G-8(a)(iv)**
 - 6.2.1.5 Records of put options and repurchase agreements **G-8(a)(v)**
 - 6.2.1.6 Copies of confirmations and certain other notices to customers **G-8(a)(ix)**
 - 6.2.1.7 Financial records specified by SEC rules **G-8(a)(x)**
 - 6.2.2 Manner in which books and records are to be maintained **G-8(b)**
 - 6.2.3 Non-clearing brokers and dealers **G-8(c)**
 - 6.2.4 Introducing brokers and dealers **G-8(d)**
 - 6.2.5 Books and records maintained by transfer agents for municipal fund securities transactions **G-8(g)**
 - 6.2.6 Definition of customer **G-8(e)**
 - 6.2.7 Compliance with SEC rules **G-8(f)**
 - 6.2.8 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)**

- 6.3 Customer Account Transfers G-26**

- 6.4 Calculations (general knowledge) G-33**

- 6.5 Any Recently Enacted Rules Governing Operations**

⁷ Other required books and records are listed under specific topics.

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. What action by an associated person of a dealer would cause the dealer to be prohibited from engaging in municipal securities business with that issuer?
 - (A) A non-MFP executive officer makes a contribution to an official of the issuer.
 - (B) An MFP contributes \$100 to the campaign of an issuer official in a state where he does not reside.
 - (C) An MFP contributes \$250 to the campaign of an issuer official in the city where he lives.
 - (D) An associated person whose municipal securities' activities are limited to sales to customers contributes \$300 to an issuer official.

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

ANSWERS: 1. (B) 2. (B) 3. (C) 4. (D)